west midlands
police and crime
commissioner

Note:
It is important to note that the Treasury Management Strategy Statement (TMSS) is adopted by the Commissioner based upon advice from external treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the Commissioner. All financial information contained within this Report and Statement should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Commissioner and the treasury advisors will not accept any liability on behalf of any individual or organisation who seeks to act on the financial information contained within this Report and Statement.

TREASURY STRATEGY STATEMENT 2026/27

1.0 BACKGROUND

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

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

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

CIPFA defines treasury management as:

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

2.0 REPORTING REQUIREMENTS

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

a. **Prudential and treasury indications and treasury strategy** (this report)
The first, and most important report is forward looking which covers:
- the capital plans (including prudential indicators)
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time)
- the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicator; and
- an Annual Investment Strategy, (the parameters on how investments are managed)

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the mid-year position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury outturn report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates in the strategy.

3.0 TREASURY MANAGEMENT STRATEGY FOR 2026/27

3.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2026/27. The suggested strategy is based upon views of interest rates as advised by external advisors, supplemented with leading market forecasts. The strategy covers two main areas:

Capital Issues
- the capital expenditure plans and the associated prudential indicators
- the minimum revenue position (MRP) policy

Treasury management issues
- the current treasury position
- treasury indicators which limit the treasury risk and activities of the PCC
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy; and
- creditworthiness policy

3.2 These elements cover the requirements of the Local Government Act 2003, MHCLG (Ministry of Housing, Communities and Local Government) Investment Guidance, MHCLG MRP Guidance and the CIPFA Treasury Management Code.

3.3 The PCC uses MUFG as its external treasury management advisors.

3.4 The PCC recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon

the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

3.5 It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The PCC will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

3.6 The CIPFA Treasury Management Code requires members with responsibility for treasury management to receive adequate training in treasury management.

3.7 The needs of the Commissioners treasury management staff for training in investment management are assessed every twelve months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by MUFG and CIPFA.

4.0 THE CAPITAL PRUDENTIAL INDICATORS 2026/27 – 2029/30

Capital Expenditure and Financing

4.1 The Prudential Code for Capital Finance in Local Authorities (Prudential Code) is applicable to the Police and Crime Commissioner and has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide a code of practice to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003. PCCs, like Local Authorities, are free to determine their own level of capital investment controlled by self-regulation.

4.2 The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable.

4.3 The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other. The indicators establish parameters within which the PCC should operate to ensure the objectives of the Prudential Code are met.

4.4 The prudential indicator is a summary of the PCCs capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The following are the capital expenditure forecasts:

Capital expenditure	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast	2029/30 Forecast	2030/31 Forecast
	£m	£m	£m	£m	£m
Total Capital Programme	37.1	27.0	33.9	20.8	17.2

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

Financing of capital expenditure	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast	2029/30 Forecast	2030/31 Forecast
	£m	£m	£m	£m	£m
Revenue contributions	12.5	14.5	19.5	11.8	14.0
Capital receipts	21.6	9.2	11.3	5.6	-
Capital grants	3.0	3.3	3.1	3.4	3.2
Total funding	**37.1**	**27.0**	**33.9**	**20.8**	**17.2**
Net financing need for the year	**-**	**-**	**-**	**-**	**-**

The Commissioner's Borrowing Need (the Capital Financing Requirement)

4.6 The second prudential indicator is the Commissioner's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Commissioner's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

