Annex 1

Surrey County Council

Capital, Investment and Treasury Management Strategy 2024/25

1. INTRODUCTION

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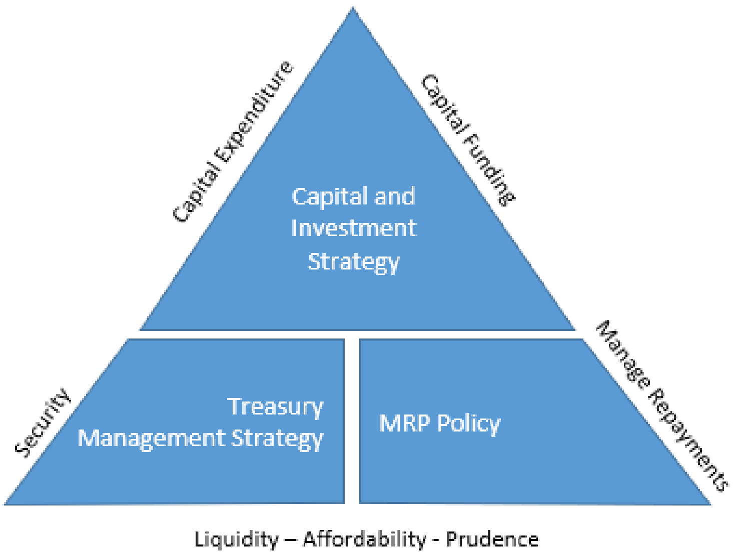
1.1 The Capital, Investment and Treasury Management Strategy provides an overview of the three main components of capital planning. We have chosen to amalgamate the strategies into a single document because the Capital Programme, our Investment Strategy and our approach to Treasury Management cannot operate independently of one another. They are parts of an overall approach:

- **Capital expenditure and investments:** the Capital Programme; supporting Corporate and Directorate priorities and the Investment Programme; generating income and supporting economic growth;
- **Financing our capital plans, and maintaining liquidity:** the Treasury Management Strategy; setting out how the capital programme will be financed and how cash investments will be managed; and
- **Repaying our debt in a prudent way:** the Minimum Revenue Provision (MRP) Policy, setting out how we use the revenue budget to repay debt.



This report sets out a high-level overview of how capital expenditure, capital financing, investments and treasury management activity contributes to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.2 The strategy sets out a clear picture of the ambition of the Council regarding capital expenditure and investment plans, within the financial constraints, risk appetite and regulatory framework that the Council operates.

1.3 The strategy is presented in the following elements, that set out the Council's approach to capital, investment and treasury management:

a. Capital Overview - asset management, capital expenditure planning, risk management and long-term sustainability of capital expenditure plans (Section 2)

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b. Investment Overview – setting out investment plans focusing on the approach to service and commercially led investment (Section 3);

c. The Treasury Management Strategy Statement (TMSS) – setting out how we borrow and invest to support our capital financing requirement (Section 4)

d. The Minimum Revenue Provision (MRP) Policy – setting out how we repay capital borrowing (included as the final page of this document, Annex G to the Budget)

1.4 Decisions made this year on capital, investment and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

1.5 Our strategy will:

- Set out how we ensure that capital expenditure contributes to the achievement of corporate priorities and the organisation strategy;
- Explain how the Capital Programme is financed and demonstrate that it is affordable and sustainable;
- Explain the Council's approach to investments; and
- Set out and fulfil the Council's regulatory requirements in respect of Borrowing, Treasury Management and Investment.

2. CAPITAL OVERVIEW

Capital Expenditure and Financing:

2.1 The Council incurs two types of capital expenditure:

- the service delivery Capital Programme
- the Capital Investment Programme

2.2 The Council's capital expenditure and financing plans over the medium-term provide an overview of the governance arrangements for approval and monitoring of expenditure. In relation to commercial investment activities, the plan sets out the due diligence process and the Council's risk appetite in respect of these, including proportionality in respect of overall resources.

2.3 This section includes a projection of the Council's capital financing requirement and how this will be funded and repaid. It links to the Council's borrowing strategy and sets out the Council's statutory duty to make an annual revenue provision for the repayment of debt, detailed in the MRP Policy (Annex G to the Budget).

Capital Expenditure

2.4 Capital expenditure refers to Local Authority spending on assets such as infrastructure, property or vehicles that will be used for more than one year. In Local Government this includes spending on assets owned by other bodies and loans and grants to other bodies, enabling them to buy assets.

2.5 In the 2024/25 Budget and 5-year Medium Term Financial Strategy to 2028/29, the Council has a total capital expenditure requirement of £1.927bn, as summarised in Table 1. Our capital expenditure can be broken into three categories:

- Approved Capital Budget of £1,291m
- Capital Pipeline of £611m, schemes that represent the capital ambitions of the Council but are subject to further detailed business cases and Member approval.
- Capital Investments of £25m. This represents expenditure on existing investment assets, ensuring the Council's compliance with the Prudential Code.

Table 1 - Estimates of Capital Expenditure

	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget	Total Budget 2024/25 - 2028/29
	£m	£m	£m	£m	£m	£m	£m	£m
Capital Programme - Budget	202	268	405	344	231	164	147	**1,291**
Capital Programme - Pipeline	0	68	121	250	127	60	53	**611**
Sub-total Capital Programme	202	336	526	594	359	223	201	**1,902**
Capital investment	0	0	23	2	0	0	0	**25**
TOTAL	**202**	**336**	**549**	**596**	**359**	**223**	**201**	**1,927**

2.6 Our medium-term approach to financial planning means we will deliver an ambitious Capital Programme of c£1.902bn over the next 5 years, if all pipeline proposals are approved. The revenue implications of this proposed programme are integrated and factored into the Medium-Term Financial Strategy (MTFS) to 2028/29.

2.7 Planned capital investment will deliver significant investment in:

- The development of a greener future through the Net Zero 2030 and 2050 carbon reduction schemes and other projects contributing to the carbon and green agenda such as solar farms, electric charging points, low emission buses and vehicles;
- A Highway Maintenance programme delivering improvements to roads and footways across the County;
- A reconfirmed commitment to Surrey's sustainable future and that of its residents and businesses, through significant investment in flood alleviation works; a once in a generation opportunity to build flood defences, country parks and green space;
- Community led projects in our towns and high streets with £30m available across 2024/25 and 2025/26 through the Your Fund Surrey scheme;
- Developing Farnham town centre and surrounding infrastructure;
- Creating a number of sites to look after our vulnerable older adults, through building Extra Care and Independent Living accommodation where residents can live independently for longer and integrate into the community;
- Delivering additional local places for children with Special Educational Needs and Disabilities – a key part in containing costs within the revenue budget;
- Providing additional capacity in schools, to provide a rich education with Schools Basic Needs funding;

- Investment in in-county alternative provision places and improvements for improved pupil support
- Investment in libraries across the County;
- Maintaining and developing our road infrastructure to help grow a sustainable economy, deliver safer and greener routes; and
- Accelerating our Property Rationalisation and Agile Corporate Estate Programme.

2.8 Capital projects are subject to a rigorous governance process to ensure they are aligned with the Council's priorities of:

- Growing a sustainable economy so everyone can benefit;
- Tackling health inequality;
- Enabling a greener future; and
- Empowering communities.

