# Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2025/26

## 1.1 Background

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

The second 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 the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since 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 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."*

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.

## 1.2 Reporting Requirements

### 1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide 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 strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

The capital strategy is reported separately from this Treasury Management Strategy Statement.

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

b. **A mid-year treasury management report** (presented to Financial Strategy Advisory Group) – 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. In addition, the Committee will receive quarterly update reports.

c. **An annual treasury report** (presented to Audit and Scrutiny Committee) – 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.

**Scrutiny**
It is the responsibility of Full Council to approve the Treasury Management Strategy, following consideration of the strategy by the Financial Strategy Advisory Group.
The Council has delegated responsibility for monitoring treasury management performance (the mid-year and annual performance reports above) and policies to Audit & Scrutiny Committee.

**Quarterly reports** – In addition to the three major reports detailed above, quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Audit and Scrutiny Committee, who will receive this information within the quarterly revenue monitoring reports. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

### 1.3 Treasury Management Strategy for 2025/26

The strategy for 2025/26 covers two main areas:

**Capital issues**
- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy

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

- the policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, DLUHC (now MHCLG) Investment Guidance, DLUHC (now MHCLG) MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

### 1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations 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.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/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’, which is available from the CIPFA website to download.

In order to meet this requirement, during the last year, all members including Audit & Scrutiny have had the opportunity to receive a training presentation from the Council’s external treasury management advisors, Link Group Treasury Solutions and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

### 1.5 Treasury Management Consultants

The Council uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services 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.

# 2. THE CAPITAL PRUDENTIAL INDICATORS 2025/26 – 2027/28

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.

### 2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts: -

| Capital expenditure | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|
| **£000** | **Actual** | **Estimate** | **Estimate** | **Estimate** | **Estimate** |
| Strategy & Resources | 410 | 1,386 | 6,836 | 210 | 0 |
| Environment | 274 | 1,096 | 654 | 718 | 143 |
| Community & Wellbeing | 1,673 | 4,613 | 1,199 | 1,329 | 974 |
| Licensing & Planning Policy | 0 | 0 | 0 | 0 | 0 |
| **Total services** | **2,357** | **7,095** | **8,689** | **2,257** | **1,117** |
| Residential property fund* | 0 | 828 | 0 | 0 | 0 |
| Commercial property fund** | 0 | 0 | 49,569 | 0 | 0 |
| **Total** | **2,357** | **7,923** | **58,258** | **2,257** | **1,117** |

* The original £3m balance of the Residential Property Fund has now been fully allocated.

** Council agreed in February 2017 to extend the limit of the Commercial Property Acquisition Fund to £80m, to be financed from Prudential Borowing. The fund was established to acquire additional commercial property investments located within the Borough with a view to generating revenue income streams. The balance of £49.569m could theoretically be utilised should a suitable property/properties present, therefore an assumption that the balance is utilised in full has been included in the above table to ensure the Council's authorised limits are set at a sufficient level to meet all eventualities. Any proposals to acquire new properties would undergo the agreed due diligence and approval process via Full Council.

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

| Capital expenditure | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|
| | **Actual** | **Estimate** | **Estimate** | **Estimate** | **Estimate** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Core capital programme | 2,483 | 6,267 | 8,689 | 2,257 | 1,117 |
| Residential property fund | 0 | 828 | 0 | 0 | 0 |
| Commercial property fund | 0 | 0 | 49,569 | 0 | 0 |
| **Total Expenditure** | **2,483** | **7,095** | **58,258** | **2,257** | **1,117** |
| **Financed by:** | | | | | |
| Capital receipts | 132 | 1,973 | 404 | 783 | 0 |
| Capital grants (inc DFG) | 1,079 | 2,370 | 974 | 974 | 974 |
| S106 and CIL | 589 | 1,260 | 0 | 0 | 0 |
| Revenue | 557 | 1,328 | 475 | 500 | 143 |
| **Total Financing** | **2,357** | **6,931** | **1,853** | **2,257** | **1,117** |
| **Net financing need for the year** | **126** | **164** | **56,405** | **0** | **0** |

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments.

### 2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the 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. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £1.6m of such schemes within the CFR for 2024/25.

The Council is asked to approve the CFR projections below:

| Capital Financing Requirement | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|
| | **Actual** | **Estimate** | **Estimate** | **Estimate** | **Estimate** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Opening CFR | 87,551 | 86,205 | 84,832 | 139,570 | 137,693 |
| Unfinanced capex - commercial properties | 0 | 164 | 49,569 | 0 | 0 |
| New Town Hall premises* | 0 | 0 | 7,000 | 0 | 0 |
| Finance Leases | 126 | 0 | 0 | 0 | 0 |
| Less MRP | (1,472) | (1,537) | (1,831) | (1,877) | (1,530) |
| **Closing CFR** | **86,205** | **84,832** | **139,570** | **137,693** | **136,163** |
| **Movement in CFR** | **(1,346)** | **(1,373)** | **54,738** | **(1,877)** | **(1,530)** |

* This work is proposed to be funded from the Council's own cash balances. This is factored into the under-borrowing forecast in section 2.4 below. It should be noted that using the

Council's cash balances for this project is forecast to result in lost interest income and a potential operational cost saving in the new building. Both of these items have been factored into the Council's Budget Medium Term Financial Strategy.

