



Treasury Management Strategy

2026-27

Business Plan Section 6



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1: Introduction

Background

The council is required to operate a balanced budget, which broadly means that the cash raised or received during the year will meet council expenditure. The treasury management operation must ensure that this cash flow is adequately planned, as well as managed, with cash being available when it is needed. Surplus cash should be invested in low-risk counterparties or instruments in line with the council's low risk appetite, providing adequate liquidity initially before considering investment return.

Another main function of the treasury management service is the funding of the council's capital plans. These capital plans provide a guide to the borrowing need of the council, essentially longer-term cash flow planning, to ensure that the council 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 council risk or cost objectives.

The treasury management function is critical to the council, as the balance of debt and investment operations ensure liquidity or the ability to meet council spending obligations as they fall due, either for day-to-day revenue expenditure, or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the general fund balance.

CIPFA defines treasury management as:

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

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

Statutory Guidance and Key Reports

CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes

The council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Code). The adoption is included in the council's Constitution.

CIPFA Prudential Code for Capital Finance in Local Authorities

The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) is a professional code of practice. Local authorities have a statutory requirement to comply with the Prudential Code when making capital investment decisions and carrying out their duties under Part 1 of the Local Government Act 2003 (Capital Finance etc. and Accounts).

The CIPFA Prudential Code sets out the manner in which capital spending plans should be considered and approved, and in conjunction with this, the requirement for an integrated treasury management strategy.

Councils are required to set and monitor a range of prudential indicators for capital finance, covering affordability, prudence, and a range of treasury indicators.

Treasury Management Policy Statement

The council's Treasury Management Policy Statement is included in Appendix 2. The policy statement follows the wording recommended by the latest edition of the CIPFA Treasury Code.

Treasury Management Practices

The council's Treasury Management Practices (TMPs) set out the manner in which the council will seek to achieve its treasury management objectives, and how it will manage and control those activities through its policies.

The council's TMPs Schedules cover the detail of how the council will apply the TMP Main Principles in carrying out its operational treasury activities.

Investment Management Practices

Like TMPs, Investment Management Practices (IMPs) are required to manage risks associated with non-treasury investments.

The Treasury Management Strategy

It is a requirement under the Treasury Management Code to produce an annual strategy report on proposed treasury management activities for the year. The council's Treasury Management Strategy is drafted in the context of the key principles of the Treasury Code, as follows:

- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their

appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing funds.

- They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

The purpose of the Treasury Management Strategy is to establish the framework for the effective and efficient management of the council's treasury management activity, including the council's investment portfolio, within legislative, regulatory, and best practice regimes. The Strategy needs to balance risk against reward in the best interests of stewardship of the public purse.

The Treasury Management Strategy considers the impact of the council's Medium Term Financial Strategy (MTFS), its revenue budget and capital programme, the balance sheet position, and the outlook for interest rates. It incorporates:

- The council's investment and borrowing strategy for the coming year
- The council's policy on the making of the Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008
- The Affordable Borrowing Limit as required by the Local Government Act 2003
- The Annual Investment Strategy for the coming year
- The prospects for interest rates
- Policy on borrowing in advance of need
- Policy on debt rescheduling
- Counterparty creditworthiness policies
- Policy on use of external service providers
- Treasury Indicators, which limit the treasury risk and activities of the council.

The council regards the successful identification, monitoring, and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The Treasury Management Scheme of Delegation is shown in Appendix 1.

Key Considerations

Changes to the Treasury Management and Prudential Codes

CIPFA issued revised Treasury Management and Prudential Codes in December 2021 which were to be adopted for the 2023-24 financial year; therefore, the council has had regard to the changes in these Codes within this document, as well as the related reports during the year which are taken to Full Council for approval.

Following the publication of the updated codes in 2021, there was a subsequent CIPFA consultation on the codes which closed in October 2025 that suggests there will be further changes made to the reporting requirements contained within the Prudential and Treasury Management Codes. This is not expected to be implemented until 2027-28 at the earliest.

Implementation of IFRS 16 Leases for from 1 April 2024 (2024-25 accounts)

The adoption of International Financial Reporting Standard (IFRS) 16 introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is low value. When such lease contracts and the related assets and liabilities are brought onto the balance sheet, the long-term liabilities of the council increase and, therefore by definition, the external debt liability also increases.

IFRS 16 was implemented within the CIPFA Code of Practice on Local Authority Accounting 2024-25. As a result, high-level estimates of previously off-balance sheet leased assets brought onto the balance sheet for 2024-25 were reflected within the 2025-26 TMS. This impacted on the following treasury management and prudential indicators:

- Authorised Limit
- Operational Boundary
- Actual external debt at year-end
- Capital expenditure
- Capital Financing Requirement
- Gross debt and the Capital Financing Requirement
- Financing costs to net revenue stream

Now the draft 2024-25 accounts have been completed, the impact of the off-balance sheet leased assets being brought onto the balance sheet has been calculated and included within the figures used within this strategy. It has also enabled a more refined estimate of the ongoing impact of this change in accounting to be included within the estimates for future years.

IFRS 9 Financial Instruments statutory override

The Ministry for Housing, Communities and Local Government (MHCLG) has extended the IFRS 9 statutory override for existing local authority investments in pooled funds made before 1 April 2024, allowing the override to remain in place until 1 April 2029 to provide local authorities with additional time to manage their investment strategies. New investments made from 1 April 2024 onward must follow standard IFRS 9 rules, with fair value changes impacting the general fund. IFRS 9 also requires impaired loans to be written down.

Whilst this does not materially impact upon traditional treasury investments, the standard also encompasses other investment areas including loans to third parties, subsidiaries, or longer dated service investments. The expected credit loss model requires local authorities to make provision for these potential losses having

assessed the asset with regard to the due diligence undertaken prior to investment, the nature of any guarantees, and subsequent regular updates.

The council has made the following material loan agreement with third parties:

- This Land – loans at commercial rates to facilitate the construction of residential housing in Cambridgeshire.

A revenue provision may be necessary in relation to this, depending on the risk assessment of the investment (see Appendix 4 for when this is required).

The council has made the following material investment in pooled funds:

- Property Funds £12m
- Infrastructure Funds £8m
- Diversified Income / Multi Asset Funds £17m

Minimum Revenue Provision (MRP)

In April 2024, MHCLG issued an update to Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as well as a 5th edition of Capital finance: guidance on minimum revenue provision in order to clarify some of the regulations, ensure authorities are not underpaying their MRP charge and to provide greater transparency.

As a result, in order to bring the council's MRP policy fully in line with the updated regulations and guidance, the policy for 2025-26 and beyond was updated to clarify the following:

- Any new commercial capital loans issued will have MRP issued (adjusted for any capital receipts received).
- Any capital loan subject to an actual or expected credit loss will have MRP charged in year to the value of the loss, adjusted for any previous reductions to the CFR for that loan.
- Confirmed that any share/equity capital will have MRP charged over 20 years (this was the council's practice, but not explicit in the previous policy).

Other updates

This update to the strategy is otherwise minor, with the following areas having been updated since the previous Treasury Management Strategy was adopted by Full Council in February 2025:

- Updates to interest rate forecasts
- Updates to debt financing budget forecasts

2: Current Treasury Management position

The council's projected treasury portfolio position at 31 March 2026, with forward estimates, is summarised below. The table shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing. The CFR is simply the historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the council's underlying borrowing need.

Any capital expenditure which has not immediately been paid for, will increase the CFR. The CFR does not increase indefinitely, as MRP is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life and so charges the economic consumption of capital assets as they are used. This is shown in graphical form in Appendix 3. The CFR and borrowing figures shown in Table 1 below include borrowing undertaken or planned for third party loans, as well as PFI schemes and finance lease liabilities (however, a separate borrowing facility forms part of the contract for these, therefore the council does not need to borrow itself for these and as such, they are shown separately in the 'Other financing movements' line).

