

EAST RENFREWSHIRE COUNCIL  
AUDIT AND SCRUTINY COMMITTEE

23 February 2023

Report by Head of Accountancy (Chief Financial Officer)

Treasury Management Strategy Report for 2023/24

**PURPOSE OF REPORT**

1. To advise the Audit and Scrutiny Committee on the treasury management strategy for the financial year 2023/24.

**RECOMMENDATIONS**

2. It is recommended that Members:-
  - (a) Consider the content of the Treasury Management Strategy Report for 2023/24;
  - (b) Recommend to the Council that the Treasury Management Strategy for 2023/24 be approved, including the Prudential and Treasury Indicators and the amended list of organisations for investment of surplus funds (Annex F)
  - (c) Recommend to the Council that they approve the policy on the repayment of loans fund advances, see section 3.4, and
  - (d) Recommend to Council the forms of investment Instruments for use as permitted investments (Annex D)

**BACKGROUND**

3. In line with the CIPFA Treasury Management Code of Practice 2021, the Audit and Scrutiny Committee is responsible for ensuring effective scrutiny of the treasury management strategy and policies.
4. The attached Treasury Management Strategy Report for the financial year 2023/24 is submitted in accordance with this requirement. Figures contained in the report have been compiled on the basis of the latest available information, however these may be subject to significant change particularly as the outcome of the Council's £90m Learning Estate Improvement Programme (LEIP) bid is not yet known.

**TREASURY MANAGEMENT STRATEGY FOR 2023/24 (TMS)**

5. The TMS for 2023/24 is attached (see Appendix 1).

**EQUALITY IMPACT**

6. A screening exercise has revealed that the Treasury Management Strategy has no direct relevance to the Council's equality duties

**Report Author**

Head of Accountancy (Chief Financial Officer):	Margaret McCrossan
Chief Accountant:	Barbara Clark
Telephone Number:	0141 577 3068
E-mail:	<a href="mailto:barbara.clark@eastrenfrewshire.gov.uk">barbara.clark@eastrenfrewshire.gov.uk</a>
Report Date:	February 2023

**APPENDIX 1**

**EAST RENFREWSHIRE COUNCIL**

**TREASURY MANAGEMENT STRATEGY  
2023/24**

## CONTENTS

SECTION		Page
1.	Background	5
2.	Reporting Requirements	5
3.	The Capital Prudential Indicators 2023/24 – 2027/28	7
4.	Borrowing	12
5.	Investment Strategy 2023/24	18
6.	Performance Indicators	25
7.	Monitoring and Reporting	26
8.	Member and Officer Training	27
ANNEXES		Page
Annex A	Summary of Prudential and Treasury Indicators	30
Annex B	Interest Rate Forecast 2022 - 2025	32
Annex C	Economic Background	33
Annex D	Objectives of the Permitted Investment Instruments	36
Annex E	Credit and Counterparty Risk Management – Permitted Investments, Associated Controls and Limits	42
Annex F	Council’s Counterparty list	46
Annex G	Environmental, Social and Governance risk management	48
	Glossary of Terms	50

## 1 Background

The Council is required to operate a balanced budget, which broadly means that cash received during the year will meet cash expenditure. A major aspect of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, ensuring adequate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, being essentially longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

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

## 2 Reporting Requirements

2.1 The Council is required to receive and approve, as a minimum, three main reports on treasury activity each year, which incorporate a variety of policies as well as estimated and actual figures. These reports are as follows:-

a) **Treasury Management Strategy 2023/24** (this report).

This report is the most important of the three reports and covers:

- The capital plans of the Council (including prudential indicators);
- A policy on statutory repayment of loans fund advances (how residual capital expenditure is charged to revenue over time);
- The Treasury Management Strategy (how the investments and borrowings are organised) including treasury indicators, and
- An annual investment strategy (the parameters on how investments are to be managed).

b) **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, quarterly updates on the Prudential Indicators will be provided to Cabinet as part of the capital budget monitoring reports from 2023/24.

- c) **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 the estimate within the strategy.

## 2.2 Scrutiny

These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit and Scrutiny Committee.

