

# County Council on Thursday 12 February 2026

## Treasury Management Strategy 2026/27

### Report Summary:

This report presents the:

- a. **Treasury Management Strategy Statement (TMSS);**
- b. Annual Investment Strategy (AIS); and
- c. Borrowing Strategy

It also details various Treasury Management policies for review and approval.

### Recommendations

I recommend that Cabinet:

- a. Approve the 2026/27 **TMSS**, based on the 2021 **Chartered Institute of Public Finance and Accountancy's (CIPFA)** Codes (Prudential Code and Treasury Management Code), and 2018 **Ministry of Housing, Communities and Local Government (MHCLG)** Guidance (on Local Government Investments and on Minimum Revenue Provision);
- b. In accordance with regulations, recommend to the County Council, at its meeting on the 12 February 2026, the adoption of the Annual Investment Strategy (AIS) 2026/27 detailed in **paragraphs 54 to 100, Annex A and Annex B** of this report;
- c. Approve the proposed Borrowing Strategy for 2026/27 detailed in **paragraphs 32 to 53** comprising:
  - i. maximising the use of cash in lieu of borrowing, as far as is practicable;
  - ii. the ability to borrow new long-term loans, where deemed appropriate;
  - iii. the use of cash to repay loans early, subject to market conditions; and
  - iv. a loan rescheduling strategy that is unlimited where this re-balances risk.
- d. Approve policies on:
  - i. reviewing the **TMSS**;
  - ii. the use of external advisers;
  - iii. investment management training; and
  - iv. the use of financial derivatives, as described in **paragraphs 109 to 111** of this report.

All the above will operate within the prudential limits set out in **Annex C** and will be reported to the Cabinet Member for Finance and Resources, in respect of decisions made for raising new long-term loans, early loan repayments and loan rescheduling.

## County Council – Thursday 12 February 2026

### Treasury Management Strategy 2026/27

#### Recommendation(s) of the Cabinet Member for Finance and Resources

I recommend that Cabinet:

- a. Approve the 2026/27 **Treasury Management Strategy Statement (TMSS)**, based on the 2021 **CIPFA** Codes (Prudential Code and Treasury Management Code), and 2018 **Ministry of Housing, Communities and Local Government (MHCLG)** Guidance (on Local Government Investments and on Minimum Revenue Provision);
- b. In accordance with regulations, recommend to the County Council, at its meeting on the 12 February 2026, the adoption of the Annual Investment Strategy (AIS) 2026/27 detailed in **paragraphs 54 to 100, Annex A and Annex B** of this report;
- c. Approve the proposed Borrowing Strategy for 2026/27 detailed in **paragraphs 32 to 53** comprising:
  - i. maximising the use of cash in lieu of borrowing, as far as is practicable;
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- d. Approve policies on:
  - i. reviewing the **TMSS**;
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All the above will operate within the prudential limits set out in **Annex C** and will be reported to the Cabinet Member for Finance and Resources, in respect of decisions made for raising new long-term loans, early loan repayments and loan rescheduling.

## Report of the Director of Finance and Resources

### Reasons for Recommendations:

1. Treasury Management comprises the management of the County Council's cash flows, borrowings and investments, and their associated risks. The County Council has borrowed and invested large sums of money over several years and is therefore exposed to financial risks, including the effects on revenue from changing interest rates on borrowings and investments, and the risks of a potential loss of invested cash. It is important that the County Council successfully identifies, monitors and controls financial risk as part of prudent financial management.
2. The County Council conducts its treasury risk management within the framework of the Chartered Institute of Public Finance and Accountancy's (**CIPFA**) *Treasury Management in the Public Services Code of Practice 2021 Edition* (the **CIPFA** Code). The **CIPFA** Code requires that the County Council approves a **TMSS** before the start of each financial year. In addition, this report fulfils the County Council's legal obligation to have regard to the **CIPFA** Code under the *Local Government Act 2003*.
3. Any investments held for service purposes or for commercial reasons i.e. the County Council's non-treasury investments, are considered in a separate report. The (Non-Treasury) Commercial Investment Strategy 2026/27 report meets the requirements of the statutory guidance issued by the **MHCLG** in its *Guidance on Local Government Investments 2018 Edition*.
4. Attached at **Annex E** of this report is a comprehensive glossary of treasury terms to provide definitions and background for treasury reports. Terms included in the glossary are highlighted in bold italic throughout the report.

### Link to the Medium-Term Financial Strategy (MTFS)

5. It is a statutory requirement, under Section 33 of the Local Government Finance Act 1992, for the County Council to produce a balanced budget. In particular, Section 32 requires the calculation of a budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. Capital expenditure must not exceed an amount which can be afforded, in terms of interest charges and running costs for the foreseeable future.
6. The Local Government Act 2003 requires a local authority to have regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that its capital investment plans are affordable, prudent and sustainable. The Prudential Indicators are approved as part of this report which is included in the Medium-Term Financial Strategy (MTFS), but the Treasury Indicators are included in this report as they require consideration as part of

the **TMSS**. This is in line with **CIPFA**'s Prudential Code released in December 2021. The Prudential Code 2021, whilst tightening regulations, has not had a material effect on the County Council, as no borrowing has been taken to fund commercial or treasury investments.

7. The **TMSS** is a key element of the MTFs, as the planned capital expenditure programme drives the borrowing required. This is explained further in the Borrowing Strategy from **paragraph 32** onwards.

## External Context

### Economic background

8. The economic back drop to this report for the first part of 2025/26 saw:
  - a. The Bank of England (BoE) reducing interest rates by 0.75%, from 4.50% to 3.75% as detailed in **paragraph 9**;
  - b. Short, medium and long-dated **gilt** yields remaining elevated;
  - c. Fluctuating UK **Consumer Price Index (CPI)** finishing November 2025 at 3.20%;
  - d. The 10-year **gilt** yield fluctuating between 4.40% and 4.80%, ending the half year at 4.70% (before falling back to 4.51% in early November 2025, where they have remained); and
  - e. UK **GDP** fell in Quarter 1 by 0.30% but rebounded by 0.30% in May and June 2025 before flatlining for a period, then shrinking in October 2025 to -0.10%.
9. The BoE continued its loosening cycle in May 2025 with a 0.25% base rate cut to 4.25%, and sustained this approach at its August 2025 meeting, lowering rates a further 0.25% to 4.00%. The base rate was cut by a further 0.25% in December 2025 to 3.75%. Rates are subsequently predicted to fall to 3.50% in June 2026 and to 3.25% in December 2026, where they are forecast to remain. The ultra-low-interest rate environment of the recent past is not expected to return in the coming years.
10. **CPI** inflation settled at 3.20% in November 2025, the lowest level in five months, down from 3.60% recorded in October 2025. The figure fell below expectations from both the BoE and market analysts to the lowest level in eight months. The fall has been driven mainly by falls in food and drink, clothing, household goods and hospitality prices. Monetary policy is acting to ensure that longer-term **CPI** expectations are in line with the 2.00% target.
11. The yield on the 10-year **gilt** rose from 4.46% to 4.60% in early July 2025 as reduced spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low **GDP** growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August 2025, long-dated **gilts** underwent a particularly

pronounced sell-off, climbing 0.22% and reaching a 27-year high of 5.60% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing gilt supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers, like pension funds. For 10-year **gilts**, by late September 2025, stubborn inflation, resilient activity data, and a hawkish BoE kept yields elevated over 4.70% although by mid-December 2025 yields had fallen back again to a little over 4.50%. The overall longer-run trend is for gilt yields and Public Works Loan Board (PWLB) rates, as forecast by the County Council's treasury adviser MUFG, to fall back over time, up to March 2028, as inflation reduces.

