

| <b>Audit Committee</b> |                                                                                                                              |
|------------------------|------------------------------------------------------------------------------------------------------------------------------|
| <b>Meeting Date</b>    | 21 January 2026                                                                                                              |
| <b>Report Title</b>    | <b>Treasury Management Strategy 2026/27</b>                                                                                  |
| <b>EMT Lead</b>        | Lisa Fillery, Director of Resources                                                                                          |
| <b>Head of Service</b> | Claire Stanbury, Head of Finance and Procurement                                                                             |
| <b>Lead Officer</b>    | Claire Stanbury, Head of Finance and Procurement<br>Olga Cole, Management Accountant                                         |
| <b>Classification</b>  | Open                                                                                                                         |
| <b>Recommendations</b> | 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 (22<sup>nd</sup> 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<br>£ |
|------------------------------|------------|---------------|-------|----------------------------|
| 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                  |
| <b>Total Borrowing</b>       |            |               |       | <b>12,000,000</b>          |

### 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:

| <b>Treasury Investments</b>                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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<br>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. |
| <b>Non-Treasury Investments</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 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                                      |
| <b>Total Investments</b>            |                | <b>22,828</b>                              |

- 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            |
| <b>Total</b>                            | <b>2,050</b>  |

- 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.

| <b>Alternative</b>                                                    | <b>Impact on income and expenditure</b> | <b>Impact on risk management</b>                                                          |
|-----------------------------------------------------------------------|-----------------------------------------|-------------------------------------------------------------------------------------------|
| 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 |

| <b>Alternative</b>                                                   | <b>Impact on income and expenditure</b>                                                  | <b>Impact on risk management</b>                                                                                                                |
|----------------------------------------------------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| 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

| <b>Issue</b>                                                 | <b>Implications</b>                                                                                                                                                                                                                        |
|--------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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. |

| <b>Issue</b>                    | <b>Implications</b>                |
|---------------------------------|------------------------------------|
| 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 &amp; 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.

| <b>Gross Debt and the Capital Financing Requirement</b> | <b>2024/25 Actual</b> | <b>2025/26 Revised</b> | <b>2026/27 Estimate</b> | <b>2027/28 Estimate</b> | <b>2028/29 Estimate</b> |
|---------------------------------------------------------|-----------------------|------------------------|-------------------------|-------------------------|-------------------------|
|                                                         | <b>£'000</b>          | <b>£'000</b>           | <b>£'000</b>            | <b>£'000</b>            | <b>£'000</b>            |
| 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)                |
| <b>Internal Borrowing</b>                               | <b>49,654</b>         | <b>37,300</b>          | <b>32,500</b>           | <b>29,800</b>           | <b>29,800</b>           |

## 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.)

| <b>Capital Expenditure and Financing</b> | <b>2024/25 Actual</b> | <b>2025/26 Revised</b> | <b>2026/27 Estimate</b> | <b>2027/28 Estimate</b> | <b>2028/29 Estimate</b> |
|------------------------------------------|-----------------------|------------------------|-------------------------|-------------------------|-------------------------|
|                                          | <b>£'000</b>          | <b>£'000</b>           | <b>£'000</b>            | <b>£'000</b>            | <b>£'000</b>            |
| <b>Total Expenditure</b>                 | <b>16,827</b>         | <b>21,798</b>          | <b>31,410</b>           | <b>3,415</b>            | <b>4,319</b>            |
| 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                     |
| <b>Total Financing</b>                   | <b>16,827</b>         | <b>21,798</b>          | <b>31,410</b>           | <b>3,415</b>            | <b>4,319</b>            |

## Treasury Management &amp; 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 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 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 | 2026/27 Estimate | 2027/28 Estimate | 2028/29 Estimate |
|------------------------------------|-----------------|------------------|------------------|------------------|
|                                    | £'000           | £'000            | £'000            | £'000            |
| Borrowing                          | 55,000          | 65,000           | 67,500           | 67,500           |
| Other long-term liabilities        | 9,000           | 9,000            | 9,000            | 9,000            |
| <b>Total</b>                       | <b>64,000</b>   | <b>74,000</b>    | <b>76,500</b>    | <b>76,500</b>    |

## Treasury Management &amp; 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.

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

## Interest Rate Exposure

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

| <b>Upper Limit for Interest Rate Exposure</b> | <b>Actual level at<br/>30/09/25</b> | <b>2026/27<br/>Approved<br/>Limit</b> |
|-----------------------------------------------|-------------------------------------|---------------------------------------|
| 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:

| <b>Maturity Structure of Borrowing</b> | <b>Lower Limit<br/>for 2026/27<br/>%</b> | <b>Upper Limit<br/>for 2026/27<br/>%</b> |
|----------------------------------------|------------------------------------------|------------------------------------------|
| 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 &amp; 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:

| <b>Price Risk Indicator</b>                    | <b>2026/27<br/>Estimate<br/>£'000</b> | <b>2027/28<br/>Estimate<br/>£'000</b> | <b>2028/29<br/>Estimate<br/>£'000</b> | <b>No Fixed<br/>Date<br/>£'000</b> |
|------------------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|------------------------------------|
| 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

|                               | <b>31.3.25<br/>Actual<br/>£m</b> | <b>31.3.26<br/>Forecast<br/>£m</b> | <b>31.3.27<br/>Forecast<br/>£m</b> | <b>31.3.28<br/>Forecast<br/>£m</b> | <b>31.3.29<br/>Forecast<br/>£m</b> |
|-------------------------------|----------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| 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)                             |
| <b>Net loans requirement</b>  | <b>5.2</b>                       | <b>9.5</b>                         | <b>7.7</b>                         | <b>4.0</b>                         | <b>0.1</b>                         |
| Plus: Liquidity allowance     | 10.0                             | 10.0                               | 10.0                               | 10.0                               | 10.0                               |
| <b>Liability benchmark</b>    | <b>15.2</b>                      | <b>19.5</b>                        | <b>17.7</b>                        | <b>14.0</b>                        | <b>10.1</b>                        |

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 &amp; Prudential Indicators