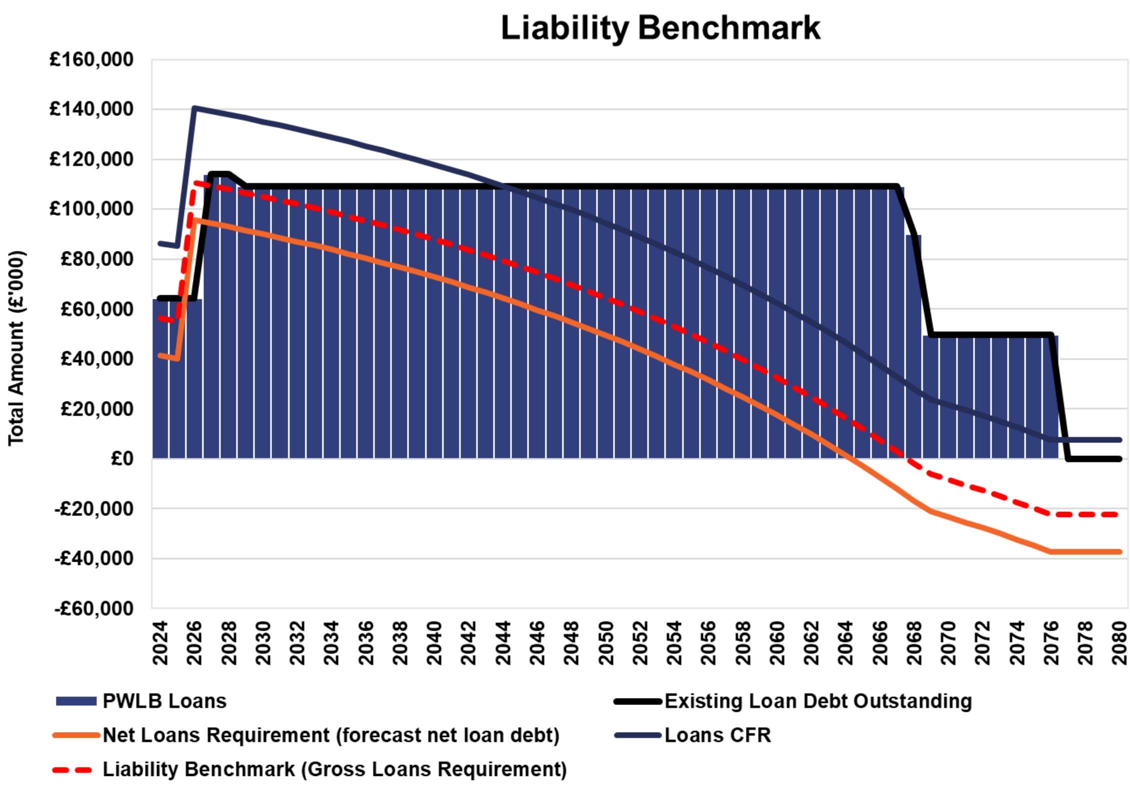
### 2.3 Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark (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**: the Council's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

This Council's forecast liability benchmark is shown for the next 55 years in the following chart:




### 2.4 Core Funds and Expected Investment Balances

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.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

| **Year End Resources £'000** | **2023/24 Actual** | **2024/25 Estimate** | **2025/26 Estimate** | **2026/27 Estimate** | **2027/28 Estimate** |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Fund balances / reserves | 2,997 | 2,902 | 2,902 | 2,902 | 2,902 |
| Capital receipts | 3,808 | 1,835 | 1,431 | 648 | 648 |
| Earmarked revenue reserves | 17,834 | 11,979 | 10,781 | 9,703 | 8,733 |
| CIL | 9,800 | 8,199 | 7,699 | 7,199 | 6,699 |
| S106 funds | 1,823 | 1,332 | 582 | 291 | 0 |
| **Total core funds** | **36,262** | **26,247** | **23,395** | **20,743** | **18,982** |
| Working capital* | 17,000 | 15,000 | 12,000 | 10,000 | 10,000 |
| (Under)/over borrowing | (20,316) | (19,381) | (25,020) | (23,616) | (27,086) |
| **Expected investments** | **32,946** | **21,866** | **10,375** | **7,127** | **1,896** |

*Working capital balances shown are estimated year-end; these may be higher mid-year

### 2.5 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP). MHCLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement (amend/delete as required):

For all unsupported borrowing the MRP policy will be (amend as appropriate):

- Asset life method (straight line)

Regulation 27(3) allows a local authority to charge MRP in the financial year following the one in which capital expenditure finance by debt was incurred.

Capital expenditure financed by borrowing in 2024/25 will not be subject to an MRP charge until 2025/26, or in the financial year following the one which the asset first becomes available for use.

The Council will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

### 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. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Cumulative VRP overpayments made to 31.03.24 are £0m.

# 3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

### 3.1 Current Portfolio Position

The overall treasury management portfolio as at 31 March 2024 and the position as at 30 November 2024 are shown below for both borrowing and investments.

| | **Actual at 31 March 2024** | | **At 30 November 2024** | |
|---|---|---|---|---|
| **Treasury Portfolio** | £000 | % | £000 | % |
| **Treasury Investments** | | | | |
| Banks & Building Societies | 15,000 | 65% | 10,000 | 37% |
| Money Market Funds | 8,200 | 35% | 11,900 | 44% |
| Local authorities | 0 | 0% | 5,000 | 19% |
| **Total Managed In House** | **23,200** | **100%** | **26,900** | **100%** |
| Aberdeen Asset Management Fund | 0 | 0% | 0 | 0% |
| **Total Managed Externally** | **0** | **0%** | **0** | **0%** |
| **Total Treasury Investments** | **23,200** | **100%** | **26,900** | **100%** |
| | | | | |
| **Treasury External Borrowing** | | | | |
| PWLB | 64,427 | 100% | 64,427 | 100% |
| **Total External Borrowing** | **64,427** | **100%** | **64,427** | **100%** |
| | | | | |
| **Net treasury investments / (borrowing)** | **-41,227** | **-** | **-37,527** | **-** |

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing:

| £m | 2023/24 Actual | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|---|---|---|---|---|---|
| **External Debt** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Debt at 1 April | 87,551 | 86,205 | 84,832 | 139,570 | 137,693 |
| Expected change in Debt | 0 | 0 | 49,569 | 0 | 0 |
| Other long-term liabilities (OLTL) | 0 | 0 | 0 | 0 | 0 |
| Less MRP | (1,472) | (1,537) | (1,831) | (1,877) | (1,530) |
| Less use of internal funds | (20,317) | (19,381) | (25,020) | (23,616) | (27,086) |
| Actual gross debt at 31 March | **65,888** | **65,451** | **114,550** | **114,077** | **109,077** |
| The Capital Financing Requirement | **86,205** | **84,832** | **139,570** | **137,693** | **136,163** |
| (Under) / over borrowing | **(20,316)** | **(19,381)** | **(25,020)** | **(23,616)** | **(27,086)** |

The increase in the under-borrowed position between 2024/25 and 2025/26 is accounted for by the New Town Hall premises project which will utilise internal funds in the short term.

Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the 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.

The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

### 3.2 Treasury Indicators: Limits to Borrowing Activity

**The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

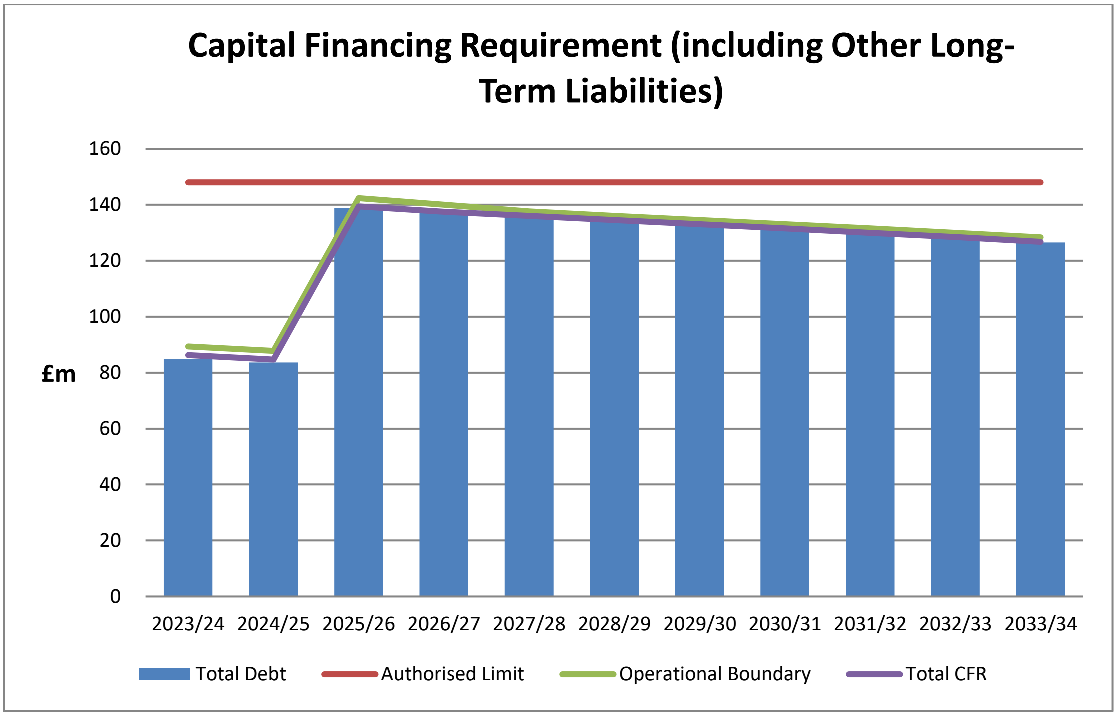
| Operational Boundary £m | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|---|---|---|---|---|
| Debt relating to commercial property fund | 86,205 | 134,401 | 132,570 | 130,693 |
| Other long-term liabilities | 1,741 | 8,253 | 7,759 | 7,258 |
| Total | **87,945** | **142,654** | **140,329** | **137,951** |

**The Authorised Limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

- 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.

- The Council is asked to approve the following Authorised Limit:

| **Authorised Limit £m** | **2024/25 Estimate** | **2025/26 Estimate** | **2026/27 Estimate** | **2027/28 Estimate** |
|---|---|---|---|---|
| Debt | 145,000 | 145,000 | 145,000 | 145,000 |
| Other long-term liabilities | 3,000 | 3,000 | 3,000 | 3,000 |
| Total | **148,000** | **148,000** | **148,000** | **148,000** |


Capital Financing Requirement (including Other Long-Term Liabilities)
£m
160
140
120
100
80
60
40
20
0
2023/24
2024/25
2025/26
2026/27
2027/28
2028/29
2029/30
2030/31
2031/32
2032/33
2033/34
Total Debt
Authorised Limit
Operational Boundary
Total CFR

### 3.3 Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 11 November 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

| Link Group Interest Rate View | 11.11.24 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | Sep-27 | Dec-27 |
| BANK RATE | 4.75 | 4.50 | 4.25 | 4.00 | 4.00 | 3.75 | 3.75 | 3.75 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| 3 month ave earnings | 4.70 | 4.50 | 4.30 | 4.00 | 4.00 | 4.00 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 6 month ave earnings | 4.70 | 4.40 | 4.20 | 3.90 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 12 month ave earnings | 4.70 | 4.40 | 4.20 | 3.90 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 5 yr PWLB | 5.00 | 4.90 | 4.80 | 4.60 | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 4.00 | 3.90 |
| 10 yr PWLB | 5.30 | 5.10 | 5.00 | 4.80 | 4.80 | 4.70 | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.20 | 4.10 |
| 25 yr PWLB | 5.60 | 5.50 | 5.40 | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 | 4.50 | 4.50 |
| 50 yr PWLB | 5.40 | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 | 4.50 | 4.40 | 4.30 | 4.30 |

*Additional notes by Link on this forecast table: -*

- Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, we have significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

- If we reflect on the 30 October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

- The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

- There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

- Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

- Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.

- Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

- So far, we have made little mention of the US President election. Nonetheless, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.

- Our revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps).

**Gilt yields and PWLB rates**

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are to the upsides. Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

| PWLB debt | Current borrowing rate as at 11.11.24 p.m. | Target borrowing rate now (end of Q3 2026) | Target borrowing rate previous (end of Q3 2026) |
|---|---|---|---|
| 5 years | 5.02% | 4.30% | 3.90% |
| 10 years | 5.23% | 4.50% | 4.10% |
| 25 years | 5.66% | 4.90% | 4.40% |
| 50 years | 5.42% | 4.70% | 4.20% |

**Borrowing advice:** Our long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

| Average earnings in each year | Now | Previously |
|---|---|---|
| 2024/25 (residual) | 4.60% | 4.25% |
| 2025/26 | 4.10% | 3.35% |
| 2026/27 | 3.70% | 3.10% |
| 2027/28 | 3.50% | 3.25% |

| | | |
|---|---|---|
| 2028/29 | 3.50% | 3.25% |
| Years 6 to 10 | 3.50% | 3.25% |
| Years 10+ | 3.50% | 3.50% |

We will continue to monitor economic and market developments as they unfold. Typically, we formally review our forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider our position on an ad hoc basis as required.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

### 3.4 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt and the Council's cash balances have been used instead as a temporary measure. 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. That is, Bank Rate remains relatively elevated in 2025 even if some rate cuts arise.

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates,* then borrowing will be postponed.
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

### 3.5 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 will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### 3.6 Rescheduling

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

If rescheduling is to be undertaken, it will be reported to the appropriate Committee, at the earliest meeting following its action.

### 3.7 New Financial Institutions as a Source of Borrowing and / or Types of Borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- 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).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

### 3.8 Approved Sources of Long and Short-term Borrowing

| **On Balance Sheet** | **Fixed** | **Variable** |
|---|---|---|
| PWLB | ● | ● |
| Local Authorities | ● | ● |
| Banks | ● | ● |
| Pension Funds | ● | ● |
| Insurance Companies | ● | ● |
| | | |
| Market (long-term) | ● | ● |
| Market (temporary) | ● | ● |
| Market (LOBOs) | ● | ● |
| Stock Issues | ● | ● |
| | | |
| Local Temporary | ● | ● |
| Local Bonds | ● | |
| Local Authority Bills | ● | ● |
| Overdraft | | ● |
| Negotiable Bonds | ● | ● |
| | | |
| Internal (capital receipts & revenue balances) | ● | ● |
| Commercial Paper | ● | |
| Medium Term Notes | ● | |
| Finance Leases | ● | ● |

# 4 ANNUAL INVESTMENT STRATEGY

### 4.1 Investment Policy – Management of Risk

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. This report deals solely with treasury (financial) investments, (as 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.

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 priorities will be security first, portfolio liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Council's risk appetite.

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.

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

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

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

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

4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

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

   **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 50%.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. **Transaction limits** are set for each type of investment in 4.2.

8. This Council will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

10. This Council has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.

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

12. As a result of the change in accounting standards for 2023/24 under IFRS 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. Subsequently, a further extension to the over-ride to **31.3.25** was agreed by Government.

However, this Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

**Changes in risk management policy from last year.**
The above criteria are unchanged from last year.

### 4.2 Creditworthiness Policy

This Council applies the creditworthiness service provided by the Link Group. This service employs 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: -

1. "watches" and "outlooks" from credit rating agencies;
2. CDS spreads that may give early warning of changes in credit ratings;
3. sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25

- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored monthly. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- 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 via its Passport website, provided exclusively to it by Link. 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 service. In addition, this Council will also use market data and market information, as well as information on any external support for banks to help its decision-making process.

| Y | Pi1 | Pi2 | P | B | O | R | G | N/C |
|---|---|---|---|---|---|---|---|---|
| 1 | 1.25 | 1.5 | 2 | 3 | 4 | 5 | 6 | 7 |
| Up to 5yrs | Up to 5yrs | Up to 5yrs | Up to 2yrs | Up to 1yr | Up to 1yr | Up to 6mths | Up to 100days | No Colour |

| | Colour (and long-term rating where applicable) | Money limit | Transaction limit | Time limit |
|---|---|---|---|---|
| **Banks** | **Yellow** | **£5m** | **£ 5m** | **5yrs** |
| **Banks** | **Purple** | **£ 5m** | **£ 5m** | **2 yrs** |
| **Banks** | **Orange** | **£ 5m** | **£5m** | **1 yr** |
| **Banks – part nationalised** | **Blue** | **£ 5m** | **£ 5m** | **1 yr** |
| **Banks** | **Red** | **£ 5m** | **£ 5m** | **6 mths** |
| **Banks** | **Green** | **£ 5m** | **£ 5m** | **100 days** |
| **Banks** | **No Colour** | **Not to be used** | **Not to be used** | |

| | | | | |
|---|---|---|---|---|
| **Limit 3 category – Council's banker (where "No Colour")** | **Natwest** | **£ 5m** | **£5m** | **1 day** |
| **Other institutions limit** | **-** | **£ 5m** | **£5m** | **1yr** |
| **DMADF** | **UK sovereign rating** | **unlimited** | **£5m** | **6 months** |
| **Local authorities** | **n/a** | **£5m** | **£5m** | **2 yrs** |
| **Housing associations** | **Colour bands** | **£5m** | **£5m** | **As per colour band** |
| | **Fund rating** | **Money Limit** | | **Time Limit** |
| **Money Market Funds CNAV** | **AAA** | **£5m** | **£5m** | **liquid** |
| **Money Market Funds LVNAV** | **AAA** | **£5m** | **£5m** | **liquid** |
| **Money Market Funds VNAV** | **AAA** | **£5m** | **£5m** | **liquid** |
| **Ultra-Short Dated Bond Funds with a credit score of 1.25** | **Dark Pink / AAA** | **£5m** | **£5m** | **liquid** |
| **Ultra-Short Dated Bond Funds with a credit score of 1.50** | **Light Pink / AAA** | **£5m** | **£5m** | **liquid** |

**Creditworthiness.**
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. Nonetheless, when setting minimum sovereign debt ratings, this Council will not set a minimum rating for the UK.