12. From a **GDP** perspective, the financial year got off to a bumpy start with the 0.3% month on month fall in real **GDP** in April 2025, in anticipation of US tariffs in Quarter 1 weighing on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy returned to growth in May and June 2025 with quarterly growth ending up 0.3% quarter on quarter. A 0.0% month on month change in real **GDP** in July 2025, followed by a 0.1% month on month increase in August 2025 and a decrease to 0.1% in September 2025 indicated a general flatlining in growth. October 2025 figures, however, showed the economy shrinking by -0.1% which was against many predictions. **GDP** growth for 2025 and 2026 is currently forecast by the BoE to be in the region of 1.4% before picking up in 2027.
13. Due to the ongoing risks in the economy, the treasury strategy retains the low-risk approach adopted in recent years, based on prioritising security, liquidity and then yield.

#### Credit outlook

14. **Credit default swap (CDS)** stability is always a concern, as market fluctuations and economic uncertainty can significantly impact the pricing and reliability of these financial instruments. However, CDS prices are constantly monitored by the County Council's treasury adviser, MUFG, as part of their creditworthiness service to local authorities, and the County Council has access to this information via its MUFG-provided Passport portal.
15. Geopolitical and environmental factors can impact on sovereign and bank credit ratings. During the past year several countries and banking institutions credit ratings have changed, some up and some down, reflecting current volatility. Nonetheless, when setting minimum sovereign debt ratings, the County Council will not set a minimum rating for the UK.
16. The potential for bank losses remains a risk and a cautious approach to bank deposits in 2026/27 is still advisable. The County Council, as a local authority, is exposed to bail-in risk, as the Government will no longer support banks if

they fail but rather it will be the investors who primarily bear the financial burden of rescuing the bank.

### **Local Context**

17. On 31 December 2025, the County Council held £355.5 million of external loans and had £422.5 million temporarily invested. The County Council's forecast future requirements for borrowing and investments can be considered in the context of its balance sheet forecasts described in the following paragraphs.

### **Balance sheet**

18. In terms of borrowing, the County Council discloses its **Capital Financing Requirement (CFR)** as part of its Statement of Accounts. This represents the underlying need to borrow for capital purposes i.e. the amounts that have been financed through external and internal borrowing rather than being permanently financed. The **CFR** also includes capital expenditure that has been funded through **Private Finance Initiatives (PFI)**, however these **PFI** liabilities have been removed for the purpose of the **CFR** figures included in this report.
19. The County Council's treasury adviser, MUFG, performed an independent check of the **CFR** calculation using the 2024/25 Statement of Accounts. No discrepancy of the calculations was identified.
20. If the County Council increases borrowing to fund additional capital expenditure, this will increase its **CFR**; conversely repaying borrowing through the **Minimum Revenue Provision (MRP)** will reduce its **CFR**. The table below shows forecasts for the County Council's **CFR** and how this will be financed through external and internal borrowing:

Detail	31.03.25 Actual £m	31.03.26 Estimate £m	31.03.27 Forecast £m	31.03.28 Forecast £m	31.03.29 Forecast £m
CFR	540.4	534.9	550.0	547.0	562.7
Less external borrowing	(370.5)	(340.0)	(330.0)	(325.0)	(325.0)
<b>Internal/ (Over borrowing)</b>	<b>169.9</b>	<b>194.9</b>	<b>220.0</b>	<b>222.0</b>	<b>237.7</b>

21. The previous table shows that the County Council's **CFR** fluctuates over the years, due to differences between the capital programme and **MRP**. The County Council's internal borrowing requirements increase with the repayments of external borrowing as it matures and in line with the **CFR** projections.

22. **CIPFA's** Prudential Code for Capital Finance in Local Authorities recommends that the County Council's total external borrowing should be lower than its highest forecast **CFR** over the next three years; the previous table shows the County Council will comply with this recommendation over the period of the MTFS.
23. For investments, the County Council's total resources available are measured by its usable reserves and working capital less any amounts that have been internally borrowed. The County Council is facing pressure moving forward on reserves due to increased liabilities arising from the deficit in Dedicated Schools Grant (DSG) funding and the following table reflects the reserve levels:

Detail	31.03.26 Estimate £m	31.03.27 Forecast £m	31.03.28 Forecast £m	31.03.29 Forecast £m	31.03.30 Forecast £m	31.03.31 Forecast £m
Usable reserves	421.5	325.1	220.9	157.4	55.2	55.2
Working capital surplus	20.0	20.0	20.0	20.0	20.0	21.0
Less internal borrowing	(194.9)	(220.0)	(222.0)	(237.7)	(224.3)	(209.1)
Advance pension contributions	12.0	(23.0)	11.0	12.0	(23.0)	11.0
<b>Investment / (New borrowing)</b>	<b>258.6</b>	<b>102.1</b>	<b>29.9</b>	<b>(48.3)</b>	<b>(172.1)</b>	<b>(121.9)</b>

24. The table above demonstrates that the County Council's recent strategy of using internal borrowing to reduce the need for external borrowing also reduces temporary investment levels. It also indicates that the County Council will have sufficient internal resources to cover the internal borrowing requirement in 2026/27 and will not need to borrow from external sources. Within the table above, it is assumed that the County Council will make a further payment in advance for 3 years' pension contributions in 2026/27, as it did previously in 2023/24. The County Council is expected to continue to make significant savings by doing so, as opposed to paying contributions monthly, for the 3-year period. In addition, the table also includes the pressure caused by the DSG on reserves and these are forecast to rise for the foreseeable future. External borrowing may be required during the period covered by this MTFS.

#### Liability benchmark

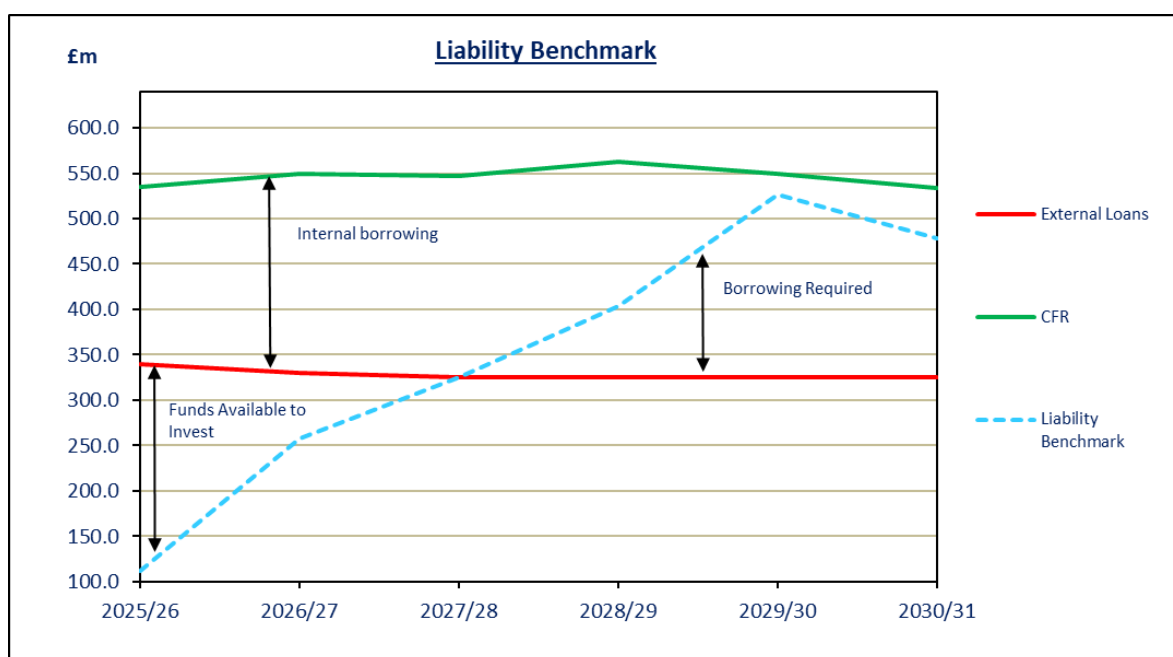
25. The **CIPFA** Prudential Code requires local authorities to develop their own liability benchmark to manage Treasury Management risk. The liability benchmark represents the minimum amount of loans required to maintain

cash balances at nil, i.e. when all usable reserves and working capital surpluses are used to offset the amount of loans borrowed.

