Council

27th February 2025

Title	Treasury Management Strategy Statement 2025-26
Purpose of the report	The Council has a statutory duty to approve an annual treasury management strategy. The Council may require amendments to the strategy but must ensure that an approved strategy is in place for each financial year.
Report Author	Prithiva Janaka, Treasury Management and Capital Accountant
Wards affected	All Wards
Exempt	No
Corporate Priority	Community Addressing Housing Need Resilience Environment Services
Recommendations	Council is asked to: 1. Approve the Treasury Management Strategy for 2025-26 as set out in this report. 2. By approving the report, they will be agreeing to the Treasury Management Practices (TMP), MRP statement, Operational Boundary, and Authorised Limits.
Reason for Recommendation	The Treasury Management Strategy is a statutory requirement for the Council, and it is important that the Council manages prudently and professionally its treasury management function

1. Summary of the report

What is the situation	Why we want to do something
• Corporate Policy & Resources Committee and Council have a statutory responsibility to review and approve the Treasury Management Strategy annually before the beginning of the new financial year. • The Council has both a significant debt portfolio (a greater proportion at fixed rates) of £1,076m and equally, investment funds of £14.3m and cash balances currently averaging £10m.	• Treasury management is crucial to the Council's cash flow, investment and borrowing and to mitigate the risks we should plan ahead and consider: - Operational limit - Authority limit - Borrowing - Funding capital projects of higher value - Investing surplus cash to yield returns.

• This scale of activity creates risks which need to be proactively managed. • The Council should review its liquidity and cashflow on a weekly basis. • The Council needs to continue to explore avenues to minimise financing costs and maximise returns on investment of surplus funds.	
This is what we want to do about it	**These are the next steps**
• Mitigate risks by diversifying investment and borrowing. • Continue to seek professional advice from our treasury advisers.	• Review and approve Treasury management Strategy 2025/26 by Corporate Policy and Resource Committee and the Council.

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

1.2 The prime objective of the Council's investment strategy is to maintain capital security whilst ensuring that there is the necessary liquidity to conduct its business. Within these constraints, the strategy aims to maximise returns. The borrowing strategy aims to minimise the revenue cost of debt whilst securing the council from revenue pressures in the event of interest rate volatility.

1.3 A key revenue consequence of borrowing is the statutory requirement to set aside an amount for repayment of debt, known as Minimum Revenue Provision (MRP). Regulations require the authority to determine annually a principle by which MRP will be determined. The Council's Minimum Revenue Provision is attached as **Appendix D**

1.4 The Treasury Management Strategy aims to protect the Council from market-related risks by monitoring interest rates, economic indicators, and UK and overseas government finances. A range of information sources is used to inform economic analysis and forecasts.

2. Operational Analysis and Proposals

2.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2.2 This is a technical report providing necessarily detailed information that the Council is required to have due regard to, and certain key information is appended for the sake of clarity. Appendix A provides recent benchmarking of the investment portfolio by the Council's treasury advisors, illustrating performance reporting used by the Council. Background to this report is given at **Appendices B and C**. The MRP Statement is given at Appendix D. The Treasury Management Practices (TMP) and Schedules, included at Appendix E, set out how this Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

2.3 Option 1: The Council has a statutory duty under the Local Government Act 2003 to approve and publish a treasury management strategy before the start of each financial year. **We recommend this option.**

2.4 Option 2: Committee may make recommendations to develop the strategy, as long as those recommendations comply with the Chartered Institute of Public Finance Treasury Management code and are consistent with the statutory regulatory framework, as started above the Committee must ensure a strategy is in place each year to meet its statutory duty.

2.5 Option 3: Not approve a Strategy. The Council does not have the option refuse to approve a strategy altogether, so this is not an option.