**CDS prices**
Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government in the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

**4.3 Limits**

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

*a.* **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 50% of the total treasury management investment portfolio.

*b.* **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of *AA-*** from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in section 7. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

**Other limits.** In addition: -

- no more than 50% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

### 4.4 Investment Strategy

**In-house funds.** Investments will be made with reference to the 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. The current shape of the yield curve suggests that the risks are relatively balanced between Bank Rate staying higher for longer, if inflation picks up markedly through 2025 post the 30 October 2024 Budget, or it may be cut quicker than expected if the economy stagnates. The economy only grew 0.1% in Q3 2024, but the CPI measure of inflation is now markedly above the 2% target rate set by the Bank of England's Monetary Policy Committee two to three years forward.

Accordingly, while most cash balances are required in order to manage the ups and downs 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.

**Investment returns expectations.**
The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to fall to a low of 3.5%.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

| Average earnings in each year | Now | Previously |
|---|---|---|
| 2024/25 (residual) | 4.60% | 4.25% |
| 2025/26 | 4.10% | 3.35% |
| 2026/27 | 3.70% | 3.10% |
| 2027/28 | 3.50% | 3.25% |
| 2028/29 | 3.50% | 3.25% |
| Years 6 to 10 | 3.50% | 3.25% |
| Years 10+ | 3.50% | 3.50% |

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits, in order to benefit from the compounding of interest.

**Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicator and limit: -

| Upper limit for principal sums invested for longer than 365 days | | | |
|---|---|---|---|
| **£m** | **2025/26** | **2026/27** | **2027/28** |
| Principal sums invested for longer than 365 days | £10m | £10m | £10m |
| Current investments as at 31.12.24 in excess of 1 year maturing in each year | £0m | £0m | £0m |

### 4.5 Investment Performance / Risk Benchmarking

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA (Sterling Overnight Index Average) rate.

### 4.6 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.

### 4.7 External Fund Managers

Currently (31/12/24) the Council has no funds deposited with its external fund manager, Aberdeen Asset Management. However, when the external fund manager is utilised, they will comply with the Annual Investment Strategy.  The agreement between the Council and the fund manager additionally stipulates guidelines on duration and other limits to contain and control risk.

## 5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2025/26 – 2027/28

The Authority'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.

### 5.1.1 Capital Expenditure

| Capital expenditure | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|
| **£000** | **Actual** | **Estimate** | **Estimate** | **Estimate** | **Estimate** |
| Strategy & Resources | 410 | 1,386 | 6,836 | 210 | 0 |
| Environment | 274 | 1,096 | 654 | 718 | 143 |
| Community & Wellbeing | 1,673 | 4,613 | 1,199 | 1,329 | 974 |
| Licensing & Planning Policy | 0 | 0 | 0 | 0 | 0 |
| **Total services** | **2,357** | **7,095** | **8,689** | **2,257** | **1,117** |
| Residential property fund | 0 | 828 | 0 | 0 | 0 |
| Commercial property fund | 0 | 0 | 49,569 | 0 | 0 |
| **Total** | **2,357** | **7,923** | **58,258** | **2,257** | **1,117** |

### 5.1.2 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators: -

**Ratio 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.

| % | 2023/24 Actual | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|---|---|---|---|---|---|
| **Ratio** | -3% | -1% | 19% | 33% | 30% |

The estimates of financing costs include current commitments and the proposals in this budget report.

### 5.1.3 Maturity Structure of Borrowing

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.

The Council is asked to approve the following treasury indicators and limits: -

| Maturity structure of fixed interest rate borrowing 2025/26 | | |
|---|---|---|
| | **Lower** | **Upper** |
| Under 12 months | 0% | 20% |
| 12 months to 2 years | 0% | 20% |
| 2 years to 5 years | 0% | 20% |
| 5 years to 10 years | 0% | 20% |
| 10 years to 20 years | 0% | 20% |
| 20 years to 30 years | 0% | 20% |
| 30 years to 40 years | 0% | 20% |

| | | |
|---|---|---|
| 40 years to 50 years | 0% | 100% |
| **Maturity structure of variable interest rate borrowing 2025/26** | | |
| | Lower | Upper |
| Under 12 months | 0% | 0% |
| 12 months to 2 years | 0% | 0% |
| 2 years to 5 years | 0% | 0% |
| 5 years to 10 years | 0% | 0% |
| 10 years to 20 years | 0% | 0% |
| 20 years to 30 years | 0% | 0% |
| 30 years to 40 years | 0% | 0% |
| 40 years to 50 years | 0% | 0% |

### 5.1.4. Control of Interest Rate Exposure

Please see paragraphs 3.3, 3.4 and 4.4.

### 5.2 INTEREST RATE FORECASTS 2024-2027

| Link Group Interest Rate View | 11.11.24 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | Sep-27 | Dec-27 |
| BANK RATE | 4.75 | 4.50 | 4.25 | 4.00 | 4.00 | 3.75 | 3.75 | 3.75 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| 3 month ave earnings | 4.70 | 4.50 | 4.30 | 4.00 | 4.00 | 4.00 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 6 month ave earnings | 4.70 | 4.40 | 4.20 | 3.90 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 12 month ave earnings | 4.70 | 4.40 | 4.20 | 3.90 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 5 yr PWLB | 5.00 | 4.90 | 4.80 | 4.60 | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 4.00 | 3.90 |
| 10 yr PWLB | 5.30 | 5.10 | 5.00 | 4.80 | 4.80 | 4.70 | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.20 | 4.10 |
| 25 yr PWLB | 5.60 | 5.50 | 5.40 | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 | 4.50 | 4.50 |
| 50 yr PWLB | 5.40 | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 | 4.50 | 4.40 | 4.30 | 4.30 |

PWLB forecasts are based on PWLB certainty rates.