The council's projected borrowing need, alongside forecast external borrowing and investment balances, is shown in Tables 1 and 2 below:

Table 1: Forecast Borrowing and Investment Balances

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
	Estimate £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
External borrowing						
Borrowing at 1 April brought forward	851.3	900.0	945.0	1,010.0	1,050.0	1,070.0
Net Borrowing Requirement to fund capital programme (see Table 2)	-3.5	-0.9	-31.2	-22.2	-19.3	-20.8
Internal borrowing (increase (-) / reduction) *	52.2	45.9	96.2	62.2	39.3	20.8
(1) Actual borrowing at 31 March	900.0	945.0	1,010.0	1,050.0	1,070.0	1,070.0
Other long-term liabilities						
Other Financing at 1 April brought forward	124.5	117.3	108.7	102.5	94.8	88.5
Change in other financing	-7.2	-8.6	-6.2	-7.7	-6.3	-9.9
(2) Actual other financing at 31 March	117.3	108.7	102.5	94.8	88.5	78.5
(3) CFR – the borrowing need	1,132.9	1,123.4	1,086.0	1,056.0	1,030.4	999.6
(4) [3 – 2 – 1] Internal borrowing*	115.6	69.7	-26.5	-88.8	-128.1	-148.9
Investments						
Investments at 1 April	87.1	91.9	86.8	86.0	87.8	86.9
In Year Movements	4.7	-5.1	-0.8	1.9	-0.9	0.0
(5) Investments at 31 March	91.9	86.8	86.0	87.8	86.9	86.9
(6) [1 – 5] Net borrowing	808.1	858.2	924.0	962.2	983.1	983.1

**Internal borrowing, also referred to as under / over borrowing, is temporarily funding capital spending from cash-backed resources (reserves and cash flow timing surpluses) to hand. This avoids interest payments by deferring the need to borrow externally, reduces investment balances that would otherwise earn a rate of return lower than the cost of additional borrowing therefore minimising net interest expenses, and consequently less investment reduces the council's exposure to credit risk. Internal borrowing is discussed further in section 4: Borrowing Strategy.*

The council's internal borrowing position switches to negative in the medium-term (showing we are expecting to need to borrow for more than just the capital programme). This is due to the deficit on the Dedicated Schools Grant (DSG), which by 2027-28 is expected to exceed our working capital and, without borrowing, would otherwise cause a loss of liquidity.

Table 2: Capital Borrowing Requirement

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Unsupported Borrowing – General Fund	28.3	39.4	43.3	8.0	8.4	7.2
Unsupported Borrowing – Housing	0.0	0.0	0.0	0.0	0.0	0.0
Less: MRP	-31.8	-40.4	-74.5	-30.2	-27.7	-28.0
Net Borrowing Requirement to fund Capital Programme (exc. PFIs and finance leases)	-3.5	-0.9	-31.2	-22.2	-19.3	-20.8
Less: other financing movements	-7.2	-8.6	-6.2	-7.7	-6.3	-9.9
Net Borrowing Requirement to fund Capital Programme	-10.7	-9.5	-37.4	-29.9	-25.6	-30.8

Several key measures within the prudential indicators ensure that the council operates within clearly defined limits. The key requirement is that the council needs to ensure that its gross borrowing stays within the total of the CFR in the preceding year, plus the estimates of any additional CFR for the current and following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes except to cover short-term cash flows.

The Section 151 Officer reports that the council complied with this prudential indicator in the current year and does not envisage difficulties over the life of the current MTFs, other than in respect of the national issue with Dedicated Schools Grant (DSG) deficits, which has the potential to cause a cash and liquidity shortfall without external borrowing to support. This view considers current commitments, existing plans, and the proposals in this budget report.

3: Prospects for interest rates

The council has appointed MUFG Corporate Markets (formerly Link Group) as its treasury advisor. As part of this role, MUFG supports the council in forming a view on the outlook for interest rates, which underpins the council's investment and borrowing strategies.

The interest rate forecasts provided represent Public Works Loan Board (PWLB) Certainty Rates, calculated as gilt yields plus 80 basis points. Forecasts for Bank Rate are presented in increments of 25 basis points, while PWLB forecasts are rounded to the nearest 10 basis points and represent central estimates within bands of ± 25 basis points.

MUFG Corporate Markets' Rate View December 2025

	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28
Bank Rate	3.75%	3.50%	3.50%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%
3-month average earnings	3.80%	3.50%	3.50%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%
5yr PWLB	4.60%	4.50%	4.30%	4.20%	4.10%	4.10%	4.10%	4.10%	4.10%
10yr PWLB	5.20%	5.00%	4.90%	4.80%	4.80%	4.70%	4.70%	4.70%	4.70%
25yr PWLB	5.80%	5.70%	5.60%	5.50%	5.50%	5.40%	5.30%	5.30%	5.30%
50yr PWLB	5.60%	5.50%	5.40%	5.30%	5.30%	5.20%	5.10%	5.10%	5.10%

Investment and borrowing rates

Over the past year, the Bank of England has continued to ease monetary policy in response to moderate inflationary pressures. At its meeting on 18 December 2025, the Monetary Policy Committee voted to reduce Bank Rate by a further 0.25% to 3.75% following tepid growth, falling inflation and the government's November budget which is expected to place more pressure on the majority of household income. While inflation remains above the 2% target, the recent rate change indicates increasing confidence that inflation will return sustainably toward target. Future changes to Bank Rate are expected to remain gradual and will be data-dependent, particularly in relation to pay growth and services inflation.

Despite the recent reduction in Bank Rate, investment returns remain reasonably favourable, and the council continues to benefit from comparatively strong rates of return on short-term investments. Greater returns are, however, usually obtainable by investing for longer periods. Given the current shape of the yield curve suggests that rates are expected to fall throughout 2026, the council is looking to continue to ladder investments for periods of up to 12 months whilst investment rates remain relatively elevated but is balancing this against the higher priority of ensuring sufficient liquidity to meet cash flow requirements. This approach enables the council to secure enhanced underlying yields while retaining the ability to respond to changes in market conditions or cash flow requirements.

By contrast, borrowing rates remain elevated. Although Bank Rate has been gradually falling, gilt yields and PWLB borrowing costs have remained relatively high due to wider market factors, including residual inflationary pressures, global economic uncertainty, and investor risk aversion. As a result, borrowing costs remain comparatively expensive, even as the base rate begins to ease.

MUFG Corporate Market's long-term (beyond ten years) forecast for the neutral level of Bank Rate remains at 3.5%. With all PWLB Certainty Rates currently above this level, borrowing strategies need to be reviewed in that context. There is limited value in undertaking long-term borrowing at present, other than for the purposes of managing the maturity profile and refinancing risk. Overall, better value can be

obtained at the shorter end of the curve, including short-dated fixed local authority borrowing, while markets await further Bank Rate cuts.

Given the number of external variables influencing the interest rate environment, all forecasts remain subject to a high degree of uncertainty, and prudence and flexibility remain essential.

4: Borrowing strategy

The overarching objectives of the council's borrowing strategy are to:

- Manage the debt maturity profile to ensure sufficient cash is available to support service delivery and the approved Capital Strategy.
- Monitor current and prospective interest rate movements and plan borrowing accordingly.
- Maintain an appropriate balance between fixed and variable rate borrowing, within approved prudential indicators.
- Reduce reliance on any single source of funding and consider alternative funding options, including forward-starting loans.
- Deliver value for money and, where possible, mitigate budgetary pressures arising from debt financing costs.

Current borrowing position

The council is currently operating an internally borrowed position, whereby the Capital Financing Requirement (CFR) is not fully funded by external borrowing. Instead, internal cash resources arising from reserves, balances, and cash flow timing differences are used as a temporary and prudent alternative. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy; an elevated Bank Rate is expected to remain throughout 2026 even if further rate cuts arise.

Against this background and the risks within the economic forecast, caution will be adopted with the 2026-27 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

- Should there be a significant risk of a sharp fall in borrowing rates (for example, due to recessionary pressures or deflationary risks), long-term borrowing will be deferred where possible.
- Conversely, should there be a material risk of a sharper-than-forecast increase in interest rates, the council may consider securing fixed-rate borrowing earlier to mitigate future cost pressures.

In the current high cost borrowing environment, the council's strategy remains focused on prioritising shorter-term borrowing until inflationary pressures reduce, and interest rates move towards the long-term average rate. The council has previously

taken advantage of historically low rates to extend the maturity profile of its debt, which provides resilience and flexibility in adopting this short-term approach. In the longer-term, the council will continue to assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs whilst also looking to balance out the debt portfolio.

