Agenda

Audit Committee Meeting

Date: Wednesday, 21 January 2026
Time 7.00 pm
Venue: Council Chamber, Swale House, East Street, Sittingbourne, ME10 3HT

Membership:

Councillors Mike Baldock, Andy Booth, Derek Carnell, Simon Clark (Vice-Chair), Charles Gibson (Chair), Angela Harrison, Kieran Mishchuk, Tara Noe and Dolley Wooster.

Quorum = 3

Pages

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(d) Anyone unable to use the stairs should make themselves known during this agenda item.

2. Apologies for Absence

3. Minutes

To approve the Minutes of the Meeting held on 15 October 2025 (Minute Nos. 393 – 398) as a correct record.

4. Declarations of Interest

Councillors should not act or take decisions in order to gain financial or other material benefits for themselves, their families or friends.

The Chair will ask Members if they have any disclosable pecuniary interests (DPIs) or disclosable non-pecuniary interests (DNPIs) to declare in respect of items on the agenda. Members with a DPI in an item must leave the room for that item and may not participate in the debate or vote.

Aside from disclosable interests, where a fair-minded and informed observer would think there was a real possibility that a Member might be biased or predetermined on an item, the Member should declare this and leave the room while that item is considered.

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Issued on 13 January 2026

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Chief Executive, Swale Borough Council,
Swale House, East Street, Sittingbourne, Kent, ME10 3HT

Audit Committee Meeting	
Meeting Date	21 January 2026
Report Title	Internal Audit & Assurance Progress Report 2025/26
EMT Lead	Lisa Fillery – Director of Resources
Head of Service	Katherine Woodward – Head of Audit Partnership
Lead Officer	Katherine Woodward – Head of Audit Partnership
Classification	**Open**
Recommendations	1. That work completed so far on the 2025/26 Audit & Assurance Plan be noted.

1 Purpose of Report and Executive Summary

1.1 This report is for information and summarises progress towards delivering the Internal Audit to date. In addition, it also provides updates on:

- Completed 2024/25 audits which will be used to inform the 2025/26 Audit Opinion.
- Resource changes with the Mid Kent Audit Partnership team.
- Overall progress.
- The results of the follow up of agreed management actions.

2 Background

2.1 The Audit Committee approved the 2025/26 audit plan in April 2025. This report provides information to Members on the work completed on the Internal Audit Plan.

3 Proposals

3.1 We present the report to Members for their information and for noting.

4 Alternative Options Considered and Rejected

4.1 We present the report to Members for their information and for noting.

5 Consultation Undertaken or Proposed

5.1 We present the report for Member information and for noting. There has been no formal consultation, but its content has been discussed with the Director of Resources and Executive Management Team.

Issue	Implications
Corporate Plan	Mid Kent Audit's work supports all Council activity and the wider Corporate Plan in evaluating governance
Financial, Resource and Property	The work internal audit does on behalf of Swale Borough Council, is

	carried out within agreed resources.
Legal, Statutory and Procurement	The Council is required by Regulations to deliver a conforming internal audit service
Crime and Disorder	No direct implications
Environment and Climate/Ecological Emergency	No direct implications
Health and Wellbeing	No direct implications
Safeguarding of Children, Young People and Vulnerable Adults	No direct implications
Risk Management and Health and Safety	The audit plan draws on the Council's risk management in considering areas for audit review. In turn, audit findings will provide feedback on identification and management of risk.
Equality and Diversity	No direct implications
Privacy and Data Protection	We handled all information collected by the service in line with relevant data protection policies.

7 Appendices

7.1 The following documents are to be published with this report and form part of the report: Appendix 1: Internal Audit & Assurance Progress Report 2025/26.

8 Background Papers

Full reports which support the audit engagements summarised in this report are available on request. In addition, previous Audit Committee reports can be found here.

December 2025

Internal Audit and Assurance Progress report 2025/26

1. Introduction

1.1 The Accounts and Audit Regulations 2015 require that the council: "must undertake an effective internal audit to evaluate the effectiveness of its risk management, control, and governance processes, taking into account public sector internal auditing standards or guidance.

1.2 The Global Internal Audit Standards, Domain III Governing the Internal Audit Function, Principle 8 – Overseen by the Board or Committee and Domain IV Managing the Internal Audit Function, Principal 11 – Communicate effectively both outline the requirements for regular reporting of the outcomes of the internal audit function to Management and the Audit, Governance and Standards Committee

1.3 This report sets out the original audit plan, approved by this committee in April 2025, the work that has been completed since the last report in July 2025 and the expected work that will be completed during the year to deliver the audit plan and provide an annual audit opinion for 2025/26.

1.4 When the plan was agreed it outlined a new approach to creation of the audit plan ensuring a more flexible approach to enable the service to respond to ever changing risk landscape within today's local authorities.

1.5 Instead of a single annual audit plan approved before the financial year begins, the new approach results in list of potential audits that is actively maintained throughout the year. Where Internal Audit knows an audit must be completed it is presented as an "Essential" assurance need in this report. All other auditable risks in the Council are incorporated into the list and assigned a level of "Assurance Need" ranging from Low to High. The list will be updated on an ongoing basis with formal refreshes completed each quarter and audits will be selected based on the need for assurance using the factors set out in the "How the Audits will be delivered" section of this Annual Plan report.

2. Audit Plan Progress: 2025/26

2.1 In line with the process outlined at in the Audit plan, the audits identified for possible completion this year are being reviewed as we progress throughout the year. Audits relating to essential assurance needs would only be deferred in exceptional circumstances and as such we are on course to deliver all **Essential** and **High** priority audits as identified.

2.2 Any audits that have been reviewed and will not be completed this year can be seen below, with commentary provided. These have been agreed with the service and reported to management teams.

2.3 A tender exercise for the contractor to support the blended delivery of the audit plan commenced in April 2025 and a new contractor was appointed in July 2025 for a two-year period. The delay in getting the new contract up and running has had a slight impact on the progress so far this year, but work is now progressing at speed and the expectation to deliver sufficient work to provide an annual audit opinion is on track.

2.4 Five audits have been completed so far, five audits are underway and a further 8 are allocated or at the planning stage and will be completed by the end of the year. During the next quarter, we will assess the remaining unallocated audits to review the risk appetite and organisational priority for completion.

2.5 The approach this year was not to state a specific number of audits for completion, but to ensure a broad enough scope of assurance can be obtained to provide an opinion within the allocated number of audit days available. This means that some audits may require a greater amount of time to provide the necessary assurance.

Audit Title	Priority	Audit Status	Assurance Rating	Draft Report expected	Number of Actions by Priority Rating		
					High	Medium	Low
Emergency Planning	2024/25	Complete	**Strong**				3
Commercial Property Income	2024/25	Complete	**Weak**			7	
Budget Setting	Essential	Complete	**Strong**				
Waste Collection Income	Medium	Complete	**Sound**			1	

Internal Audit and Assurance Progress Report 2025/26

Audit Title	Priority	Audit Status	Assurance Rating	Draft Report expected	Number of Actions by Priority Rating		
					High	Medium	Low
Licensing – Premises and Personal	Medium	Complete	**Sound**			1	9
Temporary Accommodation	Essential	Allocated to contractor, Brief Issued		February 2026			
Data Protection	Essential	Fieldwork in progress		February 2026			
Development Management	Essential	Allocated to contractor, Brief issued		April 2026			
Contract Governance	Essential	Allocated to contractor		April 2026			
Health and Safety	Essential	Allocated to Auditor		April 2026			
* HR Policy Compliance	Essential	Allocated to Auditor		March 2026			
* ICT Controls and Access	Essential	Fieldwork in progress		January 2026			
* Council Tax (Billing	Essential	Fieldwork in progress		February 2026			
Waste Collection Contract	High	Fieldwork in progress		January 2026			
* Housing Benefits	High	Fieldwork in progress		February 2026			
Customer Services	Medium	Allocated to Auditor, Planning		March 2026			
Property Acquisitions and Disposals	Medium	Allocated to Contractor		March 2026			
* IT Asset Management	Medium	Allocated to Auditor		April 2026			
Planning Investigations	Medium	Unallocated					
Parks and Open Spaces	Medium	Unallocated					
Insurance	Medium	Unallocated					

Internal Audit and Assurance Progress Report 2025/26

Audit Title	Priority	Audit Status	Assurance Rating	Draft Report expected	Number of Actions by Priority Rating		
					High	Medium	Low
* Parking Enforcement	Medium	Unallocated					
* Environmental Enforcement – Air Quality	Medium	Unallocated					
* Recruitment	Medium	Not to be delivered in 2025/26. Reviewed with Service. Ongoing changes to the process underway and audit at this time would not add any value. To be considered as part of LGR workstreams.					
Housing Standards	Medium	Not to be delivered in 2025/26. Changes as a result of Renters Reform Bill currently being implemented by the service and require a period to embed new processes. Audit to be completed in 2026/27.					
Economic Development	Medium	Not to be delivered in 2025/26. Reviewed with Service. Due to ongoing priorities relating to LGR, Pause until further review in 2026/27					
* Declarations of Interest	Medium	Not to be delivered in 2025/26. Reviewed with service – audit to be paused due to being low risk.					

* - Shared service audits, work will include all authorities included in the shared service.

3. Agreed Actions Follow up results.

3.1 Our approach to agreed actions is to follow up each action as it falls due in line with the plan agreed with management as part of each completed audit. We report progress on implementation to the Strategic Management team each quarter. This included noting any matters of continuing concerns and where we have revisited an assurance rating.

3.2 We introduced new processes last year around how we follow up on actions with the service. We now report more frequently to the Management teams to support the implementation of actions within the agreed timescales. Previously the internal audit team were spending significant amounts of time chasing outstanding actions and this has improved over the last 12 months.