## 2.3 Capital Investment Strategy

The CIPFA revised 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital investment strategy report, which will provide the following:

- A high-level long term 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 sustainability

The aim of this capital investment strategy is to ensure that all elected members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. An update to the Council's current Capital Investment Strategy will be presented to Council on 1 March 2023 for approval.

## 2.4 Treasury Management Strategy for 2023/24

The treasury management issues covered by this report are:

### Capital Issues

- The capital expenditure plans and associated prudential indicators
- The policy for the statutory repayment on loans fund advances

### Treasury management issues

- The current treasury position
- Treasury indicators which will 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 and
- Credit Worthiness Policy

These elements cover the requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code (the Prudential Code), the CIPFA Treasury Management Code and Scottish Government Investment Regulations.

## 2.5 Treasury Management Consultants

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

The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that it does not rely solely upon information and advice from its treasury advisors.

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

## 2.6 Council and Subsidiary Organisations

The Treasury Management Strategy covers the treasury management activities for the Council (including any subsidiary organisations i.e. East Renfrewshire Culture & Leisure Trust).

## 3 The Capital Prudential Indicators 2023/24 – 2027/28

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 to overview and confirm them.

A summary of the indicators can be found in Annex A

### 3.1 Capital Expenditure (Prudential Indicator PI-1)

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle. The indicator also includes expenditure financed by PFI and leasing type arrangements which, for the purposes of financial planning and reporting, must be treated as capital expenditure.

The following capital expenditure forecasts are in line with the housing capital plan 2023/24- 2032/33 and the general fund capital plan 2023/24 – 2032/33 both of which will be submitted to Council on 1 March 2023:

Capital Expenditure (PI-1) £'000	2021/22 Actual	2022/23 Probable	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General Fund – Capital Programme	21,211	41,334	72,073	40,532	42,827	84,519	49,493
– Other Relevant Expenditure	0	0	0	0	0	0	0
<b>General Fund Subtotal</b>	<b>21,211</b>	<b>41,334</b>	<b>72,073</b>	<b>40,532</b>	<b>42,827</b>	<b>84,519</b>	<b>49,493</b>
<b>Housing</b>	<b>13,050</b>	<b>16,132</b>	<b>9,094</b>	<b>17,429</b>	<b>16,870</b>	<b>10,036</b>	<b>3,558</b>
<b>Total</b>	<b>34,261</b>	<b>57,496</b>	<b>81,167</b>	<b>57,961</b>	<b>59,697</b>	<b>94,555</b>	<b>53,051</b>

### 3.2 Capital Financing Assumptions

The table below summarises the capital expenditure plans for the general fund and how these plans are being financed. Any shortfall of resources results in a funding borrowing need.

General Fund £'000	2021/22 Actual	2022/23 Probable	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Expenditure	21,211	41,334	72,073	40,532	42,827	84,519	49,493
Other Relevant Expenditure	0	0	0	0	0	0	0
<b>Total</b>	<b>21,211</b>	<b>41,334</b>	<b>72,073</b>	<b>40,532</b>	<b>42,827</b>	<b>84,519</b>	<b>49,493</b>
<b>Financed by:</b>							
Capital Receipts	225	140	0	0	0	0	0
Capital Reserve	0	0	0	0	0	0	0
Developer Contributions	2,535	379	501	56	56	54	0
Govt. General Capital Grant	4,950	5,351	5,262	5,262	5,262	5,262	5,262
Govt. Specific Capital Grants	2,611	5,161	10,887	2,781	1,968	75	75
Other Grants & Contributions	0	0	0	0	0	0	0
Repairs & Renewals	722	0	0	0	0	0	0
Fund/CFCR							
<b>Net Borrowing Requirement for the year</b>	<b>10,168</b>	<b>30,303</b>	<b>55,423</b>	<b>32,433</b>	<b>35,541</b>	<b>79,128</b>	<b>44,156</b>

The table below summarises the capital expenditure plans for housing and how these plans are being financed. Any shortfall of resources results in a borrowing requirement.

