

| Bath & North East Somerset Council | |
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| MEETING: | Council |
| MEETING DATE: | 24th February 2026 |
| TITLE: | Treasury Management Strategy Statement 2026/27 |
| WARD: | All |
| AN OPEN PUBLIC ITEM | |
| List of attachments to this report: Appendix 1 - Treasury Management Strategy 2026/27 Appendix 2 – Authorised Lending List | |

1 THE ISSUE

- 1.1 Treasury risk management at the Council 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) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.2 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and 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 Council's prudent financial management.
- 1.3 Investments held for service or commercial purposes are considered in the Capital and Investment Strategy within the Budget Report which is also included on the agenda for Cabinet & Council for February.

2 RECOMMENDATIONS

The Council agrees to:

- 2.1 Approve the actions proposed within the Treasury Management Strategy Statement 2026/27 (**Appendix 1**).
- 2.2 Note the Treasury Management Indicators detailed in **Appendix 1**.

3 THE REPORT

Background

- 3.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 3.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare a Treasury Management Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 3.3 The suggested strategy for 2026/27 in respect of the following aspects of the treasury management function is based on the Treasury Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Arlingclose.

The strategy covers:

- Treasury limits in force which will limit the treasury risk and activities of the Council;
- Treasury Management Indicators;
- The current treasury position;
- The borrowing requirement;
- Prospects for interest rates;
- The borrowing strategy;
- The investment strategy.

- 3.4 Treasury risk management at the Council 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). This requires the Treasury Management Strategy and policies to be scrutinised by an individual / group of individuals or committee, and the Audit Committee have been nominated by Council to carry out this function.

Treasury Management Strategy Statement

- 3.5 The Treasury Management Strategy Statement 2025/26 set the Treasury Indicators for 2025/26 – 2027/28, which included a forecast for the total borrowing requirement at the end of 2025/26 of £441.814 million. At the end of December 2025, actual external borrowing was at £285.250 million, with further borrowing potentially required prior to year-end to maintain cashflow. The level of borrowing is in line with the policy of utilising internal cash to reduce net borrowing costs and investment counterparty risk.
- 3.6 The proposed Treasury Management Strategy Statement 2026/27 is attached as **Appendix 1** and includes the Treasury Management Indicators required by the Treasury Management Code.

- 3.7 Although the indicators provide for a maximum level of total borrowing, this should by no means be taken as a recommended level of borrowing, as each year affordability needs to be taken into account together with other changes in circumstances, for example revenue pressures, levels and timing of capital receipts, changes to capital projects spend profiles, and levels of internal cash balances.
- 3.8 The Revenue & Capital Budget Report 2026/27, which is also on February's Cabinet and Council agenda, includes appropriate provision for the revenue costs of the capital programme in accordance with this Treasury Management Strategy.
- 3.9 **Appendix 1** also details the Council's current portfolio position as at 31st December 2025, which shows, after netting off the £48.200 million investments, the Council's net debt position was £237.050 million.
- 3.10 The Treasury Investment Strategy section of **Appendix 1** sets 'outer limits' for treasury management operations. While the strategy uses credit ratings in a "mechanistic" way to rule out counterparties, in operating within the policy, Officers complement this with the use of other financial information when making investment decisions, for example Credit Default Swap (CDS) prices, Individual Ratings, and the financial press. This has been the case in previous years, which has protected the Council against losses of investment, for example in Icelandic banks.
- 3.11 The Counterparty listing in **Appendix 2** includes credit ratings from three agencies, as well as a sovereign rating for each country. Counterparties who now meet the minimum criteria as recommended in **Appendix 1** (as at 31st December 2025) are included in the listing in **Appendix 2**.
- 3.12 The Council has met the conditions to opt up to MiFID II professional status and intends for this to continue in 2026/27 in order to continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to continue to receive the same level of support from our treasury management advisors.

4 STATUTORY CONSIDERATIONS

- 4.1 This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 5.1 The resource implications are included in the report and appendices.

6 RISK MANAGEMENT

- 6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision-making risk management guidance.
- 6.2 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending and borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management consultants Arlingclose.

6.3 The 2021 edition of the CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Audit Committee carries out this scrutiny.

6.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

7 CLIMATE CHANGE

7.1 The Treasury Management Strategy Statement 2026/27 includes options for ESG (Environmental, Social and Corporate Governance) focussed investments.

8 OTHER OPTIONS CONSIDERED

8.1 The Director of Finance (S151 Officer), having consulted the Cabinet Member for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are the table below.

| Alternative | Impact on income and expenditure | Impact on risk management |
|--|---|--|
| Invest in a narrower range of counterparties and/or for shorter times. | Interest income will be lower. | Lower chance of losses from credit related defaults, but any such losses may be greater. |
| Invest in a wider range of counterparties and/or for longer times. | Interest income will be higher. | Increased risk of losses from credit related defaults, but any such losses may be smaller. |
| Borrow additional sums at long-term fixed interest rates. | Debt interest costs will rise; this is unlikely to be offset by higher investment income. | Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain. |
| Borrow short-term or variable loans instead of long-term fixed rates. | Debt interest costs will initially be lower. | Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain. |
| Reduce level of borrowing. | Saving on debt interest is likely to exceed lost investment income. | Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain. |

9 CONSULTATION

9.1 Consultation has been carried out with the Cabinet Member for Resources, Director of Finance (S151 Officer) and Monitoring Officer.

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| Background papers | <i>Treasury Management & Investment Strategy 2025/26</i> |
| Please contact the report author if you need to access this report in an alternative format | |