Treasury Management Strategy Statement

and Annual Investment Strategy 2025-28

Introduction

Background

The Council is required to maintain a balanced budget, which broadly means that cash raised during the year will meet planned cash expenditure. One of the main treasury management functions is to ensure this cash flow is adequately planned, with cash being available when it is needed. Cash is borrowed temporarily for periods of less than 1 year and surplus funds are invested in low-risk counterparties commensurate with the Council's low risk appetite, providing security and liquidity initially, before considering investment return.

The second main function is the funding of the Council's capital plan. The capital plan provides a guide to the borrowing needs of the Council, essentially the longer-term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer-term cash involves arranging long or short-term loans or using longer term cash flow surpluses. On occasion, existing debt may be restructured to meet Council risk or cost objectives, or where it is financially advantageous to do so.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity and the ability to meet spending commitments as they fall due, either on day-to-day out-goings or for larger capital projects. The treasury function will manage the balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Cash balances generally result from reserves and balances and it is paramount to ensure adequate security of the sums invested, as a loss of principal would result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

Whilst any commercial activities or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure) and are separate from the day-to-day treasury management activities.

Reporting Requirements

Capital Strategy

The CIPFA revised 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which provides the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- an overview of how the associated risk is managed.
- the implications for future financial stability.

The aim of this Capital Strategy is to ensure that all elected members of the Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

Fife Council's capital strategy was approved by Fife Council on 22 June 2023 and preparation is under way to review and update the Strategy.

Treasury Management Reporting

The Council is currently required to receive and approve, as a minimum three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) – The first, and most important report and covers:

- The capital plans (including prudential indicators)
- A policy for the statutory repayment of debt (how residual capital expenditure is charged to revenue over time)
- The treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- An annual investment strategy (the parameters on how investments are to be managed)

A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, the Head of Finance receives quarterly update reports. Quarterly reporting is also included in the regular Capital monitoring reports submitted to Cabinet Committee, this is in line with the Treasury Code.

An annual treasury report – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to estimates within the strategy.

Scrutiny – The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Cabinet Committee.

Quarterly Reporting – In addition to the three major reports detailed above, quarterly reporting is also required. This reporting is included in the Capital monitoring reports considered by the Cabinet Committee.

Treasury Management Strategy for 2025-26

The strategy for 2025-26 covers two main areas:

Capital

- the capital investment plans and the associated prudential indicators
- the loans fund repayment policy

Treasury management

- the current treasury position of the Council
- treasury indicators which limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy

These elements are in line with the requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and Scottish Government loans fund repayment regulations and investment regulations.

Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management have access to training relevant to their needs and responsibilities. This especially applies to members responsible for scrutiny.

A training session was carried out for members of the Cabinet Committee in June 2022 by the Council's treasury adviser, MUFG Corporate Markets. Training will be provided on a routine basis. CIPFA Treasury Forum have developed a Treasury Toolkit for elected members the link to this was made available on 6th September 2023. The first two modules of the toolkit are designed to enable Authorities to be able to demonstrate training of the required elements of treasury have been completed.

Officers attend several events per year in the form of webinars and have completed all four Treasury Toolkit modules offered by both CIPFA and the Council's treasury adviser, as appropriate. Officers also attended the CIPFA Treasury Management Forum conference in November 2024.

Treasury Management Consultants

The Council uses MUFG Corporate Markets as its external treasury management advisors.

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

The Council also recognises there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

Capital Prudential Indicators

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans are financially sustainable.

Capital Expenditure

This prudential indicator is a summary of the Council's agreed capital expenditure plans.

Actual 2023-24 £m	Actual 2024-25 £m		Approved 2025-26 £m	Approved 2026-27 £m	Approved 2027-28 £m
153.167	173.727	General Fund	178.641	126.937	118.830
88.906	143.228	Housing Revenue Account	156.300	119.025	84.858
242.073	**316.955**		**334.941**	**245.962**	**203.688**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall in funding results in a borrowing requirement and is known as the Loans Fund Advance.

