Treasury Management Strategy Statement

and Annual Investment Strategy 2024-27

Introduction

Background

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

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

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

CIPFA defines treasury management as:

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

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

Reporting Requirements

Capital Strategy

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

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

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

Fife Council's capital strategy was approved by Fife Council on 22 June 2023.

Treasury Management Reporting

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

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

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

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

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

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

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

Treasury Management Strategy for 2024-25

The strategy for 2024-25 covers two main areas:

Capital

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

Treasury management

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

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

Training

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

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

Officers attend several events per year in the form of webinars and online events offered by both CIPFA and the Council's treasury adviser, as appropriate. Officers also attended the CIPFA Treasury Management Forum conference in November 2022.

Treasury Management Consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

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

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

Capital Prudential Indicators

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

Capital Expenditure

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

Actual 2022-23 £m	Actual 2023-24 £m		Approved 2024-25 £m	Approved 2025-26 £m	Approved 2026-27 £m
103.964	188.181	General Fund	173.727	163.718	111.712
85.399	114.210	Housing Revenue Account	143.228	110.103	78.582
189.362	**302.391**		**316.955**	**273.822**	**190.294**

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

Actual 2022-23 £m	Actual 2023-24 £m		Approved 2024-25 £m	Approved 2025-26 £m	Approved 2026-27 £m
189.362	302.391	Capital Expenditure	316.955	273.822	190.294
		Less Capital Income			
(36.113)	(40.776)	General Capital Grant	(25.000)	(25.000)	(25.000)
(37.504)	(38.182)	Other Grants	(43.071)	(23.225)	(12.676)
(32.524)	(53.969)	CFCR	(42.465)	(40.931)	(34.564)
(1.333)	(5.786)	Developers Contributions	(9.728)	(13.290)	(9.861)
(14.670)	(2.639)	Capital Receipts	(3.184)	(2.995)	(2.007)
67.188	**161.039**	**Loans Fund Advance**	**193.507**	**168.381**	**106.186**

Capital Prudential Indicators

Capital Financing Requirement (Council's borrowing need)

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

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

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

The CFR projections are shown below:

Actual 2022-23 £m	Actual 2023-24 £m		Approved 2024-25 £m	Approved 2025-26 £m	Approved 2026-27 £m
785.892	862.624	General Fund	909.401	981.924	1,015.262
414.161	456.245	Housing Revenue Account	522.878	570.972	593.229
1,200.053	**1,318.870**		**1,432.279**	**1,552.895**	**1,608.491**

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

Capital Prudential Indicators

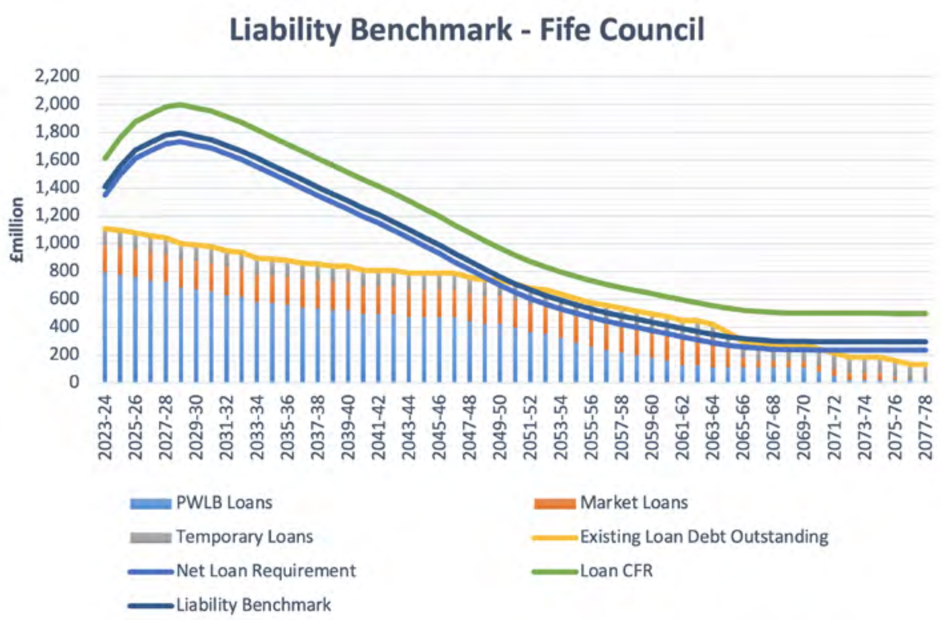
Liability Benchmark

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

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

The graph below shows the position for Fife Council as at the end of 2023-24. The graph is intended to illustrate the gap between the current levels of debt outstanding (orange line) and the liability benchmark (blue dotted line). Where the debt outstanding or actual loans are below the benchmark, this indicates a future borrowing requirement. Therefore, the graph shows the borrowing requirement between 2023-24 and 2049-50. In any year where the loans are greater than the benchmark demonstrates an over-borrowed position which will mean there is a requirement for cash investment.