2.9 Fundamentally, they are approved on the principles of strategic fit, value for money, affordability and deliverability. Projects need to demonstrate value for money and that they are capable of being delivered within expected timescales.

2.10 Strategic Capital Groups (SCGs) for Infrastructure, Property and IT develop projects throughout the budget setting process which are scrutinised and approved by the Capital Programme Panel (CPP); a group of senior officers from across the organisation, including the Council's Deputy S151 officer and senior service representatives. Projects approved by CPP are then included in the budget when approved by Cabinet and Council. Fig 1, below summarises this process.

Fig 1: Capital Approval Process

	Strategic Mandate	Business Case	Delivery
Capital Strategy Groups	Strategic Mandates are developed and submitted to CPP	Approve Low Governance Schemes already in the budget where: Up to £1m and already been to Cabinet OR Up to 250k if not already been to Cabinet	Approve variations in scheme cost up to 10% and £250k
Capital Programme Panel	CPP approve Strategic Mandates	Approve Medium Governance Schemes where: Been to Cabinet and already in budget OR Up to £1m	Approve variations in scheme cost up to 10% and £500k
Cabinet		Approve High Governance Schemes or over £1m	Approve variations in scheme cost over 10% and £500k

Capital Funding

2.11 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiatives). The planned financing of the expenditure set out in Table 1 is as follows:

Table 2 - Capital Financing

	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget	Total Budget 2024/25 - 2028/29
	£m	£m	£m	£m	£m	£m	£m	£m
Grants and Contributions	91	127	139	200	139	74	54	**605**
Revenue budgets	6	6	6	6	6	6	5	**30**
Capital receipts	26	47	31	30	22	15	10	**107**
Borrowing	79	156	372	360	193	129	131	**1,185**
TOTAL	**202**	**336**	**549**	**596**	**359**	**223**	**201**	**1,927**

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2.12 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Council currently has no plans to use flexible use of capital receipts from 2024/25 onwards.

2.13 Table 2 above, shows the planned usage of £107m of capital receipts from the sale of Council assets to finance expenditure from 2024/25 onwards. Receipts are only included as sources of financing when there is a high level of confidence over the value and timing of their delivery. This approach is taken to ensure a prudent estimate of borrowing is factored into capital plans and included in the revenue budget for finance costs.

2.14 **Additional borrowing** of £372m for 2024/25 consists of £349m to fund the Capital Programme (detailed in the Capital Budget – See Annex C to the 2024/25 Budget and MTFS to 2028/29) and £23m to fund capital investment activities (as set out in Table 1).

2.15 Borrowing is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). The Council's forecast MRP over the MTFS is set out in the following table and is based on the full MRP policy (Annex G).

Table 3 - Repayment of Debt Finance through Minimum Revenue Provision

	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget
	£m	£m	£m	£m	£m	£m	£m
MRP	24	27	32	40	49	54	59

2.16 The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure on service delivery and on investments and reduces with MRP and capital receipts used to replace debt.

2.17 Based on the above figures for expenditure and financing, the Council's estimated CFR over the medium-term is set out in table 4.

Table 4 - Prudential Indicator: Estimates of Capital Financing Requirement

As at 31st March	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget
	£m	£m	£m	£m	£m	£m	£m
Capital Programme	935	1,069	1,390	1,713	1,861	1,939	2,015
Investment Programme	448	439	453	446	437	428	420
TOTAL CFR	**1,382**	**1,508**	**1,844**	**2,159**	**2,298**	**2,367**	**2,435**

2.18 Our capital plans lead to a £927m increase in the estimated CFR over the five-year period, from £1.508bn to £2.435bn (£1,185m of additional borrowing (see table 2), offset by £234m of MRP payments (see table 3) and £24m of PFI and finance lease adjustments). The revenue implications of this are set out below.

Revenue Budget Implications

2.19 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans, and MRP are charged to revenue, offset by any investment income receivable. This is referred to as net financing costs.

2.20 Current projections show that net financing costs, contained within the central income and expenditure budget projections over the MTFS, rise from a net £40m in 2024/25 to £92m net in 2028/29. The gross and net costs of financing our capital plans are set out in the table, below.

Table 5 – Net Finance Cost

	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget
	£m	£m	£m	£m	£m	£m	£m
MRP (not including PFI)	24	27	32	40	49	54	59
Interest Cost	18	20	30	39	44	49	53
Finance Cost	**42**	**47**	**62**	**79**	**93**	**103**	**112**
Investment Income	(19)	(23)	(22)	(21)	(20)	(20)	(20)
Net Finance Cost	**23**	**23**	**40**	**58**	**73**	**84**	**92**

2.21 The proportion of finance cost to net revenue stream is a key indicator of direction of travel relative to medium term revenue resources and provides insight into the affordability of finance costs. Full revenue implications of net finance cost are set out in the TMSS (section 4.46 onwards).

2.22 The Council's finance costs are increasing as a proportion of the net revenue budget, which is expected with an expanding Capital Programme, rising from c.5% in 2024/25 to 9% in 2028/29. This is increase is partially contained through schemes enabling delivery of revenue efficiencies or income generation that finance themselves and offset pressure on the central income and expenditure budget.

2.23 The below schemes are included in the Capital Programme on the basis of covering their own financing costs over the MTFS:

Approved Budget - £73m total spend over MTFS

- £29m – Looked After Children Schemes

- £21m – ASC Supported Independent Living – Learning Disabilities Phase 1
- £7m – Sunbury Hub
- £6m - Surrey Outdoor Learning and Development
- £6m – Caterham Hill Library
- £3m – WAN / WiFI Refresh
- £1m – Various smaller schemes

Pipeline – £219m (to be approved after scrutiny of value for money, sustainability and assessment of deliverability)

- £64m – Greener Futures – Net Zero 2030 target
- £39m – ASC Supported Independent Living – Learning Disabilities Phase 2
- £34m – ASC Extra Care Housing Phases 1b, 2 and 3
- £21m – Materials Recovery Facility
- £12m – 2030 Solar Power Purchase Agreement
- £11m – ASC Supported Independent Living – Mental Health
- £6m – ASC Independent Living Short Breaks
- £5m – Agile Office Estate Strategy
- £5m – Surrey Outdoor Learning & Development
- £4m – Biodiversity Net Gain
- £4m – Household Loan Scheme
- £4m – SME decarbonisation loan scheme
- £3m – Camberley Hub
- £2m – Basingstoke Canal Campsite Improvements
- £2m – Surrey Farms Investment Plan
- £2m – 2050 – Heat as a service
- £1m – 2050 – Investment in decarbonisation schemes to draw in carbon offset / inset finance
- £1m – Transformation Scheme – Libraries Open Access
- £1m – Various smaller schemes

Financial Sustainability

2.24 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred over the MTFS will extend for up to 50 years into the future. The Section 151 Officer is satisfied that the proposed Capital Programme is prudent, affordable and sustainable, because it remains proportional to the Council's overall revenue budget.