All material borrowing decisions will be reported to Full Council through the regular Treasury Management update reports.

Capital Prudential & Treasury Indicators

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their prudential indicators.

A full set of prudential indicators and borrowing limits are shown in Appendix 3.

Policy on borrowing in advance of need

The council 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 of need will be within the forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the council can ensure the security of such funds. Borrowing in advance will be considered within the following constraints:

Year	Max. Borrowing in advance
2026-27	100%
2027-28	50%
2028-29	25%

Borrowing in advance will be limited to no more than the expected increase in borrowing need (CFR) over the period of the approved Medium Term Capital Programme; a maximum of 3 years in advance. The risks associated with any borrowing in advance activity will be subject to prior appraisal. Any advance borrowing undertaken will be reported in the Treasury Management update reports.

Debt rescheduling & restructuring

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

The reasons for any rescheduling to take place will include:

- The generation of cash savings and / or discounted cash flow savings.
- Helping to fulfil the treasury strategy.
- Enhancing the balance of the portfolio (amending the maturity profile and/or the balance between fixed and variable rate exposure).

Any rescheduling activity undertaken will be reported to Full Council, in the next Treasury Management update report following its action.

Alternative sources of borrowing

While PWLB Certainty Rates at gilts + 80 basis points remain a key source of long-term borrowing, the council will continue to consider alternative funding sources where appropriate, including:

- Local authorities, primarily shorter dated maturities of up to around 3 years. These are generally expected to be lower rates than the Certainty Rate, albeit this has not always been the case in the last 3 years.
- Financial institutions, primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry”, or to achieve refinancing certainty over the next few years.
- UK National Wealth Fund, in relation to eligible capital schemes where interest rates are preferable to PWLB.

Approved sources of long and short-term external borrowing are as follows:

Lenders	Maximum Amount
Local Authorities	No maximum
PWLB	
UK National Wealth Fund	
Finance Leases	£75m per individual / group in total
Market (LOBOs)	£10m per individual / group in total
Overdraft	
Market (temporary)	£50m per individual / group in total
Market (long-term)	
Banks	£400m per individual / group in total
Pension Funds	
Other third-party arrangements	

The council's treasury advisor keeps the council informed as to the relative merits of each of these alternative funding sources.

5: Minimum Revenue Provision (MRP)

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the council has financed capital expenditure by borrowing, it is required to repay an element of the accumulated general fund capital spend each year (the CFR) through a revenue charge (the MRP). The 2003 Regulations have been further amended will full effect from April 2025 to expressly provide that in determining a prudent provision, the council cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute.

The council 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 the period over which the capital expenditure provides benefits. MHCLG's MRP Guidance 2024 provides four ready-made options for calculating MRP. The council can use a mix of these options if it considers it appropriate to do so. Alternatively, the guidance does not rule out or otherwise preclude the use of an alternative method should it be deemed more appropriate. Any method used is subject to the conditions in paragraphs 61 to 65 of the guidance as far as these are relevant.

To ensure transparency and accountability, as a minimum, the MRP Policy Statement should set out the following:

- The council's policy to provide MRP, the major assumptions applied, and the methodologies used.
- Any changes to the policy or methodologies from the prior year with an explanation of the rationale and financial impact.
- How the council has considered the requirements set out in statute and the guidance to ensure it is meeting its duty to make prudent provision.
- A description of any departures from the guidance and an explanation of why the approach adopted results in a more prudent charge.
- Details as to how capital receipts will be used to reduce indebtedness and the impact on the MRP charge.
- An explanation of where MRP is not being made with respect to any amount of CFR and the statutory basis for this.
- The detail of any planned voluntary overpayment of MRP (Voluntary Revenue Provision - VRP).

Full Council is required to approve an MRP Policy Statement in advance of each financial year. The MRP Policy is located in Appendix 4.

The council, in conjunction with its treasury advisor, considers the MRP policy to be prudent.

6: Investment strategy

In accordance with Government Guidance on Local Government Investments in England, the council sets an Annual Investment Strategy (AIS), which is incorporated within this Treasury Management Strategy.

The council's general policy objective is to invest surplus funds prudently, with priorities ranked as follows:

1. Security of capital
2. Liquidity of capital
3. Yield on investments

The council seeks to achieve the optimum return (yield) on investments commensurate with appropriate levels of security and liquidity and within the council's risk appetite. In the current economic environment, it is considered appropriate to maintain sufficient liquidity to meet cash flow requirements, whilst also considering the laddering of investments for periods of up to 12 months with highly rated counterparties, whilst investment rates remain relatively elevated.

Policy on existing commercial investments

Whilst the revised Prudential Code is clear that the council must not undertake commercial investment primarily for financial return, authorities with existing commercial investments (including property) are not required to sell these investments. The council can, however, carry out prudent active management and rebalancing of its portfolio.

Authorities that have commercial investments and an expected need to borrow, however, are required to review options for exiting financial investments for commercial purposes and summarise this review in their annual treasury management or investment strategies.

This review will evaluate whether expected borrowing needs should be met, in part, by repaying investments, based on a financial appraisal that takes account of financial implications and risk reduction benefits.

The council's Annual Investment Strategy (AIS) is shown in Appendix 5.

7: Risk Analysis and Forecast Sensitivity

Risk Management

The council regards the successful identification, monitoring, and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Treasury and investment management risks are identified in the council's approved Treasury Management Practices and Investment Management Practices. The main risks to the treasury activities are:

- Credit and counterparty risk (security of investments)
- Liquidity risk (adequacy of cash resources)
- Interest rate risk (fluctuations in interest rate levels)
- Exchange rate risk (fluctuations in exchange rates)
- Refinancing risks (impact of debt maturing in future years)
- Legal and regulatory risk (non-compliance with statutory and regulatory requirements)
- Fraud, error and corruption, and contingency management (in normal and business continuity situations)
- Market risk (fluctuations in the value of principal sums)

The TMP and IMP Schedules set out the ways in which the council seeks to mitigate these risks. Examples are the segregation of duties (to counter fraud, error, and corruption), and the use of creditworthiness criteria and counterparty limits (to minimise credit and counterparty risk). Council officers, in conjunction with treasury advisers, will monitor these risks closely.

Sensitivity of the Forecast

The sensitivity of the forecast is linked primarily to movements in interest rates and in cash balances, both of which can be volatile. Interest rates in particular are subject to global external influences over which the council has no control.

Both interest rates and cash balances will be monitored closely throughout the year and potential impacts on the council's debt financing budget will be assessed. Action will be taken as appropriate, within the limits of the TMP and IMP Schedules and the treasury strategy, and in line with the council's risk appetite, to keep negative variations to a minimum. Any significant variations will be reported to Strategy, Resources & Performance (SR&P) Committee as part of the council's regular budget monitoring arrangements.

8: Reporting arrangements

Capital Strategy

The CIPFA revised 2021 Prudential and Treasury Management Codes requires the council to prepare an annual Capital Strategy report which provides the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- an overview of how the associated risk is managed.
- the implications for future financial sustainability.

The aim of the Capital Strategy is to ensure that all elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

The council's Capital Strategy is reported separately from the Treasury Management Strategy within the Business Plan and reports on non-treasury investments. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy on commercial investments usually driven by expenditure on an asset.

Treasury Management Reporting

The council is currently 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 indicators and treasury strategy (this document) -**
The first, and most important report is forward looking and covers:
 - 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 indicators
 - an Annual Investment Strategy (the parameters on how investments are to be managed)
- b) A mid-year treasury management report –** This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- c) An annual treasury 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 within the strategy.

The above reports are required to be adequately scrutinised before being recommended to Full Council. This role is undertaken by the Section 151 Officer and SR&P Committee.

In addition to the three major reports detailed above, quarterly reporting is also required. However, these additional reports for June and December do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by SR&P Committee through the budget monitoring reporting process, which includes a report on the prudential and treasury indicators.