Summary Position

Table 1: Current Investment & Debt Portfolio Position

As at 19.12.24	Actual Portfolio
	£m
External Borrowing:	
Public Works Loan Board	(1,061.6)
Local Authorities (short term)	(14.0)
Total Gross External Debt	**(1,075.6)**
Long-Term Investments:	
Pooled Fund Investments	4.5
Short-Term Investments:	
Local Authorities	32.0
Money Market Funds	4.8
Subsidiaries	1.1
Total Investments	**42.4**
Net (borrowing)/ investments	(1,033.2)

Non-treasury investments:	
Investment property (as at 19.12.24)	**603.3**

Overall net borrowing	**(429.9)**

2.6 On 19th December 2024, the Council held £1,061m of long-term borrowing, all fixed rate loans with Public Works Loan Board (PWLB).

3. Treasury Strategy

3.1 Following on from completion in December 2024, of the programme of acquisition and transfer to Knowle Green Estates of Temporary Accommodation and resettlement accommodation units part funded by Local Authority Funding Fund (LAHF), as per the Committee approvals for the acquisitions, a decision is now being made to advance from SBC to KGE £14,278,000 at a fixed rate of 5.2% on a fifty year duration with a provision that if the Council is subsequently to fix all or part of the matched funding at a rate more than 0.5% below 5.2% that the fixed rate paid by KGE is accordingly reduced.

3.2 The Council had £4.5m Pooled Investment Funds (these have been withdrawn in January), £42.4m of short-term investments and £603.3m of non-treasury investment property. The council's net debt position was £429.9m. This is detailed in Table 1 above.

3.3 Other than the drawdown of pooled investment funds, officers do not anticipate any significant changes in the figures quoted above as at 19th December 2024 to estimated figures shown below as at 31 March 2025.

Minimum Revenue Provision (MRP): Where the Council finances capital expenditure by prudential borrowing, the Council is required to put aside resources to repay that debt. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), noting that there has been no statutory minimum since 2008. The Council's Annual MRP Statement is included at **Appendix D**. It should be noted that the Council repays part of the borrowing each year by applying the MRP, and that this is reflected in the MRP.

Table 2: Capital Financing Requirement and Forecast

	Forecast 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28	Estimate 2028/29
	£m	£m	£m	£m	£m
Opening CFR	1,157.5	1,179.8	1,166.6	1,152.5	1,138.1
In-year movement (below)	22.3	(13.2)	(14.1)	(14.5)	(14.9)
Closing CFR	**1,179.8**	**1,166.6**	**1,152.5**	**1,138.1**	**1,123.2**
Less: External borrowing	(1,061.1)	(1,020.0)	(978.8)	(937.6)	(937.6)
Internal borrowing	113.3	146.6	173.7	200.5	185.6
Capital programme:					
Housing & Regeneration	21.4	4.3	0.9	0.9	0.9
Other capital expenditure	29.7	3.1	4.2	3.4	0.6
Total Capital Expenditure	**51.2**	**7.4**	**5.1**	**4.3**	**1.6**
Financing:					
Capital Receipts	0.0	(6.5)	(4.2)	(3.4)	(0.6)
Capital Grants and Contributions	(14.6)	(0.9)	(0.9)	(0.9)	(0.9)
Revenue Contributions	(1.0)	0.0	0.0	0.0	0.0
Net Financing Need	**35.5**	**(0.0)**	**0.0**	**0.0**	**0.0**
Less: Minimum Revenue Provision (MRP)	(13.2)	(13.2)	(14.1)	(14.5)	(14.9)
In-year movement in CFR	**22.3**	**(13.2)**	**(14.1)**	**(14.5)**	**(14.9)**

3.4 The Council has a decreasing CFR due to a significantly reduced Capital Programme level of expenditure, which in 2024-25 was boosted by the Council's housing delivery (Property acquisition for families) to top up the Local Authority Housing Fund grant) for Temporary Accommodation and resettlement units, and by the Eclipse Leisure Centre.

3.5 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that an authority's total debt be lower than its highest forecast CFR over the next three years. Table 2 above shows that the Council expects to comply with this recommendation for 2025/26.