26. Forecasts for the liability benchmark can be used to predict when further borrowing may be required or when cash is available to invest. Forecasts for the County Council's liability benchmark are shown in the following table and chart.

Detail	31.03.26 Estimate £m	31.03.27 Forecast £m	31.03.28 Forecast £m	31.03.29 Forecast £m	31.03.30 Forecast £m	31.03.31 Forecast £m
<b>External loans</b>	340.0	330.0	325.0	325.0	325.0	325.0
Less investments/ add new borrowing	(258.6)	(102.1)	(29.9)	48.3	172.1	121.9
Net borrowing requirement	81.4	227.9	295.1	373.3	497.1	446.9
Add minimum investments *	30.0	30.0	30.0	30.0	30.0	30.0
<b>Liability benchmark</b>	<b>111.4</b>	<b>257.9</b>	<b>325.1</b>	<b>403.3</b>	<b>527.1</b>	<b>476.9</b>

\* Long term loans to two Local Authorities (Derby and Redcar and Cleveland).



27. The chart above shows that the County Council's **CFR** (green line) has been financed through a combination of external borrowing (red line) and internal borrowing (the difference between the red line and the green line). The data points on the graph represent the end of the financial year.
28. The chart indicates that during the MTFs period covered, the County Council can continue with its strategy of using cash in lieu of external borrowing until the end of 2027/28. The County Council may need to consider taking up

external borrowing in the form of new PWLB loans from this date. This would mean swapping internal borrowing for external loans to fund the capital programme which is legitimate and acceptable.

### Policy framework

29. When assessing the various options for borrowing and investment, it is still important to have a policy framework. The table that follows sets out three main elements:
- Objectives;
  - Economic considerations; and
  - Relevant risks.
30. The table compares borrowing and investments side by side to highlight the similarities and differences. For example, some of the economic considerations (i.e. the yield curve) are similar, whilst some aspects are different.

	<b>Borrowing strategy</b>	<b>Investment strategy</b>
Objectives	<ul style="list-style-type: none"> <li>Reduce the average rate (cost) of borrowing ensuring it is affordable</li> <li>Maintain medium term budget stability</li> <li>Be able to respond to changes in the external environment</li> </ul>	<ul style="list-style-type: none"> <li>Ensure security (to ensure bills can be paid)</li> <li>Provide liquidity (i.e. to pay the bills as they fall due)</li> <li>Earn interest</li> </ul>
Economic considerations	<ul style="list-style-type: none"> <li>The shape of the whole yield curve* (the level of interest rates for different lengths of time)</li> <li>The steepness of the yield curve</li> <li>Forecast changes in interest rates</li> <li>The relative position of interest rates to the average cost of the borrowing</li> <li>The direction of travel for the level of overall borrowing in the future</li> <li>Cash balances available to support the strategy</li> </ul>	<ul style="list-style-type: none"> <li>The shape of the short-term yield curve*</li> <li>Forecast changes in interest rates</li> <li>Counterparty issues (credit worthiness)</li> <li>Type of financial instrument</li> <li>Risk in the financial environment</li> </ul>
Relevant risks	<ul style="list-style-type: none"> <li>Security</li> <li>Liquidity</li> <li>Interest rate</li> </ul>	<ul style="list-style-type: none"> <li>Security</li> <li>Liquidity</li> <li>Interest rate</li> </ul>

	<ul style="list-style-type: none"> <li>• Market risk</li> <li>• Refinancing</li> <li>• Regulatory and legal</li> </ul>	<ul style="list-style-type: none"> <li>• Market risk</li> <li>• Refinancing</li> <li>• Regulatory and legal</li> </ul>
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\*The yield curve is a fundamental concept; it represents the price paid by the County Council for its long-term loans or the interest rate received for the money it invests.

31. The County Council's risk management for treasury borrowing and investments is considered as part of the Treasury Management Risk Register.

### **Borrowing Strategy 2026/2027**

32. At the start of 2026/27, the County Council will hold £340 million of loans, assuming no further **Lender Option, Borrower Option (LOBO)** calls are made, as part of its strategy for funding previous years capital programmes. The County Council will need to ensure total amounts borrowed do not exceed the authorised limit for borrowing of £643 million, as disclosed in **Annex C** and as part of the capital strategy which includes liabilities for **PFI** schemes.

### Objectives

33. The primary objective for the County Council when considering the need to borrow money is to strike an appropriate balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. Although lower interest costs may be secured for the short term, it is more difficult to predict interest costs over the long term.

### Strategy

34. Given the ongoing financial pressures on public services and local government funding, the County Council continues to address the key issue of affordability without compromising the long-term stability of its loan portfolio. As short-term interest rates have been lower than long term interest rates for a long period of time, it has been more cost effective for the County Council to use its internal cash resources in lieu of external borrowing in the short term.
35. The current economic environment continues to favour using cash in lieu of external borrowing as:
- a. Short, medium and long-dated **gilt** yields remain elevated and the margin the **PWLB** add on to onward lend to local authorities means it is cheaper to use cash than to borrow from the PWLB;
  - b. due to bail-in legislation it is important to minimise investment risk, as using cash in lieu of external borrowing reduces investment balances;
  - c. using cash in lieu of external borrowing within practical cash management limits would meet key parts of the current government guidance on local

- government investments, i.e. managing the security and liquidity risks for investments; and
- d. Continuing to use cash in lieu of external borrowing would meet the objective of bringing down the average rate of interest for financing the **CFR** and provide an opportunity to fund the capital programme at low cost.
36. In the past, cash balances have been sufficient to allow the strategy of using cash without the need to raise further external loans. The liability benchmark analysis at **paragraph 26** indicates that this is set to continue until the end of 2027/28 and the County Council may need to take out external borrowing by seeking new loans from this date.
  37. The County Council does recognise that there may be unexpected reductions in cash balances in the future. This could be due to:
    - a. increases in the capital programme;
    - b. budget pressures;
    - c. changes in the County Council's cash funding because of structural changes; or
    - d. **LOBO** loan options being called.
  38. Where additional liquidity is needed, the County Council can call upon short-term temporary loans raised from the money markets, including from other local authorities who have surplus cash to invest. The County Council can also obtain long term loans of over one year, for example, through the **PWLB**.
  39. It is important to understand that when raising loans, the whole of any funding gap does not need to be closed with the new loans. A gap should be retained that continues to use available cash for the reasons outlined at **paragraph 35**. The proposed Borrowing Strategy aims to strike a balance between the liquidity needs of day-to-day cash management with the low-risk approach that is maintained by using cash in lieu of external borrowing.
  40. The County Council will monitor the benefits of using cash in lieu of external borrowing, via the Treasury Management Panel, chaired by the Director of Finance and Resources (S151 Officer), on a regular basis. The strategy of using cash in lieu of external borrowing must be balanced against the possibility that long-term loan costs may increase in future years, leading to additional costs as a result of deferring external borrowing. The County Council will need to determine whether it seeks to raise new loans, at long term fixed rates in 2026/27, with a view to minimising future interest costs. To this end, the County Council will take into account the advice and analysis carried out by its treasury adviser, MUFG.