9: Treasury Management Budget

The table below provides a breakdown of the treasury management budget at January 2026. Key assumptions behind the 2026-27 budget estimates are:

- Average rates achievable over the period on short-term investments will be 3.5%.
- New and replacement borrowing to fund the capital programme will be financed by a mixture of short to medium-term borrowing, at rates equating to between 2.5% and 4.2% over the medium-term.
- The MRP charge is in line with the council's MRP policy.
- VRP of £3.5m is assumed to not be reclaimed during this period.

	2025-26 Estimate £m	2026-27 Estimate £m	2027-28 Estimate £m	2028-29 Estimate £m	2029-30 Estimate £m	2030-31 Estimate £m
Interest payable	31.6	30.8	33.7	34.7	35.5	33.4
Interest payable recharges	-14.7	-12.1	-14.0	-10.9	-11.2	-13.4
MRP	29.8	29.2	30.4	30.1	27.6	27.8
MRP recharges	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
Interest receivable	-11.1	-10.2	-8.2	-5.1	-4.4	-4.4
Interest receivable recharges	11.3	9.9	5.8	3.0	2.4	2.4
Debt Management Expenses	0.2	0.2	0.2	0.2	0.2	0.2
Technical adjustments	0.1	0.1	0.1	0.1	0.1	0.1
Total	45.6	46.3	46.5	50.5	48.6	44.6

10: Policy on the use of external service providers / consultant

The council's external treasury advisor is MUFG Corporate Markets (previously known as Link Group until 20 January 2025). A one-year contract was implemented during 2025-26 and a further procurement exercise to re-let the contract will be completed during 2026-27.

The council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of external service providers. All decisions will be undertaken with regards to all available information, including, but not solely based on, information provided by the council's treasury advisers.

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

11: Future developments

Local authorities are having to consider innovative strategies towards improving service provision to their communities. This approach to innovation also applies to councils' treasury management activities. The Government is introducing new statutory powers and policy change which will have an impact on treasury management approaches in the future. Examples of such changes are:

a) Further changes to CIPFAs Treasury Management and Prudential Codes

Following the publication of updated codes in 2021, there was a subsequent CIPFA consultation which closed in October 2025 that suggests there will be further changes made to the reporting requirements contained within the Prudential and Treasury Management Codes. This is not expected to be implemented until 2027-28 at the earliest.

b) UK Municipal Bonds Agency (UKMBA)

The UKMBA announced in 2025-26 that it was closing to new business and will only continue to service existing bonds and loans. The council did anticipate ultimately being party to a multi-authority pooled bond through UKMBA, but this will no longer be an option.

c) Greater Cambridge Partnership (GCP) Borrowing

At present, the council, as GCP's accountable body, has not included an estimate of repayable borrowing from GCP within its capital strategy whilst the partnership gives further consideration to likely delivery timescales and available funding sources. Based upon the current programme of expenditure, the GCP budget will have a cashflow deficit from 2027-28 due to timing of expenditure not currently matching expected income cashflows from section 106 funding. Providing additional repayable borrowing to bridge the gap will not fully resolve this situation as the incoming section 106 funding cannot be used to pay for the additional costs of borrowing which the partnership would incur; modelling of scenarios for the current programme including financing costs and income indexation indicate a revenue deficit and a capital surplus. To address this, either additional funding will need to be identified (GCP has successfully secured financing support from Homes England for the Waterbeach station relocation, for example), or programme delivery timescales will need to be reprofiled. Further updates and modelling of these estimates is underway and will be included as part of the GCP budget setting and monitoring reports going forward.

d) Local Government Reorganisation

Local Government Reorganisation will inevitably have an impact on the composition of this strategy. As the council navigates through the early stages of this process, we have continued to construct this strategy using the information available at this point in time, reflecting the short- and medium-term need of the current organisation.

12: Training

The Treasury Management Code requires the Section 151 Officer to ensure that members with responsibility for treasury management receive adequate training. This especially applies to members responsible for scrutiny. The Code also states that all organisations are expected to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance, and decision making.

In order to monitor and review knowledge and skills, the council is required as a minimum to:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and council members.
- Require treasury management officers and council members to undertake self-assessment against the required competencies.
- Have regular communication with officers and council members, encouraging them to highlight training needs on an ongoing basis.

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management'.

The training needs of treasury management officers are periodically reviewed. MUFG Corporate Markets run training events regularly which are attended by the Treasury team. In addition, members of the team attend national forums and practitioner user groups.

Treasury Management training for committee members will be delivered as required to facilitate informed decision making and challenge processes. The most recent training undertaken was a session delivered by the council's treasury advisors in January 2024, aimed at all Councillors. Further training is currently being arranged for Spring 2026, following the 2025 local elections.

A formal record of the training received by officers central to the Treasury function will be maintained by the Finance team. Similarly, a formal record of the treasury management / capital finance training received by members will also be maintained by Democratic & Member Services.

13: List of appendices

- Appendix 1: Treasury Management Scheme of Delegation and Role of Section 151 Officer
- Appendix 2: Treasury Management Policy Statement
- Appendix 3: Prudential and Treasury Indicators
- Appendix 4: Minimum Revenue Provision (MRP) Policy Statement
- Appendix 5: Annual Investment Strategy

Appendix 1: Treasury Management Scheme of Delegation and role of the Section 151 Officer

The Scheme of Delegation

Full Council:

- Approval of annual strategy, including the adopted clauses and treasury management policy statement.
- Approval of the mid-year update and annual Treasury Management report.
- Approval of the Treasury Management budget.
- Approval of the division of responsibilities.

Strategy, Resources & Performance Committee:

- Scrutiny of the Treasury Management quarterly prudential indicator reports.
- Scrutiny of the Treasury Management mid-year and annual reports.
- Management of the council's non-financial Investment Strategy, included within the Capital Strategy.

The treasury management role of the Section 151 Officer

The council's Executive Director of Finance and Resources is the officer designated for the purposes of Section 151 of the Local Government Act 1972 as the Responsible Officer for treasury management at the council.

The council's Financial Regulations delegates responsibility for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the council's policy statement and TMPs/IMPs and CIPFA's Standard of Professional Practice on Treasury Management.

The Section 151 Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

Prior to entering into any capital financing, lending, or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation, or the council's Financial Regulations.

The Section 151 Officer may delegate his power to borrow and invest to members of his staff. Where this is done it will be clearly documented.

The Section 151 Officer is responsible for:

- Recommending clauses, treasury management policy and practices for approval; reviewing these regularly, and monitoring compliance.

- Submitting regular treasury management reports to SR&P Committee and Full Council.
- Submitting capital financing revenue budgets and budget variations in line with the council's budgetary policies.
- Receiving and reviewing treasury management information reports.
- Reviewing the performance of the treasury management function and promoting value for money.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit and liaising with external audit.
- The appointment of external service providers (e.g., treasury management advisors) in line with the approval limits set out in the council's procurement rules and scheme of delegation.
- Preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments, and treasury management, with a long-term timeframe.
- Ensuring that the Capital Strategy is prudent, sustainable, affordable, and prudent in the long-term, and provides value for money.
- Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the council.
- Ensuring that the council has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
- Ensuring the proportionality of all investments so that the council does not undertake a level of investing which exposes the council to an excessive level of risk compared to its financial resources.
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities.
- Provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans, and financial guarantees.
- Ensuring that members are adequately informed and understand the risk exposures taken on by the council.
- Ensuring that the council has adequate expertise, either in house or externally provided, to carry out the above.
- Creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

Appendix 2: Treasury Management Policy Statement

The council defines treasury management in line with the CIPFA definition 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.”

We regard the successful identification, monitoring, and control of risk to be the prime criteria by which the effectiveness of the council’s treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

We acknowledge that effective treasury management will provide support towards the achievement of the council’s business and service objectives. The council is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Appendix 3: Prudential and Treasury Indicators

1: The capital prudential indicators

The council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans are prudent, affordable, and sustainable. Where actuals are used for a comparator, these are taken from the council's unaudited draft accounts for 2024-25, as this audit is currently ongoing.

Capital expenditure

The first prudential indicator shows a summary of the council's capital expenditure plans; both those agreed previously, and those forming part of this budget cycle. Capital expenditure excludes spend on Private Finance Initiatives (PFI) and leasing arrangements that already include borrowing instruments; these are included in the 'Other financing adjustments' line.