3.6 The Council's planned Capital Programme for the next 4 years (including 2025/26) is given on the Table above, major spending will be are on the Council's housing delivery (Property acquisition of temporary accommodation for families and settlement accommodation for Afghan and Ukrainians) to top up the Local Authority Housing Fund grant) for the and regeneration programme and on service projects such as the new Leisure Centre, phase 1 of which has just completed with the new Eclipse Leisure Centre opening in mid-October.

3.7 The Council's Authorised Borrowing Limit has been increased at the beginning of 2024-25 from £1,167m to £1,170m and Operational Boundary currently at £1,270m for 2025/26. These limits are considered appropriate for the above projections but will be reviewed and revised as needed to reflect borrowing requirements in future years. As can be seen in the above table the anticipated external borrowing figure falls below both limits and will fall steadily from 2026-27

3.8 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that an authority's total debt be lower than its highest forecast CFR over the next three years. Table 2 above shows that the Council expects to comply with this recommendation for 2024/25.

Local context - Liability benchmark

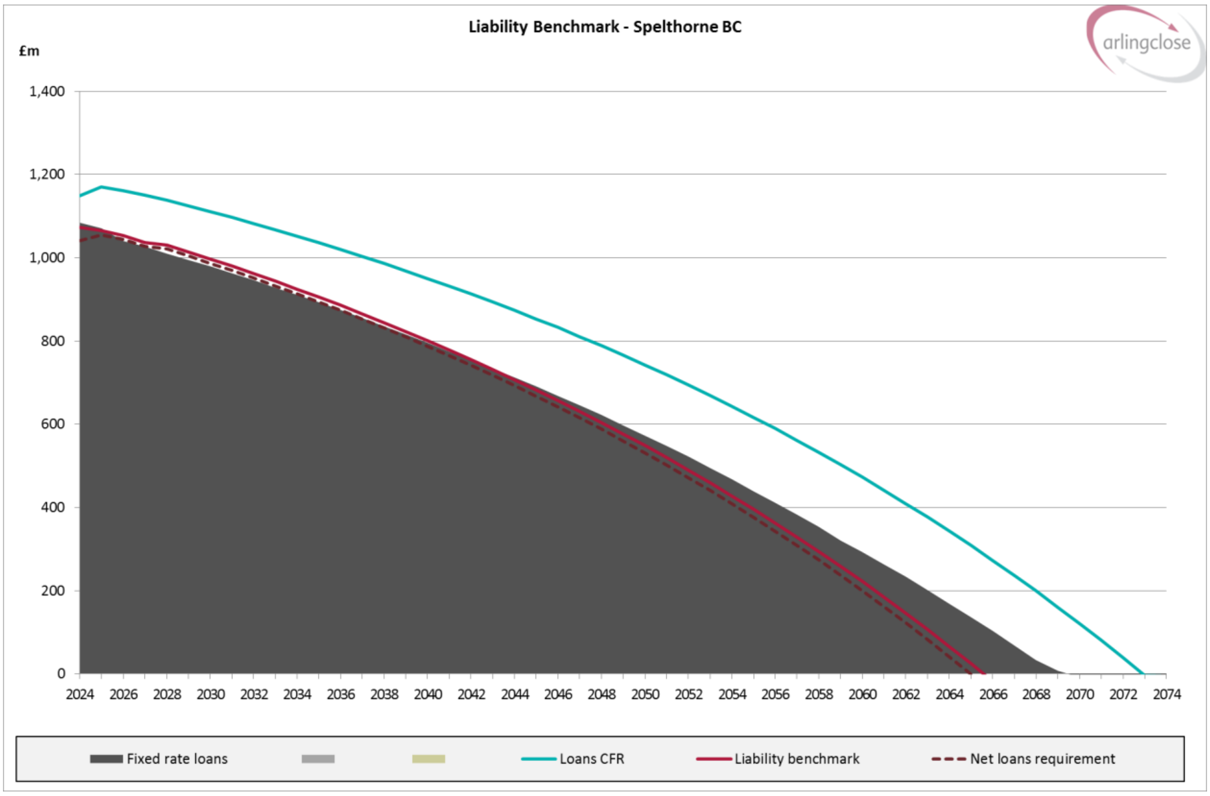
3.9 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark (a measure of risk outlined in the CIPFA TM Code and now required to be reported on for future years) has been calculated showing the lowest risk level of borrowing, as shown at Table 3. This assumes the same forecasts as Table 2 above, but that cash and investment balances are kept to a minimum level of £20m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 3: Liability benchmark