## 5.3 ECONOMIC BACKGROUND

- The third quarter of 2024 (July to September) saw:
- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.
- The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.
- The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.
- The Government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Our colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.
- The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.
- Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

- CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.
- The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.
- Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.
- Our forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.
- Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.
- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.

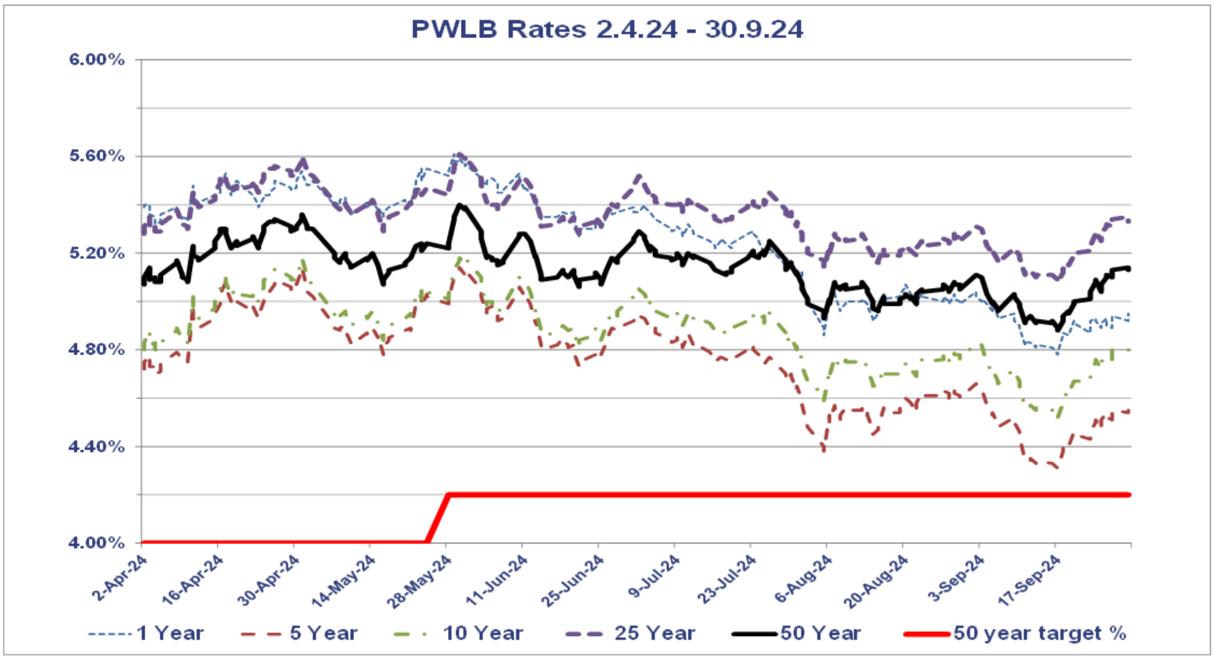
**MPC meetings: 9 May, 20 June, 1 August, 19 September 2024**

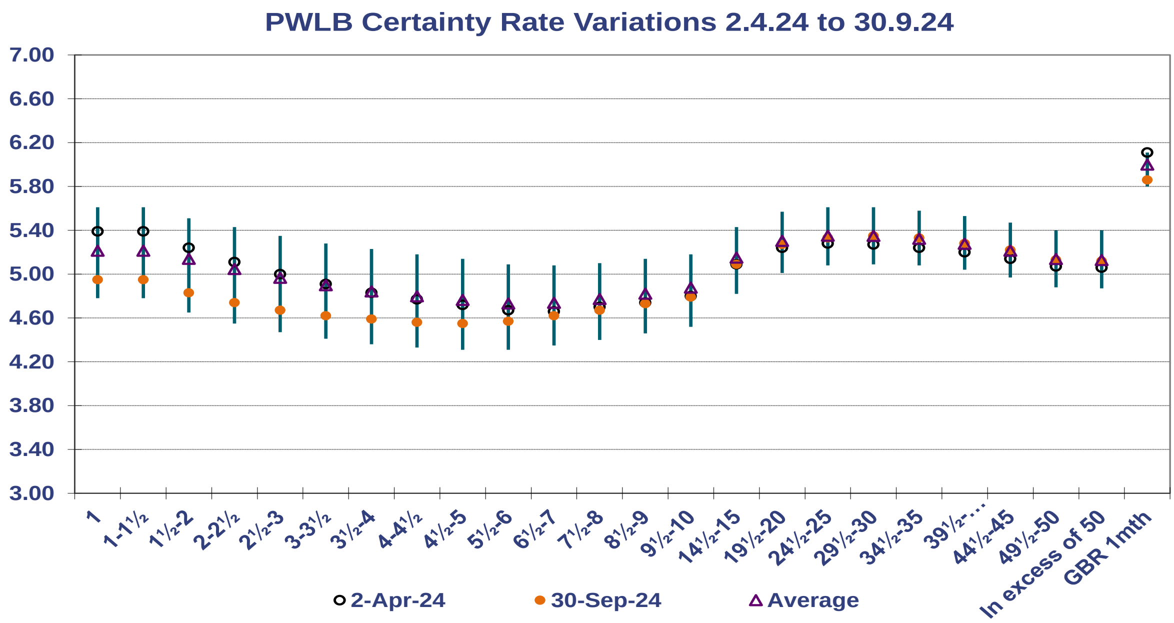
- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.

- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.