	2024-25 Actual £m	2025-26 Estimate £m	2026-27 Estimate £m	2027-28 Estimate £m	2028-29 Estimate £m	2029-30 Estimate £m	2030-31 Estimate £m
Capital Expenditure	186.3	149.8	156.0	118.0	66.4	51.1	29.1
Capital Expenditure - Housing	5.9	-	-	-	-	-	-
Capital Financing	-119.9	-121.5	-116.6	-74.8	-58.4	-42.7	-21.9
Net Capital Financing Need	72.3	28.3	39.4	43.3	8.0	8.4	7.2
MRP	-25.9	-31.8	-40.4	-74.5	-30.2	-27.7	-28.0
Other financing adjustments*	22.7	-7.2	-8.6	-6.2	-7.7	-6.3	-9.9
Capital Financing Requirement	69.1	-10.7	-9.5	-37.4	-29.9	-25.6	-30.8

* The 2024-25 figure reflects the restatement of long-term lease liabilities as a result of the changes required by implementation of IFRS 16.

The council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the council's Capital Financing Requirement (CFR). The CFR is the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is therefore a measure of the council'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.

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 includes any other long-term liabilities (e.g. PFI schemes, leases). Whilst these increase the CFR, and therefore the council's borrowing requirement, these types of schemes include a borrowing facility; as such, the council is not required to separately borrow for these schemes. These are shown in the 'Other financing movements' line below:

	2024-25 Actual £m	2025-26 Estimate £m	2026-27 Estimate £m	2027-28 Estimate £m	2028-29 Estimate £m	2029-30 Estimate £m	2030-31 Estimate £m
Capital Financing Requirement (CFR)							
Total CFR	1143.7	1132.9	1123.4	1086.0	1056.0	1030.4	999.6
Movement in CFR	69.1	-10.7	-9.5	-37.4	-29.9	-25.6	-30.8
Movement in CFR represented by:							
Unsupported capital expenditure in capital programme	72.3	28.3	39.4	43.3	8.0	8.4	7.2
Less: MRP	-25.9	-31.8	-40.4	-74.5	-30.2	-27.7	-28.0
Less: Other financing movements*	22.7	-7.2	-8.6	-6.2	-7.7	-6.3	-9.9
Movement in CFR	69.1	-10.7	-9.5	-37.4	-29.9	-25.6	-30.8

* The 2024-25 figure reflects the restatement of long-term lease liabilities as a result of the changes required by implementation of IFRS 16.

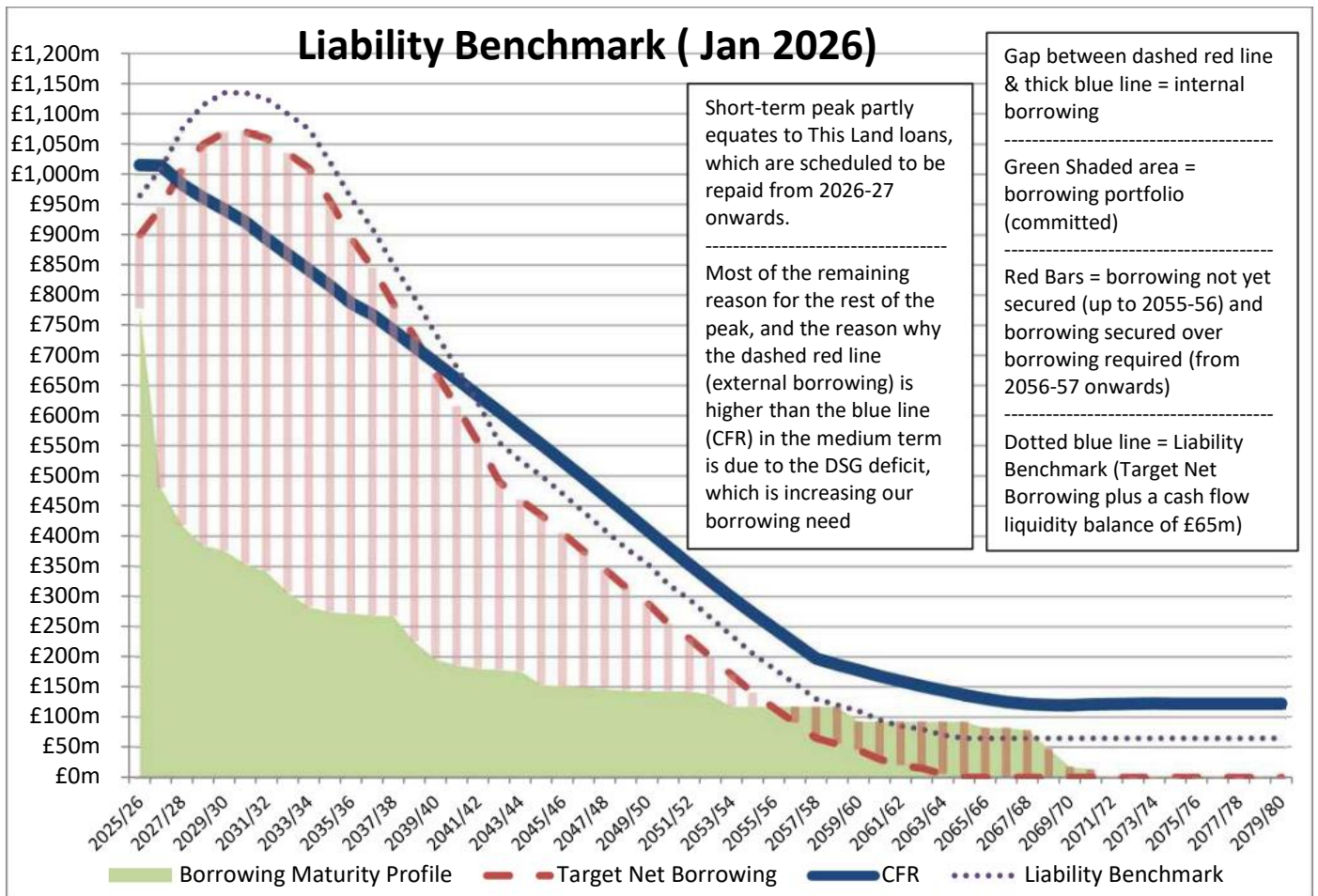
Liability benchmark

The third prudential indicator is the liability benchmark (LB). The council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB:

1. **Existing loan debt outstanding:** existing loans that are still outstanding in future years.
2. **Loans CFR:** 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. Only approved borrowing should be included, which is why the target net borrowing figure tails off in the graph.
3. **Net loans requirement:** the council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



These figures exclude PFI schemes and finance lease liabilities for which a separate borrowing facility exists. The gap between the bottom, dashed line and the thick line relates to internal borrowing. The gap between the bottom, dashed line and the dotted line is equal to the £65m short-term liquidity allowance that the council maintains in order to support peaks and troughs in daily cash balances.

The external borrowing requirement is currently forecast to exceed the CFR from 2027-28 to 2039-40; this is due to the impact of the DSG deficit on the council's borrowing position.

Up to 2055-56, the target net borrowing (the bottom, dashed line) is higher than the level of actual loans (the shaded area). The shaded bars therefore indicate a future borrowing requirement over that period. However, from 2056-57 onwards, loans are higher than the target net borrowing, with the shaded bars indicating that the council is in an overborrowed position, resulting in excess cash requiring investment. However, the LB calculations do not allow the council to include an estimate of future capital expenditure – in reality, based on historic levels of annual capital expenditure, the CFR is likely to increase significantly in future years compared to the projections

included here. This is therefore very likely to create an under borrowed position from 2056-57, rather than the over borrowed position shown here.

The authorised limit for external borrowing

A key prudential indicator, this represents a control on the maximum level of borrowing and the legal limit beyond which external borrowing is prohibited. This limit is set, and can only be amended, by Full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term. The limit represents the total CFR (assumed fully funded by borrowing) - including any other long-term liabilities (e.g., PFI schemes, finance leases) though these types of schemes include a borrowing facility and so the council is not required to separately borrow for them - plus a margin to accommodate any unplanned adverse cash flow movements.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.

