

Treasury Management and Investment Strategy

Minimum Revenue Provision Policy Statement
and Annual Investment Strategy

2026/27

Summary of Changes to Treasury Management Strategy for 2026/27

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

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

The future capital programme no longer includes an assumption of additional investment property purchases, funded by borrowing, under the Commercial Property Fund. This is as a result of Local Government Reorganisation which sees Epsom & Ewell Borough Council being replaced by a new unitary authority, East Surrey.

The Annual Investment Strategy has been updated to reference the latest MUFG Corporate Markets 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.

Section 5.6 provides an economic update from our independent financial advisors, Link Group.

Section 7 provides a list of approved countries for investment, based on the recommendation of our treasury management advisers.

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 monitoring reports. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

1.3 Treasury Management Strategy for 2026/27

The strategy for 2026/27 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, MHCLG Investment Guidance, 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, MUFG Corporate Markets 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 MUFG Corporate Markets 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 2026/27 – 2028/29

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 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| | Actual | Estimate | Estimate | Estimate | Estimate |
| | £000 | £000 | £000 | £000 | £000 |
| Strategy & Resources | 681 | 541 | 0 | 53 | 60 |
| Environment | 1,019 | 676 | 341 | 353 | 98 |
| Community & Wellbeing | 3,427 | 3,370 | 3,074 | 1,119 | 1,329 |
| Licensing & Planning Policy | 0 | 0 | 0 | 0 | 0 |
| Total services | 5,127 | 4,587 | 3,415 | 1,525 | 1,487 |
| Residential property fund* | 834 | 0 | 0 | 0 | 0 |
| Commercial property fund** | 0 | 0 | 0 | 0 | 0 |
| Strategic CIL schemes | 0 | 0 | 3,126 | 0 | 0 |
| Neighbourhood CIL schemes | 50 | 0 | 569 | 0 | 0 |
| Total | 6,011 | 4,587 | 7,110 | 1,525 | 1,487 |

* 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 Borrowing. On 28 October 2025, the Government announced that the current county, district, and borough councils in Surrey will be replaced by two new unitary authorities. Consequently, the Council does not anticipate making any further property purchases under the Commercial Property Acquisition Fund programme.

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 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|--|--------------|--------------|--------------|--------------|--------------|
| | Actual | Estimate | Estimate | Estimate | Estimate |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Core capital programme | 5,127 | 4,587 | 3,415 | 1,525 | 1,487 |
| Residential property fund | 834 | 0 | 0 | 0 | 0 |
| Commercial property fund | 0 | 0 | 0 | 0 | 0 |
| Strategic CIL schemes | 0 | 0 | 3,126 | 0 | 0 |
| Neighbourhood CIL schemes | 50 | 0 | 569 | 0 | 0 |
| Total Expenditure | 6,011 | 4,587 | 7,110 | 1,525 | 1,487 |
| Financed by: | | | | | |
| Capital receipts | 476 | 1,581 | 2,441 | 551 | 513 |
| Capital grants (DFG) | 2,361 | 1,271 | 974 | 974 | 974 |
| S106 and CIL | 936 | 918 | 0 | 0 | 0 |
| Revenue | 1,292 | 545 | 0 | 0 | 0 |
| External grants | 101 | 272 | 0 | 0 | 0 |
| Total Financing | 5,166 | 4,587 | 7,110 | 1,525 | 1,487 |
| Net financing need for the year | 845 | 0 | 0 | 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 scheme 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 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|--|----------------|----------------|---------------|----------------|----------------|
| | Actual | Estimate | Estimate | Estimate | Estimate |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Opening CFR | 86,205 | 85,309 | 83,416 | 81,524 | 80,133 |
| Unfinanced capex - commercial properties | 0 | 0 | 0 | 0 | 0 |
| Finance Leases | 845 | 0 | 0 | 0 | 0 |
| Less MRP | (1,741) | (1,893) | (1,892) | (1,391) | (1,240) |
| Closing CFR | 85,309 | 83,416 | 81,524 | 80,133 | 78,893 |
| Movement in CFR | (1,346) | (1,373) | 54,738 | (1,877) | (1,530) |