### Sources of borrowing

41. The approved sources of long term and short-term borrowing are:
- a. the **PWLB**;
  - b. UK Municipal Bonds Agency Plc and any other special purpose companies created to enable local authority bond issues;
  - c. other UK public sector bodies;
  - d. UK public pension funds (except the Staffordshire Pension Fund);
  - e. approved banks or building societies authorised to operate in the UK; and
  - f. any institutions approved for investments.

### Long term loans

42. The County Council has previously raised most of its long-term borrowing from the **PWLB**, a statutory body that issues loans to local authorities. Government consent is not ordinarily required, hence the **PWLB** continues to be the 'lender of first resort' because of the flexibility and ease of access. However local authorities are required by law to have regard to the Prudential Code and only borrow within relevant legislation and their borrowing powers.
43. HM Treasury have also put measures in place to prevent public bodies using **PWLB** funding to finance any commercial investments and there are mechanisms to recall such funding if this is found to be the case. In addition, the latest Prudential Code explicitly prevents local authorities borrowing to fund commercial ventures.
44. The County Council currently holds £18 million of long-term borrowing in the form of **LOBO** loans. The lender has the option to propose an increase in the interest rate at set dates, following which the County Council, as the borrower, has the option to either accept the new rate or to repay the loan at no additional cost. These call options were applied to a £15 million loan in July 2025 and due to the increased interest rate, the Treasury Management Panel agreed to repay the loan. During 2026/27 £18 million of these **LOBO** loans have such call options (assuming no further calls are made during 2025/26). As interest rates are currently higher, lenders are more likely to exercise their options, which could lead to an element of refinancing risk.
45. Under the current strategy, the County Council will repay all **LOBO** loans where call options to increase the interest rate are exercised by the lender. In addition, the County Council will consider repaying **LOBO** loans where a loan restructuring opportunity arises and is considered financially advantageous (see **paragraph 50**).
46. Where the County Council is considering taking out long-term loans, the following observations are important:

- a. the County Council's existing loan portfolio is very long term, this can be seen in the graph at **Annex D**, and taking medium term loans would rebalance the portfolio; and
  - b. the yield curve is normalised and as a result of this, loans over a 1-to-15-year timeframe are currently cheaper.
47. Any decision to borrow long term will be taken by the Treasury Management Panel, chaired by the Director of Finance and Resources (S151), and reported to the Cabinet Member for Finance and Resources. This is because the optimum timing to borrow cannot always be foreseen, and a decision often needs to be taken at short notice. Members will be kept informed via the outturn and half-year Treasury Management reports.

### Short term loans

48. Short term loans raised from money markets are typically under 12 months in duration. These are low cost, and the County Council can respond flexibly to liquidity pressures by raising these when needed. The disadvantage of short-term loans is one of availability and it can be difficult to raise them quickly from banks and building societies.
49. The local authority lending market has progressed considerably in recent years and loans are generally available in the short to medium term. However, future availability cannot be predicted, as loans raised depend upon other local authorities having available cash balances and being prepared to lend them to the County Council.

### **Loan restructuring**

50. Movements in interest rates over time may provide opportunities to restructure the loan portfolio in one of two ways:
- a. replace existing loans with new loans at a lower rate (known as loan rescheduling); or
  - b. repay loans early without replacing the loans, although this would increase the use of cash for internal borrowing.
51. Market conditions have shifted in the last 3 years, and **gilt** yields have risen from the historic lows. This sustained rise in **gilt** yields means that there is a possibility that **PWLB** premiums may be low and could be offset by interest savings on extinguished loans, in addition discounts may be offered on some loans. The Treasury Team will continue to monitor the market and identify possible savings arising during 2026/27.
52. The County Council's ability to adjust its loan portfolio through restructuring is only possible if:

- a. the Government allow it - **PWLB** rules have been changed in the past without notice; or
  - b. market conditions allow economically beneficial repayment.
53. Market conditions and regulations are not constant and do change and loan restructuring can only be carried out when conditions are favourable. The decision as to when to undertake loan restructuring will be delegated to the Treasury Management Panel, chaired by the Director of Finance and Resources (S151), and reported to the Cabinet Member for Finance and Resources.

### **Annual Investment Strategy (AIS) 2026/27**

54. It is the County Council's Borrowing Strategy that determines its Investment Strategy. In the current economic environment, where short term investment rates are lower than loan rates, this still favours the use of internal cash instead of external borrowing, hence balances available for temporary investments are likely to be less.
55. The County Council will have significant levels of cash to invest at different points of the year; this usually represents income received in advance of expenditure plus balances and reserves held. In the first half of the previous financial year, the County Council's investment balance ranged between £417 million and £541 million.

### MiFID II

56. Following the introduction of the second Markets in Financial Instruments Directive (MiFID II) regulations from January 2018, local authorities will automatically be treated as retail clients by financial services firms, unless they meet the criteria and 'opt up' to be professional clients. As a retail client, the County Council would receive enhanced protections, but this would also mean it may face increased costs and restricted access to certain products including money market funds (MMFs), pooled funds, treasury bills and treasury advice.
57. The County Council meets the criteria set out under MiFID II and having chosen to 'opt-up', will continue to be treated as a professional client by regulated financial services firms in 2026/27.

### Objectives

58. The **CIPFA** Code requires local authorities to invest their cash prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.
59. The County Council's objective when investing its cash is to strike an appropriate balance between risk and return, thereby minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low

investment income. Where cash balances are expected to be invested for more than one year, the County Council will aim to achieve a total return that is equal to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. In addition, this value shall be reported and compliant with all **CIPFA** codes regarding treasury and commercial investments.

### Strategy

60. The main characteristics which should determine an investment strategy are:
  - a. the credit risk of the counterparties invested with;
  - b. the length of the investment; and
  - c. the type of financial instrument that is used.
  
61. The County Council has taken a low-risk approach to investment and the AIS for 2026/27 will continue to do so. The County Council will continue to concentrate its short-term investments in secure MMFs, short term commercial deposits in banks as recommended by the County Council's treasury adviser, MUFG, and government investments. In addition, the use of Ultra Short Dated Bond Funds (USDBF's) and Short Dated Bond Funds (SDBF's) will be used as diversifiers, as these are considered appropriate vehicles in which to securely invest funds with a longer-term investment horizon.
  
62. **MHCLG** Guidance on Local Government Investments specifies the types of financial instruments that local authorities can invest in, and the County Council has divided its approved investments into Standard Investments and Non-Standard Investments.

### Standard Investments

63. The County Council considers Standard Investments to be those made with approved counterparties that do not require further approval from the Treasury Management Panel or Members. These investments tend to be for a period of less than a year i.e. up to 364 days and are those most frequently used by the County Council. Standard Investments can be invested with;
  - a. UK Government - central government or local authority, parish council or community council;
  - b. short term money market funds; and
  - c. bank and building society investments recommended by the County Council's treasury adviser, MUFG.

### UK Government

64. The County Council invests with central government by using its Debt Management Account Deposit Facility (DMADF) account or by purchasing treasury bills. Funds held in the DMADF account are backed by the UK

government, so they are very secure; however, returns may be lower than those received from elsewhere.

65. The County Council can invest in term deposits with local authorities, which may provide a higher return depending on the availability of, or the need for, cash in the local authority lending market. Like central government investments, local authority investments are not subject to bail in risk. The County Council has set a limit of investing £5 million with any one local authority.
66. Although investments in the local authority lending market have a very low risk of insolvency, they are not completely without risk. The financial risks of some local authorities have been well documented in the press; the County Council will continue to monitor such developments and seek advice from its treasury advisers where necessary.