Actual 2023-24 £m	Actual 2024-25 £m		Approved 2025-26 £m	Approved 2026-27 £m	Approved 2027-28 £m
242.073	316.955	Capital Expenditure	334.941	245.962	203.688
		Less Capital Income			
(62.339)	(25.000)	General Capital Grant	(31.327)	(23.500)	(23.500)
(39.811)	(43.071)	Other Grants	(39.842)	(22.132)	(19.548)
(23.753)	(42.465)	CFCR	(32.221)	(27.701)	(14.954)
(1.988)	(9.728)	Developers Contributions	(9.242)	(13.400)	(16.718)
(3.569)	(3.184)	Capital Receipts	(2.446)	(2.466)	(7.381)
110.613	**193.507**	**Loans Fund Advance**	**219.863**	**156.763**	**121.587**

Capital Prudential Indicators

Capital Financing Requirement (Council's borrowing need)

This second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as prudent annual repayments from revenue need to be made which reflect the useful life of capital assets financed by borrowing.

The CFR includes any other long-term liabilities (e.g. PPP/HUB schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PPP/HUB lease provider and so the Council is not required to separately borrow for these schemes.

The CFR projections are shown below:

Actual 2023-24 £m	Actual 2024-25 £m		Approved 2025-26 £m	Approved 2026-27 £m	Approved 2027-28 £m
831.339	909.401	General Fund	951.598	997.817	1,044.542
437.174	522.878	Housing Revenue Account	578.294	638.539	661.456
1,268.513	**1,432.279**		**1,529.892**	**1,636.356**	**1,705.998**

The CFR is increasing over the coming years reflecting the increased levels of capital investment agreed.

Capital Prudential Indicators

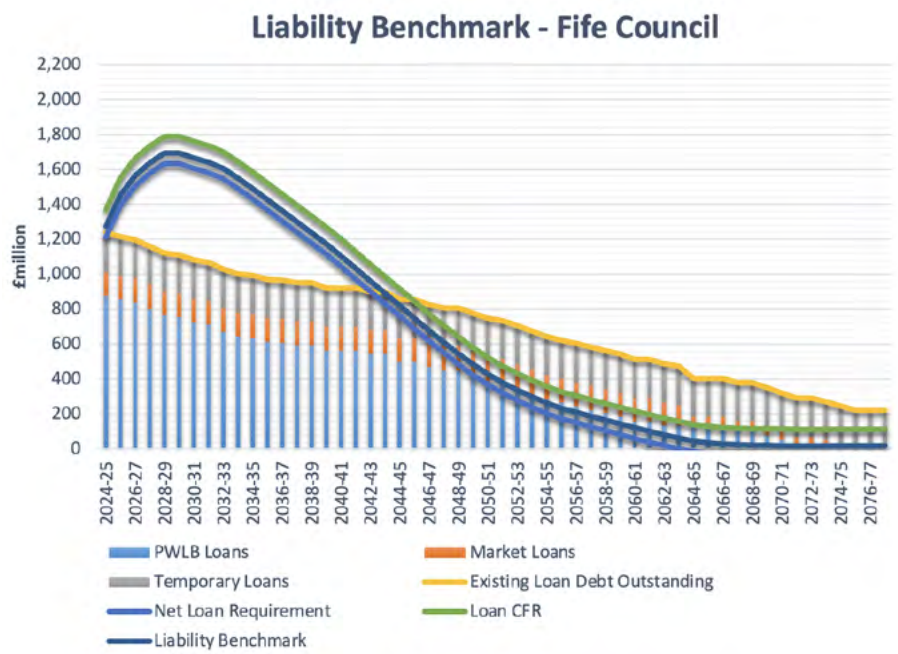
Liability Benchmark

It is important that the Council understands the relationship between its gross loan debt and its loan debt net of investments for treasury purposes and provides an explanation should there be significant differences. The Council is required to estimate and measure the Liability Benchmark for future years, ideally covering the full debt maturity profile. The Liability Benchmark is not a single measure and is therefore presented as a chart detailing four components as follows:

- **Existing Loan Debt Outstanding** – this is the Council's existing loans that are still to be repaid.
- **Loans CFR** – this is calculated in accordance with the Loans Capital Financing Requirement definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Loans Fund advances and Loans Fund principal repayments, therefore represents future borrowing requirements.
- **Net Loans Requirement** – this will show the Council's gross loan debt less treasury management investments at the end of the previous financial year, projected into the future and based on the approved prudential borrowing, planned Loans Fund principal repayments and any other major cash flow forecasts.
- **Liability Benchmark** – this equals net loans requirement plus short-term liquidity allowance for day to day flow purposes.