Actions Table	High	Medium	Low	Total
Total actions 2022/23				
Actions agreed	1	15	16	32
Actions cleared	1	13	12	26
Actions not due / in progress	0	1	0	1
Overdue actions	**0**	**0**	**0**	**0**
Total actions 2023/24				
Actions agreed	1	7	15	23
Actions cleared	1	7	15	23
Actions not due / in progress	0	0	0	0
Overdue actions	**0**	**0**	**0**	**0**
Total actions 2024/25				
Actions agreed	0	28	39	67
Actions cleared	0	4	26	30
Actions not due / in progress	0	24	13	37
Overdue actions	**0**	**0**	**0**	**0**
Total actions 2025/26				
Actions agreed	0	2	9	11
Actions cleared	0	0	0	0
Actions not due / in progress	0	2	0	11
Overdue actions	**0**	**0**	**0**	0
Total actions not due or in progress	0	27	22	49
Total overdue actions	0	0	0	0
Total	**0**	**27**	**22**	**49**

4. Summary of Audit Findings

Audit	Summary of audit findings	Assurance rating	No of agreed actions		
			High	Medium	Low
Emergency Planning	We found that the Service has **Strong** controls in place to effectively manage and deliver emergency planning activities. The Emergency Planning department demonstrates strong compliance with the statutory duties outlined in the Civil Contingencies Act 2004. The audit identified a structured and proactive approach to emergency preparedness, inter-agency coordination, and risk management, with several areas of good practice contributing to both Councils overall resilience. Dynamic risk assessments are regularly updated to reflect emerging threats, ensuring that the service remains responsive to evolving challenges. The Local Risk Register is reviewed annually and aligned with the Kent Community Risk Register, using a structured risk rating methodology with mitigation and response plans in place where appropriate. Additionally, the Kent and Medway Resilience Forum (KMRF) Emergency Planning Directory includes verified contact details for essential multi-agency partners, ensuring timely and coordinated messaging during emergencies. Responsibilities for business continuity are clearly outlined in Section 10 of the Major Emergency Plan. A formal Business Continuity Management (BCM) framework is in place, incorporating Business Impact Analyses (BIA) and Business Continuity Plans (BCP). Public guidance on business continuity is also made available through the Councils websites. Additionally, The Service provides advisory support for business continuity planning through published guidance, workshops, one-to-one support sessions, and continuity clinics. The Service actively participates in the Local Authority Emergency Planning Group and the Kent Voluntary Sector Emergency Group, fostering cross-borough coordination and shared learning. A Mutual Aid Agreement, signed by 13 authorities, is in place to maintain inter-agency support, including the sharing of personnel, accommodation, and equipment during emergencies.	**Strong**			3

Audit	Summary of audit findings	Assurance rating	No of agreed actions		
			High	Medium	Low
Commercial Property Income	The Asset Management Strategy (AMS) provides a clear and structured approach across operational, community, and commercial property portfolios, aligned to the Council's corporate priorities. The strategy integrates financial, social, service delivery, and environmental objectives, offering a comprehensive basis for managing assets. The next review of the AMS presents an opportunity to reduce manual processes—such as spreadsheet-based rent tracking—by adopting digital tools that support a more efficient, proactive, and integrated service. We confirmed that the commercial property schedule for 2025 was available and undergoing updates at the time of audit. The Council maintains a sundry debt policy, reviewed in November 2024, which includes procedures for managing property-related income, and a disposal policy was also in place, having been reviewed in December 2024. Our testing of two recent property disposals confirmed that appropriate approval procedures were followed, in accordance with the disposal policy, with clear supporting documentation in each case. We confirmed the agent used by the service was procured in line with Financial and Procurement Procedure Rules. Appropriate steps were taken to ensure: competitive selection through an RFQ process; legal and financial compliance through IR35 checks; transparency via the Council's contract register. No exceptions or control weaknesses were identified during testing. While void property levels have remained a challenge—particularly following a recently completed new-build hospitality development—this has been influenced by market disruption stemming from COVID-19, changes to planning permissions, and shifts in the hospitality sector. However, progress has been made: tenant agreements have been concluded for some units, and terms are being finalised with a prospective occupier for the remaining vacancy. However, our work has identified several opportunities to strengthen current arrangements. Rent review activity is managed manually via spreadsheets, without central oversight or officer guidance. This approach has contributed to delays, missed opportunities for backdated rent recovery, and can heighten the risk of disputes with tenants. The lack of structured tracking and inconsistent lease monitoring presents a risk to income management.	**Weak**		7	0

Audit	Summary of audit findings	Assurance rating	No of agreed actions		
			High	Medium	Low
	Debt management processes remain fragmented and reactive, with the service reliant on spreadsheets that track invoiced amounts only, excluding receipt of payments. This limits the ability to accurately monitor arrears or conduct meaningful aged debt analysis. Ongoing coordination challenges between Property Services and Finance have contributed to incorrect automated invoicing, inconsistent debt tracking, and a reliance on manual reconciliations. While collaborative efforts are underway to address these issues, continued engagement between teams is essential to improve data accuracy and shared visibility. We found a defective rent review clause in one lease agreement where the RPI-linked uplift was calculated using the same month, resulting in a potential 0% increase. If replicated across other agreements, this presents a material financial risk. In addition, one property sampled had an unclear VAT treatment linked to refurbishment and partial extension works. While this matter has been internally escalated, no formal resolution or documentation was in place at the time of review. Recruitment and retention of permanent, qualified staff remains a challenge, with the service reliant on interim support and external agents. Financial assessments of tenants are outsourced, but no formal performance monitoring of the agent or tenant due diligence processes were evident, which should be addressed. The service has recently begun restructuring cost centres to better align budgets with lease and rent review activity, which represents a positive step towards improving financial reporting. However, operational risk management is limited to three broad risks. Key risks identified during the audit—such as lease compliance, rent review delays, and data integrity—should be reflected in the risk register to support effective oversight and mitigation. In addition, we found that the service is not currently gathering or reporting data on key performance indicators (KPIs) as set out in the AMS. The Strategy requires the Property Review Group to monitor key metrics including rent roll, rent arrears, and the progress of lease renewals and rent reviews. The absence of this data limits the Council's ability to assess performance, identify trends, and support evidence-based decision-making in the management of its commercial estate.				

Audit	Summary of audit findings	Assurance rating	No of agreed actions		
			High	Medium	Low
Budget Setting	Our opinion based on our work is that the service has **Strong** controls in place to manage its risks as they relate to the budget setting process for the Council. We found established arrangements, which were consistently followed in line with the Council's constitutional requirements and the prevailing legislation. A budget timetable is central to the process which suitably sets out key milestones, responsible task owners, progress tracking and which aligns with Committee meetings and publication dates, which our testing confirmed had been met. Controls in place for budget uplifts (inflation) for key areas of salaries and contracts operate effectively and are suitably evidenced in the budget build working papers with calculations subject to appropriate scrutiny and sign off by Strategic Management Team (SMT) and Members. The Head of Finance and Procurement and Director of Resources (and S151 officer) are key to the budget setting process with roles and responsibilities more widely set out in the Council's Constitution. Our work confirmed a good level of liaison with Members throughout the process met through finance sub meetings, group/party facilitated sessions and formal Council meetings at Policy and Resources Committee and full Council. Our survey of budget mangers, which was aimed principally at Heads of Service, to canvass their views on the process and training, overall returned favourable results with the majority (9 of 10 respondents) feeling supported by the finance team in the process. Neutral results were returned by respondent in relation to feeling involved in the process and from training which is highlighted as an advisory recommendation. We confirmed the public consultation exercise was completed in line with the Council's consultation policy statement for the 2025/26 budget process. However, this resulted in a low response rate and we raise an advisory recommendation to consider options to improve engagement. Well-designed processes support the upload of the approved budget into the Council's financial system (Agresso) which ensures totals are automatically reconciled.	**Strong**			

Audit	Summary of audit findings	Assurance rating	No of agreed actions		
			High	Medium	Low
Waste Collection Income	Our opinion based on our audit work is that the service has Sound controls in place to manage its risks as they relate to the garden and bulky waste schemes. We found effective arrangements to be in place via the Council's website and subsequent online forms to guide the public making requests to use the services. The arrangements encompass a high degree of system integration between those of the Council and its Contractor, which include real-time data transfer. This automation extends to the receipt and collection of fees which are payable in advance with the system form enforcing the correct amount is paid. We confirmed that the service regularly monitors the performance of the contractor with clear performance criteria in place, primarily utilising missed collection monitoring (PC1). However, we note the service is currently negotiating the performance criteria relating to bulky waste collections based on the availability of booking slots. Our work identified a gap in controls where there are no arrangements in place to reconcile the income due (from new and renewing subscribers and bulky collection requests) to the income received, to ensure all income due has been received. We have also raised an advisory recommendation to formalise the procedures for issuing refunds and adding credits (extra collections following a missed collection). While our testing confirmed all cases were legitimate, procedure notes will ensure consistency of operation between Customer Services and Environmental Services and provide resiliency to this aspect of the operations.	**Sound**		1	
Licensing – Personal and Premises	We found that the service has sound controls with regards to issuing Personal and Premise licences in line with legislation and local procedures. Our work has demonstrated that the Licensing Policy has been written in accordance with legislation, approved by members and is up to date with a new policy (currently in draft form) due to be approved and published in March 2026. We have found that committees and	**Sound**		1	9

Audit	Summary of audit findings	Assurance rating	No of agreed actions		
			High	Medium	Low
Page 16	subcommittees are appropriately established and supported by suitable legal advice and that the Licensing Officers have clear roles and responsibilities. Staff are suitably experienced and/or qualified to undertake their expected tasks and are well supported with on the job learning and development. We have seen evidence of effective collaborative working to maximise a small team's operating resilience and to share knowledge and best practice. With regards to the processing of licensing applications, our work has confirmed that procedures are broadly followed from the checking, validation of, and the issuance of licences. The team process all applications within advised deadlines. Managing applications, which require public advertising, is undertaken effectively and the representation process for both consultees and members of the public is generally well designed and operating. However, our sample testing showed some instances where crucial validation checks were not always consistently applied or evidenced. A medium priority recommendation and two low priority recommendations have been raised to address these points. Where relevant, we have recommended that procedure notes be updated to provide more comprehensive guidance on these points as well. We found that advertisement of a Public Licence Register needs to be improved and that some minor changes to webpages will help will to increase accessibility and transparency around licensing. We acknowledge that there is already an extensive piece of work underway which will ensure application form uniformity, increased efficiency and better website usability. Our work has verified that managing representations against a licence application is in accordance with legislation and local policy, and that any subsequent hearings are correctly executed as per the Council's Licensing Act 2003 Sub-committee Hearing Procedure. We have found that applicants are being charged the correct fee and applications are only validated on receipt of fees. The Licensing Team operate a robust daily income reconciliation process to correctly identify and allocate payments to the right applications. Sample testing has shown that refunds are justified, the correct forms completed and appropriate authorisation from the Licensing Team Leader sought.				