**PWLB RATES 02.04.24 - 30.09.24**



## HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|---|---|---|---|---|---|
| **02/04/2024** | 5.39% | 4.72% | 4.80% | 5.28% | 5.07% |
| **30/09/2024** | 4.95% | 4.55% | 4.79% | 5.33% | 5.13% |
| **Low** | 4.78% | 4.31% | 4.52% | 5.08% | 4.88% |
| **Low date** | 17/09/2024 | 17/09/2024 | 17/09/2024 | 17/09/2024 | 17/09/2024 |
| **High** | 5.61% | 5.14% | 5.18% | 5.61% | 5.40% |
| **High date** | 29/05/2024 | 01/05/2024 | 01/05/2024 | 01/05/2024 | 01/05/2024 |
| **Average** | 5.21% | 4.76% | 4.88% | 5.35% | 5.14% |
| **Spread** | 0.83% | 0.83% | 0.66% | 0.53% | 0.52% |

## 5.4 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Authority's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for local authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the Guidance requires this Authority to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 13/04/2012 and will apply its principles to all investment activity. In accordance with the Code, the Chief Finance Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

**Annual Investment Strategy** - The key requirements of both the Code and the investment guidance are for the Council to set an Annual Investment Strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

**Strategy guidelines** – The main strategy guidelines are contained in the body of the Treasury Management Strategy Statement.

**Specified investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months once the remaining period to maturity falls to under 12 months.

These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with: -

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- Supranational Bonds of less than one year's duration.
- A Local Authority, Housing Association, Parish Council or Community Council.
- Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating by a credit rating agency e.g., Standard and Poor's, Moody's and/or Fitch rating agencies.

- A body that is considered of a high credit quality (such as a bank or building society). This category covers bodies with a minimum Short-Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

In accordance with the Code, the Council has set out additional criteria to limit the time and the amount of monies which will be invested in these bodies, as disclosed in the investment strategy in section 4.

**Non-specified investments** – are any other type of investment (i.e., not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below.

| | **Non-Specified Investment Category** | **Limit (£ or %)** |
|---|---|---|
| a. | **Supranational Bonds greater than 1 year to maturity**<br>**(a) Multilateral Development Bank bonds** - These are bonds defined as an international financial institution having as one of its objectives economic development, either generally or in any region of the world (e.g., European Reconstruction and Development Bank etc).<br>**(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g., National Rail)<br>The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt-edged securities. However, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity. | AAA long term ratings, 50% of money invested through external fund manager. Restriction of 5yrs maximum maturity |
| b. | **Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity. | 50% of money invested through external fund manager. Restriction of 10yrs maximum maturity |
| c. | **The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible. | In this instance balances will be minimised as far as possible. |
| d. | **Building Societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of £1bn, but will restrict these types of investments to 12 months. | £5m per institution. |
| e. | Any **Bank or Building Society** that has a minimum long-term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment). | Maximum of 50% on investments over 1yr.n |
| f. | Any **Non-Rated Subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included | £5m per institution. |

| | | |
|---|---|---|
| | as an investment category subject to the parent bank providing an appropriate guarantee and meeting the ratings outlined above. | |
| g. | **Share and Loan Capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. See note 1 below. | Maximum £5m per institution, subject to minimum rating of AA- (long term). The exception is Epsom & Ewell Property Investment Company Limited (EEPIC). The Council has separately authorised share capital and loans to EEPIC. |

NOTE 1. This Council will seek further advice on the appropriateness and associated risks with investments in these categories.

**The monitoring of investment counterparties** - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Finance Officer, and if required new counterparties which meet the criteria will be added to the list.

**Use of external fund managers** – It is the Council's policy to use external fund managers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories and are contractually committed to keep to the Council's investment strategy.

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

**5.5 TMP2 Performance measurement**

The Council has a number of approaches to evaluating treasury management decisions: -

a. Monthly reviews carried out by the treasury management team.

b. Reviews with our treasury management consultants & external fund manager.

c. Annual review after the end of the year as reported to Financial Strategy Audit & Scrutiny Committee.

d. Half yearly monitoring reported to Audit & Scrutiny Committee.

e. Quarterly budget monitoring reports to Audit & Scrutiny Committee.

The treasury management team holds reviews with our consultants every 6 months to review the performance of the investment and debt portfolios.

An Annual Treasury Report is submitted to Audit & Scrutiny each year after the close of the financial year, which reviews the performance of the investment portfolio. This report contains the following: -

a. average investments held during the financial year and average interest rates

b. investment strategy for the year compared to actual strategy

c. explanations for variance between original strategies and actual

d. comparison of return on investments to the investment benchmark

e. compliance with Prudential and Treasury Indicators

The performance of investment earnings will be measured against the following benchmarks: -

*a.* In house investments
7 day SONIA

*b.* External fund manager
7 day SONIA

Epsom & Ewell Borough Council's policy is to appoint external investment fund managers to manage a proportion of its cash and will comply with the Local Authorities (Contracting Out of Investment Functions) Order 1996 [SI 1996 No 1883}.

The delegation of investment management to external managers will entail the following:

- Formal contractual documentation;
- Agreement on terms for early termination of the contract;
- Setting of investment instruments, constraints/parameters/conditions
- Setting of investment counterparty limits;
- Setting a performance measurement benchmark and a performance target;
- Frequency of performance reporting;
- Frequency of meetings with investment managers;

The Code of Practice places an obligation on the Council to monitor the performance of the fund managers. This Council has appointed Link Asset Services to assist in this respect.

**5.6 TMP3 Decision – making and analysis**

Epsom & Ewell Borough Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the scheduled to this document."