The graph below shows the position for Fife Council as at the end of 2024-25. The graph is intended to illustrate the gap between the current levels of debt outstanding (orange line) and the liability benchmark (dark blue line). Where the debt outstanding or actual loans are below the benchmark, this indicates a future borrowing requirement. Therefore, the graph shows the borrowing requirement between 2024-25 and 2050-51. In any year where the loans are greater than the benchmark demonstrates an over-borrowed position which will mean there is a requirement for cash investment.

The graph depicts the borrowing requirement in the earlier years because of the anticipated levels of capital expenditure in those years based on the 10-year plan.



Capital Prudential Indicators

Statutory Repayment of Loans Fund Advances

The Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

A variety of options are provided to Councils so long as a prudent provision is made each year. The definition of prudence contained within the regulations is that any repayment of loans fund advances should be reasonably commensurate with the period and pattern of the benefits provided to the community from the capital expenditure. The proper officer is given the scope to determine what is prudent for their organisations.

Fife Council Loans Fund Policy

Fife Council will maintain separate policies for General Fund loans fund advances and Housing Revenue Account loans fund advances.

General Fund Loans Fund Advances

For General Fund advances Fife Council use the Asset Life Method, by which loans fund advances are repaid in line with the expected life of the asset to which the capital expenditure relates. In certain circumstances Fife Council will use the Funding/Income Profile Method, by which loans fund advances will be repaid in line with an associated income stream.

Housing Revenue Loans Fund Advances

For Housing Revenue Account loans fund advances will be repaid using the Asset Life Method.

The annuity method will continue to be applied to all loans fund advances. Under regulation, the Council can review and re-assess the annuity rate to ensure it is a prudent application. The annuity rate applied to the loans fund repayments has been reviewed and has been set at 4.00%.

The Capital Investment Plan is funded from a variety of sources (e.g. Capital Grants, Capital receipts etc), with the remainder funded from borrowing. The Council does not borrow for specific projects for either the General Fund or the Housing Revenue Account, with decisions on which projects are funded from the loans fund on an annual basis being at the discretion of the Head of Finance, with overall financial sustainability being considered.

Loans Fund Balances

The loans fund balances based on the current Capital Investment Plan are estimated to be:

General Fund	Opening Balance £m	Advances £m	Repayments £m	Closing Balance £m
2024-25	763.977	107.723	(21.388)	850.312
Years 2 – 5	850.312	217.267	(104.173)	963.406
Years 6 - 11	963.406	21.451	(148.549)	836.308
Years 12 - 16	836.308	0.000	(167.306)	669.002
Years 17 - 21	669.002	0.000	(132.360)	536.642
Years 22 - 26	536.642	0.000	(158.320)	378.322
Years 27 - 31	378.322	0.000	(129.638)	248.684
Years 32 - 36	248.684	0.000	(105.747)	142.937
Years 37 - 41	142.937	0.000	(97.825)	45.112
Years 42 - 46	45.112	0.000	(41.663)	3.449
Years 47 - 51	3.449	0.000	(3.173)	0.276
Years 52 - 56	0.276	0.000	0.000	0.276

HRA	Opening Balance £m	Advances £m	Repayments £m	Closing Balance £m
2024-25	522.472	112.140	(20.671)	613.942
Years 2 - 5	613.942	223.630	(106.965)	730.607
Years 6 - 11	730.607	65.302	(189.985)	605.924
Years 12 - 16	605.924	0.000	(151.857)	454.067
Years 17 - 21	454.067	0.000	(162.388)	291.679
Years 22 - 26	291.679	0.000	(173.865)	117.814
Years 27 - 31	117.814	0.000	(97.699)	20.115
Years 32 - 36	20.115	0.000	(20.115)	0.000
Years 37 - 41	0.000	0.000	0.000	0.000

Loans Fund Balances

The regulations require that a prior year comparator is included therefore the estimated loans fund balances last financial year were anticipated to be:

General Fund	Opening Balance £m	Advances £m	Repayments £m	Closing Balance £m
2023-24	729.332	96.934	(22.463)	803.803
Years 2 – 5	803.803	272.486	(107.826)	968.463
Years 6 - 11	968.463	27.935	(146.012)	850.386
Years 12 - 16	850.386	0.000	(164.522)	685.864
Years 17 - 21	685.864	0.000	(132.810)	553.054
Years 22 - 26	553.054	0.000	(160.434)	392.619
Years 27 - 31	392.619	0.000	(140.977)	251.642
Years 32 - 36	251.642	0.000	(110.465)	141.177
Years 37 - 41	141.177	0.000	(104.288)	36.889
Years 42 - 46	36.889	0.000	(35.314)	1.575
Years 47 - 51	1.575	0.000	(1.437)	0.137
Years 52 - 56	0.137	0.000	(0.137)	0.000