#### Money Market Funds (MMFs)

67. Money Market Funds have high credit quality and are pooled investment vehicles consisting of money market deposits and similar instruments. Short term MMFs that offer same day liquidity can be used as an alternative to instant access bank accounts. Same day notice MMFs have been used by the County Council for some time as they have tended to provide greater security and a higher yield than bank accounts.
68. European Union (EU) regulation, introduced in January 2019, meant that most same day notice MMFs converted from a Constant Net Asset Value (CNAV) to a Low Volatility Net Asset Value (LVNAV) structure. The assets of LVNAV MMFs are marked to market, meaning the dealing NAV (unit price) may fluctuate. However, LVNAV MMFs are allowed to maintain a constant dealing NAV provided they meet strict criteria and minimum liquidity requirements. Public debt CNAV MMFs are still available where 99.5% of assets are invested in government debt instruments.
69. MMFs are a key tool to manage credit and liquidity risk, and the County Council will continue to use same day notice MMFs that meet the criteria listed below. These are considered to have sufficient high credit quality to be included on the County Council's Approved Lending List:
  - a. Diversified - MMFs invest across many different investments meaning they achieve more diversification than the County Council could achieve on its own account;
  - b. Short liquidity - cash can be accessed daily;
  - c. Ring-fenced assets - the investments are owned by investors and not the fund management company; and
  - d. Custodian - the investments are managed by an independent bank known as a custodian, who operates at arms-length from the fund management company.

70. Like all treasury instruments, MMFs do carry an element of risk. The failure of one or more of an MMFs investments could lead to a run on MMFs, especially during a financial crisis, although MMF regulations do limit this risk to some extent.

#### Bank and building society accounts

71. The County Council can make investments with approved banks and building societies by using call accounts, term deposits or Certificates of Deposit (CD's). CDs are similar to fixed term deposits, but a certificate is issued for a specified length of time and rate of interest. A CD can also be sold in the secondary market if cash is required prior to maturity.

#### Operational bank account

72. The County Council's banking provider is Lloyds Bank. Some cash is retained with Lloyds Bank each night albeit earning interest at below market rate; the maximum amount that can be retained for operation purposes will be set in line with the diversification policy set out at **paragraph 75** onwards.
73. In respect of the bank ring-fencing legislation, Lloyds Bank has a relatively small investment banking operation meaning that 97% of the bank's assets remain within the 'retail bank' ring-fence. The County Council's business with Lloyds Bank will take place within the 'retail bank' ring-fence (Lloyds Bank Plc) and not form part of their investment banking operations (Lloyds Bank Corporate Markets).
74. Should the Lloyds credit rating fall below the County Council's minimum threshold, then minimum balances will be retained with the bank for operational efficiency. The County Council will continue to monitor MUFG's advice on bank credit risk, and any changes will be determined by the Treasury Management Panel, chaired by the Director of Finance and Resources (S151).

#### Standard Investments diversification

75. Risks to investments, such as those discussed for MMFs in **paragraph 70**, point towards the fundamental need for diversification across counterparties and investment categories wherever possible. Diversification can help to protect the security of the investments by limiting the County Council's loss in the event of a counterparty default. Diversification will not protect the County Council from a systemic failure of the banking sector, even if the risk of this has diminished following the bail-in banking regulations.
76. Diversification can be achieved by setting a maximum amount to be invested with each counterparty to limit risk and to ensure a spread of investments. However, this needs to take account of the fact that investment balances can change throughout the year. The limits shown below are based upon percentages of investments and the County Council Treasury Team will review

and reset these limits at least once a month with reference to forecast future cash balances.

77. Investment diversification is monitored at two levels; firstly, at investment category level:

<b>Investment category</b>	<b>Maximum % of total investments</b>
Government Investments	100%
Money Market Funds (MMF)	100%
Banks and Building Societies	50%

78. No limits are proposed for government investments as these may be utilised for all the County Council's investments in certain circumstances.
79. Limits in MMF accounts stand at 100% of total investments due to the diversified nature of their underlying investments and their liquidity levels. The County Council currently has six MMFs to ensure all cash is not placed in one MMF, thus further diversifying investments.
80. Secondly, diversification will also take place at investment counterparty level:

<b>Banks and Building Societies</b>	
<b>Lower of:</b>	
Value (£m)	Maximum investment as a proportion of total forecast cash balances
15	5% (unsecured) 10% (secured)

<b>Individual MMF</b>	
<b>Lower of:</b>	
Maximum investment as a share of the total fund size of the MMF	Maximum investment as a proportion of total forecast cash balances
0.50%	25%

81. Due to bail-in regulations, a limit of 10% of cash balances if investments are secured (e.g. covered bonds), and a limit of 5% if investments are unsecured (e.g. fixed term deposits), has been set.

82. It is proposed that the application of, and any amendments to, the investment diversification policy is delegated to the Treasury Management Panel, chaired by the Director of Finance and Resources (S151).

### Non-Standard Investments

83. The County Council considers Non-Standard Investments to be all other types of approved investment or investments with counterparties that are not included as part of Standard Investments i.e. those investments that are used less frequently and may require further approval from the Treasury Management Panel.
84. The Non-Standard Investments proposed for use are listed in the following bullets. Some of these present additional risks to the investments listed within Standard Investments, which would be taken into consideration in any proposed investment:
- a. Covered Bonds - issued by banks and building societies against mortgage assets they hold and are guaranteed by a separate group of companies. They are exempt from bail-in as their structure enables investors to have effective security over the mortgage assets, by being sold if needed;
  - b. Repos (Repurchase Agreements) - comprise the purchase of securities with the agreement to sell them back at a higher price in the future. Investments are exchanged for assets such as government bonds, which can be sold in the case of a loss;
  - c. UK Government **Gilts** - similar to the DMADF account and Treasury Bills but a longer-term investment that can be sold in the secondary market;
  - d. Multilateral Development Bank Bonds - 'AAA' rated bonds created by institutions and backed by a group of countries. They can be sold in the secondary market if needed;
  - e. Collective Investment Schemes - examples include pooled property and equity funds which have very different risk and return profiles to same day notice MMFs. Enhanced MMFs are considered to be collective investment schemes; they typically have a 3-5-day liquidity notice period as they invest further along the yield curve. Ultra-Short and Short dated Bond funds with a longer-term outlook also fall into this category; and
  - f. Real estate investment trusts (REITs) - shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.
85. Non-Standard Investments that are subject to market risk (this is the risk that the value of the investment can go down as well as up) would usually be held until maturity. At maturity the investment and accrued interest would be paid in full. However, some investments could be sold early if there were concerns over the borrower defaulting.

### Non-Standard Investment diversification

86. Diversification of Non-Standard Investments is equally important, and the County Council has set the following investment amounts and duration limits, split into two groups (see **Annex A**):
- a. Long-term local authority loans and UK Government **Gilts** - these have a combined investment limit of £45 million (up to 40 years duration) due to their high credit quality. The County Council has held £30 million of long-term local authority investments since 2013; and
  - b. Other Non-standard Investments - these have an individual investment cap amount per asset class of £120 million (up to 10 years duration) with an overall cap of £200 million for this group.
87. This means a total of £245 million can be invested in Non-standard Investments in 2026/27 and this is reflected in **Annex C**; Prudential Indicator point 4. The decision to invest in Non-Standard Investments will only be taken after due consideration by the Treasury Management Panel, chaired by the Director of Finance and Resources (S151).
88. **Annex A** sets out the investment categories authorised for use in 2026/27, and **Annex B** lists the County Council's Counterparty List at the time of writing this report.