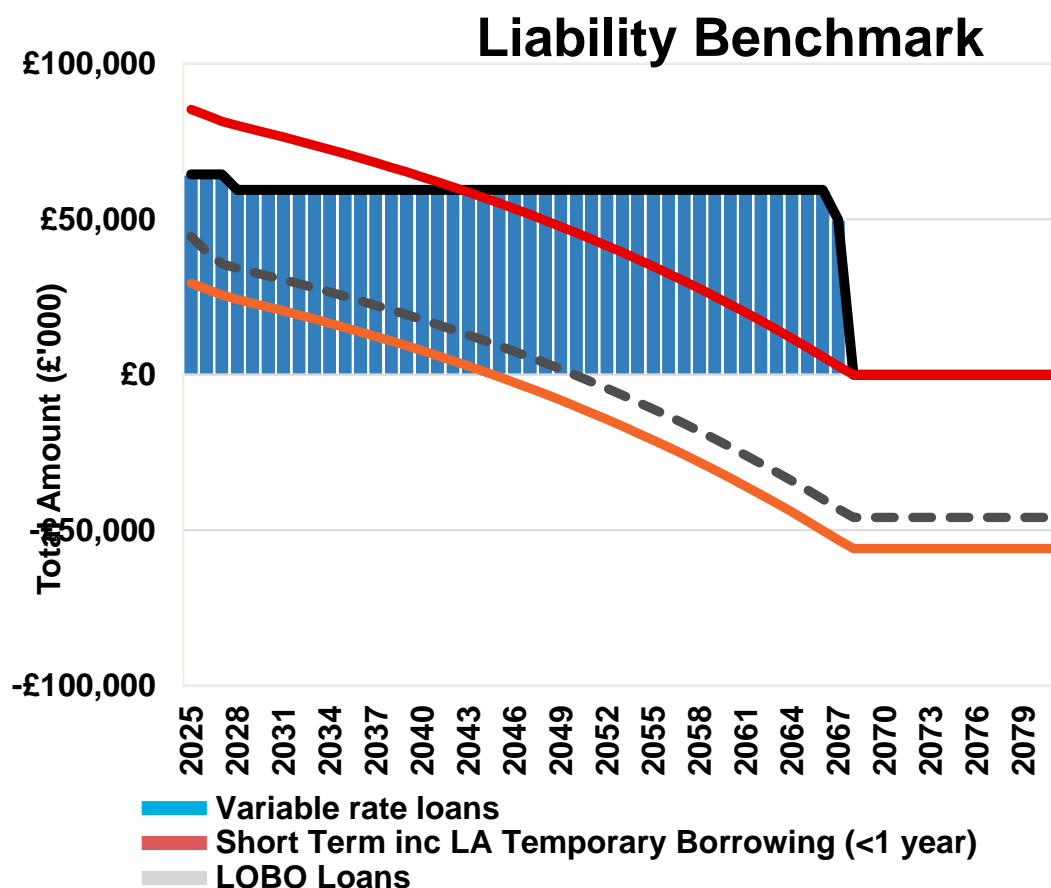
2.3 Liability Benchmark

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 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| £'000 | Actual | Estimate | Estimate | Estimate | Estimate |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fund balances / reserves | 2,755 | 1,555 | 1,555 | 1,555 | 1,555 |
| Capital receipts | 3,461 | 1,975 | -146 | -697 | -1,210 |
| Earmarked revenue reserves | 19,736 | 15,789 | 12,631 | 10,105 | 8,084 |
| CIL | 9,804 | 10,701 | 7,983 | 7,483 | 6,983 |
| S106 funds | 1,703 | 803 | 402 | 0 | 0 |
| Total core funds | 37,459 | 30,823 | 22,425 | 18,446 | 15,412 |
| Working capital* | 15,000 | 12,000 | 10,000 | 10,000 | 10,000 |
| (Under)/over borrowing | (19,858) | (18,435) | (17,016) | (20,625) | (19,385) |
| Expected investments | 32,601 | 24,388 | 15,408 | 7,821 | 6,027 |

*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:

For all unsupported borrowing the MRP policy will be:

- Asset life method (annuity)

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 2025/26 will not be subject to an MRP charge until 2026/27, 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 31.03.25 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 2025 and the position as at 31 December 2025 are shown below for both borrowing and investments.

