Havering
LONDON BOROUGH

CABINET

	18 February 2026
Subject Heading:	**Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy 2026/27**
Cabinet Member:	**Councillor Christopher Wilkins** Cabinet Member for Finance
ELT Lead:	**Kathy Freeman** Strategic Director of Resources
Report Author and contact details:	**Mark White** Capital Strategy Manager **Tony Piggott** Treasury Manager
Policy context:	The CIPFA Code of Practice (CIPFA TM Code) on treasury management 2021 recommends that the TMSS is reported to a committee for effective review. This role is undertaken by the Audit Committee, and this report will be reviewed at its meeting on the 24th February 2026.
Financial summary:	The TMSS forms part of the Authority's overall budget setting strategy and financial management framework
Is this a Key Decision?	No
When should this matter be reviewed?	Annually
Reviewing OSC:	Overview and Scrutiny Board

The subject matter of this report deals with the following Council Objectives

People – Supporting our residents to stay safe and well	x
Place – A great place to live, work and enjoy	x
Resource – Enabling a resident-focused and resilient council	x

SUMMARY

The Treasury Management Strategy Statement ("TMSS") is part of the Authority's reporting procedures as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management ("TM") Code and its Prudential code ("The CIPFA Prudential Code") for capital finance in local authorities. The TMSS also sets out recently introduced changes to the legislative framework, which are generally designed to place restrictions on authorities' commercial activity.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA TM Code/Prudential Code and Government Guidance, and it covers:

• The Borrowing and Investment Strategies

• Treasury Management and Prudential Indicators

RECOMMENDATIONS

For the reasons set out in the report and its annexes, Cabinet is asked to:

1. **Recommend to Council for consideration and approval** the 2026/27 Treasury Management Strategy Statement & Annual Investment Strategy

2. **Recommend to Council for consideration and approval** the revised prudential and treasury indicators set out in Appendix 2 and 3

3. **Recommend to Council for consideration and approval** the operational and authorised borrowing limits set out in tables 5 & 6 of appendix 2 noting the rise in limits to £1,588m and £1,658m respectively in 2028/29. The increase is as a result of increased borrowing required to finance the planned capital expenidture and EFS.

4. **Note** the impact the capitalisation direction has on the prudential and treasury indicators, increasing the Capital Financing Requirement to £1,518m by the 31st March 2029 (set out in table 4 of Appendix 2). This in turn leads to capital financing costs charged to revenue as a result of the EFS increasing from £0.8m per year in 2024/25 to £28.6m in 2028/29.

5. **Note** the non-compliance to the Prudential code in relation to affordability and sustainability (section 3.3.4) as a direct result of the Exceptional Financial Support required and the compounding of the interest and repayment costs required.

REPORT DETAIL

1. Introduction

1.1 The statutory Codes set out that the Authority is required to approve a Treasury Management Strategy Statement, and the Prudential Indicators.

1.2 CIPFA define 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.”

1.3 The Authority is required to operate a balanced revenue budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that the Authority’s cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments in accordance with the Authority’s appetite for risk and liquidity requirements, as priorities before considering investment return.

1.4 The other main function of treasury management is to help fund the Authority’s capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning required to meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet the Authority’s risk or cost objectives

1.5 Whilst any regeneration initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure which has its own governance process), and are separate from the day to day treasury management activities. This expenditure is shown throughout this report as the “regeneration programme”.

1.6 The current treasury portfolio is set out in appendix 1.

2. Key Considerations and Sustainability

2.1 TMSS 2026/27

2.1.1 Treasury Management considerations:

- The Macroeconomic outlook
- The Borrowing strategy
- Prudential indicators and treasury limits
- The Investment strategy
- TM regulation and policies

2.1.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA TM Code and the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance.

3. Service Delivery and Performance Issues

3.1 Macro-economic and Interest rate outlook

3.1.1 MUFG Corporate Markets, assist the Authority with determining its view on interest rates. The PWLB forecasts below in table 1 are based on Certainty Rate (the standard rate minus 20 bps (0.2%) which has been available to local authorities submitting a certainty rate return which included a high level description of capital spend and financing plans. In addition to the certainty rate there is also access to a lower HRA PWLB rate (standard rate minus 60 bps) which started on 15th June 2023. This rate is solely intended for use in Housing Revenue Accounts and primarily for new housing delivery.