Housing £'000	2021/22 Actual	2022/23 Probable	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Expenditure	13,050	16,132	9,094	17,429	16,870	10,036	3,558
<b>Financed by:</b>							
Capital Receipts – Right to Buy	0	0	0	0	0	0	0
Capital Receipts – Land Disposal							
Recharges to Owners	6	0	0	0	1,000	1,000	1,000
Govt. Specific Capital Grants	0	100	100	100	100	100	100
Commutated Sums	5,434	4,077	1,865	7,050	3,540	2,690	140
CFCR	345	285	25	1,461	200	150	0
	0	0	0	0	0	0	0
<b>Net Borrowing Requirement for the year</b>	<b>7,265</b>	<b>11,670</b>	<b>7,104</b>	<b>8,818</b>	<b>12,030</b>	<b>6,096</b>	<b>2,318</b>



The table below summarises the borrowing requirement resulting from both the general fund (including PFI and leasing type arrangements) and housing capital plans.

<b>Borrowing Requirement £'000</b>	<b>2021/22 Actual</b>	<b>2022/23 Probable</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>
General Fund	10,168	30,303	55,423	32,433	35,541	79,128	44,156
Housing	7,265	11,670	7,104	8,818	12,030	6,096	2,318
<b>Net Borrowing Requirement for the year</b>	<b>17,433</b>	<b>41,973</b>	<b>62,527</b>	<b>41,251</b>	<b>47,571</b>	<b>85,224</b>	<b>46,474</b>

The table below shows a split of the estimated internal and external borrowing

<b>Borrowing Requirement £'000</b>	<b>2021/22 Actual</b>	<b>2022/23 Probable</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>
Internal	12,433	31,973	4,527	3,251	14,571	12,724	11,474
External	5,000	10,000	58,000	38,000	33,000	72,500	35,000
<b>Net Borrowing Requirement for the year</b>	<b>17,433</b>	<b>41,973</b>	<b>62,527</b>	<b>41,251</b>	<b>47,571</b>	<b>85,224</b>	<b>46,474</b>

### **3.3 The Council's Borrowing Requirement (The Capital Financing Requirement – Prudential Indicator PI-2)**

The 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 identified above, which has not immediately been paid for (e.g. via grants), 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. From 1 April 2016 authorities may choose whether to use scheduled debt amortisation (loans pool charges) or another suitable method of calculation in order to repay borrowing. The Council's position is set out in paragraph 3.4 below.

The CFR includes any other long term liabilities (e.g. PPP schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council has liabilities of £78.711m relating to such schemes as at 31 March 2022.

The Council is asked to approve the CFR projections below:

<b>Capital Financing Requirement (PI-2) £'000</b>	<b>2021/22 Actual</b>	<b>2022/23 Probable</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>
General Fund	168,342	203,046	252,909	278,749	307,760	378,121	412,344
Housing	39,514	48,217	51,964	57,010	64,979	68,875	68,771

<b>Total CFR (PI-2)*</b>	<b>207,856</b>	<b>251,263</b>	<b>304,873</b>	<b>335,759</b>	<b>372,739</b>	<b>446,996</b>	<b>481,115</b>
--------------------------	----------------	----------------	----------------	----------------	----------------	----------------	----------------

Net borrowing requirement for the year (above)	17,433	41,973	62,527	41,251	47,571	85,224	46,474
Less loans fund principal repayment and other financing movements	(13,017)	(13,378)	(11,621)	(13,268)	(13,750)	(13,159)	(15,012)
		14,812	2,704	2,903	3,159	2,192	2,657
<b>Movement in CFR</b>	<b>4,416</b>	<b>43,407</b>	<b>53,610</b>	<b>30,886</b>	<b>36,980</b>	<b>74,257</b>	<b>34,119</b>

*\*The CFR for this calculation includes capital expenditure to 31 March of each financial year.*

### 3.4 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 Council is recommended to approve the following policy on the repayment of loans fund advances:-

- For loans fund advances made before 1 April 2016, the policy will be to maintain the practice of previous years and apply the Statutory Method (in line with Schedule 3 of the Local Government (Scotland) Act 1975), with all loans fund advances being repaid by the annuity method in line with the repayment profile determined in previous years.
- Loans fund advances relating to City Deal projects which will be supported in later years by Government funding will be repaid in accordance with the funding/income profile method. This links the repayments to the project income stream.
- For loans fund advances made between 1 April 2016 and 31 March 2021, excluding the above, the Council will continue to calculate loan charge repayments in line with Schedule 3 of the Local Government (Scotland) Act 1975, using an annuity rate of 4%. The Council is permitted to use this option for new borrowing taken out over this transitional period.
- For loans fund advances from 1 April 2021, these will be repaid with reference to the life of an asset using the equal instalments method.