| Treasury Portfolio | Actual at 31 March 2025 | | At 31 December 2025 | |
|---|-------------------------|-------------|---------------------|-------------|
| | £000 | % | £000 | % |
| Treasury Investments | | | | |
| Banks & Building Societies | 10,000 | 51% | 0 | 0% |
| Money Market Funds | 4,800 | 24% | 22,100 | 69% |
| Local authorities | 5,000 | 25% | 10,000 | 31% |
| Total Managed In House | 19,800 | 100% | 32,100 | 100% |
| Aberdeen Asset Management Fund | 0 | 0% | 0 | 0% |
| Total Managed Externally | 0 | 0% | 0 | 0% |
| Total Treasury Investments | 19,800 | 100% | 32,100 | 100% |
| Treasury External Borrowing | | | | |
| PWLB | 64,427 | 100% | 64,427 | 100% |
| Total External Borrowing | 64,427 | 100% | 64,427 | 100% |
| Net treasury investments / (borrowing) | -44,627 | - | -32,327 | - |

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 | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| External Debt | £'000 | £'000 | £'000 | £'000 | £'000 |
| Debt at 1 April | 86,205 | 85,309 | 83,416 | 81,524 | 80,133 |
| Expected change in Debt | 0 | 0 | 0 | 0 | 0 |
| Other long-term liabilities (OLTL) | 845 | 0 | 0 | 0 | 0 |
| Less MRP | (1,741) | (1,893) | (1,892) | (1,391) | (1,240) |
| Less use of internal funds | (19,858) | (18,435) | (17,016) | (20,625) | (19,385) |
| Actual gross debt at 31 March | 65,451 | 64,981 | 64,508 | 59,508 | 59,508 |
| The Capital Financing Requirement | 85,309 | 83,416 | 81,524 | 80,133 | 78,893 |
| (Under) / over borrowing | (19,858) | (18,435) | (17,016) | (20,625) | (19,385) |

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 2026/27 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

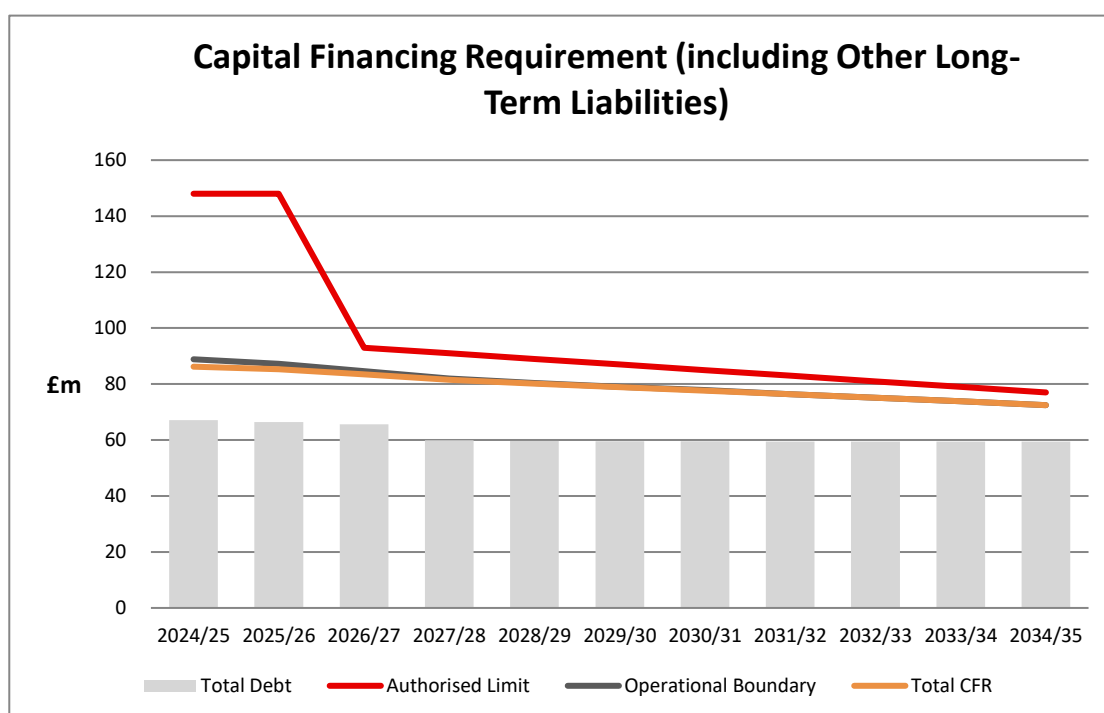
The Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