	2025-26 Approved £m	2026-27 Limit £m	2027-28 Limit £m	2028-29 Limit £m	2029-30 Limit £m	2030-31 Limit £m
Borrowing	1,160	1,250	1,220	1,190	1,160	1,130
Other Long-Term Liabilities	145	130	120	110	110	100
Total Authorised Limit	1,305	1,380	1,340	1,300	1,270	1,230

The operational boundary

This is the operational limit, set deliberately lower than the authorised limit, beyond which external debt is not normally expected to exceed. The limit represents the total CFR (assumed fully funded by borrowing) - including any other long-term liabilities (e.g., PFI schemes, finance leases), though these types of schemes include a borrowing facility and so the council is not required to separately borrow for them - plus a margin to accommodate any unplanned adverse cash flow movements. This limit acts as an early warning indicator that borrowing may be approaching the authorised limit. This limit may be breached on occasion under normal circumstances, but sustained or regular breaches should trigger a review of borrowing levels.

	2024-25 Actual £m	2025-26 Approved £m	2026-27 Limit £m	2027-28 Limit £m	2028-29 Limit £m	2029-30 Limit £m	2030-31 Limit £m
Borrowing	1,130	1,130	1,220	1,190	1,160	1,130	1,100
Other Long-Term Liabilities	110	135	120	110	100	100	90
Total Operational Boundary	1,240	1,265	1,340	1,300	1,260	1,230	1,190

2: Treasury Management limits on activity

There are four debt and investment-related treasury activity limits. The purpose of these is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs or improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates.
- Maturity structure of borrowing. These gross limits are set to reduce the council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- Total principal funds invested for periods longer than 365 days.

Interest Rate Exposure

The interest rate exposure is calculated as a percentage of net debt. Due to the mathematical calculation, exposures could be greater than 100% or below zero (i.e., negative) depending on the component parts of the formula. The formulas are shown below.

Fixed rate calculation:

$$\frac{\text{Fixed rate borrowing} - \text{fixed rate investments}}{\text{Total borrowing} - \text{total investments}}$$

Variable rate calculation:

$$\frac{\text{Variable rate borrowing}^{**} - \text{fixed rate investments}}{\text{Total borrowing} - \text{total investments}}$$

***defined as less than 1 year remaining to maturity, or in the case of LOBO borrowing, the next call date falling within 12 months.*

Limits on Interest Rate Exposure	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
	Actual	Estimate	Upper	Upper	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	74%	65%	150%	150%	150%	150%	150%
Limits on variable interest rates based on net debt	26%	35%	65%	65%	65%	65%	65%

Maturity Structure of Borrowing

The maturity structure of borrowing indicator represents the borrowing falling due in each period, expressed as a percentage of total borrowing. These gross limits are set to manage the council's exposure to large, fixed-rate sums falling due for refinancing or repayment. The limits are broad to provide flexibility to the council in its treasury management activities, but it is generally the council's strategy to move gradually in any changes to the maturity structure of debt.

Maturity Structure of Borrowing				
	Lower	Upper	2024-25 Actual	31-12-2025 Actual
Under 12 months	0%	50%	28%	37%
12 months to 2 years	0%	50%	17%	15%
2 years to 5 years	0%	50%	10%	6%
5 years to 10 years	0%	50%	12%	11%
10 years and above	0%	80%	32%	31%

Total principal funds invested for periods longer than 365 days

These limits are determined with reference to the council's liquidity requirements and are designed to minimise the risk of needing to liquidate investments early. They are based on the medium- to long-term availability of resources following each year-end.

Maximum principal sums invested for periods longer than 365 days							
	2024-25 Actual £m	2025-26 Estimate £m	2026-27 Limit £m	2027-28 Limit £m	2028-29 Limit £m	2029-30 Limit £m	2030-31 Limit £m
Limit	32	33	50	50	50	50	50

3: Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework are indicators required to assess the affordability of the capital investment plans, as these are the key driver of treasury management activity. These provide an indication of the impact of the capital investment plans on the council's overall finances.

Actual and estimates of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs) against the net revenue stream. The estimates of financing costs include current commitments and the proposals within this budget report.

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Financing costs to net revenue stream	8.8%	10.7%	9.6%	9.6%	9.3%	8.9%	8.4%

Actual and estimates of net income from commercial and service investments to net revenue stream

The intention of this indicator is to show the net financial impact on the council of its non-treasury investment income. Net income from commercial and service investments includes interest and investment income (other than from investments held for treasury management purposes), together with net income from other assets held primarily for financial return, such as commercial property.

This is calculated as the proportion of net income from commercial and service investments compared to the net revenue stream. Only costs directly attributable to the investments should be netted off; the costs of borrowing (interest and MRP) may not be deducted for the purposes of this indicator, because they are not directly attributable to managing the investments and will continue regardless of the existence or performance of the investments.

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Commercial and service income to net revenue stream	4.0%	3.9%	3.9%	3.1%	2.8%	2.5%	2.5%

Appendix 4: Minimum Revenue Provision (MRP) Policy Statement

Policy statement

The council is required to repay an element of the accumulated general fund capital spend each year (Capital Financing Requirement - CFR) through a revenue charge (Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (Voluntary Revenue Payments - VRP) if required.

The Ministry for Housing and Local Government (MHCLG) have issued regulations that require Full Council to approve an MRP Policy Statement in advance of each year. Four options are provided to councils in the guidance with the underlying principle that a prudent provision is made. A formal review of this Policy is to be undertaken every five years with the next review now overdue from January 2021, having been delayed due to capacity issues, plus the expectation of changes to MHCLG's guidance. The review is currently underway in conjunction with external consultants and is expected to be concluded before the end of the 2025-26 financial year.

Historic debt liability accumulated up to 31 March 2010

Up until 2014-15, the proportion of provision that related to historic debt liability accumulated up to 31 March 2010 was calculated using Option 1 of the MHCLG Guidance (the 'Regulatory Method'). This method is based upon 4% of the CFR adjusted for 'Adjustment A' (the difference between the old credit ceiling system and the introduction of the Capital Financing Requirement). A reducing balance calculation means that debt liability is never entirely repaid, and the amount of debt equal to 'Adjustment A' (for this council £2.133m) is not provided for at all. In January and February 2016, General Purposes Committee (GPC) considered a number of potential alternative methodologies. These covered both annuity and straight-line options, calculated over an average life of up to 50 years.

After considering the range of options available, a change in policy was introduced from 2015-16. The method chosen to replace the "Regulatory Method" for historic debt liability accumulated up to 31 March 2010 and that remained outstanding at 31 March 2015 was an annuity calculation, but one directly linked to the remaining life of the assets the debt liability had funded (held on the council's balance sheet). This directly relates the cost of financing those assets with their expected useful life, thereby aligning costs with benefits and is allowable under the MHCLG Guidance. This approach will continue to be applied.

Debt liability accumulated from 1 April 2010

Prudent provision for any subsequent borrowing from 1 April 2010 onwards will be calculated using Option 3 of the MHCLG Guidance (the asset life method) on a straight-line basis, in line with estimates for the expected useful life of the asset

financed by debt. Estimated life periods will be determined under delegated powers. In view of the variety of types of capital expenditure incurred by the council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. MRP will be charged from the financial year after the asset becomes operational in accordance with Regulation 27(3).

The determination as to which schemes shall be deemed to be financed from available capital resources and those which will remain as an outstanding debt liability to be financed by borrowing or other means will be assessed under delegated powers.

Leases and Private Finance Initiatives (PFI)

In line with guidance, an amount will be included in the annual MRP charge equal to the element of the annual charge that goes to write down the balance sheet liability (the principal element) for any leases and PFI arrangements recognised by the council.

Capital Loans

If a commercial capital loan is issued, the council will make MRP charges using the asset life method. A commercial loan is defined in regulation 27(5) as a loan from the council to another entity for a purpose which, if the council were to undertake itself, would be primarily for financial return; or, where the loan is itself capital expenditure undertaken primarily for financial return. Where loan repayments are received in year, then those capital receipts may be used to reduce the MRP charge in that year. This flexibility will not apply in years where no capital receipt is received, or where future capital receipts are anticipated.