Environmental Sustainability

2.25 Capital expenditure over the next 5-year period includes c.£638m of schemes that will contribute to carbon reduction, action on climate change and enabling a greener future. Of this spend, c.£386m is included for schemes in the approved budget and a further c.£252m for schemes in the pipeline, which are subject to ongoing development, scrutiny and challenge before being approved. The Council will continue to take direct action on environmental sustainability for future generations as part of the Carbon Net Zero targets set for 2030 and

2050. The Council has brought in expertise to better understand and report on carbon impacts of the Capital Programme and to set established processes for assessing capital plans and capturing necessary information for business case scrutiny and benefits realisation.

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3. INVESTMENT OVERVIEW

3.1 In addition to service-led capital expenditure, the Council has invested its money for a further three broad purposes:

- To support local public services by setting up, lending to or buying shares in other organisations (service investments);
- To earn investment income (known as commercial investments where this is the main purpose); and
- As a result of surplus cash from its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments);

3.2 This investment strategy meets the requirements of the statutory guidance issued by the government in January 2018 and focuses on the first and second of these categories.

3.3 The statutory guidance defines investments as “all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios.” The Council interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Council’s definition of an investment with that in the 2021 edition of the CIPFA Prudential Code.

Service Investments: Loans and Equity

3.4 **Overview:** The Council invests money in its subsidiaries and other organisations to support local public services and stimulate local economic growth. Subsidiaries of this nature include:

- Hendeca Group Ltd – a Local Authority Trading Company (LATCo) wholly owned by the Council for the provision of business services.
- Surrey Choices Ltd – a LATCo, wholly owned by the Council to deliver support options for young people and adults with a range of disabilities.

3.5 **Security:** 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 and ensure that total exposure to service loans remains prudent, decisions on service loans are made in the context of their value, the stability of the counterparty and an assessment of the risk of default. The current value of service loans is set out as follows:

Table 6 - Loans for service purposes in £ millions

Category of borrower	31.3.2023 actual			2024/25
	Balance owing £m	Loss allowance £m	Net figure in Accounts £m	Approved Limit £m
Subsidiaries	2	-	2	10

3.6 Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's Statement of Accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum advanced and has appropriate credit control arrangements in place to recover overdue repayments. In the case of our service loans, these allowances are nil.

3.7 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding service loans by reference to their financial position, past experience and other factors. We wholly own our subsidiaries for service purposes and so their financial position is subject to the same rigour and control as that of the Council.

Commercial Investments: Property

3.8 **Overview:** The Council holds investments in local commercial property; office space, leisure and retail, with the intention of supporting Surrey's economy and generating a surplus that will be spent on local public services. The table below shows the value of our investments by main category, including those under construction where the ultimate use is to be determined.

Table 7 - Property held for investment purposes in £ millions

Property	Actual	31.3.2023 actual		31.3.2024 expected	
	Purchase cost £m	Gains or (losses) £m	Closing Value £m	Gains or (losses) £m	Closing Value £m
Office	117	(23)	**94**	0	**94**
Retail	6	(4)	**2**	23	**25**
Leisure	1	1	**2**	0	**2**
TOTAL	**124**	(27)	**98**	23	**121**

3.9 **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at, or higher than, its purchase cost including taxes and transaction costs. A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. The Council holds investment properties for long-term rental income, and short-term fluctuation in investment values can be expected.

3.10 Our investment properties operate in a challenging commercial environment, with particular pressure on retail. We continue to explore mitigating actions to protect the capital invested, such as alternate uses where appropriate.

Commercial Investment – Equity Investments and Loans

3.11 **Overview:** The Council wholly owns Halsey Garton Property Ltd (HGP) which has a portfolio of national investment properties used to generate a return to the Council. The Council also wholly owns Halsey Garton Residential Ltd (HGR), which holds a portfolio of Surrey-based residential properties. The financial return from both companies takes the form of interest on the outstanding loan and dividend payments (where possible). The total value of our investment in HGP and HGR as at 31st March 2023 is set out below.

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Table 8 - Equity and Loans to HGP and HGR in £ millions

Category of Investment	31.3.2023 actual		
	Balance outstanding	Loss allowance	Net figure in Accounts
	£m	£m	£m
Equity Shares	97	0	97
Loans	242	(1)	241

3.12 Accounting standards require the Council to set aside loss allowance for investments, reflecting an assessment of risk. The figures in the Council's Statement of Accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum advanced and has appropriate credit control arrangements in place to recover overdue repayments.

3.13 The Council also holds shares in the UK Municipal Bonds Agency (UKMBA), whose aim is to reduce the long-term borrowing costs of Local Authorities who join together to issue local authority bonds. The share value (initial cost £0.5m) has been written out of the Council's balance sheet because the UKMBA set out a material uncertainty in its November 2020 accounts that would cast doubt on the company's ability to continue as a going concern. This material uncertainty continues and therefore the Council's position remains unchanged.

Managing the debt used to finance subsidiary loans

3.14 In previous financial years, the Council has borrowed money to lend on to Halsey Garton Property, in order that Halsey Garton Property can invest in property to generate a revenue income for the Council to support service delivery. Alongside the equity shares, these loans are set out in Table 9, above.

3.15 Historically, the Council's MRP policy was to charge MRP on individual properties where the market value had fallen below the outstanding loan, ensuring that the debt coverage was maintained. This was deemed a prudent approach and therefore compliant with current legislation because, despite individual properties carrying a market value below the debt, the value of the portfolio overall still exceeded the outstanding loans. The Government continues to consult on proposed changes to capital finance regulations, including a requirement to charge MRP on all subsidiary loans relating to investment properties, to ensure the money is set aside to repay debt without relying on the subsidiary selling assets or negotiating new debt.

3.16 In anticipation of these changes coming into force for the 2023/24 financial year, as per the Government's initial proposed timetable, the Council took the decision to adopt the regulations early and amended its MRP policy for 2022/23 onwards to provide MRP on capital loans in full, as it does for any other assets.

3.17 The amended proposal has yet to be formally implemented. However, the Council's policy of providing for MRP in full means it is compliant with the revised proposal. The Council considers it prudent to continue with this policy in its 2024/25 MRP Policy (Annex G). This will ensure that the Council's debt in relation to the loan to Halsey Garton is serviced over the life of the asset. When the subsidiary repays its loans, any resulting surplus would be recognised as a gain (a capital receipt) at the point of repayment.

Security

3.18 The value of property owned by Halsey Garton Property Ltd at 31st March 2023 was assessed as being £81m lower than cost, representing a 25% reduction, largely due to pressures on the retail environment. Halsey Garton is holding the assets for long-term rental income and short-term variations in fair value do not currently affect the value of the Council's investment. Over the long term, we would expect asset values to recover. 6

Risk Assessment and Liquidity

3.19 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property or subsidiary investments through a thorough analysis of the market and economic conditions using external advisors where necessary. Separately, the Council has a comprehensive risk management strategy to mitigate risks of over-spend or income shortfalls to the base budget position.

3.20 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. The Council is not reliant on investments in property to maintain its liquidity and manages liquidity through other investments and borrowing. The Council has reserves and contingencies to maintain stability in the event of a period of lower returns from its investment portfolio.

Loan Commitments and Financial Guarantees

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

3.22 We do not currently extend financial guarantees to other organisations, however if we chose to be part of a joint bond issue with UKMBA, we would be liable for defaults of other Local Authorities in proportion to the total amount of the bond. It is highly unlikely that another Local Authority would default and so the risk is theoretical rather than a practical reality.