Audit Committee Meeting	
Meeting Date	21 January 2026
Report Title	Treasury Management Half Year Report 2025/26
EMT Lead	Lisa Fillery, Director of Resources
Head of Service	Claire Stanbury, Head of Finance and Procurement
Lead Officer	Olga Cole, Management Accountant
Classification	**Open**
Recommendations	1. To note the performance information in this report. 2. To note the prudential and treasury management indicators within the report.

1 Purpose of Report and Executive Summary

1.1 The purpose of this report is to review the mid-year position on treasury management transactions for 2025/26, including compliance with treasury limits and Prudential and Treasury Performance Indicators.

1.2 The Treasury Management Strategy is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), which requires the Council to approve, as a minimum, treasury management half-year and annual outturn reports.

1.3 The Council's Treasury Management Strategy for 2025/26 was approved at a meeting on 19 February 2025, and amended as agreed at full council on 1 October 2025. The Council has invested and borrowed 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 risk is therefore central to the Council's Treasury Management Strategy.

1.4 In conclusion the Council reports that all treasury management activity undertaken in the period has complied with its Prudential and Treasury Indicators for 2025/26 which were updated in October 2025 as part of the Council's Treasury Management Strategy Statement. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with Members. The indicators are based on approved commitments and the current budget.

2 Background

2.1 **Economic background:** The first quarter was dominated by the fallout from the US trade tariffs and their impact on equity and bond markets. The second quarter, still rife with uncertainty, saw equity markets making gains and a divergence in US and UK government bond yields, which had been moving relatively closely together.

2.2 From late June, amid a UK backdrop of economic uncertainty, concerns around the government's fiscal position and speculation around the autumn Budget, yields on medium and longer term gilts pushed higher, including the 30-year which hit its highest level for almost 30 years.

2.3 The UK economy expanded by 0.7% in the first quarter of the calendar year and by 0.3% in the second quarter. In the final version of the Q2 2025 GDP report, annual growth was revised upwards to 1.4% y/y. However, monthly figures showed zero growth in July, in line with expectations, indicating a sluggish start to Q3.

2.4 Labour market data continued to soften throughout the period, with the unemployment rate rising and earnings growth easing, but probably not to an extent that would make the more hawkish MPC members comfortable with further rate cuts. In addition, the employment rate rose while the economic inactivity rate and number of vacancies fell.

2.5 The BoE's Monetary Policy Committee (MPC) cut Bank Rate from 4.5% to 4.25% in May and to 4.0% in August after an unprecedented second round of voting. The final 5-4 vote was for a 25bps cut, with the minority wanting no change. In September, seven MPC members voted to hold rates while two preferred a 25bps cut. The Committee's views still differ on whether the upside risks from inflation expectations and wage setting outweigh downside risks from weaker demand and growth.

2.6 The August BoE Monetary Policy Report highlighted that after peaking in Q3 2025, inflation is projected to fall back to target by mid-2027, helped by increasing spare capacity in the economy and the ongoing effects from past tighter policy rates. GDP is expected to remain weak in the near-term while over the medium term outlook will be influenced by domestic and global developments.

2.7 Arlingclose, the Council's treasury adviser, maintained its central view that Bank Rate would be cut further as the BoE focused on weak GDP growth more than higher inflation. One more cut is currently expected during 2025/26, taking Bank Rate to 3.75%. The risks to the forecast are balanced in the near-term but weighted to the downside further out as weak consumer sentiment and business confidence and investment continue to constrain growth. There is also considerable uncertainty around the autumn Budget and the impact this will have on the outlook.

2.8 Arlingclose's Economic Outlook for the remainder of 2024/25 (based on 10th November 2025 interest rate forecast).

	Current	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Official Bank Rate												
Upside risk	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Central Case	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

We expect to see another rate cut in December 2025 to 3.75%.

2.9 **Financial markets**: After the sharp declines seen early in the period, sentiment in financial markets improved, but risky assets have generally remained volatile. Early in the period bond yields fell, but ongoing uncertainty, particularly in the UK, has seen medium and longer yields rise with bond investors requiring an increasingly higher return against the perceived elevated risk of UK plc. Since the sell-off in April, equity markets have gained back the previous declines, with investors continuing to remain bullish in the face of ongoing uncertainty.

2.10 Over the period, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.70%. However, these six months saw significant volatility with the 10-year yield hitting a low of 4.45% and a high of 4.82%. It was a broadly similar picture for the 20-year gilt which started at 5.18% and ended at 5.39% with a low and high of 5.10% and 5.55% respectively. The Sterling Overnight Rate (SONIA) averaged 4.19% over the six months to 30th September.

2.11 **Credit review:** Arlingclose maintained its recommended maximum unsecured duration limit on the majority of the banks on its counterparty list at 6 months. The other banks remain on 100 days.

2.12 Early in the period, Fitch upgraded NatWest Group and related entities to AA- from A+ and placed Clydesdale Bank's long-term A- rating on Rating Watch Positive. While Moody's downgraded the long term rating on the United States sovereign to Aa1 in May and also affirmed OP Corporate's rating at Aa3.

2.13 Then in the second quarter, Fitch upgraded Clydesdale Bank and also HSBC, downgraded Lancashire CC and Close Brothers while Moody's upgraded Transport for London, Allied Irish Banks, Bank of Ireland and Toronto-Dominion Bank.

2.14 After spiking in early April following the US trade tariff announcements, UK credit default swap prices have since generally trended downwards and ended the period at levels broadly in line with those in the first quarter of the calendar year and throughout most of 2025.

2.15 Financial market volatility is expected to remain a feature, at least in the near term and credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remain under constant review.

<u>Borrowing Strategy and Activity</u>

2.16 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Council has no plans to borrow to invest primarily for financial return.

2.17 As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriate risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

2.18 After substantial rises in interest rates since 2021 central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields however have increased over the H1 period amid concerns about inflation, the UK government's fiscal position and general economic uncertainty.

2.19 The PWLB certainty rate for 10-year maturity loans was 5.38% at the beginning of the period and 5.53% at the end. The lowest available 10-year maturity certainty rate was 5.17% and the highest was 5.62%. Rates for 20-year maturity loans ranged from 5.71% to 6.30% during the period, and 50-year maturity loans from 5.46% to 6.14%. The cost of short-term borrowing from other local authorities has been similar to Base Rate during the period at 4.0% to 4.5%.

2.20 On 1 April 2025, the Council had loans totalling £13m. On 30 September 2025, the Council's external borrowing stood at £12m and further details can be found within appendix I below. The average rate on the Council's short-term loans at 30th September 2025 4.63%, this compares with 5.04% on £18m loans 3 months ago.

Counterparty	**Start Date**	**Maturity Date**	**Rate**	**Principal Outstanding (£)**
Spelthorne Borough Council	02/04/25	02/04/26	4.80%	2,000,000
Tamworth Borough Council	10/04/25	10/04/26	4.82%	3,000,000
Ashfield District Council	07/05/25	07/05/26	4.80%	3,000,000
Ashfield District Council	08/07/25	08/07/26	4.28%	2,000,000
Amber Valley Borough Council	01/09/25	01/09/26	4.25%	2,000,000
Total Borrowing				**12,000,000**

Investments

2.21 The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown. These counterparties were agreed by Policy and Resources Committee and Council earlier this year when the 2025/26 Treasury Strategy was approved.

Counterparty	Time Limit	Cash Limit
The UK Government	50 years	Unlimited
Local Authorities and other government entities	25 years	£3m
Major UK banks / building societies unsecured deposits*	13 months	£3m
Money Market Funds*	n/a	£3m each
Strategic Pooled Funds	n/a	£3m each
CCLA Property Fund	n/a	£3m
Registered providers (unsecured) *	5 years	£3m in aggregate
Secured Investments *	25 years	£3m in aggregate
Other Investments *	5 years	£3m in aggregate
Non treasury investments	As per credit advice	To be agreed on a case by case basis

* **Minimum credit rating**: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. 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.

**These funds have no defined maturity dates but are available for withdrawal after a notice period.

2.22 The Council holds significant investment funds, representing income received in advance of expenditure plus balances and reserves held. During the six months to 30 September 2025 the Council held average daily cash balance of £16.0m (£19.8m September 2024).

2.23 The Council's budgeted investment income for the six months to 30 September 2025 was £338k (£263k September 2024) and the actual income received was £464k (£645k September 2024), of which £63k (£72k September 2024) was from the Council's long-term investment in the Church, Charities and Local Authorities (CCLA) Mutual Investment Property Fund.

2.24 The results for the six months to 30 September 2025 show that the Council achieved 0.82% average return above the average Sterling Overnight Index Average (SONIA) and 0.79% average return rate above the average Bank of England Base Rate.

2.25 The Council has £3m invested in an externally managed property fund which is the CCLA property fund which generated an average total return of 4.26%, comprising of a £63k (4.26%, £72k September 2024) income return. Since this fund has no defined maturity date but is available for withdrawal after a notice period, its performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Considering its performance and the Council's latest cash flow forecasts, investment in this fund has been maintained.