	Forecast	Estimate	Estimate	Estimate	Estimate
Financial Year	24/25	25/26	26/27	27/28	28/29
	£m	£m	£m	£m	£m
Loans CFR	1,179.8	1,166.6	1,152.6	1,138.1	1,123.3
Balance Sheet resources	(111.0)	(113.0)	(119.0)	(113.0)	(113.0)
Minimum cash for liquidity	20.0	20.0	20.0	20.0	20.0
Liability benchmark	1,088.8	1,073.6	1,053.6	1,045.1	1,030.3

The liability benchmark indicates that the required minimum level of borrowing is forecast to be £1,088.8m as at 31 March 2025 after taking into account other resources such as usable reserves and the minimum investment of £20.0m.

Following on from the medium-term forecasts in table 2 above, the longer-term liability benchmark given next shows the level of borrowing that will be required in future years. The Council will be working with Arlingclose to further develop this modelling to help identify and apply internal resources effectively.



4. Borrowing and Investment Strategies

4.1 Borrowing Strategy

4.2 The Council currently holds £1,061m of long term PWLB loans, which it is paying off on an annual basis (Table 1) as part of its strategy for funding previous years' capital programmes. The Council was debt-free before 2016/17, when the decision was taken to make strategic property acquisitions based on the opportunities available, with the important caveat that Council has no intention to buy investment assets primarily for yield. The forecast in Table 3 shows that the Council expects outstanding borrowing to be a maximum of £1,073.6 in 2025/26.

4.3 The revised draft Capital Programme budget for 2025/26 has been set at £3.796m, net of funding this is a reduction of almost 85% from 2024/25 mainly of the reduced number of projects once phase II of Eclipse Leisure Centre is completed A proportion of rental income from existing investment property is set aside to increase sinking fund earmarked reserves, which contribute towards financing of future property-related costs. This is to help ensure, given the relatively illiquid nature of property assets, the Council does not get into a forced sale position on an asset if its income dips for a temporary period. Over the period of the Capital Programme from 2026-27 the Council will be increasing the contributions into the Sinking Fund Reserves by steps of £1m per annum.

4.4 Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty over those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

4.5 Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

4.6 With interest rates likely to fall further, we want to avoid fixing long term at rates which may then subsequently fall. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

4.7 The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis, the result of which will help determine whether the Council borrows additional sums at long-term fixed rates in 2025/26 with a view to keeping future interest costs low and gaining long term value for money even if costs are higher in the immediate to short term.

4.8 The Council has previously raised the majority of its long-term borrowing from the PWLB, which remains a relatively good option particularly as it was fixed at relatively low interest rates. Government guidance now prohibits authorities that have investments for yield' (which the Council does not intend to acquire any further such investments) from accessing PWLB loans.

4.9 The Council is working with Arlingclose to identify alternative funding options for funding the balance of the reduced Capital Programme.

4.10 In addition, the Council may borrow short-term when needed to cover unplanned cash-flow shortages.

4.11 **Sources of borrowing:** Approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK.
- any other UK public sector body
- UK public and private sector pension funds (except Surrey Pension Fund)
- capital market bond investors.
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

4.12 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase.
- Private Finance Initiative
- sale and leaseback.

4.13 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. The Agency plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Council.