| Operational Boundary £m | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|---|---------------------|---------------------|---------------------|---------------------|
| Debt relating to commercial property fund | 86,205 | 85,309 | 76,416 | 74,524 |
| Other long-term liabilities | 2,640 | 1,980 | 1,195 | 439 |
| Total | 88,845 | 87,289 | 77,611 | 74,963 |

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 | 90,000 | 90,000 |
| Other long-term liabilities | 3,000 | 3,000 | 3,000 | 3,000 |
| Total | 148,000 | 148,000 | 93,000 | 93,000 |



3.3 Prospects for Interest Rates

The Council has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. MUFG Corporate Markets provided the following forecasts on 22 December 2025. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

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

Additional notes by MUFG Corporate Markets on this forecast table: -

- *Our last interest rate forecast update was undertaken on 11 August. Since then, a combination of tepid growth (0.2% q/q GDP for Q2 and 0.1% q/q GDP for Q3), falling inflation (currently CPI is 3.2%), and a November Budget that will place more pressure on the majority of households' income, has provided an opportunity for the Bank of England's Monetary Policy Committee to further reduce Bank Rate from 4% to 3.75% on 18 December.*
- *Surprisingly, to most market commentators, the recent steep fall in CPI inflation in one month from 3.6% to 3.2% did not persuade most "dissenters" from the November vote (Lombardelli, Greene, Mann and Pill) to switch to the rate-cutting side of the Committee. Instead, it was left to Bank Governor, Andrew Bailey, to use his deciding vote to force a rate cut through by the slimmest of margins, 5-4.*
- *Given the wafer-thin majority for a rate cut it was not unexpected to hear that although rates would continue on a "gradual downward path", suggesting a further rate cut or cuts in the offing, MPC members want to assess incoming evidence on labour market activity and wage growth. Indeed, with annual wage growth still over 4.5%, the MPC reiterated that the case for further rate cuts would be "a closer call", and Governor Bailey observed there is "limited space as Bank Rate approaches a neutral level".*
- *Accordingly, the MUFG Corporate Markets forecast has been revised to price in a rate cut in Q2 2026 to 3.5%, likely to take place in the wake of a significant fall in the CPI inflation reading from 3% in March to 2% in April (as forecast by Capital Economics), followed by a short lull through the summer whilst more data is garnered, and then a further rate cut to 3.25% in Q4.*
- *As in August, nonetheless, threats to that central scenario abound. What if wage increases remain stubbornly high? There are, after all, several sectors of the domestic economy, including social care provision and the building/construction industries, where staff shortages remain severe. Moreover, by May 2026, following the local elections, we will have a better handle on whether or not the Starmer/Reeves team is going to see out the current Parliament or whether they face a Leadership challenge from within their own party. If so, how will gilt markets react to these variables...and will there be additional geo-political factors to also bake in, particularly the Fed's monetary policy decisions in 2026 and the ongoing battle to lower rates whilst inflation remains close to 3%.*

- Accordingly, our updated central forecast is made with several hefty caveats. We are confident, as we have been for some time, that our forecast for Bank Rate and the 5-year PWLB Certainty Rate is robust, and we have marginally brought forward the timing of the next rate cut(s). But for the 10-, 25- and 50-years part of the curve, the level of gilt issuance, and the timing of its placement, will be integral to achieving a benign trading environment. That is not a “given”, and additionally, the inflation outlook and political factors domestically and, crucially, in the US, are also likely to hold sway. Matters should be clearer by June in the UK, but the US mid-term elections are scheduled for November.
- Our revised PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps) and is set to prevail until at least the end of March 2026. Hopefully, there will be a further extension to this discounted rate announced in January.
- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

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 generally 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 borrowing | Current borrowing rates as at 22.12.25 p.m. % | Target borrowing rate now (end of Q4 2027) % | Target borrowing rate previous (end of Q4 2027) % |
|-----------------------|--|---|--|
| 5 years | 4.81 | 4.10 | 4.20 |
| 10 years | 5.39 | 4.70 | 4.70 |
| 25 years | 6.01 | 5.30 | 5.30 |
| 50 years | 5.78 | 5.10 | 5.10 |