2.26 **Statutory override:** Further to consultations in April 2023 and December 2024 MHCLG wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. On the assumption that when published regulations follow this policy announcement, the statutory override will be extended up until the 1st April 2029 for investments already in place before 1st April 2024. The override will not apply to any new investments taken out on or after 1st April 2024. The Council has set up a reserve of £350k to mitigate the impact of the statutory override not being extended. In view of the fact that the override may not be extended past 2029 the Council has decided to maintain this reserve. The Council's pooled fund investment was taken out prior to 1 April 2024, so should be subject to the extended override.

Compliance with Prudential Indicators

2.27 The Head of Finance and Procurement reports that all treasury management activity undertaken in the period has complied with its Prudential Indicators for 2025/26 which were set in February 2025 and amended in October 2025 as part of the Council's Treasury Management Strategy. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with Members. The indicators are based on approved commitments and the current budget.

2.28 Prudential and Treasury Management Indicators are set out in Appendix II.

3 Proposals

3.1 No changes are proposed at this stage.

4 Alternative Options Considered and Rejected

4.1 The Head of Finance and Procurement will consider changes to the counterparty criteria with reference to the Council's agreed policy with regard to risk.

5 Consultation Undertaken or Proposed

5.1 Consultation has been undertaken with the Council's treasury management consultants Arlingclose.

6 Implications

Issue	Implications
Corporate Plan	Supports delivery of the Council's objectives.

Financial, Resource and Property	As detailed in the report.
Legal, Statutory and Procurement	CIPFA produce a framework for managing treasury activities, called a 'Code'. Councils are legally required to have regard to this Code and members of CIPFA are expected to comply with its requirements. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.
Crime and Disorder	Following CIPFA's Treasury Management Code of Practice is important to avoid involvement in potential fraud or money laundering.
Environment and Climate/Ecological Emergency	The Council does not own any shares or corporate bonds so there are no ethical investment considerations to be met.
Health and Wellbeing	Not relevant to this report.
Safeguarding of Children, Young People and Vulnerable Adults	Not relevant to this report.
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice. The principle of security of funds over-rides investment performance.
Equality and Diversity	Not relevant to this report.
Privacy and Data Protection	Not relevant to this report.
Local Government Reorganisation	Not relevant to this report.

7 Appendices

7.1 The following documents are to be published with this report and form part of the report.

- Appendix I: Investments and Borrowing as at 30 September 2025
- Appendix II: Prudential and Treasury Management Indicators

8 Background Papers

8.1 Treasury management strategy as approved at full council on 19 February 2025, and amended treasury management strategy as approved at full council on 1 October 2025.

Investments and Borrowings as at 30 September 2025

Counterparty	Long-Term Rating	Balance Invested & Borrowed at 30 September 2025 £'000
Money Market Funds		
Invesco Money Market Fund	AAAmmf	3,000
Aberdeen Money Market Fund	AAAmmf	3,000
Black Rock Money Market Fund	AAAmmf	3,000
Morgan Stanley Money Market Fund	AAAmmf	3,000
SSGA Money Market Fund	AAAmmf	290
Deutsche Money Market Fund	AAAmmf	3,000
Goldman Sachs MMF	AAAmmf	3,000
CCLA Property Fund		3,000
Total Fixed Term Deposits, Money Market and Property Funds		**21,290**
TOTAL INVESTMENTS	**Maturity Date**	**£'000**
Ashfield District Council	08/07/2026	(2,000)
Ashfield District Council	07/05/2026	(3,000)
Amber Valley Borough Council	01/09/2026	(2,000)
Tamworth Borough Council	10/04/2026	(3,000)
Spelthorne Borough Council	02/04/2026	(2,000)
TOTAL BORROWING		**(12,000)**

The Ratings above are from Fitch credit rating agency. The Long-Term Rating is the benchmark measure of probability of default. These ratings are shown for illustrative purposes only, as the Council uses the lowest rating across three agencies on which to base its decisions.

AAAmmf: Fund has very strong ability to meet the dual objective of providing liquidity and preserving capital.

Investment Activity in 2025/26

Investments	Balance on 01/04/2025 £'000	Investments Made £'000	Investments Repaid £'000	Balance on 30/09/2025 £'000	Average Rate %
Short Term Investments and Cash and Cash Equivalents	7,910	120,376	(109,996)	18,290	5.01
Pooled Property Fund	3,000	0	0	3,000	4.26
TOTAL INVESTMENTS	**10,910**	**120,376**	**(109,996)**	**21,290**	

Borrowing Activity in 2025/26

Borrowing	Balance on 01/04/2025 £'000	Borrowing Made £'000	Borrowing Repaid £'000	Balance on 30/09/2025 £'000	Average Rate %
External Borrowing	13,000	12,000	**(13,000)**	12,000	4.63
Total Borrowing	**13,000**	**12,000**	**(13,000)**	**12,000**	

Non-Treasury Investments

The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and/or for commercial purposes (made primarily for financial return).

As at 31 March 2025 the Council held £3.984 million of a longstanding portfolio of 11 investment properties within the borough (£3.896m March 2024). These investments generated £254,000 of investment income for the Council in 2024/25 after taking account of direct costs, representing a rate of return of 6.38% (5.7% March 2024).

Appendix II

1. Background

As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

2. Gross Debt and the Capital Financing Requirement (CFR)

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

Capital Financing Requirement	**2024/25 Actual**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Capital Financing Requirements	62,654	74,800	80,500	80,300
External Borrowing	(13,000)	(37,500)	(48,000)	(50,500)
Cumulative External Borrowing Requirements	**49,654**	**37,300**	**32,500**	**29,800**

External Borrowing: as at 30 September 2025 the Council had £12 million of external borrowing – please see Appendix I for further details.

3. Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure and Financing	**2024/25 Actual £'000**	**2025/26 Original Estimate £'000**	**2026/27 Original Estimate £'000**	**2027/28 Original Estimate £'000**
Total Expenditure	**16,827**	**21,626**	**4,935**	**2,745**
Source of Funding				
Capital grants and other contributions	7,765	13,616	2,725	2,725
Reserves	130	210	210	20
Borrowing	8,932	7,800	2,000	0
Total Financing	**16,827**	**21,626**	**4,935**	**2,745**

4. Proportion of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Financing costs (£'000)	2,376	2,441	2,773	2,771
Total	7.61%	9.10%	10.07%	9.90%

5. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 30 September 2025	**£'000**
Borrowing	12,000
Other Long-term Liabilities	3,169
Total	**15,169**

6. Authorised Limit and Operational Boundary for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long- and short-term borrowing, overdrawn bank balances and long-term liabilities). This Prudential Indicator separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management strategy and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2025/26 Limit £'000	30/09/2025 Actual Debt £'000	Complied
Borrowing	55,000	12,000	✓
Other Long-term Liabilities	9,000	3,169	✓
Total	**64,000**	**15,169**	**✓**

The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst-case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary	2025/26 Boundary £'000	30/09/2025 Actual Debt £'000	Complied
Borrowing	45,000	12,000	✓
Other Long-term Liabilities	5,000	3,169	✓
Total Debt	**50,000**	**15,169**	**✓**

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

The Head of Finance and Procurement confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30 September 2025.

7. Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

Upper Limit for Interest Rate Exposure	Actual level at 30/09/25	2025/26 Approved Limit	Complied
Interest on fixed rate borrowing	100%	100%	✓
Interest on fixed rate investments	-0%	-100%	✓
Interest on variable rate borrowing	0%	100%	✓
Interest on variable rate investments	-100%	-100%	✓

8. Maturity Structure of Borrowing

This indicator is set to control the Council’s exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were.

Maturity structure of borrowing	Existing level at 30/09/25 %	Lower Limit for 2025/26 %	Upper Limit for 2025/26 %	Complied
Under 12 months	100	0	100	✓
12 months and within 24 months	0	0	100	✓
24 months and within 5 years	0	0	100	✓
5 years and within 10 years	0	0	100	✓
10 years and above	0	0	100	✓

9. Credit Risk

The Council considers security, liquidity and yield, in that order, when making investment decisions. Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council’s assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- sovereign support mechanisms;
- credit default swaps (where quoted);
- share prices (where available);
- economic fundamentals, such as a country's net debt as a percentage of its GDP;
- corporate developments, news, articles, markets sentiment and momentum; and
- subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

The Head of Finance and Procurement confirms that there were no breaches to counterparty limits or credit ratings at the time of placing investments.

10. Long-term Treasury Management Investments

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 prudential limits on the long-term treasury management limits are:

	2024/25 £'000	2025/26 £'000	2026/27 £'000	No fixed date £'000
Limit on principal invested beyond year end	10,000	10,000	10,000	10,000
Actual principal invested beyond year end	0	0	0	3,000
Complied?	✓	✓	✓	✓

11. Investment Benchmarking for the six months to 30 September 2025

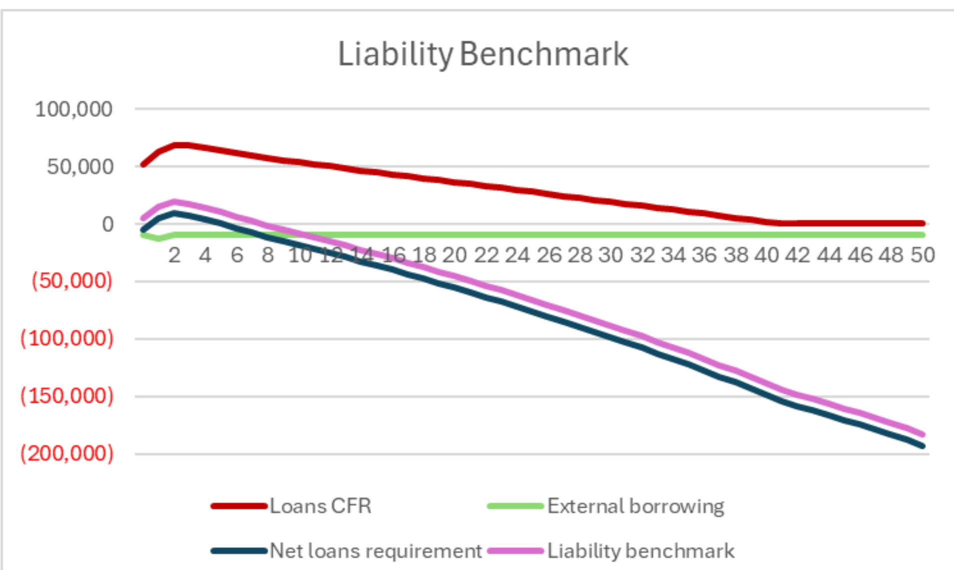
Average Actual Return on Investments	Original Estimate Return on Investments	Average Bank Base Rate	Average Overnight SONIA Rate
5.01%	4.42%	4.23%	4.19%

12. Liability Benchmark

This indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making.