Proportionality

3.23 The Council's revenue budget includes an element of profit generating investment activity to support services. Table 9 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the MTFS. Investment activity is forecast at around 1.5% of the Council's net revenue budget over the medium-term. Should we fail to achieve the expected net return, the Council would manage the impact on budget through use of contingency in the current financial year and a re-assessment of financial plans for the remainder of the medium-term.

Annex 1

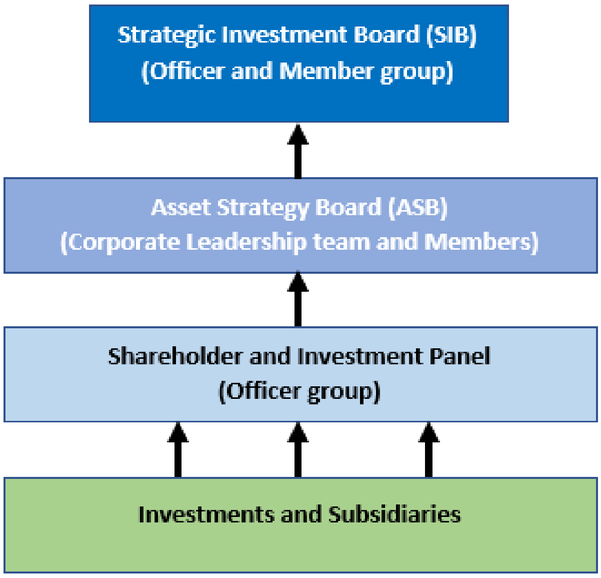
Table 9 - Proportionality of Investments

	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget
Investment income £m	17	19	19	19	19	19	19
Gross service expenditure £m	1,041	1,102	1,190	1,266	1,336	1,393	1,456
Proportion %	**1.6%**	**1.7%**	**1.6%**	**1.5%**	**1.4%**	**1.4%**	**1.3%**

Commercial Governance

3.24 Commercial investments are taken through a rigorous Officer and Member led process to ensure that decisions are taken with an adequate level of scrutiny. The diagram, below, shows the governance groups charged with delivering commercial investments:

Fig 2: Commercial Governance



3.25 At officer level, oversight is provided by the Shareholder Investment Panel (SHIP) with representation from Finance (Chair), Land & Property and Legal.

3.26 The Asset Strategy Board (ASB) oversee and review the strategic decisions proposed for all Council owned assets taken at Shareholder Investment Panel and Capital Programme Panel, including monitoring delivery against the Asset & Place Strategy (2019-2030) and assessing that the Council is optimising the use of its assets, delivering value for money to residents.

3.27 The Member led Strategic Investment Board (SIB) monitors the Council's investment properties and subsidiary companies to ensure satisfactory performance and effective risk management. SIB provides effective oversight, ensuring alignment with the strategic objectives and values of the Council. SIB safeguards the Council's interests and takes decisions in matters that require the approval of the Council as owner or as a shareholder of a company.

Investment Indicators

3.28 The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

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3.29 **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third-party loans.

Table 10 - Total investment exposure in £millions

Total investment exposure	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
	£m	£m	£m
Treasury management investments	97	50	50
Service investments: Loans	2	2	1
Commercial and Economic Growth investments: Property	98	98	121
Commercial investments: Loans	241	241	241
Commercial investments: Shares	97	97	97
TOTAL INVESTMENTS	**534**	**487**	**510**

3.30 **How investments are funded:** Government guidance states that our indicators should include an analysis of how investments are funded. Councils, including SCC, do not generally associate borrowing with individual assets, since we borrow as required to fund the whole portfolio of capital spend. However, the following investments could be described as being funded from capital sources, including borrowing and receipts. The remainder of the Council's commercial investments are funded by usable reserves and income received in advance of expenditure.

Table 11 - Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
	£m	£m	£m
Commercial and Economic Growth investments: Property	98	98	121
Commercial investments: Loans	241	241	241
Commercial investments: Shares	97	97	97
TOTAL INVESTMENTS	**436**	**436**	**459**

3.31 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complexity of the Local Government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

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Table 12 - Investment rate of return (net of all costs)

Investments net rate of return	2022/23 Actual	2023/24 Forecast	2024/25 Forecast
	£m	£m	£m
Service investments	0%	0%	0%
Commercial investments: Property	3.1%	3.1%	2.5%
Commercial investments: Shares and Loans	4.1%	4.1%	4.1%

4. Treasury Management Strategy Statement 2024/25

Introduction

4.1 Treasury management at Surrey County 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.

4.2 This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. A full set of Prudential Indicators is set out in Annex 1 and a number of Treasury limits and indicators are set out below.

4.3 Treasury management is the management of the Council's cash flows, borrowing, 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.

4.4 The Council tends to be cash rich in the short-term as revenue income (e.g. Council Tax, Business Rates and Government Grants) is typically received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

4.5 Managing the cost of the Council's borrowing is at the heart of the Treasury Management Strategy (TMS) and we work proactively with our Treasury Management advisor, Arlingclose on a continual basis, to ensure that our approach represents the best balance between minimising cost and managing the risk of interest rate changes. Regular meetings with Arlingclose coincide with Bank of England Monetary Policy Committee meetings, however our strategy is under constant review throughout the year, and we can call on Arlingclose's expertise whenever required.

4.6 The Treasury Management Strategy is supported by four TMS annexes:

1. Prudential indicators – a Code requirement which supports our approach to borrowing, managing risk and highlighting our capital financing requirement.
2. Detailed external context – a detailed summary from Arlingclose of the current and future economic climate, risks and opportunities along with detailed interest rate forecasts.
3. Investment & Debt Portfolio Position as at 30 November 2023 – to highlight the current range of debt and investments.
4. Glossary of Terms

External Context

4.7 **Economic background:** The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Council's treasury management strategy for 2024/25.

4.8 The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December 2023, members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

4.9 The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with upside risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

4.10 Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

4.11 ONS figures showed the UK economy contracted by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

4.12 The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth has remained strong, but has showed some signs of easing; regular pay (excluding bonuses) was up 7.3% over the period and total pay (including bonuses) up 7.2%. Adjusted for inflation, regular pay was 1.4% and total pay 1.3%. Looking forward, the MPR

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showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

4.13 Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve appears now to have concluded the hiking cycle. It is likely this level represents the peak in US rates following a more dovish meeting outcome in December 2023. US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But the impact from higher rates has started to feed into economic activity and growth will weaken in 2024. Annual CPI inflation was 3.1% in November.

4.14 **Credit outlook:** Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

4.15 On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

4.16 Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

4.17 Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

4.18 There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

4.19 However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

4.20 **Interest rate forecast (December 2023):** Although UK inflation and wage growth remain elevated, the Council's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

4.21 Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

4.22 A more detailed economic and interest rate forecast provided by Arlingclose is in the TMS Annex 2.

4.23 For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of 5.5%, and that new borrowing will be sourced at an average rate of 5.5% for 2024/25, 4.5% for 2025/26 and 4% for the remainder of the MTFS period.

Local Context:

4.24 On 31 March 2023 the Council held £647m borrowing (£480m of long-term borrowing and £167m short-term borrowing) and £97m of cash investments. By 30th November 2023, this had increased to £666m borrowing (£465m of long-term borrowing and £201m of short-term borrowing), with £71m of investments.