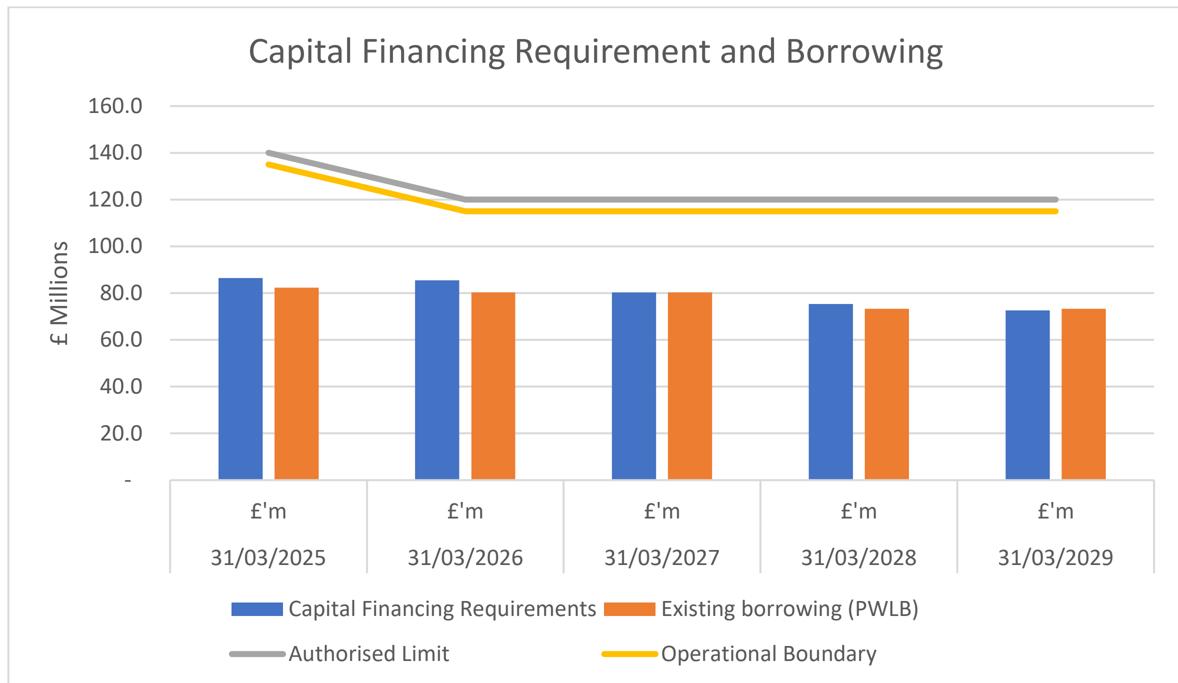
4.7 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used. The CFR increased when the PCC adopted IFRS16 from 2025/26 to include leased assets on the balance sheet.

4.8 In considering the capital programme for 2026/27, the anticipated future borrowing requirements were considered in the context of overall capital resources and the impact on the revenue budget.

	31 March 2025 Actual	31 March 2026 Forecast	31 March 2027 Forecast	31 March 2028 Forecast	31 March 2029 Forecast
	£m	£m	£m	£m	£m
Capital Financing Requirements	86.5	85.4	80.3	75.4	72.6
Existing borrowing	82.3	80.3	80.3	73.3	73.3
Repayments	(2.0)	-	(7.0)	-	-
New Borrowing	-	-	-	-	-

4.9 Borrowing can be either undertaken internally or externally. Internal borrowing occurs when MRP has been set aside to repay borrowing but that borrowing is not yet due to be repaid, leaving a cash balance available to temporarily apply to other capital spend. However, external borrowing may also be needed for new capital expenditure and be taken as external loans.

4.10 These loans are used to finance capital expenditure, which means the acquisition or improvement of assets: land, buildings, ICT infrastructure. Therefore, although there is an increased liability on the balance sheet in terms of borrowing this is offset by an increase in the value of assets to be utilised in the provision of services.



4.11 The graph above shows how the CFR is expected to change over the period of the MTFP. The current loan schedule tracks to the CFR, showing an under-borrowed position until 2028/29, this is a change from the prior year TMSS due to two factors:

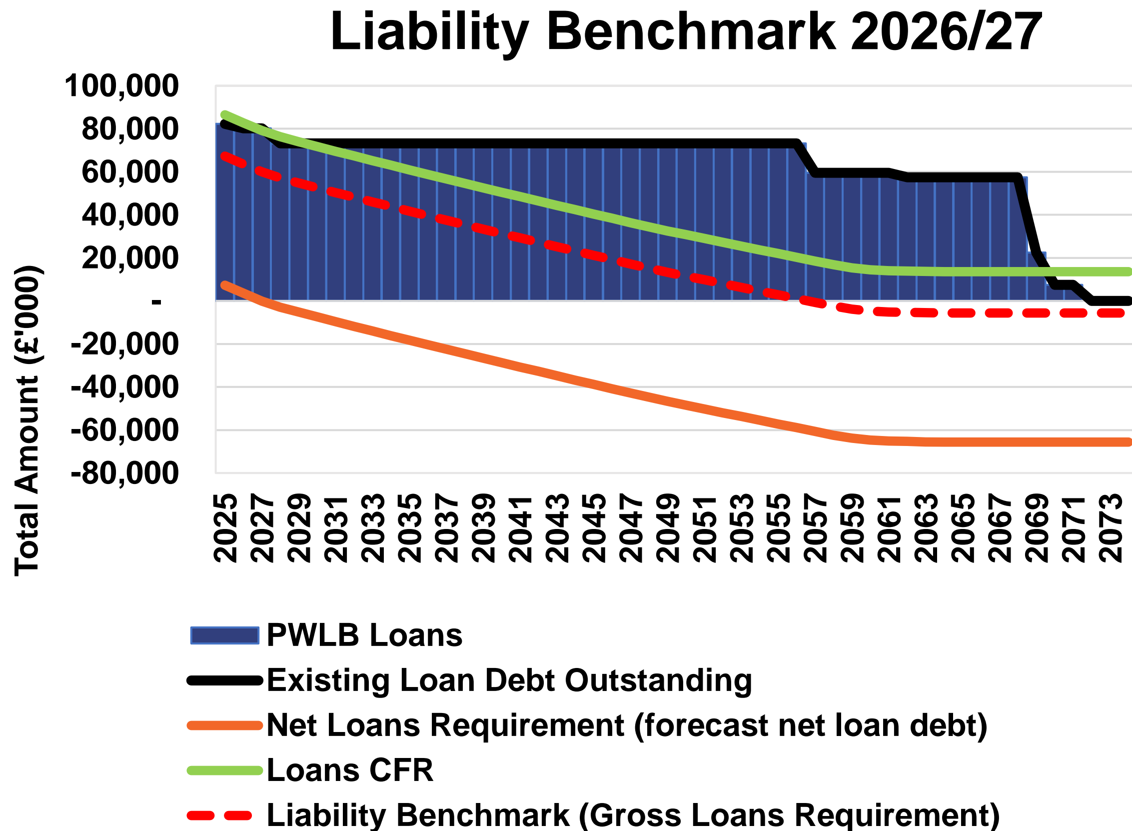
- Early repayment of loans in 2023/24 and the repayment of loans on schedule in 2024/25 and 2025/26.
- The impact of IFRS16, as lease liabilities of £7m were added to the Balance Sheet, which do not have external borrowing associated with them.

5.0 LIABILITY BENCHMARK

5.1 The Commissioner is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

5.2 The liability benchmark is a projection of the amount of loan debt outstanding that the authority needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows. This is shown by the gap between the authority's existing loans that are still outstanding at a given future date and the authority's future need for borrowing (as shown by the liability benchmark). In particular, the liability benchmark identifies the maturities needed for new borrowing in order to match future liabilities. It therefore avoids borrowing for too long or too short.

5.3 The Liability Benchmark chart is shown below:



5.4 There are four components to the LB:

- **Existing loan debt outstanding:** (black line) the Commissioner's existing loans that are still outstanding in future years. These are largely long-term loans.
- **Loans CFR:** (green line) this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. The CFR will change with current capital plans within this strategy forecast to 2030/31.
- **Net loans requirement:** (orange line) this will show the Commissioner's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- **Liability benchmark (or gross loans requirement):** (red dotted line) this equals net loans requirement plus short-term liquidity allowance.

5.5 When comparing the LB to the existing loan debt outstanding, this shows the PCC is in a position of surplus cash and no further loans are required. Although some loans are due to be paid off in the next few years, most loans have been taken on a long-term basis.

5.6 According to the Liability Benchmark calculations, external borrowing exceeds the CFR during the next 50 years, however this simply reflects the borrowing payback period. This is Prudential Code compliant as the borrowing was not taken ahead of need, nor taken out for investment purposes, the long-term loans match the UEL of the assets

funded by the borrowing, whilst the CFR is reducing over time due to the MRP payments made

5.7 The forward projections for borrowing are summarised below. The table shows actual external debt, against the underlying capital borrowing need (the CFR), highlighting any over or under borrowing.