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



Capital Prudential Indicators

Statutory Repayment of Loans Fund Advances

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

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

Fife Council Policy

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

General Fund Loans Fund Advances

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

Housing Revenue Loans Fund Advances

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

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

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

Loans Fund Balances

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

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

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

Loans Fund Balances

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

General Fund	Opening Balance £m	Advances £m	Repayments £m	Closing Balance £m
2022-23	657.632	79.437	(21.846)	715.222
Years 2 – 5	715.222	305.405	(89.365)	931.262
Years 6 - 11	931.262	72.810	(138.369)	865.703
Years 12 - 16	865.703	0.000	(133.689)	732.014
Years 17 - 21	732.014	0.000	(148.554)	583.459
Years 22 - 26	583.459	0.000	(158.052)	425.407
Years 27 - 31	425.407	0.000	(152.822)	272.585
Years 32 - 36	272.585	0.000	(116.142)	156.443
Years 37 - 41	156.443	0.000	(106.576)	49.867
Years 42 - 46	49.867	0.000	(47.132)	2.735
Years 47 - 51	2.735	0.000	(2.350)	0.385
Years 52 - 56	0.385	0.000	(0.385)	(0.000)

HRA	Opening Balance £m	Advances £m	Repayments £m	Closing Balance £m
2022-23	391.192	40.257	(16.157)	415.292
Years 2 – 6	415.292	85.607	(82.720)	418.179
Years 6 - 11	418.179	95.579	(138.074)	375.684
Years 12 -16	375.684	0.000	(105.695)	269.989
Years 17 -21	269.989	0.000	(88.329)	181.660
Years 22 - 26	181.660	0.000	(87.543)	94.117
Years 27 -31	94.117	0.000	(62.560)	31.557
Years 32 – 36	31.557	0.000	(31.145)	0.413
Years 37 - 41	0.413	0.000	(0.412)	0.000

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

Treasury Indicators

Treasury Indicators: limits to borrowing activity

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

The operational boundary

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

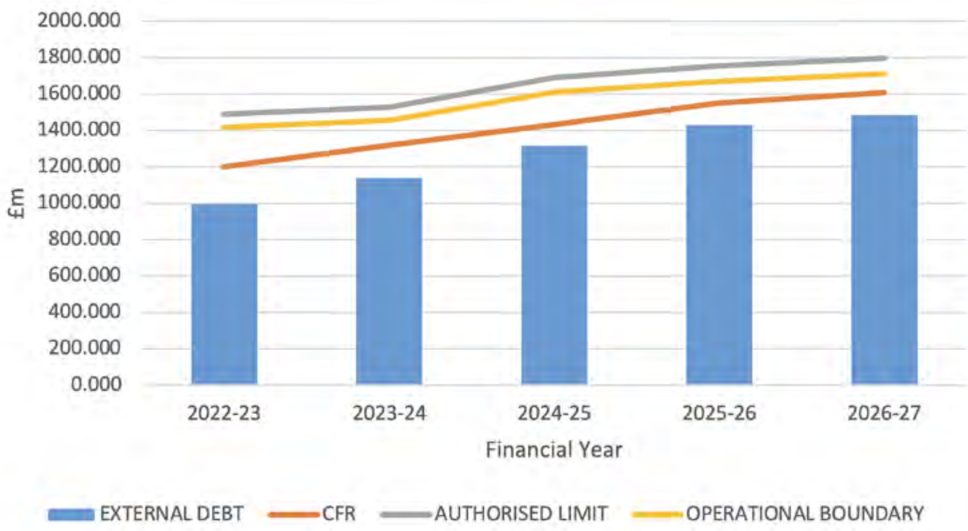
The authorised limit for external debt.