If a non-commercial capital loan is issued, no MRP will be charged initially on the debt liability, as the loans are anticipated to be repaid in full in later years. Instead of an MRP charge, the capital receipts arising from the principal loan repayments will be used to reduce the CFR once received. This approach will be reviewed on a loan-by-loan basis annually to ensure this remains a prudent approach, otherwise a MRP charge may be introduced.

If the council subsequently recognises, in accordance with proper practices (Regulation 25(1)(c)), any expected or actual credit loss with respect to any loan that has not previously had MRP charged, MRP to the value of the Expected Credit Loss will be charged in full. However, the charge will be reduced by the value of any previous amounts provided to write down the CFR on that loan.

Share / Equity Capital

The council may invest in share and equity investments, either directly or through collective pooled funds. These investments will usually be treated as capital expenditure and in such cases, where these investments are funded by unsupported

borrowing, MRP charges will be provided over 20 years, in accordance with Regulation 25(1)(d) Acquisition of share capital.

Capitalisation Direction

The council will apply the asset life method for any expenditure capitalised under a capitalisation direction.

Investment Properties

The council will apply the asset life method for any expenditure incurred on the purchase of investment properties.

MRP Overpayments

Under the MRP guidance, charges made in excess of the statutory MRP can be made and are known as voluntary revenue provision (VRP). VRP can be reclaimed in later years if deemed necessary or prudent.

Cumulative VRP overpayments made to date are £3.528m. The council does not intend to make any further VRP during 2025-26 and 2026-27.

Appendix 5: Annual Investment Strategy

1: Investment policy

The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. Most of this strategy deals solely with financial investments managed by the treasury management team. Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy (section 5 of the Business Plan).

The council's investment policy has regard to the following:

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The council's investment policies are underpinned by a strategy of prudent investment of funds held on behalf of the local community. The objectives of the investment policy are firstly the security of funds (protecting the capital sum from loss) and then liquidity (keeping money readily available for expenditure when needed). Once approved levels of security and liquidity are met, the council will seek to maximise yield from its investments, consistent with application of the agreed parameters and with regard to the council's risk appetite. These principles are carried out by strict adherence to the risk management and control strategies set out in the TMP Schedules and the Treasury Management Strategy.

Responsibility for risk management and control lies within the council and cannot be delegated to an outside organisation.

Investment instruments identified for use in the financial year are listed in section 6 and 7 of this strategy, under the 'Specified' and 'Non-Specified' Investment categories.

Council's in-house funds

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

Investments will be made with reference to core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods, however, the current shape of the yield curve suggests that rates can be expected to fall throughout 2026, but only if the CPI measure of inflation maintains a downwards trend towards the Bank of England's 2% target. Rates may be cut quicker than expected if the economy stagnates.

Accordingly, while most cash balances are required in order to manage the peaks and troughs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed. In the current economic climate, it is considered appropriate to maintain a 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, as well as wider range fund options.

For cash flow generated balances, the council will seek to utilise its business banking reserve instant access account and notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.

Investment returns expectations

The suggested budgeted earnings rates estimated by the council for investments placed for periods up to about three months’ duration in each financial year are as follows:

Average earnings in each year	
2025-26	3.9%
2026-27	3.4%
2027-28	3.3%
2028-29	3.3%
2029-30	3.5%
Long term later years	3.5%

This reflects MFG Corporate Markets’ suggested earnings rates for returns on investments, based on a forecast for the Bank rate to fall to a low of 3.25% in 2026. However, caution must be exercised in respect of all interest rate forecasts.

2: Creditworthiness policy

The council’s counterparty and credit risk management policies and its approved instruments for investments are set out below. These, taken together, form the fundamental parameters of the council’s financial Investment Strategy.

The council defines high credit quality in terms of investment counterparties as those organisations that:

- Meet the requirements of the creditworthiness service provided by the council’s external treasury advisors.
- Are UK banking or other financial institutions.
- Are UK national or local government bodies.
- Are countries with a sovereign rating of AA- or above.
- Are Triple-A-rated Money Market funds.

The creditworthiness service provided by the council’s external treasury advisor applies a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s, and Standard & Poor’s. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies.
- Credit Default Swaps (CDS – a traded insurance policy market against default risk) spreads that may give early warning of changes in credit ratings.
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system that is then combined with an overlay of CDS spreads to determine the suggested duration for investment. The creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Investments in a multi-class credit fund are diversified across investment grade and high-yielding credit per the council's treasury management objectives and risk appetite. The council monitors the more 'liquid' non-specified investments through professional advice, including from an independent investment advisor, from time to time. These arrangements are overseen by SR&P Committee.

All credit ratings will be monitored regularly. The council receives credit rating information including changes, rating watches and rating outlooks from MUFG Corporate Markets; if ratings change, counterparties are checked promptly. On occasion a rate can be downgraded after an investment has been made; however, the criteria used are such that a minor downgrading should not affect the full receipt of the council's principal and interest.

- If a downgrade results in the counterparty or investment scheme no longer meeting the council's minimum criteria, its further use as a new investment will be withdrawn immediately. However, if funds are invested for a specific period, the council will have to wait until the maturity date for the principal and interest.
- In addition to the use of credit ratings, the council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis, provided exclusively by MUFG Corporate Markets. Extreme market movements may result in the downgrade of an institution or removal from the council's lending list.

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

The council does not currently lend to other local authorities, and has no current intention to begin doing so, given the strategy of using internal borrowing to reduce external borrowing. If the council intends to lend to other local authorities in future, the creditworthiness policy will be reviewed in consultation with the S151 officer. However, the Local Government Act 2003 provides statutory protection preventing default, hence the inclusion of local government bodies in the list of high credit quality investment counterparties above.

The Section 151 officer shall have the discretion during the year, in consultation with the Chair and Vice-Chair of SR&P Committee to lift or increase the restrictions on the counterparty list and or to adjust the associated lending limits (for loans to other public bodies in the course of prudent treasury management) on values and durations should it become necessary, to enable the effective management of risk in relation to its investments. This delegation does not apply to amending the ‘minimum high credit criteria’ on the counterparty list and applies only to specific counterparties, namely:

- UK banking institutions registered with the Financial Conduct Authority and/or explicitly guaranteed by the UK Government; and
- AAA rated money market funds that are either UK funds or European Economic Area funds.

If this discretion is utilised, it shall be reported to SR&P Committee and to Full Council at the next available opportunity as part of the regular Treasury Management update reports.

3: Sovereign Limits

Significant levels of downgrades to short and long-term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to outlooks. Nevertheless, when setting minimum sovereign debt ratings, the council will not set a minimum rating for the UK.

The council has determined that it will only use approved counterparties from overseas countries with a sovereign credit rating from the three main ratings agencies that is equal to or above AA-.

The list of countries that qualify using these credit criteria as at December 2025 is shown below. This list will be amended by officers should ratings change in accordance with this policy.

AAA	AA+	AA	AA-
Australia	Canada	Abu Dhabi (UAE)	UK
Denmark	USA	Finland	
Germany		Qatar	
Netherlands			
Norway			
Singapore			
Sweden			
Switzerland			

4: Banking services

The council’s main banking provider since October 2020 is NatWest. The council also has a number of bank accounts with Barclays for treasury management purposes and deputyship clients.

The council may continue to use its own bankers for transactional purposes if the credit rating of the institution falls below the above minimum criteria, however, balances will be minimised in both monetary size and time invested.

5: Review of existing commercial investments

The council reviews its existing commercial portfolio, including both financial and non-financial assets. The annual review of financial assets is reported in the Treasury Management Annual report, published around June each year. Based on that appraisal, taking into account the options available for exiting such investments, and the financial implications and risk reduction benefits of doing so, the council is not currently planning on exiting any existing commercial investment. However, this position will be kept closely under review throughout the year, and any change in position will be reported to SR&P Committee. There is a risk that we may need to divest commercial investments if required to do so to maintain liquidity due to the scale of the Dedicated Schools Grant (DSG) deficit.

