HOUGHTON REGIS TOWN COUNCIL

Treasury Management Strategy Statement 2026/27

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code).

Treasury Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £1.2 and £4.2 million. Levels maintained for the forthcoming year are expected to be between £3m and £5m. The investment balance for the previous 12 months saw an inflated increase in June following receipt of a s106 commuted sum contribution of £3,096,275.82.

Objectives: The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: The Authority expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.

The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Authority may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Sector	Time limit †	Counterparty limit	Sector limit
The UK Government	50	Unlimited	n/a
Local authorities & other government entities	25 years	£1.5m	Unlimited
Secured investments – government collateral	25 years	£1.5m	Unlimited
Secured investments – other collateral*	10 years	£1.5m	Unlimited
Banks (unsecured) *	13 months	£1.5m	Unlimited
Building societies (unsecured) *	13 months	£250,000	£500,000
Money market funds *	n/a	£3m	Unlimited

This table must be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

† Time limits: These start on the earlier of date that the Authority is committed to make the investment and the date that cash is transferred to the counterparty

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

Local authorities and other government entities: Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

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

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1.5m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

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.

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

Reputational aspects: The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

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

Investment limits: A group of entities under the same ownership will be treated as a single organisation for limit purposes. In order to minimise the amount of reserves that would be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £3m. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers and foreign countries.

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds), of which at least two will be UK domiciled to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Appendix A – Arlingclose Economic & Interest Rate Forecast – 6th May 2026

Underlying assumptions:

- The impact of the Iran conflict creates inherent uncertainty for the economic outlook and path for policy rates and bond yields. More frequent changes to our interest rate forecast are highly likely as the situation evolves.
- The Iran conflict continues, with neither side apparently ready to compromise despite the cease fire. The restricted passage through the Strait of Hormuz has maintained upward pressure on energy prices, with repercussions for both UK growth and inflation.
- April's monetary policy decision and related documents underlined the difficult decision facing MPC members. Presenting alterative scenarios based on persistence of higher energy prices and second round effects, there remained a range of views on the Committee. Tighter financial market conditions have allowed policymakers more time to assess developments, but the meeting minutes suggested the MPC is ready to act on signs of second round inflationary pressure.
- Inflation will rise, but there is a question over its persistence. The UK economic situation is in a different position to that of the last energy price shock. There is spare capacity in the labour market amid a decline in labour demand - this should dampen wage demands; cautious spending remains the norm for households and consumer confidence has started to deteriorate; strained government finances cannot support household spending. Some activity data has surprised to the upside, but underlying GDP growth is soft and likely to weaken further, monetary policy is starting from restrictive territory and markets have already tightened financial conditions.
- From a policymaker perspective, lessons from 2022 could influence decisions in the months ahead and make near-term rate increases a possible scenario. The cost would be more significant in terms of economic growth and employment, but it may prompt an easing in inflation expectations and dampen the recent rise in yields.
- The key uncertainty is the war's duration. A longer war leading to higher energy prices will crystallise worst-case scenarios for both inflation and economic growth, damaging both demand and supply. The BoE suggested Bank Rate could rise to 5.25% in such a scenario. The underlying issues affecting the UK economy prior to the start of the war remain, so lower rates in the future remain probable.
- Gilt yields may remain high due to political uncertainty. The results of upcoming local elections will possibly determine the future of the Prime Minister and Chancellor.

Forecast:

- Arlingclose expects Bank Rate to be held at 3.75% for the foreseeable future. There are a range of possible scenarios outside this central case, dependent on the duration of the Iran war, post-war conduct, and temporary or lasting damage to energy infrastructure.
- In the short term, the forecast is heavily weighted to the upside – i.e. there may be Bank Rate hikes. This largely reflects policymakers' desire to avoid Ukraine-war style secondary outcomes, but this would be at the expense of activity.

- Gilt yields/swap rates will remain high without early monetary tightening or signs of deteriorating activity, which would argue against the need for rate increases. The risks around Arlingclose's gilt yield forecasts are weighted to the upside given the risks around Bank Rate.
- Monetary tightening, or delayed monetary loosening, over the short term increase the downside risks for rates over the medium term.

	Current	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
Official Bank Rate													
Upside risk	0.00	0.75	1.00	1.50	1.50	1.50	1.25	1.25	1.00	0.75	0.75	0.75	0.75
Central Case	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	0.00	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-1.00	-1.25	-1.50	-1.50	-1.50
3-month money market rate													
Upside risk	0.00	0.75	1.00	1.50	1.50	1.50	1.25	1.25	1.00	0.75	0.75	0.75	0.75
Central Case	3.90	3.90	3.85	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80
Downside risk	0.00	-0.05	-0.05	-0.25	-0.25	-0.50	-0.50	-0.75	-1.00	-1.25	-1.50	-1.50	-1.50
5yr gilt yield													
Upside risk	0.00	0.75	1.00	1.50	1.50	1.50	1.25	1.25	1.00	0.75	0.75	0.75	0.75
Central Case	4.59	4.50	4.45	4.40	4.35	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30
Downside risk	0.00	-0.40	-0.40	-0.50	-0.50	-0.50	-0.75	-0.85	-0.95	-1.20	-1.25	-1.25	-1.25
10yr gilt yield													
Upside risk	0.00	0.75	1.00	1.25	1.25	1.25	1.25	1.25	1.00	0.75	0.75	0.75	0.75
Central Case	5.06	5.00	4.95	4.90	4.85	4.80	4.80	4.80	4.80	4.80	4.80	4.80	4.80
Downside risk	0.00	-0.40	-0.40	-0.50	-0.50	-0.50	-0.75	-0.85	-0.95	-1.20	-1.25	-1.25	-1.25
20yr gilt yield													
Upside risk	0.00	0.75	1.00	1.25	1.25	1.25	1.25	1.25	1.00	0.75	0.75	0.75	0.75
Central Case	5.68	5.60	5.55	5.50	5.45	5.40	5.40	5.40	5.40	5.40	5.40	5.40	5.40
Downside risk	0.00	-0.40	-0.40	-0.50	-0.50	-0.50	-0.75	-0.80	-0.90	-1.00	-1.20	-1.20	-1.20
50yr gilt yield													
Upside risk	0.00	0.75	1.00	1.25	1.25	1.25	1.25	1.25	1.00	0.75	0.75	0.75	0.75
Central Case	5.29	5.25	5.20	5.15	5.10	5.05	5.05	5.05	5.05	5.05	5.05	5.05	5.05
Downside risk	0.00	-0.40	-0.40	-0.50	-0.50	-0.50	-0.75	-0.80	-0.90	-1.00	-1.20	-1.20	-1.20