4.25 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

4.26 Internal borrowing allows the Council to utilise its internal cash balances (i.e. working capital and reserves) which are not required in the short to medium-term in order to reduce risk and keep interest costs low. Forecast changes in these sums are shown in the balance sheet analysis in Table 13 below.

Table 13 - Balance sheet summary and forecast

	31.3.23 Actual £m	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m	31.3.29 Forecast £m
Capital financing requirement	1,382	1,508	1,844	2,159	2,298	2,367	2,435
Less: Other debt liabilities	(75)	(82)	(77)	(73)	(68)	(63)	(58)
Loans CFR	**1,307**	**1,425**	**1,766**	**2,086**	**2,230**	**2,304**	**2,377**
Less: External borrowing	(649)	(472)	(464)	(455)	(447)	(441)	(436)
Internal borrowing (based on projection of level of reserves, balances and working capital)	(658)	(705)	(705)	(705)	(705)	(705)	(705)
Projected additional external borrowing requirement	**0**	**248**	**597**	**926**	**1,079**	**1,159**	**1,236**

4.27 The Council has an increasing CFR over the period to 31 March 2029, due to the proposed Capital Programme and approved investment strategy projects. The maximisation of internal borrowing leads to a borrowing requirement above the Council's ability to utilise its internal resources to fund this capital expenditure. It will therefore be required to raise additional external borrowing over the forecast period.

4.28 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 13 shows that the Council expects to comply with this recommendation during 2024/25.

4.29 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 the same forecasts as table 13 above, but that cash and investment balances are kept to a minimum level of £50m at each year-end to maintain sufficient liquidity but minimise credit risk.

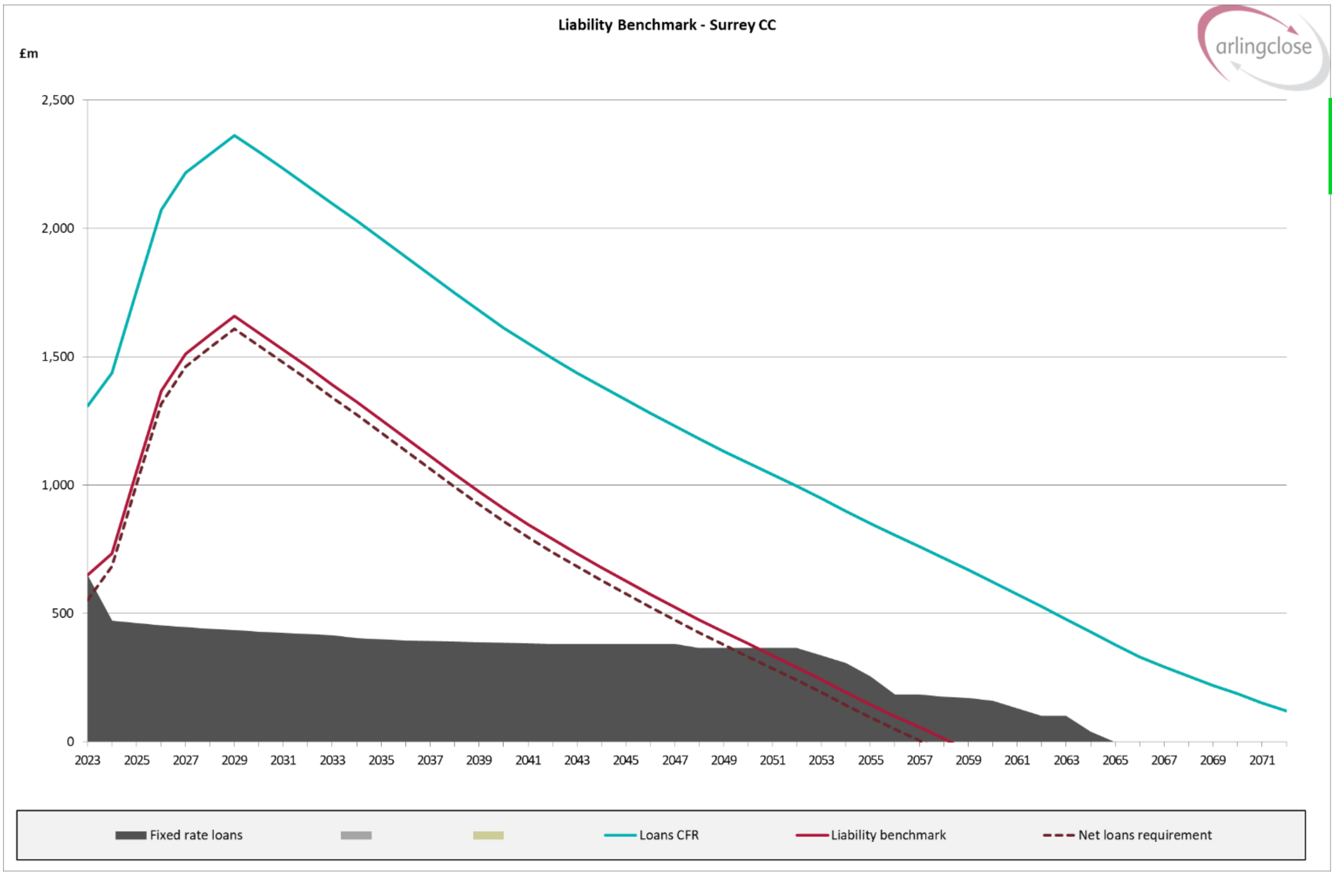
4.30 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external 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.

Table 14 – Liability Benchmark

Position at 31 March	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual	Projected	← ---------------------- Estimated ---------------------- →				
	£m	£m	£m				
Loans CFR	1,307	1,425	1,766	2,086	2,230	2,304	2,377
External borrowing	(649)	(472)	(464)	(455)	(447)	(441)	(436)
Internal (over) borrowing	658	953	1,302	1,631	1,784	1,864	1,941
Balance sheet resources	(755)	(755)	(755)	(755)	(755)	(755)	(755)
Net investments / (new borrowing)	98	(198)	(547)	(876)	(1,028)	(1,108)	(1,186)
Treasury investments	97	50	50	50	50	50	50
New borrowing	0	248	597	926	1,078	1,158	1,236
Net loans requirement	552	670	1,011	1,331	1,475	1,549	1,622
Liquidity allowance	97	50	50	50	50	51	53
Liability benchmark	**648**	**720**	**1,061**	**1,381**	**1,525**	**1,600**	**1,674**

Annex 1

Graph 1: Liability benchmark



4.31 The long-term liability benchmark assumes:

- Capital expenditure funded by borrowing as per the 2024-29 Capital Programme, with no further assumed expenditure factored in beyond the MTFS period;
- Projects included in the Capital Programme (Budget and Pipeline) and approved investment strategy spend are included;
- Minimum Revenue Provision (MRP) on new capital expenditure is based on the attached MRP policy;
- Reserves and Balances are based on proposed and approved use over the life of the Medium-Term Financial Strategy (MTFS); and
- The benchmark is based on our assumptions on capital expenditure and the external loans requirement may not ultimately reduce to zero as future capital expenditure is approved.