6: Specified investments

The council assesses that an investment is a specified investment if all the following criteria apply:

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
- The investment is not a long-term investment (i.e., up to 1 year).
- The making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended].
- The investment is made with a body or in an investment scheme of high credit quality (see below) or with one of the following public-sector bodies:
 - The UK Government.
 - A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland.

High credit quality is defined as a minimum credit rating as outlined in this strategy.

Specified investment instruments approved for use are:

Instrument	Minimum 'High' Credit Criteria	Maximum Amount
Debt Management Agency Deposit Facility (DMADF) - UK Government	UK sovereign rating	No maximum
UK Government Gilts / Treasury Bills	UK sovereign rating	
Certificate of Deposits & Notice Accounts	Per treasury advisor's creditworthiness service	£20m per individual / group in total
Term Deposits - Banks and Building Societies	Per treasury advisor's creditworthiness service	
Term Deposits - Local Authorities and Housing Associations	Considered on an individual basis	
Money Market Funds / Bank Call / Instant Access Accounts	Per treasury advisor's creditworthiness service	£25m per individual / group in total
Collateralised Deposit / Covered Bonds	UK sovereign rating	
Bonds issued by multilateral development banks	AAA / UK sovereign rating	
Bond issuance issued by a financial institution which is explicitly guaranteed by UK Government (e.g., National Rail)	UK sovereign rating	
Sovereign bond issues (other than the UK Govt)	AAA / UK sovereign rating	

Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs):

Instrument	Minimum 'High' Credit Criteria	Maximum Amount
Money Market Funds (UK Government only) (CNAV)	AAA / UK sovereign rating	£30m per individual / group in total
Money Market Funds (LVNAV)	AAA	
CCLA (PSDF) Money Market Fund	Considered on an individual basis	
Bond Funds	Considered on an individual basis	
Gilt Funds	Considered on an individual basis	

The council may enter into forward agreements up to 3 months in advance of the investment commencing. If forward agreements are made, the forward period plus the deal period should not exceed the 1 year to be classified as a specified investment.

Maximum counterparty limits may be temporarily exceeded by small amounts and for very short periods where interest is compounded by the counterparty to the principal investment amount. In such instances the interest amounts will be withdrawn as soon as reasonably practicable.

The counterparty limit with the council's corporate bank may be utilised over and above the set counterparty limit on an overnight basis if cash surpluses are identified because of unexpected receipts of income after the day's dealing position is closed. This occurs infrequently, when the timing for receipt of funds is uncertain, for example the sale of a property. In such instances, funds will be withdrawn to bring the councils exposure back in line with the approved counterparty limit as soon as reasonably practicable and invested elsewhere in line with this strategy. If this happens, the Section 151 Officer will be notified.

7: Non-specified investments

Non-specified investments are defined as those with less high credit quality, potentially for periods over one year, or for more complex instruments which require greater consideration and need to be passed by members and officers before authorisation.

Given the additional risk profile associated with non-specified investment, the council may consult with its external treasury advisor before undertaking such investments where appropriate.

Non-specified investment instruments approved for use are:

Instrument	Minimum 'High' Credit Criteria	Maximum Amount
Debt Management Agency Deposit Facility (DMADF) - UK Government	UK sovereign rating	No maximum
Certificate of Deposits & Notice Accounts	Per treasury advisor's creditworthiness service	£15m per individual / group in total
Term Deposits - Banks and Building Societies	Per treasury advisor's creditworthiness service	
Term Deposits - Local Authorities and Housing Associations	Considered on an individual basis	
Collateralised Deposit / Covered Bonds	UK sovereign rating	£20m per individual / group in total
Bonds issued by multilateral development banks	AAA / UK sovereign rating	
Bond issuance issued by a financial institution which is explicitly guaranteed by UK Government (e.g., National Rail)	UK sovereign rating	
Sovereign bond issues (other than the UK Govt)	AAA / UK sovereign rating	
Corporate Bond / Equity Holdings	Considered on an individual basis	£10m per individual / group in total
Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs):		
Property Funds	Considered on an individual basis	£20m per individual / group in total
Infrastructure Funds	Considered on an individual basis	
Diversified Income / Multi Asset Funds	Considered on an individual basis	
Money Market Funds VNAV	AAA	
Corporate Bond / Equity Funds / Share Capital / Pooled Multi Class Credit	Considered on an individual basis	
Asset Backed Securities / Green Energy Bonds	Considered on an individual basis	£10m per individual / group in total
Ultra-short dated bond Funds	Considered on an individual basis	£10m per individual / group in total
Other Fund: to include other multi asset income, other property and equity variants not mentioned above.	Considered on an individual basis	£10m - £20m Individual / group in total

Maximum counterparty limits may be temporarily exceeded by small amounts and for very short periods where interest is compounded by the counterparty to the principal

investment amount. In such instances the interest amounts will be withdrawn as soon as reasonably practicable.

8: Third Party Loans

The council may borrow to make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). This will usually be to support local economic development and can be funded by external borrowing. Any loans issued will be subject to the following criteria:

- Any loans to, or investments in, third parties will be made under the Well Being powers of the council conferred by section 2 of the Local Government Act 2000 or permitted under any other act.
- The Well Being power can be exercised for the benefit of some or all the residents or visitors to a local authority's area. The power may also be used to benefit organisations and even an individual.
- Compliance with the Prudential Code, ensuring that any loan does not impair the council's ability to meet its own financial obligations.
- Compliance with the council's Third Party Loans Policy, including the requirement for clear documentation, including agreed interest rates, repayment schedules, security arrangements (where relevant), and conditions of the loan.
- Satisfaction with creditworthiness and consultation with the council's treasury management advisors.

The primary aims of any investment - in order of priority - are the security of its capital, liquidity of its capital and to obtain a return on its capital commensurate with levels of security and liquidity. These aims are crucial in determining whether to proceed with a potential loan.

The most significant organisation that the council has issued a third-party loan to is This Land Limited, the council's wholly owned housing development company. Loans have been issued to This Land at commercial rates to facilitate development of land for residential housing in Cambridgeshire and the vicinity.

9: Investments defined as capital expenditure

The acquisition of share capital or loan capital in any corporate body is defined as capital expenditure under Regulation 25(1) (d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded from capital or revenue resources and will be classified as 'non-specified investments'.

Investments in "money market funds" which are collective investment schemes and bonds issued by "multilateral development banks" – both defined in SI 2004 No 534 – will not be treated as capital expenditure.

A loan, grant or financial assistance provided by this council to another body will be treated as capital expenditure if the council would define the other body's use of those funds as capital had it undertaken the expenditure itself.

10: End of year investment report

At the end of the financial year, the council will report on its investment activity as part of its Annual Treasury Report. This will include detail of the review undertaken by the council on its commercial investment portfolio.

11: External fund managers

Up to £60m of the council's funds may be externally managed on a discretionary / pooled basis, currently by CCLA, Allianz Global Investors and Thesis Unit Trust Management Limited (formerly Valu-Trac Investment Management Limited). The council's external fund managers will comply with the Annual Investment Strategy. The agreements between the council and the fund managers additionally stipulate guidelines on duration and other limits in order to contain and control risk.

The council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund managers. In order to aid this assessment, the council is provided with a suite of regular reporting from its managers. This includes:

- Monthly statements of transactions and valuations.
- Access to online reporting sites.
- Regular factsheets reporting performance and fund manager commentary.

The council also meets with representatives of the fund managers periodically. These meetings allow for additional scrutiny of the managers' activity as well as discussions on the outlook for the funds as well as wider markets.

12: Investment performance / risk benchmarking

The council uses an investment benchmark to assess the investment performance of its investment portfolio (excluding Collective Investment Funds); the 30-day backward looking rate on a SONIA (Sterling Overnight Index Average) basis, as this most accurately reflects the type and length of investments that the council holds. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. The council uses backward looking rates because this reflects the rates at the time of decision-making, rather than forward looking rates at the time of reporting.

With respect to security, the council's maximum benchmark for the current portfolio, when compared to historic default tables, is:

- 0.006% historic risk of default when compared to the whole portfolio

With respect to liquidity, the council seeks to maintain as a minimum:

- Liquid short-term deposits with instant access - £25m

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

13: Pension fund cash

The council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1 January 2010. The council will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with the council will comply with the requirements of SI 2009 No 393.