### Credit Management Strategy 2026/27

89. Investments made by the County Council should be of 'high credit quality'. Although this can be difficult to define, credit ratings can be used as published by external credit rating agencies (the three main agencies are Moody's, Standard & Poor's and Fitch). Credit ratings are monitored by and obtained from the County Council's treasury management adviser, MUFG, where available.
90. An important aspect of MUFG's service is the provision of credit advice. As a treasury adviser, MUFG provide information about suitable investments in the context of the current economic risk environment and incorporates the views of credit rating agencies. It is important to note that the County Council maintains the ultimate responsibility for the decisions it takes about its investments and will not use a counterparty that, for any reason, it does not deem appropriate.
91. For 2026/27, the minimum credit-rating threshold is set at a long-term rating of A- or A3 (A- Fitch/Standard & Poor's, A3 Moody's) where applicable. Counterparties that are rated below this level are excluded. However, credit ratings are not the only aspect of how creditworthiness is assessed by MUFG.
92. The County Council uses the creditworthiness service provided by MUFG to help determine its Lending List. This service employs a sophisticated

modelling approach utilising credit ratings from the three main credit rating agencies. The credit ratings of counterparties are supplemented with the following overlays:

- a. "watches" and "outlooks" from credit rating agencies;
  - b. CDS spreads that may give early warning of changes in credit ratings; and
  - c. sovereign ratings to select counterparties from only the most creditworthy countries.
93. The MUFG modelling approach combines credit ratings and any assigned watches and outlooks in a weighted scoring system, which is then combined with an overlay of CDS spreads. The methodology produces a series of colour coded bands shown below, which indicate the relative creditworthiness of counterparties. These colour codes are used by the County Council to determine the suggested duration for investments:
- a. Yellow - up to 5 years;
  - b. Dark Pink - up to 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25;
  - c. Light Pink - up to 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5;
  - d. Purple - up to 2 years;
  - e. Blue - up to 1 year (only applies to nationalised or semi nationalised UK Banks);
  - f. Orange - up to 1 year;
  - g. Red - up to 6 months;
  - h. Green - up to 100 days; and
  - i. No colour - not to be used.

As demonstrated, the MUFG creditworthiness service uses a wider array of information than just primary credit ratings. Furthermore, by using a risk weighted scoring system, it does not give undue weight to just one agency's ratings.

94. Typically, the minimum credit rating criteria the County Council uses will be a long-term rating (Fitch or equivalents) of A- as stated in **paragraph 91**. There may be occasions when the counterparty ratings from one rating agency are marginally lower but as long as the remaining two agencies have them in range they may still be used. In these instances, consideration will be given to the whole range of ratings available to support their use.
95. The counterparty list will be monitored on a weekly basis using MUFG's weekly update information. The County Council is alerted to changes to ratings of all three agencies through its use of the MUFG creditworthiness service. In addition to the use of credit ratings, the Treasury Team will be advised daily, via MUFG's exclusive Passport website, of information on movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and

other market data. Extreme market movements may result in the downgrade of an institution or removal from the County Council's Lending List.

96. If MUFG communicate credit rating changes and significant changes in other risk indicators to the Treasury Team, action will be taken. 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.
97. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day, will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
98. As mentioned previously, the County Council retains the ultimate responsibility for its investment decisions. The Treasury Management Panel chaired by the Director of Finance and Resources (S151) meets monthly and reviews any changes recommended by MUFG. In between these meetings, the Treasury Team may be required to make investment decisions at short notice upon the recommendation of MUFG. Where required, the Treasury Team will implement these recommendations pending retrospective approval by the Treasury Management Panel. On the rare occasion that MUFG do not make a firm recommendation, this will also be referred to the Panel for review. The County Council will also use market data, information on any external support for banks, and knowledge of financial and geo-political factors to help support its decision-making process.
99. Under stressed market conditions, additional Treasury Management Panel meetings may take place at very short notice after which the Panel may decide to adjust the County Council's investment risk profile. This may result in moving investments to lower risk counterparties or instruments.

#### Non-treasury investments

100. These are discussed as part of a separate investment strategy report titled '(Non-Treasury) Commercial Investment Strategy 2026/27'.

#### **Review of strategy**

101. The County Council will prepare a revised strategy when there are significant changes to the following factors:

- a. the economic environment;
- b. the financial risk environment;
- c. the budgetary position;
- d. the regulatory environment; or
- e. the appointment of a new treasury management adviser.

102. The responsibility for assessing these circumstances and proposing changes to the strategy is delegated to the Treasury Management Panel.

### **Policy on the use of external service providers**

103. MUFG is the County Council's current external treasury management adviser appointed via a competitive tender process. The contract with MUFG expires on 31 March 2027, with an option to extend it to 31 March 2028.

104. The external service provider is contracted to provide information, technical accounting assistance and an investment advice service. The County Council recognises that the ultimate responsibility for Treasury Management decisions always remains with itself.

105. An annual review of service quality is carried out by the Treasury Management Panel. Treasury Advisers are expected to attend meetings bi-annually to discuss strategy and how well they are assisting the County Council to discharge its responsibilities.

### **Investment management training**

106. Treasury Management is a specialised area requiring high quality and well-trained staff that have an up-to-date knowledge of current issues, legislation and treasury risk management techniques.

107. Officers who attend the Treasury Management Panel are senior qualified finance professionals. Treasury practitioners attend regular **CIPFA** and treasury adviser training seminars throughout the year and have any training needs identified during the County Council's staff review process. The Treasury Team and its processes are also subject to regular audit and independent checks.

108. Member training is also important to introduce treasury concepts. The need for training events will be kept under review with sessions arranged in the future if necessary.

### **Policy on the use of financial derivatives**

109. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. **LOBO** loans and callable deposits). The general

power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

110. The County Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the County Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
111. In line with the **CIPFA** Code, the County Council will seek external advice and will consider that advice before entering into financial derivatives, to ensure that it fully understands the implications.

## List of Background Documents/Appendices:

### 112. Background Documents:

- a. Treasury Management in the Public Services: Code of Practice (**CIPFA**) (2021)
- b. Prudential Code for Capital Finance in Local Authorities (**CIPFA**) (2021)
- c. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
- d. Statutory Guidance on Local Government Investments - Issued under Section 15(1)(a) of the Local Government Act 2003 (2018)
- e. Statutory Guidance on Minimum Revenue Provision - Issued under section 21 (1A) of the Local Government Act 2003 (2018)
- f. Localism Act 2011 - Guidance on the General Power of Competence in sections 1 to 6.

### 113. Annexes:

- a. Annex A - Investment Categories Authorised for Use 2026/27
- b. Annex B - Staffordshire County Council Counterparty List 2026/27
- c. Annex C - Prudential Indicators for Treasury Management 2026/27
- d. Annex D - Staffordshire County Council Loan Maturity Profile 2026/27
- e. Annex E - Treasury Management Glossary of Terms

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## Annex A

## Investment categories authorised for use 2026/27

Investment	Standard	Non-standard	Comments
UK Government - Debt Management Account Deposit Facility (DMADF) (standard investment)	<b>unlimited</b>	x	6 months maximum available
UK Government - Treasury Bills (T-Bills) (standard investment)	<b>unlimited</b>	x	6 months maximum available
UK local authorities term deposits	<b>unlimited*</b> (£5m per authority for 364 days max.)	<b>£45m across these categories</b>	Up to 40 years in duration for non-standard investments
UK Government - <b>Gilts</b>	<b>unlimited</b>		
Money Market Funds	✓	x	100% of total investments in this category. Individual MMF - Lower of 0.50% of individual MMF fund size or 25% of total forecast cash balances per MMF
Term deposits with banks and building societies	✓	x	50% of total investments in this category. Lower of 5% (unsecured) or 10% (secured) of total forecast cash balances or £30m per counterparty
Certificates of deposit (banks / building societies)	x	<b>Maximum £120m per investment category and £200m in total across all categories</b>	Up to 10 years in duration (non-standard)
Bonds issued by Multilateral Development Banks	x		
Collective Investment Schemes	x		
Covered Bonds	x		
Real Estate Investment Trusts	x		
Repos (repurchase agreement)	x		