	31.3.25 Actual £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m	31.3.29 Forecast £m
Loans CFR	62.7	68.4	68.1	65.9	63.6
Less: Balance sheet resources	(57.5)	(58.9)	(60.4)	(61.9)	(63.5)
Net loans requirement	**5.2**	**9.5**	**7.7**	**4.0**	**0.1**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	**15.2**	**19.5**	**17.7**	**14.0**	**10.1**

The long-term liability benchmark above assumes capital expenditure funded by borrowing, minimum revenue provision on new capital expenditure based on income, expenditure and reserves all increasing by inflation and appropriate asset life values (8 years for waste vehicles, 50 years for all other assets).



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Audit Committee	
Meeting Date	21 January 2026
Report Title	**Treasury Management Strategy 2026/27**
EMT Lead	Lisa Fillery, Director of Resources
Head of Service	Claire Stanbury, Head of Finance and Procurement
Lead Officer	Claire Stanbury, Head of Finance and Procurement Olga Cole, Management Accountant
Classification	Open
Recommendations	1. That Full Council approve the Treasury Management Strategy 2026/27 and the Prudential and Treasury Management Indicators.

1. Purpose of Report and Executive Summary

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

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

2. External Context

2.1 **Economic background:** The most significant impacts on the Council's treasury management strategy for 2026/27 are expected to include: the influence of the government's 2025 Autumn Budget, lower short-term interest rates alongside higher medium- and longer-term rates, slower economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and geopolitical issues.

2.2 The Bank of England's Monetary Policy Committee (MPC) cut Bank Rate to 3.75% in December 2025, as expected. The vote to cut was 5-4, with the minority instead favouring holding rates at 4.0%. Those members wanting a cut judged that disinflation was established while those preferring to hold Bank Rate argued that inflation risks remained sufficiently material to leave rates untouched at this stage.

2.3 Figures from the Office for National Statistics showed that the UK economy expanded by 0.1% in the third quarter of the calendar year, this was unrevised from the initial estimate. The most recent Monetary Policy Report (November) projected modest economic growth, with GDP expected to rise by 0.2% in the final calendar quarter of 2025. Annual growth is forecast to ease from 1.4% before improving again later, reflecting the delayed effects of lower interest rates, looser monetary conditions, stronger global activity, and higher consumer spending. The view of modest economic growth going forward was echoed by the Office for Budget Responsibility in its Economic and fiscal outlook published in line with the Autumn Statement which revised down its estimate of annual real GDP to around 1.5% on average between 2025 and 2030.

2.4 CPI inflation was 3.2% in November 2025, down from 3.6% in the previous month and below the 3.5% expected. Core CPI eased to 3.2% from 3.4%, contrary to forecasts of remaining at 3.6%. Looking forward, the MPC continues to expect inflation to fall, to around 3% in calendar Q1 2026, before steadily returning to the 2% target by late 2026 or early 2027.

2.5 The labour market continues to ease with rising unemployment, falling vacancies and flat inactivity. In the three months to October 2025, the unemployment rate increased to 5.1%, higher than the level previously expected by the BoE, while the employment rate slipped to 74.9%. Pay growth for the same period eased modestly, with total earnings (including bonuses) growth at 4.7% while regular pay was 4.6%.

2.6 **Credit outlook:** Credit Default Swap (CDS) prices, which spiked in April 2025 following President Trump's 'Liberation Day' tariff announcements, have since trended lower, returning to levels broadly consistent with their 2024 averages. Although CDS prices rose modestly during October and November, the overall credit outlook remains stable, and credit conditions are expected to remain close to the range seen over the past two years**.**

2.7 While lower interest rates may weigh on banks' profitability, strong capital positions, easing inflation, steady economic growth, low unemployment, and reduced borrowing costs for households and businesses all support a favourable outlook for the creditworthiness of institutions on the council's treasury management advisor's (Arlingclose) counterparty list. Arlingclose's advice on approved counterparties and recommended investment durations is kept under continuous review and will continue to reflect prevailing economic and credit conditions.

3. Background

Interest Rate Forecast and Market Outlook

3.1 **Interest rate forecast (22nd December 2025):** Arlingclose, the Council's treasury management adviser, currently forecasts that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate in 2026, reaching around 3.25%. This forecast reflects amendments made following the Autumn Budget and an assessment of the fiscal measures and their market implications, and following the BoE MPC meeting held on 18th December.

3.2 Long-term gilt yields, and therefore interest rates payable on long-term borrowing, are expected to remain broadly stable on average, though with continued volatility, and to end the forecast period marginally lower than current levels. Yields are likely to stay higher than in the pre-quantitative tightening era, reflecting ongoing balance sheet reduction and elevated bond issuance. Short-term fluctuations are expected to persist in response to economic data releases and geopolitical developments.

	Current	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

3.3 For the purpose of setting the 2026/27 budget, it has been assumed that new treasury investments will be made at an average rate of 3.38%, and that new short-term loans will be borrowed at an average rate of 4.50%.

3.4 Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then an assessment of savings will be made with a view to transferring an appropriate amount to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years, or to smooth the impact of investment valuation losses. Transfers to reserves will be brought before the Policy and Resources Committee for approval.

Borrowing Strategy

3.5 **Objective**: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of 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.

3.6 The Council currently holds £12 million of loans, as part of its strategy for funding previous years' capital programmes. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £74 million.

3.7 **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. Short-term interest rates have fallen over the past year, and are expected to fall a little further, and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping the Council's interest rate exposure within the limit set in the treasury management prudential indicators, see below.

3.8 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/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. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2026/27 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

3.9 The Council may also consider forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a "cost of carry" in the intervening period. In addition, the Council may borrow further short-term loans to cover unplanned cash flow shortages.

3.10 **Sources of Borrowing**: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB Lending facility (formerly the Public Works Loan Board)
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- Any institution approved for investments
- Any bank, building society or insurance company authorised to operate in the UK
- Any other UK public sector body
- UK public and private sector pension funds (except the Kent Pension Fund)
- Capital market bond investors
- Retail investors via a regulated peer-to-peer platform
- Special purpose companies created to enable local authority bond issues.

3.11 **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
- Similar Asset Based Finance

3.12 The Council has the following loans outstanding:

Counterparty	Start Date	Maturity Date	Rate	Principal Outstanding £
Spelthorne Borough Council	02/04/25	02/04/26	4.80%	2,000,000
Tamworth Borough Council	10/04/25	10/04/26	4.82%	3,000,000
Ashfield District Council	07/05/25	07/05/26	4.80%	3,000,000
Ashfield District Council	08/07/25	08/07/26	4.28%	2,000,000
Amber Valley Borough Council	01/09/25	01/09/26	4.25%	2,000,000
Total Borrowing				**12,000,000**

Capital Programme

3.13 The capital program contains a number of projects that will need to be funded from borrowing. The anticipated breakdown of capital funding is detailed in Appendix I. The Director of Resources has delegation to make borrowing decisions as and when required to ensure best value is obtained and risks are minimised.

3.14 **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 (see information below).

3.15 **Debt rescheduling**: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount 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. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years. As we currently do not have any long-term loans, this is unlikely to be applicable to 2026-27.

Treasury Investment Strategy

3.16 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council’s investment balance has ranged between £9.7 and £34 million, with an average balance of £22.6 million, and levels are expected to be maintained in the forthcoming year.

3.17 **Objectives**: The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. 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. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

3.18 The Council largely uses Money Market Funds and the Debt Management office for short-term investments. The only long-term investment remains the £3 million in the Church, Charities and Local Authorities (CCLA) Property Fund.

3.19 **Strategy**: As demonstrated by the liability benchmark below, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

3.20 The CIPFA Code doesn't permit local authorities to both borrow and invest long-term for cash flow management. But the Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

3.21 **Environmental, Social and Governance Policy (ESG):** ESG considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

3.22 **Governance**: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Finance and Procurement and staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury management activity are presented to the Audit Committee. The Audit Committee is responsible for scrutinising treasury management decisions.

3.23 **Business models:** Under the International Financial Reporting Standard (IFRS) 9 the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its 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.

3.24 **Approved Counterparties:** The Council could make use of the following counterparties for both Treasury and Non Treasury investments, with applicable limits set out in paragraph 4.1 of this report:

Treasury Investments	
UK Government	Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years
Local Authorities and other Government entities	Loans to, and bonds and bills issued or guaranteed by, other 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 The counterparty limit for loans to local authorities will be increased to an unlimited amount where (a) the government has announced that this Council will merge with the borrowing council and (b) the loan is scheduled to be repaid after the expected date of the merger.
Secured investments	Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits, and reverse repurchase agreements with banks and building societies 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. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments. A higher limit applies for investments fully secured on UK or other government collateral.
Banks and Building Societies (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.
Registered Providers (unsecured)	Loans to, and bonds issued or guaranteed by, registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing in England. As providers of public services, they retain the likelihood of receiving government support if needed.
Money Market Funds	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.