Table 1: Link interest rate outlook

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

3.1.2 A combination of tepid growth (02.%q/q GDP for Q2 and 0.1% q/q GDP for Q3), falling inflation (currently CPI is 3.2%), and a November budget that will place more pressure on the majority of households income, has provided an opportunity for the Bank of England's Monetary Policy Committee (MPC) to further reduce the Bank Rate from 4.0% to 3.75% on the 18 December 2025 .

3.1.3 Looking forward further cuts in the Bank rate are forecast during 2026/27.

3.1.4 Gilt yields and PWLB rates: The overall trend is for gilt yields and PWLB rates to fall back over the timeline of MUFG Corporate Market's forecast, in table 1 above as inflation continues to fall in 2026.

Table 2: PWLB Rates on 9 January 2026

Duration	Standard Rate %	Certainty Rate %	HRA Rate %
1 year	4.56	4.36	3.96
2 years	4.66	4.46	4.06
5 years	4.96	4.76	4.36
10 years	5.52	5.32	4.92
25 years	6.09	5.89	5.49
50 years	5.87	5.67	5.27

3.1.5 Officers reviewed other economic forecasts and found there is a consensus that rates are trending down. Officers agree that long term borrowing should be on shorter durations (1-5 years) and then refinance on longer term durations when rates are expected to be lower.

3.2 Borrowing Strategy

3.2.1 The revenue budget is, by law, balanced such that income is expected to equal expenditure. However, the timing of government grants and other large items can lead to large variations in the actual daily cash position, for example the average monthly payroll alone is in the region of £10.5m.

3.2.2 As at 31 March 2025 the Authority had cash balances of £117.0m, this had reduced to £18.4m by 31 December 2025. In addition to the variability of cash flow, Capital expenditure, to the extent that it is not financed by government grants, capital receipts or other external funding, has reduced the cash balance. Over time this will be matched by borrowing but it should be noted that the exact timing of the borrowing and expenditure will not match. It should be noted that cash balances were particularly low on the 31st December due to an early salary payment date and the effects of the holiday period. Cash levels have increased immediately after the holiday period and currently are a little above the liquidity buffer of £40m.

3.2.3 The Capital programme spend 2025/26 through to 2028/29 is £1.05bn of which £650m is HRA and £245m is Regeneration. This will change if new government capital grants are announced.

3.2.4 For the reasons set out above the Authority needs to maintain a prudent cash balance to allow it to cover the variability of expenditure. The extent to which borrowing would be required will depend on the movement in cash reserves, working capital, strength of the capital forecast and how much slippage might occur during each financial year.

3.2.5 It is sensible to plan, based on covering the inevitable month on month fluctuations in cash balances to avoid what would in effect be an unplanned, and therefore expensive, short-term overdraft. Based on analysis of the monthly cash variations then £40m has been established as an appropriate cash balance or liquidity allowance.

3.2.6 The underlying need to borrow for the capital programme is measured by the Capital Financing Requirement (CFR). Havering like most authorities has set its external borrowing below the CFR level. This means that the CFR, has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

3.2.7 Against this background and the risks within the economic forecast, caution will be exercised on 2026/27 treasury operations. The Strategic Director of Resources in conjunction with the Treasury Manager will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then long term borrowing will be postponed.

- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

3.2.8 Plans are also in place to undertake in year HRA long term borrowing on short durations to meet the borrowing need whilst interest rates remain below the budgeted rate in the HRA business plan.

3.2.9 Potential borrowing sources are set out below:

Approved sources/type of borrowing

On Balance Sheet

	Fixed	Variable
PWLB	•	•
Municipal bond agency	•	•
Local authorities	•	•
Banks	•	•
Pension funds	•	•
UK Infrastructure Bank	•	•
Energy Efficiency Fund MEEF	•	•
Overdraft		•
Negotiable Bonds	•	•
Internal reserves & balances	•	•
Finance leases	•	•

3.2.10 The preferred strategy, as agreed with MUFG Corporate Markets at this stage is to borrow for fixed term loan durations less than 5 years from the either the PWLB, Market (Long term and temporary), Local authorities, Banks depending on who is offering better terms for a relatively short term duration (up to 5 years), to minimise the immediate interest rate costs. These sources represent the cheapest and most accessible source for shorter duration debt and for borrowing of this size. This will then be refinanced as part of the longer-term borrowing strategy once interest rates start to come off their current elevated levels. The option to use quasi government loans from the UK Infrastructure Bank (UKIB) for new long term borrowing may also be used on specific capital projects which typically provide Environmental, Social and Governance (ESG) outputs where they provide value for money over PWLB certainty rates.