\* Up to 364 days

**Annex B****Staffordshire County Council Counterparty List 2026/27**

<b>Standard Investment Counterparty by Country</b>	<b>Maximum Investment Duration</b>
<b>Australia</b>	
Australia and New Zealand Banking Group Ltd.	12 months
Commonwealth Bank of Australia	12 months
Macquarie Bank Ltd.	12 months
National Australia Bank Ltd.	12 months
Westpac Banking Corp.	12 months
<b>Belgium</b>	
BNP Paribas Fortis	6 months
KBC Bank N.V.	12 months
<b>Canada</b>	
Bank of Montreal	12 months
Bank of Nova Scotia	12 months
Canadian Imperial Bank of Commerce	12 months
National Bank of Canada	12 months
Royal Bank of Canada	12 months
Toronto-Dominion Bank	12 months
<b>Denmark</b>	
Danske A/S	6 months
<b>Finland</b>	
Nordea Bank Abp	12 months
<b>France</b>	
BNP Paribas	6 months
Credit Agricole Corporate and Investment Bank	6 months
Credit Agricole S.A.	6 months
Credit Industriel et Commercial	6 months
Societe Generale	6 months
<b>Germany</b>	
Bayerische Landesbank	12 months
Deutsche Bank AG	6 months
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	12 months
Landesbank Baden-Wuerttemberg	12 months
Landesbank Hessen-Thueringen Girozentrale	12 months
Landwirtschaftliche Rentenbank	24 months
Norddeutsche Landesbank Girozentrale	12 months
NRW.BANK	24 months

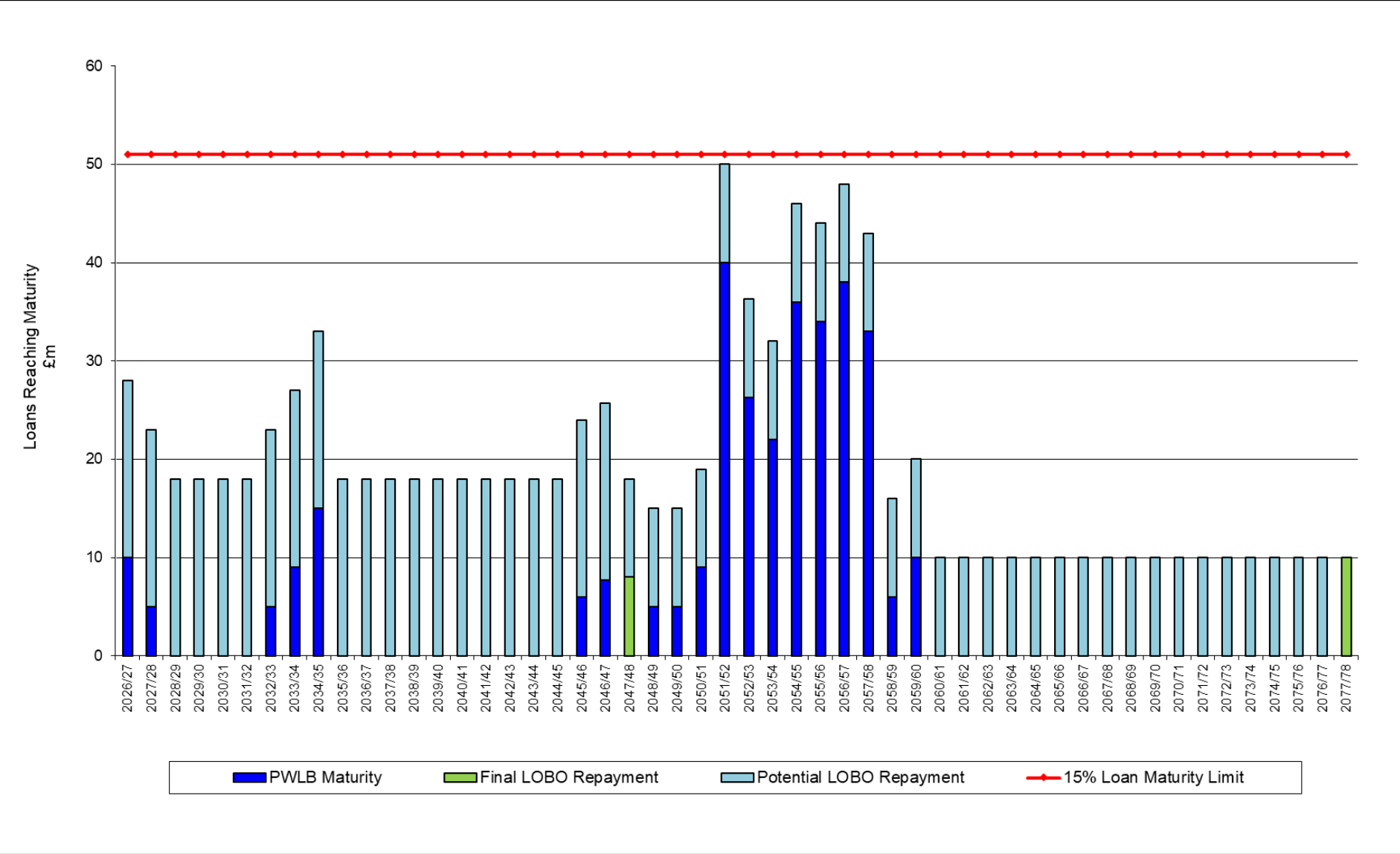
<b>Standard Investment Counterparty by Country</b>	<b>Maximum Investment Duration</b>
<b>Netherlands</b>	
ABN AMRO Bank N.V.	6 months
Bank Nederlandse Gemeenten N.V.	24 months
Cooperatieve Rabobank U.A.	12 months
ING Bank N.V.	12 months
Nederlandse Waterschapsbank N.V.	24 months
<b>Norway</b>	
DNB Bank ASA	12 months
<b>Singapore</b>	
DBS Bank Ltd.	12 months
Oversea-Chinese Banking Corp. Ltd.	12 months
United Overseas Bank Ltd.	12 months
<b>Sweden</b>	
Skandinaviska Enskilda Banken AB	12 months
Svenska Handelsbanken AB	12 months
Swedbank AB	12 months
<b>Switzerland</b>	
UBS AG	12 months
<b>United Kingdom</b>	
Collateralised LA Deposit	60 months
Debt Management Office	60 months
Multilateral Development Banks	60 months
Supranationals	60 months
UK <b>Gilts</b>	40 years (see Annex A)
Bank of Scotland PLC (RFB)	12 months
Barclays Bank PLC (NRFB)	6 months
Barclays Bank UK PLC (RFB)	6 months
Clydesdale Bank PLC	6 months
Goldman Sachs International Bank	6 months
Handelsbanken Plc	12 months
HSBC Bank PLC (NRFB)	12 months
HSBC UK Bank Plc (RFB)	12 months
Investec Bank Plc	6 months
Lloyds Bank Corporate Markets Plc (NRFB)	12 months
Lloyds Bank Plc (RFB)	12 months
National Westminster Bank PLC (RFB)	12 months
NatWest Markets Plc (NRFB)	12 months
Santander Financial Services plc (NRFB)	6 months
Santander UK PLC	6 months
SMBC Bank International Plc	6 months
Standard Chartered Bank	6 months

<b>Standard Investment Counterparty by Country</b>	<b>Maximum Investment Duration</b>
The Royal Bank of Scotland Plc (RFB)	12 months
Leeds Building Society	100 days
Nationwide Building Society	6 months
Skipton Building Society	6 months
Yorkshire Building Society	6 months
<b>United States</b>	
Bank of America N.A.	12 months
Bank of New York Mellon, The	24 months
Citibank N.A.	12 months
JPMorgan Chase Bank N.A.	24 months
Wells Fargo Bank, NA	12 months
<b>Money Market Funds</b>	
Aberdeen GBP Liquidity Class	Overnight
Blackrock ICS GBP	Overnight
HSBC GBP Liquidity	Overnight
BNY Insight GBP Liquidity	Overnight
Federated Hermes Short-Term GBP	Overnight
State Street GBP Premier Stable	Overnight