4.32 Overall, the liability benchmark shows that we are currently borrowing exactly what we need, because the amount of external debt (grey shaded area) matches the liability benchmark (red line). As we progress over the medium term, the gap between total external debt and the liability benchmark grows, meaning that we need to borrow more money to meet our financing requirement. We aim to avoid a scenario where our external debt exceeds our liability benchmark, as it indicates that we are borrowing more than we need – i.e. borrowing to invest, carrying with it an increased risk of investment returns.

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4.33 The difference between the CFR (underlying need to borrow – represented by the blue line) and actual external borrowing represents the level of internal borrowing (utilisation of short term reserves and balances). The current strategy to internally borrow continues to support the Council's financial position in the short to medium-term.

4.34 As shown, the Council's current debt portfolio is long dated and there are no significant repayments until the 2050s. An alternate strategy would be to increase our long-term fixed rate borrowing now. The liability benchmark illustrates that if we were to do so, it would be for a reasonably modest amount over a period of up to 20 years (to avoid a significant amount of fixed-rate debt exceeding our liability benchmark).

Borrowing Strategy

4.35 **Objectives:** The Council's main objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. To achieve this, the key aim is to maximise internal borrowing and use short-term borrowing to manage cashflow shortfalls, striking a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher. The Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

4.36 **Strategy**: The Council is facing unprecedented financial pressures, principally driven by rising need for services from residents and the increasing costs of providing such services. Given these pressures, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The Council continues to maximise the use of internal resources (internal borrowing) and borrowing short-term to fund the additional requirement based on cash flow forecasts. Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years 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.

4.37 By maximising internal resources and borrowing short-term, the Council is able to supress net borrowing costs (despite foregone investment income) and reduce market and credit risk in the investment portfolio. However, short-term borrowing does increase the Council's exposure to changes in interest rates as when short-term loans mature, they may need to be replaced at a higher rate of interest.

4.38 The level and mix of internal, short-term, and long-term borrowing will be reviewed on a regular basis, taking account of the overall cash position and market forecasts. Arlingclose will assist in this review with 'cost of carry' and breakeven analysis, which will support decisions on whether to take additional longer-term external borrowing at fixed rates in 2024/25.

4.39 Alternatively, the Council may arrange 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 without suffering a cost of carry in the intervening period, although is unlikely to be beneficial when prevailing interest rates are higher than forecast future rates.

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

- HM Treasury's Public Works Loan Board (PWLB);

- UK Infrastructure Bank Ltd
- any institution approved for investments (see below);
- banks or building societies authorised to operate in the UK;
- UK Local Authorities;
- UK public and private sector pension funds (except the Surrey Pension Fund);
- capital market bond investors;
- retail investors via a regulated peer-to-peer platform; and
- UK Municipal Bonds Agency plc and other special purpose companies created to enable Local Authority bond issues.

4.41 The Council has previously raised the majority of its long-term borrowing from the PWLB. For short-term borrowing, the Council has, and will continue, to use other sources of finance, such as loans from other Local Authorities, pension funds and other public bodies as these are often available at more favourable rates. These short-term loans leave the Council exposed to the risk of interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

4.42 Under the Prudential Code, an authority must not borrow to invest primarily for financial return. It is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose. Authorities with commercial land and property may invest in maximising its value, including repair, renewal and updating of the properties. This Strategy certifies that the Council's capital spending plans do not include the acquisition of assets primarily for yield.

4.43 **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 (PFI)
- sale and leaseback
- similar asset based finance

All such sources of finance are subject to a robust options appraisal.

4.44 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to Local Authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow through the Agency will therefore be the subject of a separate report. Our current strategy generally favours PWLB borrowing for long term debt due to ease of access to borrowing and certainty of low rates, however this is periodically reviewed with Arlingclose and when a decision for increased long-term borrowing is made all options will be scrutinised.

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4.45 **Debt rescheduling:** The PWLB allows Local 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 efficiency or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Borrowing Costs

4.46 Gross borrowing costs include interest payable and the statutory charge on the general fund for MRP. The gross borrowing costs associated with the 2024/25 to 2028/29 Capital Programme increase from £62m in 2024/25 to £112m by 2028/29.

4.47 Paragraph 1.18 of Annex 1 shows the ratio of gross financing costs against the net revenue stream (the amount funded from council tax, business rates and general government grants). Gross borrowing costs as a proportion of net revenue stream increases over the MTFS period from 5.2% in 2024/25 to 9.2% in 2028/29.

4.48 Net borrowing costs are calculated after offsetting interest and investment income and over the same period, net borrowing costs grow from £40m in 2024/25 to £92m in 2028/29.

4.49 Paragraph 1.19 of Annex 1 shows net borrowing costs against the net revenue stream increasing from 3.4% in 2024/25 to 7.6% in 2028/29, which when compared to other county councils brings us from a low position to an average position.

4.50 Offsetting the increase in borrowing costs; many of the capital schemes are crucial to delivering revenue efficiencies, cost containment or income generation. After accounting for interest, investment and rental income to be generated by pipeline projects, net borrowing costs are projected to be contained within the budget envelope for the MTFS period.

Treasury Investment Strategy

4.51 The Council holds invested funds representing income received in advance of expenditure plus reserves. For the first half of 2023/24, the Council held average balances of £98m, compared with £135m for the equivalent period in 2022/23. The average return for the first half of 2023/24 was 4.75%. Cash balances are expected to reduce during the remainder of 2023/24 and over the MTFS.

4.52 **Objectives:** The CIPFA Code requires the Council to invest its treasury 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.

4.53 **Strategy:** As demonstrated by the liability benchmark above, 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**.**

4.54 While the Council's investment balances remain low (less than £150m), Money Market Funds and short-term bank deposits will be utilised, with a cash limit per counterparty/fund of £25m. If the economic situation changes, which results in a decision to undertake additional borrowing, resulting in higher cash balances, other investment counterparties may be considered and the counterparty limits set out below would apply.

4.55 **ESG policy**: Environmental, social and governance (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.

4.56 **Business models**: Under International Financial Reporting Standards (IFRS 9), the accounting for certain investments depends on the Council's "business model" for managing them. The standard requires entities to account for expected credit losses in a timely manner; from the moment when financial instruments are first identified. These investments will continue to be accounted for at amortised cost.

4.57 **Approved counterparties**: The Council may invest its surplus funds with any of the counterparty types in Table 15 below, subject to the cash limits (per counterparty) and the time limits shown.

4.58 **Table 15 - Approved investment counterparties and limits**

Credit rating	**Banks unsecured**	**Banks secured**	**Government***
UK Govt	n/a	n/a	£ Unlimited 50 years
AAA	£10m 5 years	£20m 20 years	£20m 20 years
AA+	£10m 5 years	£20m 10 years	£20m 10 years
AA	£10m 4 years	£20m 5 years	£20m 5 years
AA-	£10m 3 years	£20m 4 years	£20m 4 years
A+	£10m 2 years	£20m 3 years	£20m 3 years
A	£10m 13 months	£20m 2 years	£20m 2 years
A-	£10m	£20m	£20m

	6 months	13 months	13 months
None	£1m 6 months	n/a	n/a
Pooled Funds	£25m per fund		

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* UK Local Authorities

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

4.59 **Minimum credit rating:** Treasury investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's. 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.