3.2.11 Interest rates may not follow the central outlook set out in this report and there is a significant risk that they may remain elevated for longer or increase due to unknown factors such as geopolitical events. In this scenario, the Strategic Director of Resources in consultation with the Cabinet member for Finance may decide from a risk management point of view that it would be sensible to secure the capital investment strategy, if longer term borrowing from one of the approved sources set out above was undertaken sooner than later. This may result in a higher cost of borrowing than planned but capital plans will be regularly monitored to ensure they remain affordable and sustainable.

3.2.12 As it stands the PWLB is currently the most cost effective source except possibly on specific ESG related capital plans. Treasury officers and MFUG Corporate Markets will constantly monitor the capital finance market to identify the most cost effective source of long term borrowing from the above list of approved sources of capital finance.

3.2.13 Other borrowing arrangements: such as the use of leasing, specialist 'green' funding that may be more cost efficient for some types of capital expenditure such as for vehicles, equipment and decarbonisation schemes.

3.2.14 The type, period, rate and timing of new borrowing will be determined by the Strategic Director of Resources under delegated powers, taking into account the following factors

- Expected movements in interest rates as outlined above
- Maturity profile of the debt portfolio set out in graph 1 and table 3 below.
- The impact on the medium term financial strategy (MTFS)
- Proposed Prudential Indicators and limits as set out in appendix 2.

Graph 1: Debt Maturity Profile as at 31/12/25

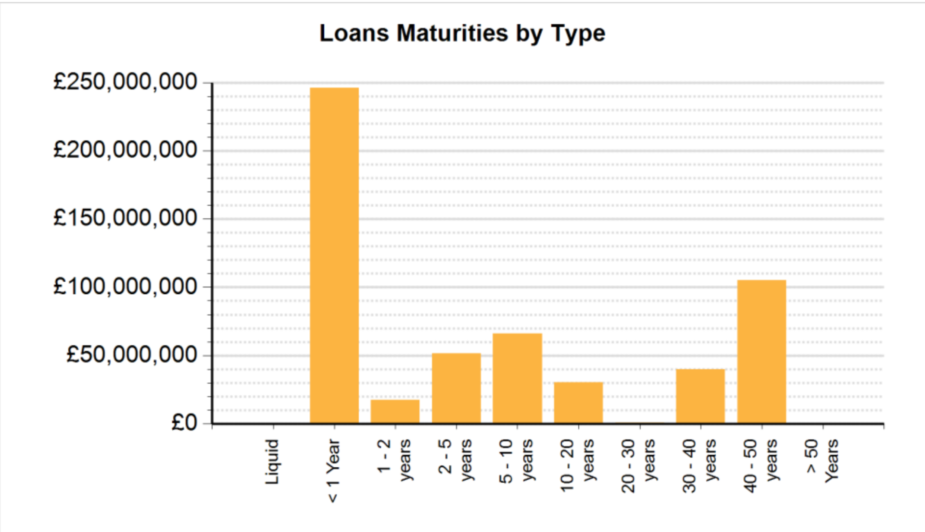

Table 3: debt maturity profile as at 31/12/25

Duration	Amount £'000	% of total %	Average rate %
< 1 year	256.0	45.2	4.51
1 to 2 years	17.5	3.1	3.11
2 to 5 years	51.5	9.1	3.24
5 to 10 years	66.1	11.7	3.32
10 to 20 years	30.2	5.3	3.48
20 to 30 years	0.6	0.1	0.38
30 to 40 years	40.0	7.0	4.78
40 to 50 years	105.0	18.5	1.53
Total	**566.9**	**100**	**3.62**

Policy on borrowing in advance of need

3.2.15 This is set out in appendix 4 of this report.

Debt Rescheduling

3.2.16 Where short term borrowing rates are considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will be considered in the light of the current treasury position and the size of the 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
- To fulfil the treasury strategy
- To enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility)
- Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

3.3 CIPFA Prudential Code

3.3.1 The CIPFA Prudential Code sets out a statutory framework designed to ensure that capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are aligned with an authority's long-term financial position.