Borrowing advice: Our long-term (beyond 10 years) forecast for the neutral level of Bank Rate remains at 3.5%. As all PWLB certainty rates are still 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 (<5 years PWLB maturity/<10 years PWLB EIP) 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 |
|-------------------------------|------|------------|
| | % | % |
| 2025/26 (residual) | 3.80 | 3.90 |
| 2026/27 | 3.40 | 3.60 |
| 2027/28 | 3.30 | 3.30 |
| 2028/29 | 3.30 | 3.50 |
| 2029/30 | 3.50 | 3.50 |
| Years 6-10 | 3.50 | 3.50 |
| 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 2026 even if further rate cuts arise.

Against this background and the risks within the economic forecast, caution will be adopted with the 2026/27 treasury operations. The 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 Council 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 Full Council, 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, and sometimes 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/Community Municipal Bonds | ● | |
| Local Authority Bills | ● | ● |
| Overdraft | | ● |
| Negotiable Bonds | ● | ● |
| Internal (capital receipts & revenue balances) | ● | ● |
| Commercial Paper | ● | |
| Medium Term Notes | ● | |
| 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 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 **31.3.29** was agreed by Government but only for those pooled investments made before 1st April 2024.

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 MUFG Corporate Markets. 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 MUFG Corporate Markets 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 MUFG Corporate Markets 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 MUFG Corporate Markets. Extreme market movements may result in the downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external 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 | | |
| DMA DF | | | 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. MUFG Corporate Markets monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its MUFG Corporate Markets-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 cashflow 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 rates can be expected to fall throughout 2026, but only if the CPI measure of inflation maintains a downwards trend towards the Bank of England's 2% target. Rates may be cut quicker than expected if the economy stagnates.

Accordingly, while most cash balances are required in order to manage the ups and downs of cashflow, 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 3.25% in 2026.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year were updated on 22 December 2025 and are as follows: -

| <i>Average earnings in each year</i> | <i>Now</i> | <i>Previously</i> |
|--------------------------------------|------------|-------------------|
| | <i>%</i> | <i>%</i> |
| 2025/26 (residual) | 3.80 | 3.90 |
| 2026/27 | 3.40 | 3.60 |
| 2027/28 | 3.30 | 3.30 |
| 2028/29 | 3.30 | 3.50 |
| 2029/30 | 3.50 | 3.50 |
| Years 6-10 | 3.50 | 3.50 |
| Years 10+ | 3.50 | 3.50 |

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 | 2026/27 | 2027/28 | 2028/29 |
| Principal sums invested for longer than 365 days | £10m | £10m | £10m |
| Current investments as at 31.12.25 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 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 (31/12/25) 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 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2026/27 – 2028/29

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 Capital Expenditure

| Capital expenditure | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| £000 | Actual | Estimate | Estimate | Estimate | Estimate |
| Strategy & Resources | 681 | 541 | 0 | 53 | 60 |
| Environment | 1,019 | 676 | 341 | 353 | 98 |
| Community & Wellbeing | 3,427 | 3,370 | 3,074 | 1,119 | 1,329 |
| Licensing & Planning Policy | 0 | 0 | 0 | 0 | 0 |
| Total services | 5,127 | 4,587 | 3,415 | 1,525 | 1,487 |
| Strategic CIL schemes | 0 | 0 | 3,126 | 0 | 0 |
| Neighbourhood CIL schemes | 50 | 0 | 569 | 0 | 0 |
| Residential property fund | 834 | 0 | 0 | 0 | 0 |
| Commercial property fund | 0 | 0 | 0 | 0 | 0 |
| Total | 6,011 | 4,587 | 7,110 | 1,525 | 1,487 |

5.2 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.

| % | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|--------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Ratio | 2% | 9% | 8% | 4% | 2% |

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

5.3 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 2026/27 | | |
|---|--------------|--------------|
| | 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 2026/27 | | |
| | 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% |

5.4 Control of Interest Rate Exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.5 INTEREST RATE FORECASTS 2026-2029

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

PWLB forecasts are based on PWLB certainty rates.