HRA	Opening Balance £m	Advances £m	Repayments £m	Closing Balance £m
2023-24	480.014	96.574	(19.760)	556.828
Years 2 – 5	556.828	176.709	(104.810	628.727
Years 6 - 11	628.727	57.178	(174.818)	511.088
Years 12 -16	511.088	0.000	(138.650)	372.438
Years 17 -21	372.438	0.000	(133.458)	238.980
Years 22 - 26	239.980	0.000	(146.705)	92.275
Years 27 -31	92.275	0.000	(68.634)	23.642
Years 32 – 36	23.642	0.000	(23.642)	0.000
Years 37 - 41	0.000	0.000	0.000	0.000

It should be noted that these tables are for illustrative purposes only and demonstrate the current loan charge profile and timescales for debt repayment. As future capital investment plans are agreed the associated advances will be reflected in those treasury strategy documents.

Treasury Indicators

Treasury Indicators: limits to borrowing activity

The key Treasury Indicators which are part of the Prudential Code are: -

The operational boundary.

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

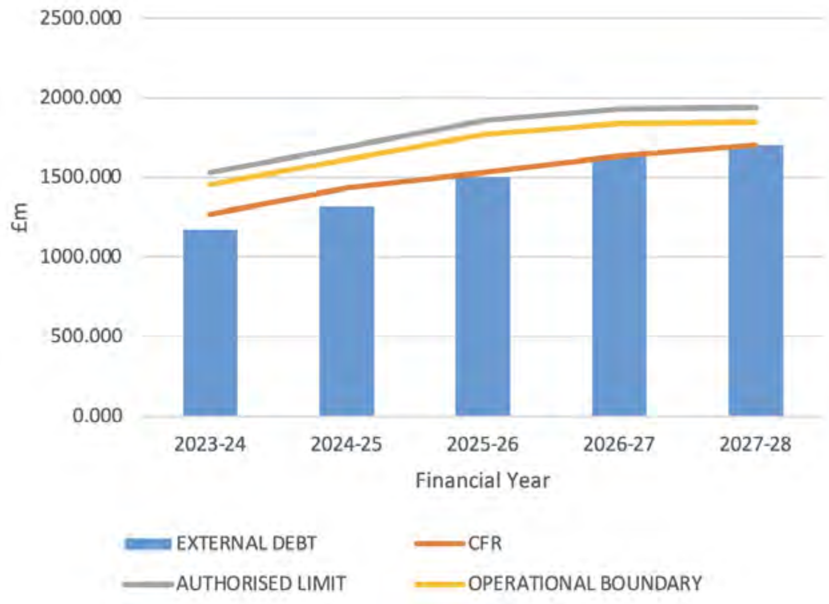
The authorised limit for external debt.

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

The authorised limits for external debt for the current and two subsequent years are the legislative limits determined under Regulation 6(1) of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016.

Actual 2023-24 £m	**Actual 2024-25 £m**		**Approved 2025-26 £m**	**Approved 2026-27 £m**	**Approved 2027-28 £m**
1,173.131	1,316.420	External Debt	1,504.897	1,630.325	1,703.443
1,456.053	1,611.300	Operational Boundary	1,777.473	1,849.892	1,848.356
1,528.856	1,691.865	Authorised Limit	1,866.346	1,942.386	1,940.774

The table above shows that the expected External Debt is within both the Operational Boundary and the Authorised Limit. This can also be seen in the graph below:



Treasury Indicators

Treasury Indicators: Borrowing

The key Investment Treasury Indicators which are part of the Treasury Management Code are: -

- Upper limits on fixed and variable interest exposures
- Upper and lower limits to the maturity structure of borrowing
- Upper limits to the total of principal sums invested longer than 364 days.