3.3.2 The Prudential Code requires authorities to demonstrate:

- Affordability – capital investments and borrowing plans must be affordable in both the short and long term, with particular emphasis on the revenue implications of borrowing (i.e. interest and MRP) and their impact on the revenue budget.

- Prudence – borrowing must not exceed the Authority's Capital Financing Requirement (CFR) except in the short-term and must not be undertaken for revenue purposes unless exceptional financial support has been granted.
- Sustainability – external debt levels and the associated ongoing revenue costs must be sustainable over the life of the capital plans and beyond
- Risk Management – authorities must consider the risk associated with interest rates, cash flow, refinancing, exposure to commercial risk and long-term liabilities
- Transparency and decision making – indicators must be approved by Council, monitored regularly and clearly reported

3.3.3 The Authority is required to set and monitor a suite of prudential indicators, most of which are contained in Appendix 2. These indicators provide assurance to Members that the capital plans and treasury strategies meet the code requirements. A review of the Authority's forecasts against each of the key indicators confirms that the proposed capital programme is compliant with the requirements of the CIPFA prudential code with the assessment summarised later in this section.

3.3.4 Whilst the capital programme can be demonstrated as fully compliant with the Prudential Code, what does not meet the affordability and sustainability requirements of the code is the projected borrowing as a result of the exceptional financial support. Projected borrowing as a direct result of the increase in CFR from the EFS leads to further compounding of capital financing costs leading to an even higher borrowing requirement.

3.3.5 With no solution to the revenue pressures which is further compounded by the additional financing costs associated with the borrowing for the EFS, unless borrowing specifically for the EFS can be provided with no additional cost to revenue, then the financial situation is simply not affordable nor sustainable. This would be in full breech of the Prudential Code but not as a result of the capital programme which is set to try and ease revenue pressures through the large regeneration projects and invest to save initiatives which support the revenue budgets.

3.3.6 The non-compliance with the code is clearly shown in the EFS Prudential Indicators, a key requirement of the code, where the GF borrowing requirement rises from the current figure of £30m for EFS, up to £346m in just 4 years (Appendix 2, table 4).

3.3.7 The increase in the statutory charge to revenue as a result of the forced increased borrowing to fund the EFS means an increase from the 24/25 figure of £760k to a staggering £28.6m in 2028/29, a time period of just 4 years. With further compounding of interest and borrowing repayments to follow, the financial situation is clearly not in the least affordable or sustainable and therefore non-compliant with prudential code.

3.3.8 There is no better indication of the impact this will have on residents than to show the financing costs from EFS as a ratio of income from Council Tax (Appendix 2, table 9). Currently the ratio was just 0.5% in 2024/25 but based on the current forced borrowing required as part of the EFS, this increases to almost 15%.

Effectively meaning 15% of a residents Council Tax bill is going towards the financing costs due to the Council being underfunded rather than helping support front line services.

3.3.9 Setting aside the impact of the EFS on Authority's finances which have been shown to be non-compliant with the Prudential Code, the remaining GF and HRA capital programmes can be demonstrated as fully compliant with the code, though not without risks.

3.3.10 **Affordability and Sustainability Indicators** – These indicators consider the extent to which revenue consequences of capital investment place pressure on the Authorities finances and are driven by the capital financing requirement or underlying need to borrow (Appendix 2, table 4). Borrowing as a result of service spending over the 4 year period prescribed by the code only increases from £156m in 2024/25 to £197m in 2028/29, less than £10m per year. Regeneration borrowing climbs higher rising from £90m to £246m over the same time period however this supports a large programme of regeneration which, whilst not being the primary objective, generates significant revenue income to offset the financing costs.