Strategic Pooled Funds	Bond, equity and property funds, including exchange traded funds, that 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, but can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
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.
Other Investments	This category covers treasury investments not listed above, for example unsecured corporate bonds and unsecured loans to companies and universities. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.
Operational Bank Accounts	The Council may incur operational exposures, for example through 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. 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.
Non-Treasury Investments	
Non-Treasury Investments	The Council invests in property in the borough and will, where there are opportunities, consider further investment, where this is primarily related to the functions of the Council such as service delivery and regeneration. However, the Council will not borrow to invest primarily for financial return.

3.25 The Council will retain the CCLA property fund and keep the remaining monies primarily in Money Market Funds and the Debt Management Account Deposit Facility (DMADF) (an investment facility operated by the UK Government) or other counterparties in table 4.1. The Head of Finance and Procurement does not believe that investing in equity or bond funds is advisable at the current time, given equity market valuations and the impact on bond investments. This will be reviewed as market conditions develop.

3.26 Currently the Council makes no direct investments in equities or corporate bonds. If this changed in the year the Head of Finance and Procurement will ensure that investments are consistent with the Council's health and climate change objectives.

3.27 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.

3.28 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) 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.

3.29 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 may meet the credit rating criteria.

3.30 The Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

3.31 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, 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, or with other local authorities. This will cause investment returns to fall, but will protect the principal sum invested.

3.32 The Council currently has the following Investments:

Counterparty	**Average Rate %**	**Balance Invested at 31 December 2025 £’000**
Aberdeen Standard Money Market Fund	4.75	3,000
Black Rock Money Market Fund	3.87	3,000
DWS (Deutsche) Money Market Fund	3.80	2,678
Goldman Sachs Money Market Fund	3.84	2,150
Invesco Money Market Fund	3.90	3,000
Morgan Stanley Money Market Fund	3.84	3,000
State Street MMF	3.82	3,000
CCLA Property Fund	4.26	3,000
Total Investments		**22,828**

3.33 The definition of investments in CIPFA’s revised Codes now covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial return.

3.34 The Council has not made, and will not make, any direct commercial investments outside of the Borough. Capital funds will be used for the benefit of local residents.

3.35 At 31 March 2025 the Council held £3.984 million of longstanding investments in 11 directly owned properties within the borough. These investments generated £254,000 of investment income for the Council in 2024/25 after taking account of direct costs, representing a rate of return of 6.38%. No significant change in this Investment is anticipated in 2026/27.

3.36 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments carry similar risks to the Council and are included here for completeness.

3.37 The loans made by the Council are shown below:

	31 March 2025 £’000
Housing repair loans	1,598
Rent Deposit Scheme	290
Opportunities for Sittingbourne Limited	118
Other debtors	44
Total	**2,050**

3.38 The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, a loss allowance is calculated for each debt reflecting the statistical likelihood that the debtor will be unable to meet their contractual commitments to the Council, which for 2024/25 was £201,000. The loss allowance has been calculated by reference to the Council’s historic experience of default. In addition, to mitigate risk, all debts have to be managed in accordance with the Council’s Financial Regulations.

3.39 The most significant loans shown are the Housing Repair Loans which are loans for private sector housing home adaptations – landlords and owner-occupiers can apply for a loan for adaptations that will enable them to stay in their own homes. The risk relating to these loans is low as they are a charge of the property and are repayable when a property is sold.

4. Proposal

4.1 **Approved counterparties**: The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Counterparty	**Time Limit**	**Cash Limits**
The UK Government	50 years	Unlimited
Local Authorities and other government entities	25 years	£3m
Secured Investments – government collateral	25 years	£3m in aggregate
Secured Investments – other collateral *	10 years	£3m in aggregate
Banks / Building Societies unsecured deposits*	13 months	£3m
Registered providers (unsecured) *	5 years	£3m in aggregate
Money Market Funds*	n/a	£4m each
Strategic Pooled Funds	n/a	£3m each
CCLA Property Fund	n/a	£3m
Other Investments *	5 years	£3m in aggregate
Non treasury investments	As per credit advice	To be agreed on a case by case basis

This table must be read in conjunction with the notes below, and the details in the table in paragraph 3.24 of this report.

Time limits: These start on the earlier of date that the Council is committed to make the investment and the date that cash is transferred to the counterparty

* **Minimum credit rating**: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. 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.

4.2 The Director of Resources in consultation with the Chair of Policy and Resources committee may consider longer duration depending on market conditions.

4.3 The Council may also purchase property for investment purposes, but the Council will not borrow to invest primarily for financial return. The Council may also make loans and investments for service purposes, for example in shared ownership housing, as loans to local businesses and landlords, or as equity investments and loans to the Council's owned companies, in line with existing policies and where there is a sound business case.

4.4 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.

4.5 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

4.6 The Head of Finance and Procurement ensures that any commercial deals meet the regulatory requirements and the CIPFA prudential framework.

4.7 The Council has retained its professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it 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 Head of Finance and Procurement believes this to be the most appropriate status.

Treasury Adviser

4.8 The Council has appointed Arlingclose Limited as its treasury management adviser and receives specific advice on investment, debt and capital finance issues. Officers meet with Arlingclose on a quarterly basis, receive information daily and attend relevant training courses.

4.9 The day-to-day treasury management activity is undertaken on the Council's behalf by Kent County Council's Treasury & Investments team to the criteria set out in this report. This has been particularly beneficial in using their relationships to obtain the low-cost loans from other Councils.

5. Alternative Options

5.1 The Strategy is intended to give flexibility with regard to borrowing and investment options.

5.2 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Resources believes that the above Strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Alternative	Impact on income and expenditure	Impact on risk management
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however, long-term interest costs may be less certain

6. Consultation Undertaken or Proposed

6.1 Consultation has been undertaken with Arlingclose, the Council's treasury advisors.

7. Implications

Issue	Implications
Corporate Plan	Good management of the Council's cash balances assists the overall financial position of the Council and this helps to meet the Corporate Plan priority of Running the Council.
Financial, Resource and Property	The budget for net borrowing costs in 2026/27 is £99,000.
Legal, Statutory and Procurement	Government and CIPFA requirements complied with.
Crime and Disorder	Not applicable
Environment and Climate/Ecological Emergency	Not applicable
Health and Wellbeing	Not applicable
Safeguarding of Children, Young People and Vulnerable Adults	Not applicable
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice and Cross-Sectoral Guidance Notes. The principle of security of funds over-rides investment performance considerations.

Issue	Implications
Equality and Diversity	Not applicable
Privacy and Data Protection	Not applicable
Local Government Reorganisation	No anticipated impact for 2026/27.

8. Appendices

8.1 The following appendices are published with this report and form part of the report.

- Appendix I Treasury Management and Prudential Indicators

9. Background Papers

None

Acronyms Used:

BoE	The Bank of England
CCLA	Church, Charities and Local Authorities
CFR	Capital Financing Requirement
CIPFA	The Chartered Institute of Public Finance and Accountancy
DMADF	Debt Management Account Deposit Facility
MHCLG	Ministry of Housing, Communities and Local Government
PWLB	Public Works Loan Board

Treasury Management & Prudential Indicators

Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Gross Debt and the Capital Financing Requirement (CFR)

This is a key indicator of prudence. Statutory guidance states that external debt should not exceed the capital financing requirement in the previous year plus the estimates of any increase in the CFR at the end of the current year and the next two years. The table below demonstrates that the Council is complying with this aspect of the Prudential Code.

Gross Debt and the Capital Financing Requirement	**2024/25 Actual**	**2025/26 Revised**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Financing Requirements	62,654	74,800	80,500	80,300	80,300
Gross External Debt (incl leases)	(13,000)	(37,500)	(48,000)	(50,500)	(50,500)
Internal Borrowing	**49,654**	**37,300**	**32,500**	**29,800**	**29,800**

Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax. (See Capital Programme in 2026/27 Budget Report to Policy and Resources Committee.)

Capital Expenditure and Financing	**2024/25 Actual**	**2025/26 Revised**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Total Expenditure	**16,827**	**21,798**	**31,410**	**3,415**	**4,319**
Grants	7,765	18,472	7,686	3,395	4,185
Capital receipts	0	515	0	0	0
Reserves	130	871	1,308	20	20
Borrowing	8,932	1,940	22,234	0	114
Total Financing	**16,827**	**21,798**	**31,410**	**3,415**	**4,319**

Treasury Management & Prudential Indicators

Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Financing costs (£'000)	2,376	2,778	2,534	2,940	2,939
Total	7.61%	10.69%	8.58%	9.99%	9.97%

Authorised Limit for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e., not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e., long and short-term borrowing, overdrawn bank balances and long-term liabilities). This Prudential Indictor separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst-case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2025/26 Revised £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Borrowing	55,000	65,000	67,500	67,500
Other long-term liabilities	9,000	9,000	9,000	9,000
Total	**64,000**	**74,000**	**76,500**	**76,500**

Treasury Management & Prudential Indicators

Operational Boundary for External Debt

The operational boundary is based on the Council's estimate of most likely (i.e., prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2025/26 Revised £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Borrowing	45,000	55,000	57,000	57,000
Other long-term liabilities	5,000	5,000	5,000	5,000
Total Operational Boundary	**50,000**	**60,000**	**62,000**	**62,000**

Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

Upper Limit for Interest Rate Exposure	Actual level at 30/09/25	2026/27 Approved Limit
Interest on fixed rate borrowing	100%	100%
Interest on fixed rate investments	-0%	-100%
Interest on variable rate borrowing	0%	100%
Interest on variable rate investments	-100%	-100%

Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Maturity Structure of Borrowing	Lower Limit for 2026/27 %	Upper Limit for 2026/27 %
Under 12 months	0	100
12 months and within 24 months	0	100
24 months and within 5 years	0	100
5 years and within 10 years	0	100
10 years and above	0	100

Time period starts on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Treasury Management & Prudential Indicators

Long-term treasury management investments

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 prudential limits on the long-term treasury management investments will be:

Price Risk Indicator	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000	No Fixed Date £'000
Limit on principal invested longer than 1 year	10,000	10,000	10,000	10,000

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts as these are considered short-term.

Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

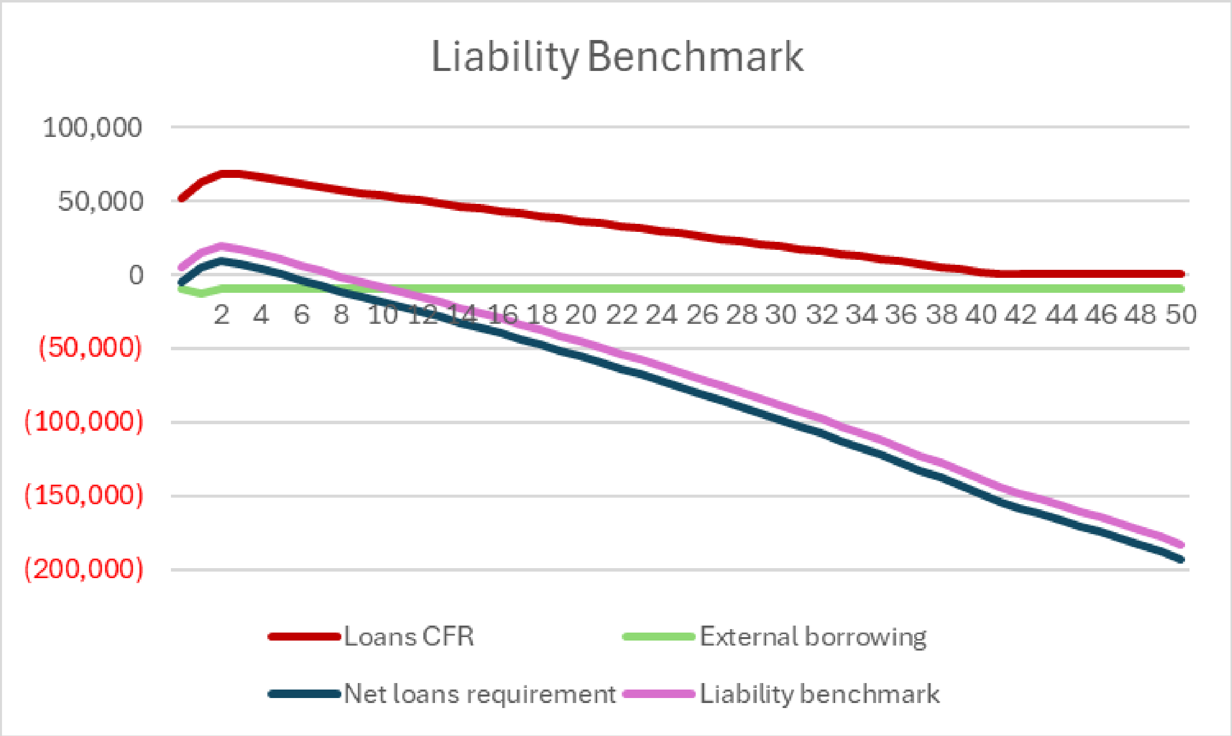
The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Prudential Indicator: Liability benchmark

	31.3.25 Actual £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m	31.3.29 Forecast £m
Loans CFR	62.7	68.4	68.1	65.9	63.6
Less: Balance sheet resources	(57.5)	(58.9)	(60.4)	(61.9)	(63.5)
Net loans requirement	**5.2**	**9.5**	**7.7**	**4.0**	**0.1**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	**15.2**	**19.5**	**17.7**	**14.0**	**10.1**

The long-term liability benchmark above assumes capital expenditure funded by borrowing, minimum revenue provision on new capital expenditure based on income, expenditure and reserves all increasing by inflation and appropriate asset life values (8 years for waste vehicles, 50 years for all other assets).

Treasury Management & Prudential Indicators



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Audit Committee Meeting	
Meeting Date	21 January 2026
Report Title	External Audit Progress Report
EMT Lead	Lisa Fillery Director of Resources
Head of Service	Claire Stanbury Head of Finance and Procurement
Lead Officer	
Classification	**Open**
Recommendations	1. To note the External Audit Progress Report

1 Purpose of Report and Executive Summary

1.1 This report from Grant Thornton, our external auditors provides an update on the audit position for the audit of the 2025-26 financial statements

2 Background, Context and Proposals

2.1 The annual external audit of the council's financial statement and assessment of value for money is scheduled to take place from July and September 2026, with planning and early field work taking place in February and March 2026.

2.2 Following feedback provided on the 2024-25 audit process, the team at Grant Thornton are planning to enhance their approach to the 2025-26 audit.

3 Recommendations

3.1 To note the progress of the audit planned for 2025-26

4 Alternative Options Considered and Rejected

4.1 Given the statutory nature of the external audit process, there are no options proposed as an alternative to noting this progress report.

5 Implications

Issue	Implications
Corporate Plan	Good financial management and reporting is key to supporting the Corporate Plan objectives.
Financial, Resource and Property	The delivery of the external audit enables the audit team to provide the audit opinion and provide recommendations to support the ongoing good financial governance of the council.
Legal, Statutory and Procurement	The production and subsequent audit of the financial statements is a legal requirement under the 2015 Accounts and Audit regulations.
Crime and Disorder	No direct issues
Environment and Climate/Ecological Emergency	No direct issues
Health and Wellbeing	No direct issues
Safeguarding of Children, Young People and Vulnerable Adults	No direct issues
Risk Management and Health and Safety	No direct issues
Equality and Diversity	No direct issues
Privacy and Data Protection	No direct issues
Local Government Reorganisation	The outcome of the council's audit of financial statements and assessment of value for money will feed into the set up and delivery of the new unitary council following LGR.

7 Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: Grant Thornton Audit Progress Report

8 Background Papers

None.

Grant Thornton

Swale Borough Council

Audit progress report and sector updates

January 2026

Agenda

Audit Progress Report

Grant Thornton

Introduction

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a series of sector updates in respect of emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:
Local government | Grant Thornton

If you would like further information on any items in this briefing or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Audit Progress

Financial Statements Audit 2025-26

As a firm, we are dedicated to maintaining high standards of audit quality and financial reporting in the public sector.

The financial statements audit for the Swale Borough Council for the financial year 2025-26 will be conducted in two phases:

- Risk assessment, planning and early field work; and
- Final accounts fieldwork

Planning and early fieldwork is scheduled for February and March 2026, with fieldwork scheduled between July and September 2026. We are aiming to complete the audit in advance of the statutory deadline of January 2027.

Following the constructive feedback received after the 2024–25 audit, we will enhance our approach for 2025–26 by implementing the following measures:

- commencing fieldwork earlier for agreed statement balances and providing regular progress updates against the audit plan.
- scheduling pre-audit meetings to clarify working paper requirements and expectations ahead of site visits.
- deploying UK-based team members to work on-site alongside your team, adopting a hybrid model that combines on-site and remote working for efficiency and flexibility.

Audit fees

PSAA published their scale fees for 2025/26: [2025/26 audit fee scale – PSAA]

For Swale Borough Council this fees is £189,479. The fees is derived from the procurement exercise carried out by PSAA in 2022. They reflect both the increased work auditors must now undertake as well as the scarcity of audit firms willing to do this work.

Events

We plan to hold the following webinars this quarter:

- **Audit Committees Webinar – 10 February 2026**

Primarily aimed at Audit Committee members, topics will include best steps to take 'After the Backstop' adding value to the financial reporting function and navigating the external audit process successfully.

- **Local Government Accounts Webinars – 5 and 11 February 2026:**

Aimed at your finance teams, topics will include complex financial reporting issues, lessons from IFRS 16 implementation, avoiding pitfalls in financial instruments, common accounting and disclosure issues, indexation for property, plant and equipment in 2025/26, and revised statutory guidance on Minimum Revenue Provision.

We will shortly send out invitations to the webinars. Details will also be available on our website.

Value for Money

Planning work is scheduled for February and March 2026, with final fieldwork planned between July to September 2026.

We will keep management and the Audit Committee updated on the outcome in our Audit Plan and Auditor's Annual Report respectively.

Audit Deliverables

2025/26 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2025-26 financial statements.	April 2026	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the Audit Committee.	September 2026	Not yet due
Auditor's Report This includes the opinion on your financial statements.	September 2026	Not yet due
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.	September 2026	Not yet due

Sector Updates

Fair Funding Review

Key questions for Audit Committees to ask officers:

- What impact will the Fair Funding Review have on our medium-term financial plan?
- Have we calculated what level of support we will need from transitional arrangements?
- What mitigations are we planning if we are net “losers” from the new arrangements?

Background:

The first multi-year Local Government Finance Settlement in a decade, together with the Fair Funding Review response, was announced by the Government on 20th November 2025. Significant changes to be aware of are that:

❖ There will be a single settlement for 2026/27 to 2028/29;

❖ The government plans to use up to date English Indices of Multiple Deprivation, together with up-to-date services cost and demand data to calculate individual council allocations for 2026/27 to 2028/29; and

Using new indices will inevitably lead to some Councils seeing increases in their allocations, whilst others see decreases. However, there are transitional arrangements to help with managing change:

Funding floors and phasing in of new allocations across the multi-year settlement; and

The benefits of using the new indices are expected to be greater transparency; and a reduced reliance on competitive bidding for funds. Reduced paperwork is also expected, as the Government announced it will simplify 33 funding streams, worth almost £47 billion over three years.

Ultimately though, the proof of the pudding will be in the eating. The overall national settlement will need to be fair to the sector as a whole if individual allocations within it are going to be fair as well.