The Treasury team will ensure that the following records will be retained*:* -

- Daily cash balance forecasts
- Money market rates obtained by telephone from brokers
- Dealing slips for all money market transactions
- Brokers' confirmations for investment transactions
- Confirmations from borrowing institutions where deals are done directly
- Contract notes received from fund manager
- Fund manager valuation statements

Processes to be pursued:

- Cash flow analysis
- Investment maturity analysis
- Ledger reconciliation
- Performance management information

**5.7 TMP4 Approved instruments, methods and techniques**

Epsom & Ewell Borough Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Strategy and within the limits and parameters defined.

5.8 **TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements**

**Allocation of responsibilities**

**(i) Full Council**

- approval of annual treasury management strategy.

**(ii) Financial Strategy Advisory Group**

- reviewing and advising on the treasury management strategy prior to approval at Full Council

**(iii) Audit & Scrutiny Committee**

- receiving and reviewing reports on treasury management policies, performance and activities
- approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- receiving and reviewing annual monitoring reports and acting on recommendations
- receiving and reviewing half yearly and annual performance monitoring report and acting on recommendations

**(iv) Chief Finance Officer**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

**Principles and Practices Concerning Segregation of Duties**

The following duties must be undertaken by separate officers: -

| | |
|---|---|
| Dealing | Negotiation and approval of deal. (Dealer 1)<br>Production of transfer note. (Dealer 1) |
| Bank | Entry of transaction onto bank (Finance Officer) |
| Authorisation/Payment of Deal | Approval and payment. (Dealer 2) |
| Accounting Entry | Processing of accounting entry (Exchequer Team) |
| | Reconciliation of cash control account. (Exchequer Team) |
| Bank | Bank reconciliation (Exchequer Team) |

**Statement of the treasury management duties/responsibilities of each treasury post**

**The responsible officer**

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Chief Finance Officer. This person will carry out the following duties: -

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function

- 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
- recommending the appointment of external service providers.
- The responsible 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.
- The responsible officer may delegate his power to borrow and invest to members of his staff. The finance must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness.
- The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
- 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
- It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

**The Chief Accountant**

The responsibilities of this post will be: -

a) execution of transactions

b) adherence to agreed policies and practices on a day-to-day basis

c) maintaining relationships with counterparties and external service providers

d) supervising treasury management staff

e) monitoring performance on a day-to-day basis

f) submitting management information reports to the responsible officer

g) identifying and recommending opportunities for improved practices

**The Head of the Paid Service – the Chief Executive**

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented

b) Ensuring that the responsible officer reports regularly on treasury policy, activity and performance.

**The Monitoring Officer**

The responsibilities of this post will be: -

a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.

b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.

c) Giving advice to the responsible officer when advice is sought.

**Internal Audit**

The responsibilities of Internal Audit will be: -

a) Reviewing compliance with approved policy and treasury management practices.

b) Reviewing division of duties and operational practice.

c) Assessing value for money from treasury activities.

d) Undertaking probity audit of treasury function.

**Absence Cover Arrangements**

Six officers within the Finance Team have the authority to place deals.

**Dealing**

The following posts are authorised to deal and/or input trades: -

- Chief Finance Officer
- Chief Accountant
- 3 Senior Accountants
- 3 Accountants

### 5.9 TMP7 Budgeting, accounting and audit arrangements

The Chief Finance Officer will prepare, and Epsom & Ewell Borough Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management functions, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Best value and performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangement.*

Epsom & Ewell Borough Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

Epsom & Ewell Borough Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

### 5.10 TMP8 Cash and cash flow management

Cash flow projections are prepared annually and updated daily. The annual cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Chief Finance Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring.

### 5.11 TMP9 Money Laundering

Epsom & Ewell Borough Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

### 5.12 TMP10 Staff training and qualifications

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

a) Treasury management staff employed by the Council

b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time.

Additionally, training may also be provided on the job and it will be the responsibility of Chief Finance Officer to ensure that all staff under his authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

**Details of Approved Training Courses**

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

**Statement of Professional Practice (SOPP)**

1. Where the Chief Finance Officer is a member of CIPFA, there is a professional need for them to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

**Members charged with governance**

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

### 5.13 TMP11 Use of external service providers

Epsom & Ewell Borough Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also 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. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies.

### 5.14 TMP12 Corporate governance

Epsom & Ewell Borough Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

The following documents are available for public inspection: -

- Treasury Management Strategy
- Annual Investment Strategy
- Minimum Revenue provision policy statement
- Annual Treasury Review Report
- Treasury Management monitoring reports (e.g. half yearly)
- Annual accounts and financial instruments disclosure notes
- Annual budget
- Capital Strategy
- Minutes of Council / committee meetings

## 5.17 APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

***Based on lowest available rating (as at 25.11.24)***

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA-

- Belgium
- France
- **U.K.**

## 5.15 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

**The S151 (responsible) officer**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- 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;
- recommending the appointment of external service providers.
- 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 authority
- ensure 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, to include the following: -
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

# Summary of Changes to Treasury Management Strategy for 2025/26

A large proportion of the Treasury Management Strategy remains the same as last year but this section highlights any significant changes made on the previous year's Strategy.

Treasury Management reporting in section 1.2.2 includes a requirement to provide quarterly updates to the Audit & Scrutiny Committee.

The Prudential Indicators in Section 2 of the Strategy have been updated to reflect the latest figures approved by Council.

The Annual Investment Strategy has been updated to reference the latest Link creditworthiness service, which employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's – to be used by officers when assessing potential investments.

Creditworthiness Policy in Section 4.2- For investments to other Local Authorities, the time limit has been increased from 1 year to 2 years.

Section 5.3 provides an economic update from our independent financial advisors, Link Group.

Section 5.17 provides a list of approved countries for investment, based on the recommendation of our treasury management advisers. Members of the Financial Strategy Advisory Group (FSAG) were asked to advise whether any countries should be removed from the list at a meeting on 31 January 2025. FSAG agreed to remove Qatar and Abu Dhabi from the list of approved countries for investment for 2025/26.