Upper limits on fixed and variable interest exposures

The Council's loan portfolio consists of fixed and variable rate debt, plus it has both fixed or variable rate investments. The Code requires limits to be set that manage risk and reduce the impact of adverse movement in interest rates, primarily on variable rate loans. At 31 January 2025, the Council had 8.61% of its total debt in what is termed a "variable structure". The variable nature of the structure of the Council's loans has been managed in the lenders' contracts. These types of contracts are termed LOBO contracts, i.e. Lender Option Borrower Option contracts. The contracts allow the lender to apply to the Council for change in interest rate, after an initial fixed period of several years, to be considered on specific dates. If the Council does not wish to accept the change in interest rates, it can repay the loan in full without penalty. The timing of the opportunity for the lender to change the rate is controlled to limit the risk to the Council and is written into the loan contract. Only on certain anniversaries of the loan issuance can the rate be changed. Most LOBO loans in the current portfolio are on a 6-month rollover on a variety of dates.

The treasury indicator is detailed in the table below, and previously agreed, as part of the Prudential Indicators

Limits on Interest Rate Exposure (as a % of net debt)	Approved 2025-26	Approved 2026-27	Approved 2027-28
Fixed interest payable / receivable	100%	100%	100%
Variable interest payable / receivable	75%	75%	75%

It is anticipated that the Council's loan portfolio for the next 3 financial years will be exposed to interest rate changes on current debt (as at 31 December 2024) as follows: -

External Interest Due	2025-26	2025-26	2026-27	2026-27	2027-28	2027-28
	£m	%	£m	%	£m	%
Fixed rate loan debt	36.117	89.56	34.976	89.26	34.245	89.05
Variable rate loan debt	4.210	10.44	4.210	10.74	4.210	10.95
Total	40.327		39.186		38.455	

Upper and lower limits to the maturity structure of borrowing

These gross upper and lower limits are set to limit the Council's exposure to large, fixed rate sums falling due for refinancing at the same time.

Treasury Indicators

According to the Code, "the maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender has the right to increase the interest rate payable such as in a LOBO loan, this should be considered a right to require repayment".

The amount of debt maturing each year is managed by a variety of rollover dates. Members at the Council meeting on 20 February 2025 agreed the Upper and Lower Limits below and, in practice, we have an agreed additional Upper Limit, using the maturity date for LOBO loans of 15%. This is adopted on the basis of continuation of prudent treasury management practice.

	Lower Limit	Upper Limit
Under 12 months	0%	50%
12 months to 2-year period	0%	50%
2 years to 5-year period	0%	50%
5 years to 10-year period	0%	50%
10 years and above	0%	100%

Upper limit to the total of principal sums invested longer than 364 days.

It is expected the Council is unlikely to have extended periods when it will have surplus funds due to cash flow. On this basis, the limit on sums to be invested longer than 364 days will remain zero.

Borrowing

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

Current Portfolio Position

The Council's treasury portfolio position as at 31 December 2024, with forward projections, are summarised below.

Actual 2023-24 £m	Approved 2024-25 £m	Long Term External Debt	Approved 2025-26 £m	Approved 2026-27 £m	Approved 2027-28 £m
1,103.838	1,254.264	External Borrowing	1,450.359	1,583.359	1,664.359
69.293	62.156	Other Long-Term Liabilities	54.538	46.966	39.084
1,173.131	1,316.420	External Debt	1,504.897	1,630.325	1,703.443
(65.607)	(60.000)	Investments	(60.000)	(60.000)	(60.000)
1,107.524	1,256.420	Net External Debt	1,444.897	1,570.325	1,643.443

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement – CFR), highlighting any over or under borrowing. The upward trend requires careful monitoring to ensure that new borrowing is only for capital purposes.

Actual 2023-24 £m	Approved 2024-25 £m	Long Term External Debt	Approved 2025-26 £m	Approved 2026-27 £m	Approved 2027-28 £m
1,173.131	1,316.420	External Debt	1,504.897	1,630.325	1,703.443
1,268.513	1,432.279	CFR	1,529.892	1,636.356	1,705.998
(95.382)	(115.859)	(Under)/over borrowing	(24.995)	(6.031)	(2.555)

Within the range of prudential indicators, there are several key indicators to ensure the Council operates its activities within well-defined limits. One of these indicators puts limits on the Council's borrowing activity. The Council must ensure that its external debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimate of any additional CFR for the next three years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

Borrowing

Prospects for Interest Rates

Views on interest rates are crucial to the portfolio strategy for the coming year. Appendix A to this strategy report includes an economic commentary from the Council's treasury adviser, MUFG Corporate Markets, and includes the latest central forecast of short and long-term borrowing rates as produced by MUFG Corporate Markets in February 2025. The commentary indicates that we continue to experience difficult times with economic growth in the UK at risk. Specifically on interest rates, MUFG Corporate Markets are anticipating that rates will decrease to 4.25% in the second quarter of 2025 with possible reductions in the last two quarters of the year.