Additionally, the Scottish Government granted various flexibilities in 2020/21, to help primarily address Covid-19 pressures, which will impact on loan fund payments charged in 2020/21 and beyond. These fiscal flexibilities, which have been reviewed by the Scottish Government as part of the 2023/24 Scottish Budget, relate to:-

- Capital Receipts. Capital receipts received between 2020/21 and 2022/23 can be used to fund Covid-19 related revenue expenditure incurred before

31 March 2023. Thereafter any outstanding balance is required to be transferred to the Capital Reserve. A total of £2.6m will be transferred to the Capital Reserve as at 31 March 2023 in this respect.

- Loans Fund Principal Repayment Holiday. Councils can defer loans fund principal repayments due in either 2021/22 or 2022/23 and carry that saving to the General Fund reserve and earmark it to be used to fund the revenue financial impact of covid. The Council has not required to use this flexibility.
- Service Concessions. Council payments for service concessions, such as PFI type deals, include an element of debt repayment. This debt is paid over the life of the contract however Scottish Councils are now permitted to account for the repayment of this debt over the life of the asset instead, which will be a longer period and is in line with the treatment of the Council's loan charges. Council's approval will be sought to apply this flexibility. This flexibility is not confined to assist with covid pressures.

The table below shows what the future General Fund loans fund balances are expected to be, with year 1 being 2022/23:

£'000	Year 1	Years 2-5	Years 5-10	Years 10-15	Years 15-20	Years 20+
opening balance	89,649	114,752	227,458	321,166	276,019	233,696
advances	30,303	123,397	136,702	4,088	0	0
repayments	(5,200)	(10,691)	(42,994)	(49,235)	(42,323)	(233,696)
closing balance	114,752	227,458	321,166	276,019	233,696	0

The table below shows what the future HRA loans fund balances are expected to be, with year 1 being 2022/23:

£'000	Year 1	Years 2-5	Years 5-10	Years 10-15	Years 15-20	Years 20+
opening balance	39,514	48,217	64,978	75,024	60,556	42,156
advances	11,670	27,952	22,578	4,067	0	0
repayments	(2,967)	(11,191)	(12,532)	(18,535)	(18,400)	(42,156)
closing balance	48,217	64,978	75,024	60,556	42,156	0