4.14 **LOBOs:** The Council does not hold and has not previously held, LOBO (Lender's Option Borrower's Option) loans, which expose borrowers to an element of refinancing risk. A LOBO lender has the option to propose an increase in the interest rate at set dates, following which the borrower has the option to either accept the new rate or to repay the loan at no additional cost. These loans do not represent value for money and will not form part of the Council's borrowing strategy.

4.15 **Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk.

4.16 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount (currently the council would receive a discount on most of its loans as a result of prevailing rates being higher than when the council fixed the rates) according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5. Investment Strategy

5.1 The Council currently holds significant levels of invested funds representing income received in advance of expenditure plus balances and reserves held. Total long-term investments are £4.8m as at the end of December 2024 (Table 1). This includes £4.4m pooled funds (earmarked to be sold to supplement funding), following the redemption of £30.6m of funds to fund Eclipse Leisure Centre costs.

5.2 Invested funds may be increased further if there are significant additional capital receipts and if it is agreed that these are to be invested. Total investments are higher throughout the financial year and are monitored closely and maintained at appropriate levels as part of managing short-term cash-flow requirements of the Council.

5.3 **Objectives:** Both the CIPFA TM Code and the MHCLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest yield (rate of return). The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

5.4 The Council recognise that the bulk of its borrowing relates to financing of investment designed to deliver long term income streams and that in the event of a forced sales there would be liquidity challenges as assets take time to sale and sale prices will fluctuate. Being mindful of this risk is a key reason why the Council put in place the risk mitigation approach to have sinking funds reserves to ensure that if tenants vacate an investment asset the council can sustain a period of dip in rental income without being forced into a position of having to seek to sell the asset.

5.5 **Strategy**: The Council aims to maximise liquidity of funds to ensure availability for capital expenditure, in line with the Council's significant property and housing service plans.

5.6 **Business models**: Under the International Financial Reporting Standard (IFRS) 9 standard, accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

5.7 Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in Table 4 below, subject to the cash limits (per counterparty) and the time limits shown. The cash limits shown have been agreed in conjunction with our treasury advisers, to enable the Council to have sufficient flexibility within the strategy being set to manage funds appropriately as they are received. This can sometimes include holding funds in advance of need in relation to making strategic acquisitions.

Table 4: Approved investment counterparties and limits

Credit Rating	Government	Banks Secured	Banks Unsecured	Corporates	Registered Providers
UK Gov	£ Unlimited 50 years	n/a	n/a	n/a	n/a
AAA	£10m 50 years	£10m 20 years	£10m 5 years	£5m 20 years	£5m 20 years
AA+	£10m 25 years	£10m 10 years	£10m 5 years	£5m 10 years	£5m 10 years
AA	£10m 15 years	£10m 5 years	£10m 4 years	£5m 5 years	£5m 10 years
AA-	£10m 10 years	£10m 4 years	£10m 3 years	£5m 4 years	£5m 10 years
A+	£5m 5 years	£10m 3 years	£10m 2 years	£5m 3 years	£5m 5 years
A	£5m 5 years	£10m 2 years	£10m 13 months	£5m 2 years	£5m 5 years
A-	£5m 5 years	£10m 13 months	£10m 6 months	£5m 13 months	£5m 5 years
None	£5m 25 years	n/a	£1m 6 months	£1m 5 years	£5m 5 years

Pooled funds and real estate investment trusts (REITs)	£10m per fund at point of investment
Money Market Funds	Unlimited per fund

5.8 This table must be read in conjunction with the notes below.

5.9 **Credit Rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used; otherwise, the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

5.10 **Government:** Loans, bonds, and bills issued or guaranteed by national governments, regional and local authorities, and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5.11 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment-specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

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

5.13 **Corporates:** Loans, bonds, and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent. Loans to unrated companies would only be made either following a financial or credit assessment or as part of a diversified pool in order to spread the risk widely.

5.14 **Registered Providers:** Loans and bonds issued by, guaranteed by, or secured on the assets of Registered Providers of Social Housing and Registered Social Landlords, formerly known as Housing Associations. These bodies are tightly regulated in England by the Regulator of Social Housing. As providers of public services, they retain the likelihood of receiving government support if needed.