Borrowing Strategy

The Council is currently maintaining an under-borrowed position, although this is forecast to significantly decrease in future years. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external debt, as cash supporting the Council's reserves, balances and cash flow i.e working capital, has been used as a temporary measure. This strategy is prudent as investment returns are low and couterparty risk is still an issue to be considered.

Against this background and the risks within the economic forecast, caution will be adopted within the 2025-26 treasury function. The Executive Director of Finance and Corporate Services will monitor interest rates in financial markets and adapt approach to changing circumstances.

At 31 January 2025, the Council's debt portfolio is weighted in favour of the Public Works Loan Board (PWLB) rather than market lenders and both sources will be considered for future long and short-term loans to meet both capital and revenue requirements. In the current financial year, up to 31 January 2025, five PWLB loans have been arranged using Maturity Loans, these range in interest rates from 4.91% to 5.16%. The strategy previously reported to members of continuing to meet any cashflow shortfalls with temporary borrowings or loans for periods where rates are low, taking account of our current maturity profile, is still considered prudent.

Based on the interest rate forecast in Appendix A, it is likely that short-term borrowings during 2025-26 will be at interest rates between 3.75% and 4.50%. After consideration of the interest rate estimates and the current debt maturity profile, it is expected that long-term loans will be taken at interest rates of approximately 5.40% to 5.80%.

Borrowing

Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the scrutiny of such funds. However, the following self-imposed constraint will remain on borrowing in advance: -

It is limited to no more than the current financial year's requirement, plus 50% of the estimated requirement for the subsequent two years.

The Net Borrowing Requirement, for 2025-26 is £196.819m taking account of planned capital expenditure, maturing debt and estimated redemption from services, and is detailed below:

Estimated Borrowing Requirement 2025-26	**£m**
General Fund Capital to be funded from borrowing	107.723
HRA Capital to be funded from borrowing	112.140
Loans Fund Advance	219.863
Estimated Redemption of Loans fund debt in year	(38.825)
Estimated debt redemption for other long-term liabilities (PPP)	(2.274)
Capital Financing Requirement (CFR)	178.764
Borrowing required to replace Maturing Long-Term Debt	18.055
Net Borrowing Requirement	**196.819**

This borrowing may be taken at any time during the financial year, after due consideration is given to the prevailing costs of borrowing and available forecasts of interest rates. The requirement for the borrowing will also be reviewed at that time.

Debt Rescheduling

Opportunities for debt rescheduling will be kept under review during the year. If opportunities do arise, any savings will be considered in light of the current treasury position and the size and cost of debt repayment (premiums incurred)

The reasons for any rescheduling to take place will include

- the generation of cash savings and / or discounted cash flow savings
- helping to fulfil the treasury strategy
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility)

All rescheduling will be reported to the Cabinet Committee at the earliest meeting following its action.

Annual Investment Strategy

Investment Policy

The Council's investment policy implements the requirements of the Local Government Investments (Scotland) Regulations 2010, (and accompanying Finance Circular 5/2010), and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (the CIPFA TM Code) and CIPFA Treasury Management Guidance Notes 2021.

The above regulations and guidance place a high priority on the management of risk. The Council's investment priorities will be firstly security i.e. safeguarding the re-payment of the principal and interest on time, secondly liquidity and the third objective, and third in order of importance, investment return. The Council has one over-riding risk consideration - that of counterparty security risk.

The Royal Bank of Scotland (RBS) are our current banking providers. It is the view of the Executive Director of Finance and Corporate Services that RBS is as secure as any other institution on our lending list. This means that on an overnight basis we may continue to utilise RBS for depositing balances of up to £10.000m.

The Council is generally in a borrowing position, although it does have daily cash flow surpluses. It is the intention to continue to deposit surpluses in AAA rated money market funds or lend any temporary balances to parties meeting counterparty criteria within approved limits for limited periods in the form of term deposits. However, all activity will be within the constraints of Investment Regulations and the Council's Treasury Management Policy.