### Prudential Indicators for Treasury Management 2026/27

Indicator	Estimate 2026/27	Estimate 2027/28	Estimate 2028/29	Estimate 2029/30	Estimate 2030/31
<b>1. External Borrowing</b>	£m	£m	£m	£m	£m
Authorised Limit for borrowing	580	577	593	579	564
Authorised Limit for other liabilities	63	57	53	49	45
<b>TOTAL</b>	<b>643</b>	<b>634</b>	<b>646</b>	<b>628</b>	<b>609</b>
Operational Boundary for borrowing	517	511	525	511	499
Operational Boundary for other liabilities	63	57	53	49	45
<b>TOTAL</b>	<b>580</b>	<b>568</b>	<b>578</b>	<b>560</b>	<b>544</b>
External Loans	434	447	468	475	481
Long Term Liabilities	63	57	53	49	45
<b>TOTAL</b>	<b>497</b>	<b>504</b>	<b>521</b>	<b>524</b>	<b>526</b>
<p><i>The Authorised Limit is the maximum level of external borrowing which should not be exceeded. It is linked to the estimated level of borrowing assumed in the capital programme.</i></p> <p><i>The Operational Boundary represents an estimate of the day-to-day limit for Treasury Management borrowing activity based on the most likely i.e. prudent but not worst-case scenario.</i></p> <p><i>"Other liabilities" relates to <b>PFI</b> schemes and lease agreements which are recorded in the County Council's accounts.</i></p>					
<b>2. Interest Rate Exposures</b>					
a. Upper Limit (Fixed)	505	520	517	533	519
b. Upper Limit (Variable)	(500)	(450)	(450)	(450)	(450)
<p><i>The County Council has set upper limits of fixed and variable borrowing and investments. The effect of setting these upper limits is to provide ranges within which the County Council will manage its exposure to fixed and variable rates of interest. Negative figures are shown in brackets; these relate to the 'high- point' of investments at a variable rate which are not offset by variable borrowings. The exposure to variable rate movements has been reduced by the use of cash in lieu of external borrowing.</i></p>					
<b>3. Maturity Structure of Borrowing</b>					
<p><i>This indicator relates to the amount of loans maturing in specified periods. The overarching principle is that steps should be taken from a risk management point of view to limit exposure to significant refinancing risk in any short period of time. The County Council currently applies the practice of ensuring that no more than 15% of its total gross fixed rate loans mature in any one financial year.</i></p> <p><i>As this is a complex situation for the County Council, involving <b>PWLB</b> loans, <b>LOBO</b> loans with uncertain call dates and the use of internal cash, specific indicators have not been set. Instead, the County Council will manage its exposures within the limits shown in the graph at <b>Annex D</b>. This graph shows all <b>LOBO</b> call options on a cumulative basis; the actual pattern of repayment, although uncertain, will not be of this magnitude.</i></p>					
<b>4. Upper limit for total principal sums invested for longer than a year (from maturity)</b>					
<i>This limit has been set at the total amount that could be invested in non-standard investments as per the County Council's policy (see <b>paragraph 87</b>) which is the maximum that could be invested for longer than 1 year.</i>	£245m	£245m	£245m	£245m	£245m

Staffordshire County Council Loan Maturity Profile 2026/27



**Annex E****Treasury Management Glossary of Terms**

**Basis Points (BPS):** a unit of measurement for interest rates in finance and are equal to 1/100th of 1.0%. The term 'basis points' is most often used when discussing the interest rate environment such as the Bank of England base rate, or in reference to yields, bonds and fixed-income securities.

**Capital Financing Requirement (CFR):** the County Council's amount of capital spending that has not been financed by capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for a capital purpose, although this borrowing may not necessarily take place externally via loans, it can also be funded from internal borrowing, subject to funds being available.

**Chartered Institute of Public Finance and Accountancy (CIPFA):** the professional accounting body that oversees and sets standards in local authority finance and treasury management.

**Consumer Price Index (CPI):** the official measure of inflation adopted as a common standard by countries in the European Union (EU). It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

**Credit Default Swap (CDS):** an additional indicator of risk that is used to assess the financial strength of an institution, be it a bank, a corporate or a sovereign, rather than just relying on credit ratings. It is determined by supply and demand rather than a single rating agency's view of an entity's creditworthiness. A CDS is an insurance policy whereby one party wishing to reduce their credit risk enters a contract with another party who agrees to provide protection against that risk. As part of the CDS contract the buyer agrees to make a series of payments to the seller over the life of the contract on the promise that if a default occurs the seller will compensate the buyer for the loss. The perceived risk of loss is captured in the CDS 'spread' (quoted in **basis points**) with a higher figure representing a higher degree of risk and a lower figure representing lower risk.

**European Central Bank (ECB):** the central bank for the **Eurozone**.

**Eurozone (EZ):** those countries in the EU which use the euro as their currency.

**Federal Open Market Committee (FOMC):** this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining **quantitative easing (QE)** policy. It is composed of 12 members - seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

**The Federal Reserve System (the Fed):** the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

**Gross Domestic Product (GDP):** a measure of the growth and total size of an economy.

**G7:** the group of seven countries that form an informal bloc of industrialised democracies - the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom. They meet annually to discuss issues such as global economic governance, international security, and energy policy.

**Gilt/Gilts:** a type of UK government bond that represents a loan made by an investor to the government, which is repaid after a set period. Gilts are considered low-risk investments due to the creditworthiness of the UK government. Interest paid by the Government on Gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the Gilt, (unless a Gilt is index linked to inflation).

**International Monetary Fund (IMF):** an international organisation that works to achieve sustainable growth and prosperity for its 191 member countries. It promotes global economic growth, financial stability, international trade, and poverty reduction. The IMF is responsible for creating and maintaining the international monetary system, facilitating foreign exchange transactions, and fostering investment and balanced global economic trade.

**Lender Option Borrower Option (LOBO):** a historic loan arrangement relating to long term loans, typically 40-70 years, that contain complex financial derivatives. The interest rate is initially fixed, but the lender has the 'option' to propose or impose (call), on pre-determined future dates, such as every 2 years, a new fixed rate. At this point the County Council has the option to accept the new rate or repay/refinance the loan.

**Ministry of Housing, Communities and Local Government (MHCLG):** a ministerial department of the UK government responsible for housing, communities, and local government in England. It is supported by various agencies and public bodies, playing a central role in the government's mission to address housing and community issues.

**Monetary Policy Committee (MPC):** a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on **quantitative easing (QE)**.

**Minimum Revenue Provision (MRP):** a statutory annual minimum revenue charge to reduce the total outstanding **capital financing requirement (CFR)**.

**Private Finance Initiative (PFI):** capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.

**Public Works Loan Board (PWLB):** part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

**Quantitative Easing (QE):** a form of monetary policy used by central banks to stimulate the economy by purchasing financial assets, such as government bonds. This action aims to inject cash into the economy, lower interest rates, boost asset prices, and encourage lending and investment. It is often employed during periods of economic downturn or

when traditional monetary policy tools have become ineffective. QE is reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held as it matures.

**Retail Price Index (RPI):** a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation, the **Consumer Price Index (CPI)**. The main differences between RPI and **CPI** is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than **CPI** for these reasons.

**Sterling Overnight Index Average (SONIA):** a set of indices for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

**Treasury Management Strategy Statement (TMSS):** an annual report that all local authorities are required to submit for approval by the full council before the start of each financial year.

**Voluntary Revenue Provision (VRP):** a voluntary revenue provision to reduce the total outstanding **capital financing requirement (CFR)**, which is additional to the annual **MRP** charge (see above definition).