	2024/25 Actual	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
	£m	£m	£m	£m	£m
Capital Financing Requirement	86.5	85.4	80.3	75.4	72.6
External Debt	82.3	80.3	80.3	73.3	73.3
Under/(over) borrowing	**4.2**	**5.1**	**-**	**2.1**	**(0.6)**

5.8 The TMSS for the year ended 31 March 2025 showed an overborrowed position for each of the years in the Medium Term Financial Period. Due to early repayments of loans in 2023/24 and the repayment of loans on schedule in 2024/25 and 2025/26, and the IFRS16 impact (noted at point 4.11 above), the current loan schedule tracks to the CFR, with a small level of internal borrowing (or external borrowing need) until 2028/29.

6.0 MINIMUM REVENUE PROVISION (MRP) POLICY

6.1 Capital expenditure is expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, and equipment. Occasionally the Commissioner has to borrow to fund this expenditure. The loans taken out for this purpose are fully repayable at a future point in time (they are paid off at maturity and not in instalments). The concept of Minimum Revenue Provision was introduced to prescribe a minimum amount which must be charged to the revenue account each year in order to make provision to meet the cost of that borrowing.

6.2 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing, it is required to make a provision each year through a revenue charge (MRP). The 2003 Regulations have been further amended with full effect from April 2025 to expressly provide that in determining a prudent provision, authorities cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute. The Commissioner is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2024) provides four ready-made options for calculating MRP, but the Commissioner can use any other reasonable basis that can be justified as prudent.

6.3 Options 1 and 2 should only be used in relation to Capital expenditure incurred before 1 April 2008 and which the Commissioner is satisfied forms part of Supported Capital Expenditure. For all unsupported borrowing covered by the Prudential Code on or after 1 April 2008, Options 3 or 4 are considered prudent approaches.

6.4 The MRP options set out in the Capital Finance guidance on Minimum Revenue Provision are:

- **Option 1 – 4% reducing balance (regulatory method) -** MRP is equal to the amount determined in accordance with the former sections 28 and 29 of the 2003 Regulations as if they had not been revoked.
- **Option 2 – 4% reducing balance (CFR method) -** MRP is equal to 4% of the Capital Financing Requirement at the end of the previous year.
- **Option 3 – Asset Life Method (straight line) -** MRP is spread over the determined useful life of the Asset either in equal instalments or using an annuity method. The first charge can be delayed until the asset is operational.
- **Option 4 – Depreciation Method** - MRP is equal to the provision required in accordance with depreciation accounting in respect of the asset.

- Another method which the Commissioner has deemed a more suitable method after having regard to the MRP Guidance

6.5 The PCC has adopted Option 2 for expenditure incurred before 1 April 2008 which forms part of supported capital expenditure. The MRP policy will be to take the residual CFR at 31 March 2024, excluding any balance for unsupported borrowing, and apply an MRP of 1/40 of this balance equally across the following 40 years. This will allow the historic balance to be fully written down.

6.6 The PCC has adopted Option 3 from 1 April 2008 for all unsupported borrowing, Asset life method, looking at the lives of the assets to which the borrowing has been applied.

6.7 Capital expenditure incurred during 2025/26 will not be subject to an MRP charge until 2026/27, or in the year after the asset becomes operational.

6.8 MRP in respect of assets acquired under Leases subject to IFRS 16 recognition will be charged at an amount equal to the principal element of the annual repayment.

7.0 CURRENT PORTFOLIO POSITION

7.1 The treasury management function ensures that the Commissioner's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity and the Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

7.2 The Commissioner's estimated portfolio position as at 31st March 2026 for investments and borrowings is as follows:

Treasury Investments	**31/03/2026 Estimate**
	£m
Maturity less than 1 year	75.0
Maturity between 1 and 5 years	-
Money Market Funds	5.0
CCLA Property Fund	5.0
Total Treasury Investments	**85.0**

Treasury External Borrowing	31/03/2026 Estimate
	£m
PWLB fixed rate	80.3
PWLB variable rate	-
Total External Borrowing	**80.3**
Net Treasury investments/(borrowing)	**4.7**

7.3 The treasury investments less than 1 year relate to Bank, Building Society and Local Authority Investments. The £5.0m investment placed with CCLA relates to the property fund.