5.6 ECONOMIC BACKGROUND

- The first half of 2025/26 saw:
 - A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth, but picked up to 0.1% m/m in August before falling back by 0.1% m/m in September.
 - The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.6% in September.
 - CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.5%.
 - The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August (and subsequently to 3.75% in December).
 - The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70% (before falling back to 4.43% in early November).
- From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q (subsequently revised down to 0.2% q/q). Nonetheless, the 0.0% m/m change in real GDP in July, followed by a 0.1% m/m increase in August and a 0.1% decrease in September will have caused some concern. GDP growth for 2025 - 2028 is currently forecast by the Office for Budget Responsibility to be in the region of 1.5%.
- Sticking with future economic sentiment, the composite Purchasing Manager Index (PMI) for the UK increased to 52.2 in October. The manufacturing PMI output balance improved to just below 50 but it is the services sector (52.2) that continues to drive the economy forward. Nonetheless, the PMIs suggest tepid growth is the best that can be expected in the second half of 2025 and the start of 2026. Indeed, on 13 November we heard that GDP for July to September was only 0.1% q/q.
- Turning to retail sales volumes, and the 1.5% year-on-year rise in September, accelerating from a 0.7% increase in August, marked the highest gain since April. On a monthly basis, retail sales volumes rose 0.5%, defying forecasts of a 0.2% fall, following an upwardly revised 0.6% gain in August. Household spending remains surprisingly resilient, but headwinds are gathering.
- Prior to the November Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the OBR. For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.
- Following the 26 November Budget, the Office for Budget Responsibility (OBR) calculated the net tightening in fiscal policy as £11.7bn (0.3% of GDP) in 2029/30, smaller than the consensus forecast of £25bn. It did downgrade productivity growth by 0.3%, from 1.3% to 1.0%, but a lot of that influence was offset by upgrades to its near-term wage and inflation forecasts. Accordingly, the OBR judged the Chancellor was going to achieve her objectives with £4.2bn to spare. The Chancellor then chose to expand that headroom to £21.7bn, up from £9.9bn previously.

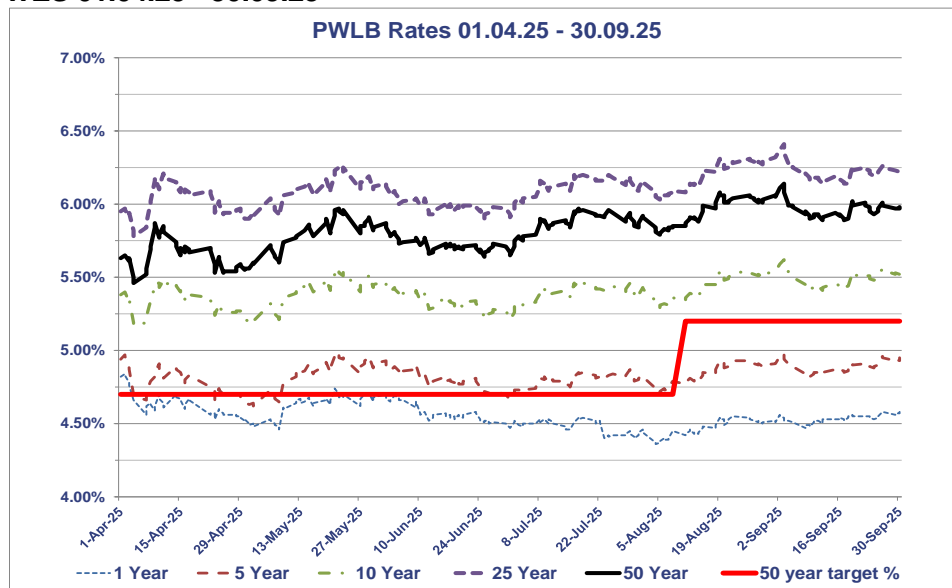
- Moreover, the Chancellor also chose to raise spending by a net £11.3bn in 2029/30. To pay for that and the increase in her headroom, she raised taxes by £26.1bn in 2029/30. The biggest revenue-raisers were the freeze in income tax thresholds from 2028/29 (+£7.8bn) and the rise in NICs on salary-sacrifice pension contributions (+£4.8bn). The increase in council tax for properties worth more than £2.0m will generate £0.4bn.
- The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nearly all the months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October 2024 Budget. The number of job vacancies in the three months to November 2025 stood at 729,000 (the peak was 1.3 million in spring 2022). All this suggests the labour market continues to loosen, albeit at a slow pace.
- A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.6% in September (still at that level in November). The rate for the private sector has slipped just below 4% as the year end approaches.
- CPI inflation remained at 3.8% in September but dropped to 3.2% by November. Core inflation also fell to 3.2% by November while services inflation fell to 4.4%. Nonetheless, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.
- An ever-present issue throughout recent months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the "Liberation Day" tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended June at 4.50%.
- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England kept yields elevated over 4.70% although by late December had fallen back again to a little over 4.50%.