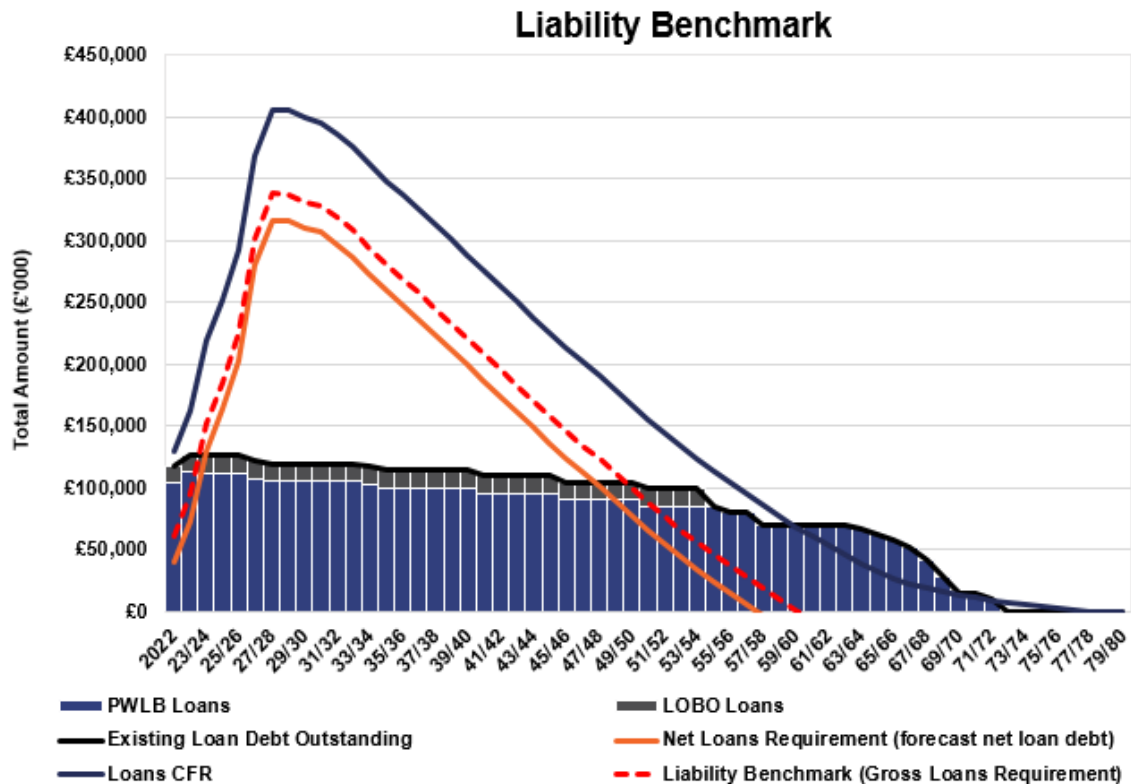
### 3.5 Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum. It is a projection of the amount of loan debt outstanding that the Council needs to fund its existing debt liabilities, planned prudential borrowing and other cashflows.

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.

2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Loans Fund principal repayments.
3. **Net loans requirement:** this will show the Authority’s gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned Loans Fund principal repayments and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.



## 4 Borrowing

Section 3 provides a summary of the capital expenditure plans. The treasury management function ensures that the Council’s cash is organised in accordance with the relevant professional Codes, so that sufficient cash is available to meet service activity and the Council’s Capital Investment 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 and projected debt positions and the annual investment strategy.

### 4.1 Current Portfolio Position

The Council’s actual and projected debt portfolio is summarised below. The table compares the actual and projected external debt against the Council’s estimated borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

£'000 as at 31 March	2021/22 Actual	2022/23 Probable	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
<b>Borrowing</b>	118,843	128,015	185,638	223,623	256,606	324,090	357,073
<b>Other Long Term Liabilities</b>	78,711	73,500	68,132	62,565	56,742	51,886	46,566
<b>Total Gross Debt (Prudential Indicator PI-3)</b>	<b>197,554</b>	<b>201,515</b>	<b>253,770</b>	<b>286,188</b>	<b>313,348</b>	<b>375,976</b>	<b>403,639</b>
<b>CFR – the borrowing need</b>	<b>207,856</b>	<b>251,263</b>	<b>304,873</b>	<b>335,759</b>	<b>372,739</b>	<b>446,996</b>	<b>481,115</b>
<b>(Under) / Over Borrowing (Prudential Indicator PI-6)</b>	<b>(10,302)</b>	<b>(49,748)</b>	<b>(51,103)</b>	<b>(49,571)</b>	<b>(59,391)</b>	<b>(71,020)</b>	<b>(77,476)</b>

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these (PI-3) is that the Council needs to ensure that its gross debt figure (shown above) 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 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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 by external loan debt as the cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains both prudent and cost effective as investment returns are low and counterparty risk is relatively high.

#### 4.2 Treasury Indicators: Limits to Borrowing Activity

##### a) The Operational Boundary (Prudential Indicator PI-4)

This indicator takes account of capital expenditure and financing requirements and projects the expected level of external debt for operational purposes. Temporary breaches of the operational boundary may occur as a result of unexpected cash movements. The Head of Accountancy (Chief Financial Officer) has delegated authority to manage the movement between borrowing and other long term liabilities such as finance leases in accordance with option appraisal and value for money considerations if it is considered appropriate. Any such movement will be reported to Council following the change.