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

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

Actual 2022-23 £m	Actual 2023-24 £m		Approved 2024-25 £m	Approved 2025-26 £m	Approved 2026-27 £m
995.595	1,138.567	External Debt	1,316.420	1,430.802	1,484.230
1,418.129	1,456.053	Operational Boundary	1,611.300	1,671.279	1,710.895
1,489.036	1,528.856	Authorised Limit	1,691.865	1,754.843	1,796.440

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



Treasury Indicators

Treasury Indicators: Borrowing

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

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

Upper limits on fixed and variable interest exposures

The Council's loan portfolio consists of fixed and variable rate debt, plus it has both fixed or variable rate investments. The Code requires limits to be set that manage risk and reduce the impact of adverse movement in interest rates, primarily on variable rate loans. At 31 January 2024, the Council had 27.79% of its total debt in what is termed a "variable structure". The variable nature of the structure of the Council's loans has been managed in the lenders' contracts. These types of contracts are termed LOBO contracts, i.e. Lender Option Borrower Option contracts. The contracts allow the lender to apply to the Council for change in interest rate, after an initial fixed period of several years, to be considered on specific dates. If the Council does not wish to accept the change in interest rates, it can repay the loan in full without penalty. The timing of the opportunity for the lender to change the rate is controlled to limit the risk to the Council and is written into the loan contract. Only on certain anniversaries of the loan issuance can the rate be changed. Most LOBO loans in the current portfolio are on a 6-month rollover on a variety of dates.

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

Limits on Interest Rate Exposure (as a % of net debt)	Approved 2024-25	Approved 2025-26	Approved 2026-27
Fixed interest payable / receivable	100%	100%	100%
Variable interest payable / receivable	75%	75%	75%

It is anticipated that the Council's loan portfolio for the next three financial years will be exposed to interest rate changes on current debt (as at 31 December 2023) as follows:

External Interest Due	2024-25		2025-26		2026-27	
	£m	%	£m	%	£m	%
Fixed rate loan debt	29.899	83.04	29.313	82.75	28.185	82.19
Variable rate loan debt	6.109	16.96	6.109	17.25	6.109	17.81
Total	**36.008**		**35.422**		**34.294**	

Upper and lower limits to the maturity structure of borrowing

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

Treasury Indicators

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

The amount of debt maturing each year is managed by a variety of rollover dates. Members at the Council meeting on 22 February 2024 agreed the Upper and Lower Limits below and, in practice, we have an agreed additional Upper Limit, using the maturity date for LOBO loans of 15%. This is adopted on the basis of continuation of prudent treasury management practice.

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

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

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

Borrowing

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

Current Portfolio Position

The Council's treasury portfolio position at 31 December 2023, with forward projections, are summarised below.

Actual 2022-23 £m	Actual 2023-24 £m	Long Term External Debt	Approved 2024-25 £m	Approved 2025-26 £m	Approved 2026-27 £m
919.364	1,069.364	External Borrowing	1,254.264	1,376.264	1,437.264
76.230	69.292	Other Long-Term Liabilities	62.156	54.538	46.966
995.595	**1,138.657**	**External Debt**	**1,136.420**	**1,430.802**	**1,484.230**
(70.349)	(60.000)	Investments	(60.000)	(60.000)	(60.000)
925.254	**1,078.657**	**Net External Debt**	**1,256.420**	**1,370.802**	**1,424.230**

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

Actual 2022-23 £m	Actual 2023-24 £m	Long Term External Debt	Approved 2024-25 £m	Approved 2025-26 £m	Approved 2026-27 £m
995.595	1,138.657	External Debt	1,316.420	1,430.802	1,484.230
1,200.053	1,318.870	CFR	1,432.279	1,552.895	1,608.491
(204.458)	**(180.213)**	**(Under)/over borrowing**	**(115.859)**	**(122.094)**	**(124.261)**

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

Borrowing

Prospects for Interest Rates

Views on interest rates are crucial to the portfolio strategy for the coming year. Appendix A to this strategy report includes an economic commentary from the Council's treasury adviser, Link Asset Services, and includes the latest central forecast of short- and long-term borrowing rates as produced by Link Group in February 2024. The commentary indicates that we continue to experience difficult times with the balance of risk to economic growth in the UK to the downside. Specifically on interest rates, Link Group are anticipating that rates will remain at 5.25% until the second half of 2024 with possible reductions at the end of 2024 and 2025.