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

5.16 **Strategic Pooled Funds:** Bond, equity, and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date and are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

5.17 **Real Estate Investment Trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

5.18 **Operational Bank Accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £500,000 per bank as far as practicably possible, and, where practical issues necessitate, no more than £5m as per Table 4. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

5.19 **Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria, then:

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

5.20 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

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

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

5.23 **Investment Limits:** The maximum that will be lent to any one organisation (other than the UK Government) will be £5 million, to mitigate the risk in the case of a single default. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

5.24 Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £500,000 in operational bank accounts count against the relevant investment limits.

5.25 Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as shown in Table 5 below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

Table 5: Investment limits

	Cash limit Per Counterparty
Any single organisation, except the UK Central Government	£10m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£25m per group
Any group of pooled funds under the same management	£25m per manager at point of investment
Negotiable instruments held in a broker's nominee account	£30m per broker
Foreign countries	£10m per country
Registered Providers	£25m in total
Unsecured investments with Building Societies	£10m in total
Loans to unrated corporates	£10m in total
Money Market Funds	£50m in total

5.26 **Liquidity management:** A four year forward cash flow forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. The Council has implemented a Treasury Management system and is currently developing the reporting available through that system, such as cash-flow forecasting, which will enable determination of the maximum period for which funds may prudently be committed.

5.27 The Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds), where cash funds over £20 million are held, to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

6. Treasury Management Indicators

6.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

6.1 **Security:** The Council adopts a voluntary measure of its exposure to credit risk of its investment portfolio through regular rating advice from its treasury management adviser and through market information from contacts such as brokers and other councils.

6.2 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing:

Liquidity risk indicator	**Target**
Total cash available within 3 months	£10m

6.3 **Interest Rate Exposures:** The Council is exposed principally to risk in terms of its exposure to interest rate movements on its borrowing and investments. The Council is heavily reliant on investment income to support expenditure and has several strategies in place for managing such risk.

6.4 The Council's treasury adviser provides analysis of market movements and assists in investment decisions based on their knowledge of current market conditions and interest rate forecasting.

6.5 The Council generally invests medium- to long-term at fixed rates. The Council currently has no variable rate investments.

6.6 Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classified as variable rate.

6.7 Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. We calculate this as the amount of fixed rate borrowing, we can have maturing in each period as a percentage of total projected borrowing that is at a fixed rate. The calculation takes fixed rate to be whether the borrowing was taken out at a fixed rate for a fixed period of time, regardless of that length of time. The upper and lower limits on the maturity structure of borrowing are as shown in Table 6.

Table 6: Maturity Structure of Borrowing (Upper Percentages are cumulative)

	Upper	Lower
Under 12 Months	10%	0%
1 – 2 Years	15%	0%
3 – 5 Years	20%	0%
6 – 10 Years	25%	0%
10 – 20 Years	50%	0%
20 – 30 Years	75%	0%
30 – 40 Years	90%	0%
40 – 50 Years	100%	0%

6.8 Time periods start on the first day of each financial year. The maturity of borrowing is the earliest date on which the lender can demand repayment. In the case of PWLB, this is the maturity date.

6.9 This indicator allows us to have the percentage of borrowing maturing in each time range shown above, considering our current debt profile, and providing an allowance for new borrowing, while having consideration to the Capital Programme.

6.10 Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end are shown in Table 7 below.

Table 7Principal Limits – Price risk indicator

	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m
Limit on principal invested beyond year end	70	70	70	70

6.11 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt). In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators - Authorised limit and operational boundary for external debt

	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m
Authorised borrowing limit	1,270	1,270	1,270	1,270
Operational boundary	1,170	1,170	1,170	1,170

6.12 **Estimates of financing costs to net revenue stream** shown in Table 9 is a measure of the affordability of borrowing. The Council's financing costs relate substantially to borrowing when commercial property was acquired prior to March 2019. As the CIPFA TM Code notes, commercial investments are taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services. However, as commercial property was directly related to borrowing costs, Table 10 also shows the net income after costs and contributions to future costs. This illustrates the affordability of the commercial investments.