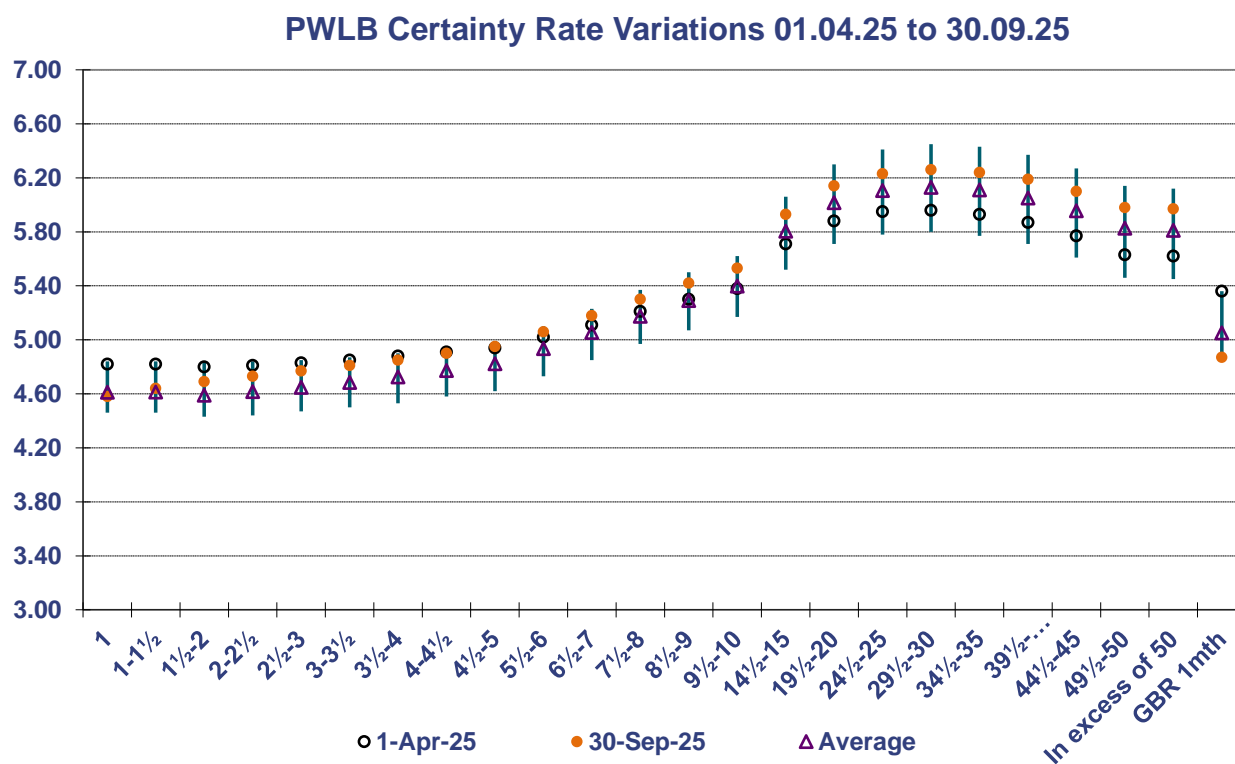
- The FTSE 100 fell sharply following the “Liberation Day” tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 ended June at 8,761, around 2% higher than its value at the end of March and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed September at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors’ global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings. In early November, the FTSE100 climbed to a record high just above 9,900. By late December, the index had clung on to most of those gains standing at 9,870 on 23 December.