Operational boundary for external debt (PI-4) £'000	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
<b>Borrowing</b>	<b>236,355</b>	<b>272,458</b>	<b>315,274</b>	<b>399,400</b>	<b>435,853</b>
<b>Other Long Term Liabilities</b>	<b>73,500</b>	<b>68,132</b>	<b>62,565</b>	<b>56,742</b>	<b>51,886</b>
<b>Total</b>	<b>309,855</b>	<b>340,590</b>	<b>377,839</b>	<b>456,142</b>	<b>487,739</b>

### b) The Authorised Limit for External Debt (Prudential indicator PI-5)

This is a key prudential indicator and represents a control on the maximum level of borrowing. It is similar to the operational boundary but includes further headroom to accommodate adverse cash flow movements and opportunities for advance borrowing. It represents a legal limit which external debt is prohibited to exceed and reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. In circumstances where a breach takes place the reasons shall be reported to the next meeting of the Council and the limit revised if appropriate. It should be noted that under section 3(1) of the Local Government Act 2003, the Government retains an option to control either the total of all local authority plans, or those of a specific Council, although this power has not yet been exercised.

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

The proposed Authorised Limit for the Council is as follows:

Authorised limit for external debt (PI-5) £'000	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Borrowing	271,808	313,327	362,565	459,310	501,231
Other Long Term Liabilities	73,500	68,132	62,565	56,742	51,886
<b>Total</b>	<b>345,308</b>	<b>381,459</b>	<b>425,130</b>	<b>516,052</b>	<b>553,117</b>

### c) Leasing – International Financial Reporting Standard (IFRS) 16

From 1 April 2024, leases which were previously off balance sheet will now be included. As leases form part of the other long term liability figures which make up the Prudential Indicators above, it is possible that the Indicators currently suggested will be exceeded. Once the detailed data gathering has been substantially completed, later in the 2023/24 financial year, an updated report may be required to inform the members of the detailed impact of IFRS 16 with amended Prudential Indicators for approval.

#### 4.3 Prospects for Interest Rates

The Council has appointed the Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. **Annex B** draws together a number of current city forecasts for short term (Base Rate) and longer fixed interest rates and the following table and commentary below gives the central view of the Link Group on 8<sup>th</sup> November 2022.

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave eamings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave eamings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

Our central forecast reflects a view that the MPC will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be 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.

The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Wage increases, excluding bonuses, are currently running at 5.7%.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

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 the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

### PWLB RATES

Yield curve movements have become less volatile under the Sunak/Hunt government. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.50%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end). We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

**The balance of risks to the UK economy: -**

The overall balance of risks to economic growth in the UK is to the downside. Indeed, the Bank of England projected two years of negative growth in their November Quarterly Monetary Policy Report.

**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, rising gilt yields).

**The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

**UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

**Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

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

The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.

**The Government** acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the light of the cost-of-living squeeze.

**The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

Longer term **US treasury yields** rise strongly, if inflation numbers disappoint on the upside, and pull gilt yields up higher than currently forecast.

**Borrowing advice:** Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are now above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are as follows: -

Average earnings in each year	
2022/23 (remainder)	3.95%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%



2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

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.

#### 4.4 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 loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Head of Accountancy (Chief Financial Officer) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

Any decisions to borrow externally in excess of the amounts shown in para 3.2 will be reported to Council at the next available opportunity.

#### 4.5 Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs / improve performance. The indicators are:

**(i) Upper limits on fixed interest rate exposure (Treasury Indicator TI-1)**

This covers a maximum limit for borrowing exposure to fixed interest rates, based on the debt position and is set at 100%.

**(ii) Upper limits on variable interest rate exposure (Treasury Indicator TI-2)**

This identified a maximum limit for borrowing exposure to variable interest rates based upon the debt position and is set at 15%.

**(iii) Maturity structure of borrowing (Treasury Indicator TI-3)**

Gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing. The Council has set the limit of debt maturing in any one year to 15% at the time of borrowing.

**4.6 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 security of such funds.

The Head of Accountancy (Chief Financial Officer) has the authority to borrow in advance of need under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. The Head of Accountancy (Chief Financial Officer) will adopt a cautious approach to any such borrowing and a business case to support the decision making process must consider:

- The benefits of borrowing in advance,
- The risks created by additional levels of borrowing and investment, and
- How far in advance it is reasonable to borrow considering the risks identified

Any such advance borrowing should be reported through the mid-year or annual Treasury Management reporting mechanism.