Table 9: Prudential Indicator - Financing costs to net revenue stream

	2024/25	2025/26	2026/27	2027/28
Net Revenue Stream, £m	15.10	18.00	13.40	16.80
Financing costs, £m	39.34	39.97	40.04	40.10
Ratio	2.60	2.22	2.98	2.38

Table 10: Commercial income, related costs, and net contributions to sinking fund

	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m
Commercial income *	(49.07)	(53.47)	(51.59)	(51.11)
Landlord costs *	7.87	7.89	3.71	6.94
Contribution to sinking funds	(6.75)	(1.60)	0.00	(3.20)
Financing costs	39.34	39.97	40.04	40.10
Net income after landlord & financing costs & net contributions to sinking fund	**(8.61)**	**(7.20)**	**(7.84)**	**(7.27)**

Related Matters

6.13 The CIPFA TM Code requires the Council to include the following in its treasury management strategy.

6.14 **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

6.15 The Council will only use standalone financial derivatives (such as swaps, forwards, futures, and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward-starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

6.16 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

6.17 In line with the CIPFA TM Code, the Council will seek external advice and will consider that advice before entering financial derivative contracts to ensure that it fully understands the implications.

6.18 **Markets in Financial Instruments Directive (MIFD):** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers, and fund managers, allowing access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

7. Financial implications

7.1 The budget for property investment income in 2025/26 is £49.064m (£41.1m after landlord costs of £7.8m), based on an investment portfolio of £912m (purchase cost). The budget for debt interest payable in 2025/26 is £25.4m, based on our debt portfolio of £1,075m at an average interest rate of 2.4%. After financing costs, property costs and set asides, it is anticipated that the Council will have a net surplus of £15.8m. Treasury Management Strategy Statement 2025-26 Final.docx

8. Risk considerations

8.1 DHLUC Guidance and the CIPFA TM Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. The strategy has been drawn up in consultation with the Council's independent treasury and investment advisers, to ensure a prudent and robust approach in the strategy.

8.2 Some alternative strategies, with their financial and risk management implications, are listed below in Table 11.

Table 11: Alternative strategies

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Lower investment sums resulting in less Interest income	Lower chance of losses from credit related defaults although such losses may be greater. Also, less diversity increases risk of losses.
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher with increased investment sums	Increased risk of losses from credit related defaults, but any such losses may be smaller. Increased diversity also decreases the risk of significant loss.
Borrow additional sums at long-term fixed interest rates (not in advance of need)	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default. However long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Reduced debt interest costs Less income for funding projects Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain. Less resources available for the Capital Programme which would need to be reduced

9. Procurement considerations

9.1 Not applicable

10. Legal considerations

10.1 The Council has a statutory obligation, under The Local Government Act 2003 to approve and publish its Treasury Management Strategy. The Council has a statutory obligation to have regard to the Treasury Management and Prudential Codes

11. Other considerations

11.1 Not applicable.

12. Equality and Diversity

12.1 Not applicable

13. Sustainability/Climate Change Implications

13.1 The Corporate Policy and Resources Committee has agreed the parameters to be used in its Environmental, Social and Governance (ESG) strategy, the strategy has yet to be agreed. One of the intentions of developing and ESG strategy is to enable the Council to transition the investment portfolio to a more sustainable and environmentally sound approach.

14. Timetable for implementation

14.1 The Treasury Management Strategy for the financial year 2025/26 takes effect on 1st April 2025

15. Contact

Prithiva Janaka p.janaka@spelthorne.gov.uk

Background papers: None

Appendices:

Appx A - Arlingclose Benchmarking

Appx B - Context and Background v08

Appx C - Arlingclose forecast

Appx D - Annual MRP Statement v03

Appx E - TMP and Schedules