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

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

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

4.63 **Pooled funds:** Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market 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.

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

4.65 **Operational bank accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB - and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1m where practical. 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. The Council's bank, HSBC, has a credit rating of AA-.

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

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

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

4.68 **Other information on the security of investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis. No investments will be made with an organisation if there are substantive doubts about its credit quality.

4.69 **Reputational aspects:** 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.

4.70 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 via the Debt Management Office or invested in government treasury bills or with other Local Authorities.

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4.71 **Investment limits**: The Council's revenue reserves and balances available to cover investment losses are forecast to be approximately £92m on 31st March 2023, consisting of the Budget Equalisation Reserve, the Revolving Investment and Infrastructure Fund and the Interest Rate Reserve. There are currently no plans to draw down on these reserves in 2024/25. In practice, a default is highly unlikely. In order that no more than 30% of available reserves will be put at risk in the case of a single default, the maximum that will be invested with any one organisation (other than the UK Government) will be £20m and the limit for any one pooled fund will be £25m.

Table 16 – Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£20m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£20m per group
Any group of pooled funds under the same management (including Money Market Funds)	£25m per manager
Money Market Funds (Total)	Unlimited
Unsecured investments with Building Societies	£10m in total

4.72 **Liquidity management:** The Council uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

Treasury Management Prudential Indicators

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

4.74 **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 borrowing will be:

Refinancing rate risk indicator	**Upper limit**	**Lower limit**
Under 12 months	60%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%

10 years and above	100%	25%

Time periods start on the first day of each financial year. The maturity date of borrowing is the date of the loans are due to be repaid.

4.75 **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: 6

Price risk indicator	**2024/25**	**2025/26**	**2026/27**	**No fixed date**
Limit on principal invested beyond year end	£40m	£20m	£10m	£40m

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 with no fixed maturity date as these are considered short-term.

Related Matters

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

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

4.78 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.

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

4.80 **Markets in Financial Instruments Directive**: The Council has opted in to "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 Section 151 Officer believes this to be the most appropriate status.

4.81 **Treasury Management Advice:** Surrey County Council has appointed Arlingclose Limited as Treasury management advisers and receives specific advice on investments, debt and capital finance matters.

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4.82 **Treasury Management Training**: Member and Officer training needs are assessed regularly as part of the staff appraisal process. Additional training will be provided as and when there is a change in roles and responsibilities. The Council also benefits from the Orbis partnership Centre of Expertise, which provides a robust Treasury team providing day to day treasury management operational activities to Surrey County Council, Brighton & Hove City Council and East Sussex County Council.

Knowledge and Skills

4.83 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council pays for officers to study towards relevant professional qualifications including CIPFA.

4.84 All officers involved in the treasury and investment management function have access to relevant technical guidance and training to enable them to acquire and maintain the appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them. The Council currently employs treasury management advisors through Arlingclose (who commenced a new four-year contract from 1st January 2022) and seeks external legal and property related advice and due diligence as required. The Council's investment Strategy is supported by guidance from our advisors, Montagu Evans. The Council's Treasury Management and borrowing strategies are supported by guidance from our advisors, Arlingclose. Both are on hand to guide key decisions and provide proactive advice in response to emerging market trends.

4.85 Those charged with governance (Members of the Audit and Governance Committee and the Resources and Performance Select Committee) recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The Section 151 Officer will ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.

4.86 The Orbis Centre of Expertise for Treasury Management creates a central team of pooled expertise to provide robust services which are resilient to meet the changing service needs of partners.

4.87 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Financial Implications

4.88 The budget for cash investment income in 2024/25 is £2.5m, based on an average investment portfolio of £50m at an average interest rate of 5.5%. The budget for debt interest paid in 2024/25 is £29.7m, which is based on a mix of short-term borrowing and the existing long-term fixed rate debt portfolio.

Other options considered

4.89 The CIPFA Code does not prescribe any particular treasury management strategy for Local Authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

Prudential Indicators 2024/25

1.1 The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. 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.

1.2 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice.

__Estimates of capital expenditure__

1.3 The Council's planned capital expenditure and financing is summarised in Table 1. This prudential indicator is a summary of the Council's annual capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Table 1 - Actual and estimated capital expenditure	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	Projected	**← -------------------- Estimated ------------------------ →**				
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Capital programme expenditure (incl pipeline)	336	526	594	359	223	201
Approved investment strategy spend	0	23	2	0	0	0
Financed By:						
- Government grants and third party contributions	127	139	200	139	74	54
- Capital Receipts	47	31	30	22	15	10
- Revenue and reserves	6	6	6	6	6	5
Net financing need for the year*	**157**	**373**	**360**	**193**	**128**	**132**

*Capital expenditure to be met by borrowing

__The Council's borrowing need (the capital financing requirement)__

1.4 Table 2 sets out the Council's estimated capital financing requirement (CFR). The CFR represents capital expenditure funded by external debt and internal borrowing and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR therefore measures a Council's underlying need to borrow for a capital purpose. Any capital expenditure which has not been funded from locally determined resources will increase the CFR. The CFR reduces by the Minimum Revenue Provision (MRP).

1.5 The MRP is a statutory annual revenue charge which reduces the borrowing need in a similar way to paying principal off a household mortgage.

1.6 The CFR includes any other long-term liabilities, e.g. PFI schemes, finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes and they therefore do not form part of the Council's underlying need to borrow.

1.7 The CFR is increasing over the MTFS period which results in an increase in external debt (after we have maximised internal borrowing) and therefore an increase in the revenue cost of borrowing.

1.8 This is reflected in an increased Operational Boundary and Authorised Limit as shown in Tables 4 and 5. Table 6 - Ratio of financing costs to net revenue stream, shows that the revenue cost of debt is an increasing but remains a relatively low proportion of our overall budget. The impact of funding the Capital Programme is built into the revenue budget and MTFS.

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Table 2: Capital Financing Requirement (CFR)	**2023/24 Projected £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**
		← Estimated				**→**
Opening CFR	**1,382**	**1,508**	**1,844**	**2,159**	**2,298**	**2,367**
Movements:						
- Minimum revenue provision	(27)	(32)	(40)	(49)	(54)	(59)
- Application of capital receipts to repay opening CFR	0	0	0	0	0	0
- PFI & finance leases	(5)	(5)	(5)	(5)	(5)	(5)
- Net financing need	157	373	360	193	128	132
	125	336	315	139	69	68
Closing CFR	**1,508**	**1,844**	**2,159**	**2,298**	**2,367**	**2,435**

Gross borrowing and the capital financing requirement

1.9 In order to ensure that over the medium-term borrowing will only be for a capital purpose, the Council should ensure that its debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next 2 financial years. This allows some flexibility for early borrowing in advance of need, but ensures that borrowing is not undertaken for revenue purposes. This is a key indicator of prudence.

1.10 Total debt is expected to remain below the CFR during the forecast period.

The Council's operational boundary for external debt

1.11 Table 4 sets out the Council's operational boundary, an indicator against which to monitor its external debt position. It is based on the Council's estimate of the 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 CFR and cash flow requirements and is a key management tool for in-year monitoring.

1.12 Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. Other long-term liabilities comprise finance lease, PFIs and other liabilities that are not borrowing but form part of the Council's debt position.