MPC meetings: 8 May, 19 June, 7 August, 18 September, 6 November, 18 December 2025

- There were six Monetary Policy Committee (MPC) meetings held between April and December. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for "signs of weak demand", "supply-side constraints" and higher "inflation expectations", mainly from rising food prices. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates would be reduced further.
- In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC was wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.
- With wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction). Moreover, the Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that "a gradual and careful" approach to rate cuts is appropriate suggested the Bank still thought interest rates will fall further.
- At the 6 November meeting, Governor Bailey was once again the deciding vote, keeping Bank Rate at 4% but hinting strongly that a further rate cut was imminent if data supported such a move. By 18 December, with November CPI inflation having fallen to 3.2%, and with Q2 GDP revised down from 0.3% q/q to only 0.2% q/q, and Q3 GDP stalling at 0.1%, the MPC voted by 5-4 to cut rates further to 3.75%. However, Governor Bailey made it clear that any further reductions would require strong supporting data, and the pace of any further decreases would be slow compared to recent months. The markets expect Bank Rate to next be cut in April.

PWLB RATES 01.04.25 - 30.09.25





HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.25 – 30.09.25

| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|-------------------|------------|------------|------------|------------|------------|
| 01/04/2025 | 4.82% | 4.94% | 5.38% | 5.95% | 5.63% |
| 30/09/2025 | 4.58% | 4.95% | 5.53% | 6.23% | 5.98% |
| Low | 4.36% | 4.62% | 5.17% | 5.78% | 5.46% |
| Low date | 04/08/2025 | 02/05/2025 | 02/05/2025 | 04/04/2025 | 04/04/2025 |
| High | 4.84% | 4.99% | 5.62% | 6.41% | 6.14% |
| High date | 02/04/2025 | 21/05/2025 | 03/09/2025 | 03/09/2025 | 03/09/2025 |
| Average | 4.55% | 4.82% | 5.40% | 6.11% | 5.83% |
| Spread | 0.48% | 0.37% | 0.45% | 0.63% | 0.68% |

6 TREASURY MANAGEMENT PRACTICES

6.1 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. | <p>Supranational Bonds greater than 1 year to maturity</p> <p>(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).</p> <p>(b) A financial institution that is guaranteed by the United Kingdom Government (e.g., National Rail)</p> <p>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.</p> | AAA long term ratings, 50% of money invested through external fund manager. Restriction of 5yrs maximum maturity |
| b. | <p>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.</p> | 50% of money invested through external fund manager. Restriction of 10yrs maximum maturity |
| c. | <p>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.</p> | In this instance balances will be minimised as far as possible. |
| d. | <p>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.</p> | £5m per institution. |
| e. | <p>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).</p> | 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 as an investment category subject to the parent bank providing an appropriate guarantee and meeting the ratings outlined above. | £5m per institution. |
| 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.

6.2 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 Advisory Group.
- d. Half yearly monitoring reported to Financial Strategy Advisory Group.
- e. Quarterly budget monitoring reports to Audit & Scrutiny Committee.

The treasury management team receive monthly investment reports from our consultants, reviewing the performance of the investment portfolio.

An Annual Treasury Report is submitted 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 MUFG Corporate Markets to assist in this respect.

6.3 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

6.4 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.

6.5 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) 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.

Dealing

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

- Chief Accountant
- 3 Senior Accountants
- 3 Accountants

6.6 TMP6 Reporting requirements and management information arrangements

Epsom & Ewell Borough Council will ensure that regular reports are prepared and considered on the implementation of its treasury managements policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implementations of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, members will receive:

- an annual report on the strategy and plan to be pursued in the coming year, to Full Council;
- a mid-year review on the current performance of the treasury management function, to Audit & Scrutiny Committee;
- an annual report on the performance of the treasury management function, to Audit & Scrutiny Committee, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

6.7 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.

6.8 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.

6.9 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.

6.10 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.

6.11 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.

6.12 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

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

Annual Capital and Investment Strategy

Minutes of Council / committee meetings

7. 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 23.12.25)

AAA

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

AA+

- Canada
- U.S.A.

AA

- Abu Dhabi (UAE)
- Finland
- Qatar

AA-

- **U.K.**

A+

- Belgium
- France

8. 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.*