8.0 TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

8.1 **The Operational Boundary**
This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. The operational boundary has been calculated with regard to the Commissioner's capital expenditure and financing plans allowing for the most likely, prudent, but not worst-case scenario for cash flow. Temporary breaches of the operational boundary, due to variations in cash flow, will not be regarded as significant.

8.2 The proposed limits set out below have been calculated to take account of the current Commissioner's capital expenditure and financing plans and allowing for the possibility of unusual cash movements. If this limit is likely to be breached, it would be necessary for the Commissioner to determine if it is prudent to raise the limit or to instigate procedures to ensure that such a breach does not occur.

8.3 **The Authorised Limit for external debt**
This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited and this limit needs to be set or revised as necessary. 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.

	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m
Operational boundary	115.0	115.0	115.0	115.0
Authorised limit for external debt	120.0	120.0	120.0	120.0

8.4 The Commissioner's actual external debt as at 31/03/26 is currently expected to be £80.3m, excluding transferred debt managed by Dudley MBC (£1.3m). This final payment for the debt managed by Dudley MBC is due to be paid during 2025/26 bringing the balance to 'nil'.

9.0 PROSPECTS FOR INTEREST RATES

9.1 The prospect for interest rates is important for the PCC to understand as it can affect the interest rate earned on investments and the rate at which it can borrow money for capital purposes.

9.2 The Commissioner continues to use MUFG as a treasury advisor and has made use of their services in formulating a view on interest rates. MUFG has in turn drawn upon the work of a number of City economic forecasters.

9.3 MUFG provided the following forecasts on 22 December 2025. These are forecasts for Bank Rate, average earnings and PWLB certainty rates.

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

9.4 *Additional Notes from MUFG to accompany current forecasts*:

- *Our last interest rate forecast update was undertaken on 11 August. Since then, a combination of tepid growth (0.2% q/q GDP for Q2 and 0.1% q/q GDP for Q3), falling inflation (currently CPI is 3.2%), and a November Budget that will place more pressure on the majority of households' income, has provided an opportunity for the Bank of England's Monetary Policy Committee to further reduce Bank Rate from 4% to 3.75% on 18 December.*

- *Surprisingly, to most market commentators, the recent steep fall in CPI inflation in one month from 3.6% to 3.2% did not persuade most "dissenters" from the November vote (Lombardelli, Greene, Mann and Pill) to switch to the rate-cutting side of the Committee. Instead, it was left to Bank Governor, Andrew Bailey, to use his deciding vote to force a rate cut through by the slimmest of margins, 5-4.*

- *Given the wafer-thin majority for a rate cut it was not unexpected to hear that although rates would continue on a "gradual downward path", suggesting a further rate cut or cuts in the offing, MPC members want to assess incoming evidence on labour market activity and wage growth. Indeed, with annual wage growth still over 4.5%, the MPC reiterated that the case for further rate cuts would be "a closer call", and Governor Bailey observed there is "limited space as Bank Rate approaches a neutral level".*

- *Accordingly, the MUFG Corporate Markets forecast has been revised to price in a rate cut in Q2 2026 to 3.5%, likely to take place in the wake of a significant fall in the CPI inflation reading from 3% in March to 2% in April (as forecast by Capital Economics), followed by a short lull through the summer whilst more data is garnered, and then a further rate cut to 3.25% in Q4.*

- *As in August, nonetheless, threats to that central scenario abound. What if wage increases remain stubbornly high? There are, after all, several sectors of the*

domestic economy, including social care provision and the building/construction industries, where staff shortages remain severe. Moreover, by May 2026, following the local elections, we will have a better handle on whether or not the Starmer/Reeves team is going to see out the current Parliament or whether they face a Leadership challenge from within their own party If so, how will gilt markets react to these variables…and will there be additional geo-political factors to also bake in, particularly the Fed's monetary policy decisions in 2026 and the ongoing battle to lower rates whilst inflation remains close to 3%.