3.3.11 This is demonstrated by showing percentage of financing costs to Council Tax yield (Appendix 2, table 9) where borrowing as a result of service capital spend increase by just 1% in 4 years rising from 8.2% to 9.2% in 2028/29. The same increase relating to regeneration capital spending is under 5%. The growing cost of servicing the additional service and regeneration borrowing is carefully managed and built into the MTFS often offset by additional income streams as a result of the capital spend.

3.3.5 **HRA Affordability Indicators** – the HRA CFR is forecast to rise from £430.9m to £729.1m by the 31st of March 2029 (set out in appendix 2, table 4). While the code permits no MRP charge within the HRA, the revenue impact is borne through higher interest costs. With financing costs approaching 50% of rental income, there is an affordability constraint that may limit future investment capacity but is not considered to be unaffordable.

3.3.6 Given the growing size of the HRA borrowing requirement, Long-term HRA borrowing will only be undertaken when rates are favourable to ensure financing costs remain stable.

3.3.7 Whilst these affordability and sustainability indicators show compliance with the code, they do highlight significant affordability pressures, and the need for continuous monitoring and mitigation.

3.3.8 **Borrowing and the Capital Financing Requirement** – The Prudential Code requires that gross external borrowing does not exceed the CFR over the medium term. Table 7 in appendix 2 shows that forecast gross external debt over the medium term is within the CFR forecasts and thus demonstrating that the Authority is maintaining a prudent level of internal borrowing and continues to comply with the Code's requirement not to borrow above need.

3.3.9 **Operational Boundary and the Authorised Limit** – The Authority's external debt forecasts over the MTFS period remain within both the Operational boundary and the Authorised Limit, as set out in tables 5 and 6 of Appendix 2. These limits reflect the maximum prudent and legal borrowing levels. This confirms compliance with the statutory borrowing controls under the local Government Act 2003 and the Prudential Code.

3.3.10 **Risk Management** – While the Authority faces significant risks arising from the increasing levels of debt, the revenue impact of servicing that debt, and exposure to movements in interest rates, a comprehensive suite of mitigation actions is already in place. These measures ensure that the Authority remains compliant with the Prudential Code through the combination of:

- Disciplined treasury management
- Strengthened cash flow control
- Integration with the MTFS
- Enhanced governance
- Robust oversight of regeneration and HRA business plan through the respective boards

3.3.11 HRA and regeneration business plan updates all include detailed stress-testing of rent levels, inflation assumptions and other key data inputs to ensure risk management is maintained at a high level.

3.3.12 The authority has a clear, credible and proactive approach to mitigating the key risks arising from its debt profile and capital plans. These measures support continued compliance with the Prudential Code and help ensure the long-term risk management of the Authority's financial strategy.

3.3.12 **Transparency and Decision Making** – to ensure transparency and compliance with the Prudential Code the reporting of treasury to Cabinet and Members is set out in section 3.5.1 below and meets regulatory requirements. In addition to the statutory reporting, the treasury position is reported monthly to the lead Member for Finance with additional supplementary reports submitted to Audit Committee which meets on a quarterly basis.

3.3.13 Any material deviation from the approved indicators (e.g. CFR changes, rising finance costs, or liquidity risks) will be reported promptly to Cabinet, Audit Committee and the S151 officer.

3.3.14 the above approach ensures that Members maintain a clear line of sight over emerging risks relating to the treasury and capital functions and can take timely corrective action ensuring that the Prudential Code is adhered to.

3.3.15 The CIPFA Prudential Code and the CIPFA TM Code requires authorities to set treasury indicators The treasury indicators limit treasury risk and activities of the Authority; This includes a liability benchmark for the General Fund (GF) and the Housing Revenue Account (HRA); appendix 3.

3.3.16 The purpose of these is to manage the activity of the treasury function within a flexibly set remit for risk management yet not impose undue restraints that constrict opportunities for cost reduction or performance improvement.