For a full copy of the Ministerial Statement see: Written statements - Written questions, answers and statements - UK Parliament

Local government reorganisation – latest developments

Opportunity for Audit Committee members to contribute to consultations:

The Government is currently consulting on the proposals it received for local government reorganisation in six areas:

- East Sussex and Brighton and Hove;
- Essex, Southend-on-Sea and Thurrock;
- Hampshire, Isle of Wight, Portsmouth and Southampton;
- Norfolk;
- Suffolk; and
- West Sussex.

These consultations run until Sunday 11 January 2026. Documents are available on the Department's online platform "Citizen Space", and responses can be submitted online, by email, or by post.

Written statements - Written questions, answers and statements - UK Parliament

GOV.UK

Other information for Audit Committees to be aware of:

Although Kent is not part of the current consultation, it is important to note:

On November 28, 2025, Kent County Council along with other Kent and Medway councils, submitted several proposals for Local Government Reorganisation (LGR) to the UK Government. A total of five distinct options were ultimately submitted for consideration. The five options submitted by the various Kent councils :

- Option 1a - Single Unitary Council
- Option 3a: Three Unitary Councils
- Option 4b: Four Unitary Councils (no boundary changes)
- Option 4d: Four Unitary Councils (with boundary changes)
- Option 5a: Five Unitary Councils (with boundary changes)

Government decisions on these business cases (including Kent's) are expected in Spring 2026. New unitary councils are anticipated to go live by April 2028, with shadow councils forming in 2027.

Learning from Surrey:

The Government recently announced the outcome of its consultation on Surrey:

- Two new unitary councils will be created from 1 April 2027.
- The decision was based on financial sustainability, with the two-unitary model chosen over three-unitary options.
- Surrey's case shows that financial resilience and efficiency are key criteria for approval.

For a full copy of the Ministerial Statement on reorganisation in Surrey, see: Written statements - Written questions, answers and statements - UK Parliament

Preventative spending

Key questions for Audit Committees to ask officers:

❖ What do we spend on prevention?

❖ How do we identify and record that spend?

❖ How do we measure outcomes from the spend?

❖ How do our practices compare with other similar authorities?

Background:

CIPFA and the Health Foundation have developed new methodology for mapping and measuring public sector investment in prevention.

The framework uses a four-step approach to help councils quantify prevention spending, making it visible so it can be protected and prioritised.

This approach has already been tested with four councils:

- London Borough of Merton
- Three Rivers District Council
- Wigan Metropolitan Borough Council
- Rhondda Cynon Taf County Borough Council

Recommendations for Councils:

The report sets out three key actions for councils:

- Apply a consistent approach to map and measure prevention investment.
- Analyse demand drivers alongside financial data to inform priorities.
- Embed prevention into strategies, budgets, and governance structures so it becomes a core part of decision-making.

For a full copy of the report, see Understanding preventative investment

Next step for Audit Committee members:

CIPFA plans to launch a community of practice on preventative investment in early 2026.

- Swale should consider joining this initiative to share experiences and learn best practices.
- Anyone able to contribute can contact: zachary.scott@cipfa.org.

The Covid-19 Inquiry

Key information for Audit Committees to be aware of:

An enhanced role for Councils in national decision making for emergencies looks likely following the publication of Modules 2, 2A, 2B, 2C - Core decision-making and political governance - Volume II - UK Covid-19 Inquiry in November 2025.

Why This Matters for Swale:

The Inquiry found that the UK Government did not fully utilize local knowledge during the pandemic, due to the absence of a formal structure for consulting Councils. This impacted the effectiveness of emergency responses and highlighted the need for stronger collaboration between central and local government.

Implications for Swale Borough Council:

Audit Committees should review Swale's emergency planning and resilience arrangements, ensuring lessons from Covid-19 are embedded.

Strengthen governance and communication protocols for future national emergencies.

Prepare for findings from upcoming Inquiry modules:

Module 6: Impact of the pandemic on adult social care, including consequences of government decisions and restrictions.

Module 8: Impact on children and young people, education, health, and social care services.

With the LGA having pointed out just how many key national policy issues are being addressed by Councils, there has perhaps never been a better time to focus on the "importance of working together".

The Renter's Rights Act

Key questions for Audit Committees to ask officers:

- How well do we understand the new rules we will be enforcing?
- How many private rented sector properties do we have in our area?
- Do we have existing staff capacity to take on the new enforcement powers, and if not, how are we going to recruit?
- Do we have a strategy for working with partners under the new regime, including landlords, agents, tenants, advisory bodies, and the justice system?

Background:

The Renter's Rights Act became law on 27th October 2025. Under the Act, Councils are going to gain new powers to investigate landlords; act against rogue landlords; and ensure landlord compliance with new standards expected of them. Councils will be required to report on their enforcement activities.

Local housing authorities will receive £18.2 million in 2025/26 to support preparations for the implementation of the Renters' Rights Act 2025 and to build enforcement capacity. Funding will be allocated based on the number of private rented sector properties in each local area. The Government's "Roadmap for reforming the Private Rented Sector" indicates that there will be a further new burdens funding allocation for 2026/27.

Key points from the Roadmap that Audit Committees need to be aware of now are:

- Enforcement guidance for local Councils has been published on GOV.UK. The guidance provides the critical information that enforcement officers will need to know to carry out their work in line with the new legislation;
- There will be a bespoke programme of training, webinars and resources through 'Operation Jigsaw', a cross-local Councils initiative;
- Shelter will deliver training to local Council officers, covering different aspects of the Act, funded by government; and
- Changes will start coming into effect from 1st May 2026.

Proposed new duty of candour and standards regime

Key Questions for Swale Audit Committee:

- When was Swale's Code of Conduct last updated?
- Are policies and procedures aligned with expected changes and consistent across the council?
- Is Swale sufficiently transparent and candid in governance and reporting?
- When was the effectiveness of the Standards Committee last reviewed?
- Are disciplinary arrangements robust and fit for purpose?

The Public Office (Accountability) Bill, introduced to Parliament on 16 September 2025 and currently at Committee stage, will have implications for councils, including Swale Borough Council.

The Bill proposes:

- A statutory duty on public authorities to act with candour, transparency, and frankness in dealings with inquiries and investigations. Breach of this duty would carry criminal liability.
- A mandatory code of conduct for councils to uphold the Seven Principles of Public Life (Nolan Principles).
- Reforms to make it easier to prosecute misconduct in public office.
- A new offence of misleading the public.
- Government plans for "sweeping reforms" to strengthen local government standards, including powers to suspend councillors for serious misconduct.

For a full copy of the Bill, see Public Office (Accountability) Bill - Parliamentary Bills - UK Parliament

For a full copy of the announcement, see Tough new powers to clean up local politics.

Business cases for net zero

Key questions for Audit Committees to ask officers:

- Do we have decarbonisation or net zero reporting? What format does it take, and is that format standardised?
- Can we map the link between decarbonisation and net zero spending and tangible outcomes such as job creation, economic resilience, and community wellbeing?
- Do we horizon scan for new funding mechanisms and new partnerships?
- Do we share good practice with other similar Councils?

Background:

Councils make significant contributions to the UK's journey towards net zero, generally working towards strategic aims that they (the Councils) voluntarily set for themselves. This could be seen as contradictory to work to promote economic growth and enable new housing.

However, the County Council's Network (CCN) commissioned research showing that business cases for net zero are strongest when they are connected to outcomes around the new jobs and community wellbeing that economic growth and new housing can bring.

CCN published a series of recommendations on how to root the journey to net zero in the broader context of economic growth and job creation.

The recommendations are aimed at rural County Councils, but with local government reorganisation on the horizon, and housebuilding targets affecting all areas of the country, they will be of wider interest as well:

- Optimise green transition strategies and plans;
- Ground climate policies in strong business cases;
- Leverage innovation, partnerships, and funding models; and
- Promote collaboration and community engagement.

For a full copy of the report, see Resources - County Councils Network

Healthy environments for resilient towns

Key information for Audit Committees to be aware of:

The Environmental Audit Committee (EAC) concluded in November 2025 that it is “lazy” to write-off nature as a blocker to housing delivery. Instead, the EAC argued that a healthy environment is not only not a luxury, but is in fact a necessity for resilient towns and neighbourhoods:

Environmental sustainability and housing growth.

The EAC made a series of recommendations that were mostly aimed at the UK Government. This included a recommendation to introduce mandatory training in ecology and the decarbonisation of buildings for people working now towards Chartered Town Planner status.

While we wait to see whether any of the EAC recommendations will be implemented, there are things that Councils can be doing now to help the environment in their towns :

- ❖ Ensure that the local plan and environmental policies are up to date and consistent with national environmental targets; and
- ❖ Encourage awareness of ecology and decarbonisation in the existing planning team whilst waiting for any mandatory training benefits in the next generation of town planners.

As Councils are coming under increasing pressure from the UK Government to approve new housing plans, mindfulness of the environment in the towns that Councillors represent is going to be more important than ever.

Audit Committee resources

The Audit Committee and organisational effectiveness in local authorities (CIPFA):

https://www.cipfa.org/services/support-for-audit-committees/local-authority-audit-committees

LGA Regional Audit Forums for Audit Committee Chairs

These are convened at least three times a year and are supported by the LGA. The forums provide an opportunity to share good practice, discuss common issues and offer training on key topics. Forums are organised by a lead authority in each region. Please email ami.beeton@local.gov.uk LGA Senior Adviser, for more information.

CIPFA Application Note: Global Internal Audit Standards in the UK Public Sector

Global Internal Audit Standards in the UK Public Sector | CIPFA

CIPFA Good Governance

Delivering Good Governance in Local Government Addendum

Code of Audit Practice for local auditors (NAO):
https://www.nao.org.uk/code-audit-practice/

The Three Lines of Defence Model (IAA)
https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf

Risk Management Guidance / The Orange Book (UK Government):

https://www.gov.uk/government/publications/orange-book

Other CIPFA Guidance and Codes

The following are available from CIPFA but have a charge. We encourage you to make enquiries to determine if copies are available within your organisation:

- Audit Committees: Assessing effectiveness
- Financial Management Code
- Prudential Code
- Treasury Management Code

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