- *Accordingly, our updated central forecast is made with several hefty caveats. We are confident, as we have been for some time, that our forecast for Bank Rate and the 5-year PWLB Certainty Rate is robust, and we have marginally brought forward the timing of the next rate cut(s). But for the 10-, 25- and 50-years part of the curve, the level of gilt issuance, and the timing of its placement, will be integral to achieving a benign trading environment. That is not a "given", and additionally, the inflation outlook and political factors domestically and, crucially, in the US, are also likely to hold sway. Matters should be clearer by June in the UK, but the US mid-term elections are scheduled for November.*

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

- *Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.*

9.5 As a result of the above interest rate forecast, investment returns achieved in 2025/26 should be sustainable in 2026/27, however as a result of the high levels of uncertainty an increased but prudent budget has been set.

9.6 **Interest rate exposure for fixed term investments and debt**

These indicators allow the Commissioner to manage the extent to which he is exposed to changes in interest rates. The upper limit for fixed interest reflects the fact that it is possible to construct a prudent treasury strategy on the basis of using only fixed rate debt and investments, so long as the maturity dates of these debts and investments are reasonably spread. The same does not apply to variable rates where a 100% exposure could lead to significant year on year fluctuations in the cost of debt.

9.7 The upper limit for variable rate exposure allows for the use of variable rate debt to offset the exposure to changes in short-term rates on the portfolio of investments.

	2026/27 %	2027/28 %	2028/29 %
Upper limit for fixed interest rate exposure			
Net principal fixed rate borrowing / investments	100	100	100
Upper limit for variable rate exposure			
Net principal variable rate borrowing / investments	20	20	20

10.0 BORROWING STRATEGY

10.1 The Commissioner's CFO has undertaken a review of capital investment requirements and likely resource levels. Although there is some uncertainty around specific requirements and future funding levels, the PCC does not plan to borrow any further amounts to fund the Estates Strategy over the life of the Capital Programme.

10.2 Any short-term funding gaps over the life of the Capital Programme will be met through internal borrowing.

10.3 The Commissioner's CFO will continue to cautiously monitor the interest rate market and adopt a pragmatic approach to any changing circumstances such as the evolving Estates Strategy or deployment of new technology.

10.4 If the need to borrow arises the Commissioner may choose to forward borrow and lock in lower interest rates if the opportunity presents itself. This will involve committing to borrow an amount of money at a date in the future at a designated rate. The Commissioner will then be committed to take on the borrowing even if the requirement to borrow is no longer present or the prevailing interest rate drops.

11.0 POLICY ON BORROWING IN ADVANCE OF NEED

The Commissioner will not borrow more than or in advance of its needs purely in order 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 Commissioner can ensure the security of such funds.

12.0 DEBT RESCHEDULING AND PREMATURE REPAYMENT OPPORTUNITIES

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

12.2 Rescheduling of current borrowing in our debt portfolio is unlikely to occur if there is a large difference between premature redemption rates and new borrowing rates.

13.0 THE INVESTMENT STRATEGY

13.1 The Commissioner's investment activities have regard to guidance issued by the Government and CIPFA. The Ministry of Housing and Local Government (MHCL) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments.

13.2 In making investment decisions, the Commissioner's investment priorities will be security first, liquidity second and then yield (return). Pursuit of the best possible return on investments will only be allowed to the extent that this is consistent with very low levels of risk in terms of security and liquidity.

13.3 In the current economic climate, it is considered appropriate to maintain a high degree of liquidity to cover cash flow needs but to also consider 'laddering' investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated.

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate.

3. **Other information sources** used will include the financial press and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in Appendix A.

5. All investments will be denominated in **sterling.**

6. The Commissioner will make use of both specified and non-specified investments.

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

13.6 **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. In determining which categories of non-specified investments may prudently be used, account will be taken of advice from the advisors, MUFG.

13.7 So far, the following categories of investments have been identified as prudent for use for non-specified investments. The table also shows the maximum value of investments that may be held.