1.13 The operational boundary is not a limit and actual borrowing could vary around this boundary for short periods during the year. It should act as an indicator to ensure the authorised limit is not breached. The operational boundary increases over the MTFS period to reflect an increasing underlying need to borrow linked to the Capital Programme. We monitor against the indicator throughout the year.

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Table 4: Operational Boundary	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	Agreed	**← ---------------------- Estimated**				**-------------------------------- →**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	893	1,277	1,594	1,705	1,766	1,839
PFI & finance leases	82	77	73	68	63	58
Total	**975**	**1,354**	**1,667**	**1,773**	**1,829**	**1,897**
Estimated external debt	720	1,061	1,381	1,525	1,599	1,672

The Council's authorised limit for external debt

1.14 Table 5 sets out the Council's authorised limit for external debt. This key prudential indicator represents a control on the maximum level of borrowing. It is a statutory limit determined under section 3(1) of the Local Government Act 2003 and represents a limit beyond which external debt is prohibited. It is the maximum amount of debt that the Council can legally owe.

1.15 The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised since the introduction of the Prudential Code.

1.16 The Authorised limit provides headroom over and above the operational boundary for unusual cash movements and potential additional borrowing to meet the ambitions of the Council in respect of its investment strategy.

1.17 As with the operational boundary, the limit separately identifies borrowing from other long-term liabilities such as finance leases and PFIs. The authorised limit increases over the MTFS period to reflect an increasing underlying need to borrow linked to the Capital Programme.

Table 5: Authorised Limit	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	Agreed	**← ---------------------- Estimated**				**-------------------------------- →**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	1,065	1,492	1,807	1,884	1,933	2,007
PFI & finance leases	82	77	73	68	63	58
Total	**1,147**	**1,570**	**1,880**	**1,952**	**1,995**	**2,065**
Estimated external debt	720	1,061	1,381	1,525	1,599	1,672

Estimated ratio of gross financing costs to net revenue stream

1.18 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs.

	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget
Proportion of gross financing costs to net revenue stream	4.0%	4.2%	5.2%	6.6%	7.7%	8.6%	9.2%

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Estimated ratio of net financing costs to net revenue stream

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

	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget
Ratio of Net Financing Costs to Net Revenue Stream	2.2%	2.1%	3.4%	4.9%	6.1%	6.9%	7.6%

1.20 The revenue implications of potential, yet to be identified, investment opportunities that meet the Council's long-term capital strategy criteria, will be funded from the investment returns of such investments. If there is a delay in the realisation of sufficient returns, then costs will be funded from the Council's Revolving Infrastructure & Investment Fund reserve.

Net income from commercial and service investments to net revenue stream

1.21 This is an indicator of affordability and highlights the net financial impact on the authority of its entire non-treasury investment income.

	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget
Total net income from service and commercial investments	17	19	19	19	19	19	19
Proportion of net revenue stream	1.6%	1.7%	1.6%	1.6%	1.6%	1.6%	1.6%

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Annex 1

TMS Annex 2 - Arlingclose Economic & Interest Rate Forecast – December 2023

Underlying assumptions

2.1 UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.

2.2 The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.

2.3 Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.

2.4 Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.

2.5 Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.

2.6 Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.

2.7 Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium- term level for Bank Rate.

2.8 There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

Forecast

2.9 The MPC held Bank Rate at 5.25% in December. Arlingclose believes this is the peak for Bank Rate.

2.10 The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

Annex 1

2.11 The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.

2.12 Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%
UK Infrastructure Bank Rate (Maturity Loans) = Gilt yield + 0.40%

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Annex 1

TMS Annex 3 - Investment & Debt Portfolio Position as at 30 November 2023

	Actual Portfolio £m	Interest Rate %
External borrowing:		
Public Works Loan Board	453	3.63
Market	10	5.00
Local Authorities (Incl. Surrey Police)	191	5.28
Other	12	0.00
Total external borrowing	**666**	
Other long-term liabilities:		
Private Finance Initiative	81	
Total other long-term liabilities	**81**	
Total gross external debt	**747**	
Treasury investments:		
Banks & building societies (unsecured)	-	
Government (incl. Local Authorities)	-	
Money Market Funds	71	5.34
Total treasury investments	71	
Net debt	**676**	

TMS Annex 4 - Glossary of Terms

CFR – Capital Financing Requirement

CIPFA – Chartered Institute of Public Finance Accountancy

CPI – Consumer Price Index

DLUHC – Department for Levelling Up, Housing and Communities

DMO – Debt Management Office

ECB – European Central Bank

GDP – Gross Domestic Product

LB – Liability Benchmark

MMF – Money Market Fund

MPC – Monetary Policy Committee

MRP – Minimum Revenue Provision

PWLB – Public Works Loan Board

TMSS – Treasury Management Strategy Statement

Annual Minimum Revenue Provision (MRP) Policy Statement 2024/25

1. When the Council finances capital expenditure by debt (borrowing), it must put aside resources to repay that debt in future years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). The Council is required by statute to make a prudent provision for the repayment of its debt. It is also required to 'have regard' to guidance on how to calculate this provision, issued by the former Ministry of Housing, Communities and Local Government, most recently in 2018. 6

2. The broad aim of the guidance is to ensure that capital expenditure is financed over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

3. In developing this policy statement, the Council is satisfied that the guidelines for their annual amount of MRP will result in it making a prudent provision.

4. Where capital expenditure was incurred before 1 April 2008, the guidance suggests writing down the remaining Capital Financing Requirement by providing MRP of 4% per annum. The Council agreed in 2016/17 to write this amount off over the next 50 years, resulting in the whole balance being provided for over a finite period and far sooner than under the 4% reducing balance method.

5. As suggested in the guidance, for capital expenditure incurred on or after 1 April 2008 and funded through borrowing, the Council will calculate MRP by charging expenditure over the expected useful life of the relevant assets, on an annuity basis. MRP will be first charged in the year following the date that an asset becomes operational.

6. For the following types of capital expenditure, the Council has determined that an alternative methodology for determining the annual MRP charge should be adopted:

    - For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability, or over the life of the asset.
    - Where loans are made to other bodies for their capital expenditure, e.g. subsidiaries of Surrey County Council, MRP is charged as with any other asset. This is a continuation of the policy adopted in 2022/23 to make MRP more prudent in response to fluctuating values of assets held within a subsidiary, following external audit recommendations and a Government consultation on potential changes to capital financing regulations. The Council's view is consistent with the current regulations and those proposed by the consultation.
    - MRP for investment property purchases is based on an estimated useful life of 50 years, on an annuity basis, in order to appropriately match MRP to the period of time that the assets are expected to generate a benefit to the Council. This is in recognition that these assets are held for income generation purposes and that the Council holds a saleable asset, the capital receipt from which will be used to repay any outstanding debt when sold.
    - The Council will determine MRP on equity investments based on a 20 year life. However, for equity investments in asset backed companies, a 50 year life will be assumed to match the Council's policy for investment assets.

7. The Council reserves the right to determine alternative MRP approaches in particular cases, in the interests of making prudent provision, where this is material, taking account of local circumstances, including specific project timetables and revenue-earning profiles.

8. Each year a new MRP statement will be presented.

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