3.3.17 Overall Conclusion – Based on the indicators set out in Appendix 2 the Authority meets the requirements of the CIPFA Prudential Code and remains compliant with all statutory borrowing limits so far as the setting of the capital programme is concerned. However, the forecasts do demonstrate that the Authority is entering a period of significant financial risk driven by:

- Rapidly rising CFR and debt servicing costs for both the GF and HRA
- Increased reliance on short-term borrowing
- Higher exposure to interest rate and refinancing risk
- Growing pressure on both the GF and HRA revenue budgets

3.4 Investment Strategy

3.4.1 The MHCLG and CIPFA have extended the meaning of 'investments' to include both treasury and non-treasury investments. This report deals solely with treasury investments, (as managed by the treasury management team). Non Treasury investments are covered in the capital strategy report.

3.4.2 The Authority's investment policy has regard to the following:

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA TM Code and Guidance Notes from 2021.

3.4.3 The key intention of the Guidance is to maintain the requirement for authorities to invest prudently and that priority is given to the security and liquidity of investments before yield. The Authority's objective is therefore to achieve, within this constraint, the optimum return on its investments with the appropriate levels of security and liquidity. Within the prudent management of its financial affairs, the Authority may temporarily invest funds that are borrowed for the purpose of expenditure expected to be incurred in the reasonably near future. Borrowing purely to invest or on-lend for speculative purposes remains unlawful and this Authority does not engage in such activity.

3.4.4 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and, its minimum credit criteria is set out in Appendix 5. The Authority's investment strategy has not changed from the 2025/26 TMSS which was approved by full Council as part of the 2025/26 budget setting process.

3.4.5 Investments will refer to the core balance, cash flow requirements and the outlook for short and medium term interest rates.

3.4.6 Credit ratings should not be the sole determinant of the quality of an institution. This Authority is not bound by the institution's rating and, importantly, officers will continually assess and monitor the financial sector and the economic/political environment in which institutions operate.

3.4.7 Treasury investment instruments identified for use in the financial year are listed in Appendix 6. The ‘specified’ and ‘non-specified’ investment categories are in accordance with the MHCLG Investment Guidance.

3.4.8 The Strategic Director of Resources, on advice, may make operational changes to these limits in response to prevailing market conditions and regulatory changes. Presently the Authority’s operational lending list only includes the highest quality UK financial institutions, other local authorities (limit of £10m per authority) and the Government Debt Management Office – investment balances are expected to be generally around the liquidity allowance of £40m and these are generally held on very short duration investments.

3.4.9 All investments will be denominated in sterling.

3.4.10 Regular monitoring of investment performance will be carried out during the year.

Loans to Third Parties or Non-Treasury investments

3.4.11 The Authority may borrow to make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). This facility is likely to be used to support local economic regeneration and development activity but not limited to those purposes. The additional capital expenditure may be funded by external borrowing. Loans for working capital or revenue purposes are permitted as long as these are funded from the Authority’s internal cash balances as external borrowing is not permitted in such circumstances.

3.4.12 Pension Fund Cash - The Local Government Pension Scheme (Management and Investment) Regulations 2016 requires the Authority to maintain a separate bank account for the Pension Fund. For the management of Pension Fund cash, there is in place an agreement to pool internally held pension fund balances (working cash and those pending external investment) with the investment balances of the Authority. These balances are invested in accordance with the Authority’s Treasury Management Strategy.

3.4.13 The Pension Fund receives interest annually on their cash balances at a rate commensurate with that received by the Authority. Pension Fund cash balances may be withdrawn at any time. In the event of loss of any investment, this will be borne on a pro rata basis equivalent to the value of each party’s contribution to the investment which incurred the loss.

3.5 Treasury Management Regulation

3.5.1 Statutory reporting requirements

3.5.2 Council is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals in accordance with the CIPFA TM Code.

a. **Prudential and treasury indicators and Treasury Strategy, TMSS** (this report) - The first, and most important report is forward looking and covers:

- The capital plans, (including prudential indicators)
- The Treasury Management Strategy Statement, (how the investments and borrowings are to be organised), including treasury indicators
- An Investment Strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management** report – a progress report and updates Members on the capital position, amending prudential/treasury indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – a backward looking review document providing outturn details on actual prudential and treasury indicators and treasury activity compared to the estimates within the strategy.

3.5.3 The above reports are required to be adequately reviewed before being adopted by Full Council. This role is undertaken by the Audit Committee.

3.5.4 The minimum revenue provision policy is included in the 5 Year Capital Programme and Strategy Report which is presented to Cabinet alongside the Budget report.