PWLB Standard Rate = Gilt yield + 1.00%

Appendix B – External Context

Economic background: The most significant impacts on the Authority's treasury management strategy for 2026/27 are expected to include: the influence of the government's 2025 Autumn Budget, lower short-term interest rates alongside higher medium- and longer-term rates, slower economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and geopolitical issues.

The Bank of England's Monetary Policy Committee (MPC) cut Bank Rate to 3.75% in December 2025, as expected. The vote to cut was 5-4, with the minority instead favouring holding rates at 4.0%. Those members wanting a cut judged that disinflation was established while those preferring to hold Bank Rate argued that inflation risks remained sufficiently material to leave rates untouched at this stage.

Figures from the Office for National Statistics showed that the UK economy expanded by 0.1% in the third quarter of the calendar year, this was unrevised from the initial estimate. The most recent Monetary Policy Report (November) projected modest economic growth, with GDP expected to rise by 0.2% in the final calendar quarter of 2025. Annual growth is forecast to ease from 1.4% before improving again later, reflecting the delayed effects of lower interest rates, looser monetary conditions, stronger global activity, and higher consumer spending. The view of modest economic growth going forward was echoed by the Office for Budget Responsibility in its Economic and fiscal outlook published in line with the Autumn Statement which revised down its estimate of annual real GDP to around 1.5% on average between 2025 and 2030.

CPI inflation was 3.2% in November 2025, down from 3.6% in the previous month and below the 3.5% expected. Core CPI eased to 3.2% from 3.4%, contrary to forecasts of remaining at 3.6%. Looking forward, the MPC continues to expect inflation to fall, to around 3% in calendar Q1 2026, before steadily returning to the 2% target by late 2026 or early 2027.

The labour market continues to ease with rising unemployment, falling vacancies and flat inactivity. In the three months to October 2025, the unemployment rate increased to 5.1%, higher than the level previously expected by the BoE, while the employment rate slipped to 74.9%. Pay growth for the same period eased modestly, with total earnings (including bonuses) growth at 4.7% and while regular pay was 4.6%.

The US Federal Reserve also continued to cut rates, including reducing the target range for the Federal Funds Rate by 0.25% at its December 2025 meeting, to 3.50%-3.75%, in line with expectations. The minutes of the meeting noted that most Fed policymakers judged that further rate cuts would be likely in 2026 if inflation continues to ease, however they were still divided in their assessment of the risks between inflation and unemployment.

The European Central Bank (ECB) kept its key interest rates unchanged in December for a fourth consecutive meeting, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%. The ECB maintained that future policy decisions will remain data-dependent, that inflation is close to its 2% target and that the euro area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.

Credit outlook: Credit Default Swap (CDS) prices, which spiked in April 2025 following President Trump's 'Liberation Day' tariff announcements, have since trended lower, returning to levels broadly consistent with their 2024 averages. Although CDS prices rose modestly during October and November, the overall credit outlook remains stable, and credit conditions are expected to remain close to the range seen over the past two years.

While lower interest rates may weigh on banks' profitability, strong capital positions, easing inflation, steady economic growth, low unemployment, and reduced borrowing costs for households and businesses all support a favourable outlook for the creditworthiness of institutions on (the authority's treasury management advisor) Arlingclose's counterparty list. Arlingclose's advice on approved counterparties and recommended investment durations is kept under continuous review and will continue to reflect prevailing economic and credit conditions.

Interest rate forecast (6th May 2026): Arlingclose, the Authority's treasury management adviser, expects Bank Rate to be held at 3.75% for the foreseeable future. There are a range of possible scenarios outside this central case, dependent on the duration of the Iran war, post-war conduct, and temporary or lasting damage to energy infrastructure.

In the short term, the forecast is heavily weighted to the upside (i.e. there may be Bank Rate hikes). This largely reflects policymakers' desire to avoid Ukraine-war style secondary outcomes, but this would be at the expense of activity.

Gilt yields, and therefore interest rates on longer term borrowing, will remain high without early monetary tightening or signs of deteriorating activity, which would argue against the need for rate increases. The risks around Arlingclose's gilt yield forecasts are weighted to the upside given the risks around Bank Rate. Monetary tightening, or delayed monetary loosening, over the short term increase the downside risks for rates over the medium term.

For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 3%, and that new long-term loans will be borrowed at an average rate of 6.5%.