13.8 Property funds provide investors with long term income and potential long-term capital appreciation. These types of funds are actively managed in a diversified portfolio of commercial property.

13.9 In determining the maximum period for which investments may be held, regard to the most recent cash flow forecast will be taken. No investment will be entered into where the cash-flow forecast indicates that, as a result of that investment, the Commissioner would be forced to borrow money in a future year that would not otherwise have had to be borrowed.

13.10 **Environmental, Social and Governance (ESG) Risk Management**
Environmental, Social and Governance (ESG) considerations are important considerations when selecting investment counterparties: however, Security of public funds, followed by Liquidity and then Yield remain our primary drivers in line with CIPFA Guidance.

13.11 Our treasury operation focuses on managing all categories of risk that may impact first and foremost the security of any given investment product. From that perspective ESG considerations will be about understanding what ESG risks a counterparty is exposed to and what they may mean for the Commissioners' risk in choosing to make a particular investment.

13.12 Specific assessment is however somewhat restricted by the fact that, at the time of writing, there is no consistent rating framework to measure and benchmark all specific counterparty ESG metrics. Until this market data gap is fully resolved, our Policy is as follows:
We continue to prioritise Security, Liquidity and Yield (in that order) as required by CIPFA's Treasury Management Code of Practice.

Category of investment	Maximum value for this category of investments
Sterling deposits in excess of 364 days with Local Authorities and UK banks (where these are not "specified investments" as defined above).	£30m
Property Funds based in the UK	£5m

13.13 The Ratings Agencies (Moody's, Standard and Poor's) existing headline ratings on our counterparties now incorporate ESG risk assessments alongside more traditional financial risk metrics and so provide both a holistic risk measure and a proxy for ESG 'scoring' in the absence of anything more robust.

13.14 **Maturity structure of borrowing and investments longer than 364 days**
The purpose of the prudent limits for principal sums invested for periods longer than 364 days is for the Commissioner to contain his exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested. The maturity structure of fixed rate borrowing is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

Upper limit of principal invested for periods over 364 days		**£30m**
Maturity structure of fixed rate borrowing	**Upper limit %**	**Lower limit %**
Under 12 months	25	0
12 months and within 24 months	25	0
24 months and within 5 years	50	0
5 years and within 10 years	75	0
10 years and above	100	25

14.0 CREDITWORTHINESS POLICY

14.1 For the purpose of this strategy, use is made of the creditworthiness service provided by MUFG to define a 'high credit rating'.

- UK banks and building societies – short-term rating F1 or higher and viability rating of "a-" or higher.
- Foreign banks – short-term rating F1+, and a viability rating of a minimum of "a" with a sovereign rating of AAA.
- Money market Funds (MMFs) – Any AAA rated fund

These will be supported by other accredited rating systems (Standard & Poor's and Moody's), credit watches and outlooks, Credit Default Swap data, and information from the financial press.

14.2 Sole reliance will not be placed on the use of this external service. In addition, the Commissioner will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

14.3 **Local Authorities**: Although, most UK local authorities have not opted to obtain a formal credit rating from either Moodys, Standard and Poors, or Fitch, they are considered as quasi-governmental by advisors and therefore assigned a AA- rating for the purposes of establishing credit criteria. No local authority has ever defaulted on its loan arrangements. The commissioner will apply the following criteria when selecting UK Local Authority counterparties:

- No deposits (or further deposits) with authorities that have issued a S114 notice that is yet to be rescinded.
- No forward dated trades beyond 1 month ahead.

14.4 The Commissioner's CFO will monitor credit ratings through the receipt of credit rating bulletins from the treasury management consultants at MUFG.

APPENDIX A

EXTERNAL INVESTMENTS - APPROVED COUNTERPARTY LIST AND LIMITS 2026/27

LOCAL AUTHORITIES	LIMIT for each	PERIOD
	£m	
All Local Authorities**	30	1 year+
Banks and building societies	30	<1 year
Bank of England	100	1 year+
Money Market Funds	30	Instant access

** Local authorities may be subject to lower limits throughout the year if they are deemed to be under severe financial stress.