Training

3.5.5 A key requirement of the CIPFA TM Code is Member consideration of treasury management matters and the new Knowledge and Skills framework set out in the revised CIPFA TM Code published in December 2021.

3.5.6 Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

3.5.7 The Authority addresses this important issue by:

- Providing training sessions, briefings and reports on treasury management and investment issues to those Members responsible for the monitoring and scrutiny of treasury management.

- Prepare tailored learning plans for treasury management officers and board/council members.

- Require treasury management officers and Committee/Council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).

- Requires all relevant Officers to keep their skills up to date through training, workshops and seminars, and participating in the CIPFA Treasury Management Forum and the London Treasury Officers' Forum.

3.5.8 In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', that officers will circulate annually to members for completion.

The policy on use of external service providers

3.5.9 The Authority uses MUFG Corporate Markets as its external treasury management adviser; the contract was procured through a framework and commenced on 1 July 2024 and is due to expire on 30 June 2029.

3.5.10 The Authority recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

3.5.12 The Authority may use specialist advisers on non-treasury investments, e.g. investment in regeneration schemes.

REASONS & OPTIONS

Reasons for the Decision

The statutory Codes set out that the Authority should approve a Treasury Management Strategy Statement, and the Prudential Indicators.

Alternative Options Considered

The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The S151 officer, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on Income and Expenditure	Impact on Risk Management
Invest in a narrower range of counterparties and/or for shorter duration	Interest income will be lower	Lower chance of losses from credit related defaults, but any such loss may be greater
Invest in a wider range of counterparties and/or for longer duration	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; Non HRA debt cost 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

IMPLICATIONS & RISKS

Financial Implications and Risks

The TMSS is a key part of the overall budget strategy and financial management framework and governs the strategic and operational treasury management activities throughout each financial year to manage the Authority's financial risks associated with cash management via borrowing and investments.

Members are approving the programme on the basis that the capital programme spend is achieved, which feeds through into the Prudential Indicators set out in the report. The reality is that there is likely to be slippage and this will impact on the MTFS.

The assumption for new borrowing is that interest rates will follow the outlook set out in table 1 above. The expectation is that borrowing will be on fixed rate terms on maturities less than 5 years and that these will be refinanced into longer term >5y loans once longer term interest rates become lower:

Legal Implications and Risks

Local Authorities are required by Regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146 as amended to have regard to the "Prudential Code for Capital Finance in Local Authorities" and Treasury

Management in the Public Services Code of Practice published by CIPFA when considering their duties under Part 1 of the Local Government Act 2003. The Authority must comply with section 3 of the Local Government Act 2003 to keep under review the amount of money the Authority can afford to borrow. The Authority has fiduciary duties toward its taxpayers to act in good faith in the interests of those taxpayers with the considerable sums of money at its disposal. The Strategies being proposed for approval seek to discharge those duties in a reasonable and prudent manner.

There are no other apparent legal implications arising from of this Report.

Human Resource Implications and Risks

There are no direct Human Resources implications arising because of this report

Equalities Implications and Risks

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010.
(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not.
(iii) Foster good relations between those who have protected characteristics and those who do not.

The Authority is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. There are no equalities implications within this report

Health and Wellbeing Implications and Risks

The Authority is committed to improving the quality of life and wellbeing for all Havering employees and residents in respect of socioeconomics and health 20 determinants. There are no direct implications to the Authority’s workforce and resident’s health and wellbeing because of this report.

Climate Change Implications and Risks

There are no climate or environmental implications arising from this report; however the Council can make significant impact via future investment opportunities and operational changes. Numerous changes have already been made to ensure that climate is a key consideration when making investments. In line with the Council's climate change ambitions of becoming carbon neutral by 2040, investment activities will continue to contribute towards achieving this target, once requirements for the security and liquidity of investments have taken precedence.

BACKGROUND PAPERS

None

APPENDICES

Appendix 1: Current treasury position

Appendix 2: Prudential indicators & capital expenditure

Appendix 3: Treasury limits

Appendix 4: Policy on borrowing in advance of need

Appendix 5: The Authority's counterparty credit policy, minimum credit ratings criteria

Appendix 6: Specified and non-specified investments