Borrowing Strategy

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

Against this background and the risks within the economic forecast, caution will be adopted within the 2024-25 treasury function. The Executive Director of Finance and Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

At 31 January 2024, the Council's debt portfolio is split in favour of the Public Works Loan Board (PWLB) rather than market lenders and both sources will be considered for future long and short-term loans to meet both capital and revenue requirements. In the current financial year, up to 31 January 2024, seven PWLB loans have been arranged using a mix of Maturity Loans and EIP Loans, these range in interest rates from 4.28% to 5.17%. The strategy previously reported to members of continuing to meet any cashflow shortfalls with temporary borrowings or loans for periods where rates are low, taking account of our current maturity profile, is still considered prudent.

Based on the interest rate forecast in Appendix A, it is likely that short-term borrowings during 2024-25 will be at interest rates between 3.75% and 5.25%. After consideration of the interest rate estimates and the current debt maturity profile, it is expected that long-term loans will be taken at interest rates of approximately 4.60% to 5.10%.

Borrowing

Policy on borrowing in advance of need

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

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

The Net Borrowing Requirement, for 2024-25 is £145.111m taking account of planned capital expenditure, maturing debt and estimated redemption from services, and is detailed below:

Estimated Borrowing Requirement 2024-25	£m
General Fund Capital to be funded from borrowing	96.933
HRA Capital to be funded from borrowing	96.574
Loans Fund Advance	193.507
Estimated Redemption of Loans fund debt in year	(47.428)
Estimated debt redemption for other long-term liabilities (PPP)	(2.118)
Capital Financing Requirement (CFR)	143.960
Borrowing required to replace Maturing Long-Term Debt	1.151
Net Borrowing Requirement	**145.111**

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

Debt Rescheduling

It is likely that some debt rescheduling of current borrowing will occur this year. However, if opportunities do arise, any savings will be considered in light of the current treasury position and the size and cost of debt repayment (premiums incurred)

The reasons for any rescheduling to take place will include

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

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

Annual Investment Strategy

Investment Policy

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

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

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

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

Other Investments

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

The Council is party to two Employment Land joint ventures with Scottish Enterprise valued at £2.747m. Any further investments in the form of shares would be subject to Committee approval.

Appendix A

Link Group

Interest Rate Forecast - 5 February 2024

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

Link Group Interest Rate View - 5 February 2024													
	Mar-24	**Jun-24**	**Sep-24**	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**	**Mar-26**	**Jun-26**	**Sep-26**	**Dec-26**	**Mar-27**
Bank Rate View	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 Month LIBID	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 Month LIBID	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 Month LIBID	5.00	4.90	4.40	3.90	3.60	3.20	3,10	3.10	3.10	3.10	3.10	3.20	3.20
5yr PWLB Rate	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10yr PWLB Rate	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25yr PWLB Rate	5.20	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.20	4.10	4.10	4.10	4.10
50yr PWLB Rate	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Appendix A
Link Group

Link Group Interest Rate View - 5 February 2024 Additional notes:

- Our central forecast for interest rates was previously updated on 8 January and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).
- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and in the Middle East.

PWLB RATES

- The gilt curve has moved a little higher through January and February following big downward movements through November and December, reflecting a "reality check" that central banks are unlikely to be bullied into cutting rates early. At the time of writing there is c50 basis points difference between the 5- and 50-years' parts of the curve.

The balance of risks to the UK economy

The overall balance of risks to economic growth in the UK is even.

Downside risks to current forecasts for UK gilt yields and PWLB rates include:

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- The Bank of England has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- Geopolitical risks, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates:

- Despite the tightening in Bank Rate to 5.25%, the Bank of England allows inflationary pressures to remain elevated for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.

Appendix A
Link Group

Link Group Forecasts

We expect the MPC will keep Bank Rate at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. We do not think that the MPC will increase Bank Rate above 5.25%.

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation continues to fall through 2024.

Our target borrowing rates are set two years forward (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below:

PWLB debt	Current borrowing rate as at 05.02.24 p.m.	Target borrowing rate now (end of Q4 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	4.71%	3.70%	3.80%
10 years	4.82%	3.90%	3.80%
25 years	5.36%	4.20%	4.20%
50 years	5.16%	4.00%	4.00%

Borrowing advice

Our long-term (beyond 10 years) forecast for Bank Rate remains at 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.

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

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.55%	4.55%
2025/26	3.10%	3.10%
2026/27	3.00%	3.00%
2027/28	3.25%	3.25%
2028/29	3.25%	3.25%
Years 6 to 10	3.25%	3.25%
Years 10+	3.25%	3.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

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

Fife Council Treasury Management Strategy Statement and Annual Invesment Strategy 2024-27

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