Other Investments

In general, no loans to third parties are given, however, from time to time, situations may arise which require individual consideration, and these will be reported to Committee as appropriate.

The Council is party to two Employment Land joint ventures with Scottish Enterprise valued at £2.756m. Any further investments in the form of shares would be subject to Committee approval.

Appendix A

MUFG Corporate Markets

INTEREST RATE FORECAST– 5 FEBRUARY 2025

The Council has appointed MUFG Corporate Markets as its treasury adviser and part of its service is to assist the Council to formulate a view on interest rates. The following table gives MUFG Corporate Markets central view:

Additional notes by MUFG Corporate Markets on this forecast table:

MUFG Corporate Markets Interest Rate View 10.02.25													
	Mar 25	Jun 25	Sep 25	Dec 25	Mar 26	Jun 26	Sep 26	Dec 26	Mar 27	Jun 27	Sep 27	Dec 27	Mar 28
BANK RATE	4.50	4.25	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.50	4.30	4.30	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.50	3.50	3.50
6 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.50
12 month earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.60
5 yr PWLB	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.40	4.30	4.20	4.20	4.10	4.00
10 yr PWLB	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.50	4.50	4.40	4.40
25 yr PWLB	5.80	5.70	5.60	5.50	5.40	5.30	5.20	5.10	5.00	5.00	4.90	4.90	4.80
50 yr PWLB	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.60	4.50

MUFG Corporate Markets

- Our last interest rate forecast update was undertaken on 11 November, in the wake of the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November.
- In the interim period, there has been some general concern over the robustness of the Chancellor's spending policies, the impact of the various tariff policies of President Trump on global inflation, whilst only last week the Bank of England provided forecasts for the CPI measure of inflation to jump to 3.7% in Q3 2025 before falling below the 2% inflation target – albeit only in three years' time.
- Also last week, the Bank of England's Monetary Policy Committee voted 7-2 to cut Bank Rate from 4.75% to 4.5%. The vote was a split vote, with seven members voting for the 25bps cut, but Dhingra and Mann voting for a 50bps cut. Governor Bailey confirmed any further easing in monetary policy would reflect a gradual and careful approach.
- Moreover, the Bank set out a distinctly gloomy backdrop for the economy, with GDP expected to grow only 0.75% in 2025 before improving to 1.5% in 2026 and 2027 respectively.
- Overall, although January proved particularly volatile from a gilt market perspective, our previous forecast has remained resilient. The MPC did cut its Bank Rate to 4.5% as forecast, the 5-year PWLB Certainty Rate is exactly at our previous forecast level for Q1 2025, whilst the 10-, 25- and 50-years' PWLB Certainty Rates are only slightly higher than our previous Q1 2025 forecast.
- Accordingly, we have not felt it necessary to make any material changes to our forecast. Having said that, we acknowledge there may be a presentational problem for the Bank to cut rates in Q3 2025 when inflation is at its peak (based on their forecast), so we anticipate a further rate cut in May but then a pause before further rate cuts are made at the back end of 2025 and in 2026.

PWLB Rates

- Additionally, with there being a fair degree of uncertainty over how tariff policies will evolve not just in the US, but globally, we have lifted our PWLB forecasts by some 20-30bps in some areas. We will also take note of what the Chancellor says when considering the Office for Budget Responsibility's forecast updates on 25 March, and the budgetary headroom that remains.
- Our revised PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps).

Appendix A

MUFG Corporate Markets

Gilt yields and PWLB rates

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

PWLB debt	Current borrowing rate as at 05.02.24 p.m.	Target borrowing rate now (end of Q4 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	4.90%	4.40%	4.20%
10 years	5.28%	4.70%	4.40%
25 years	5.79%	5.10%	4.80%
50 years	5.49%	4.80%	4.60%

Borrowing advice: Our long-term (beyond 10 years) forecast for the neutral level of Bank Rate stands at 3.5%. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

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

Average earnings in each year	Now	Previously
2024/25 (residual)	4.50%	4.60%
2025/26	4.10%	4.10%
2026/27	3.60%	3.70%
2027/28	3.50%	3.50%
2028/29	3.50%	3.50%
Years 6 to 10	3.50%	3.50%
Years 10+	3.50%	3.50%

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

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

Fife Council Treasury Management Strategy Statement and Annual Invesment Strategy 2025-28

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