**4.7 Debt Rescheduling**

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 Council at the earliest meeting following its action. However as there is still a large difference between premature redemptions rates and new borrowing rates this is unlikely to occur.

**5 Investment Strategy**

**5.1 Investment Objectives and Policy**

The Council's investment policy implements the requirements of the following:-

- Local Government Investments (Scotland) Regulations 2010 (and accompanying Finance Circular 5/2010),

- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2018

The above regulations and guidance place a high priority on the management of risk. The Council’s investment priorities will be security first, liquidity second and then return. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Council’s risk appetite, whilst also accommodating Environmental, Social and Governance (ESG) principles as a fourth priority and principle to apply (see annex G).

This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of **types of investment instruments** that are permitted investments authorised for use in Annex D. Annex E expands on the risks involved in each type of investment and the mitigating controls.
5. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the information gathered (see points 1-3 above)
6. **Transaction limits** are set for each type of investment (see Annex F)
7. This authority has engaged **external consultants**, (see paragraph 2.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 5.6c).
9. The Council has determined that it will only use approved counterparties from within the United Kingdom.

10. As a result of the change in accounting standards for 2023/24 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 5.7). Regular monitoring of investment performance will be carried out during the year.

## 5.2 Creditworthiness Policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security as set out in the investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Head of Accountancy (Chief Financial Officer) will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary (see **Annex F**). These criteria provide an overall pool of classes of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Group our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list, with the exception of the Council's own banker. Any rating changes, rating watches (notification of a likely change), rating Outlooks (notification of a longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applied to a counterparty that is already at the minimum Council criteria will be suspended from use, with all other counterparties being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties are:

- Banks 1 - good credit quality – the Council will only use UK banks which have, as a minimum, the following Fitch ( or equivalent) ratings (where rated):
  - i. Short Term – *F1*
  - ii. Long Term – *A-*
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations\*. This bank can be included if it continues to be part nationalised or it meets the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.

- Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies - The Council will use societies which meet the ratings for banks outlined above;
- Money Market Funds
- Ultra-Short Dated Bond Funds
- UK Government (including gilts, Treasury Bills and the DMADF)
- Local authorities, including Police, Fire and the Council's subsidiary (East Renfrewshire Culture & Leisure Trust)

**Use of additional information other than credit ratings.** Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

**Hub Schemes.** The Council also invests in hub projects, which are based on robust business cases and a cashflow from public sector organisations (i.e. low risk). As additional assurance we restrict such investments to hub schemes where the Council is a significant participant.

**Time and monetary limits applying to investments.** The time and monetary limits for institutions on the Council's counterparty list are as stated in **Annex F**.

**Creditworthiness.** Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK

#### **UK banks – \*ring fencing**

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and Small and Medium Enterprises deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

### **5.3 Country and Council's Banker**

#### **a) Country Limits –**

The Council has as its current strategy to only use approved counterparties from within the United Kingdom. This policy may be reviewed, by the Head of Accountancy (Chief Financial Officer), to countries with sovereign ratings of AAA should the sovereign rating for the UK be downgraded to below Fitch AA -, or equivalent.

#### **b) Council's Own Banker**

The Council's own banker (The Clydesdale bank) will be maintained on the Council's counterparty list in situations where rating changes mean this is below the above criteria. This is to allow the Council to continue to operate normal current account banking facilities overnight and short-term investment facilities.

### **5.4 The Monitoring of Investment Counterparties**

All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of the creditworthiness service of Link Asset Services.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- Additional market information (for example Credit Swaps and negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

If the Council has funds invested in an institution which is downgraded to below the acceptable rating criteria, the Council will enter discussions with the counterparty to establish if the funds can be returned early. This however will be subject to an appropriate cost versus risk assessment of the specific situation.

The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Under exceptional market conditions, the Head of Accountancy (Chief Financial Officer) may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out in this Strategy. These restrictions will remain in place until the Head of Accountancy (Chief Financial Officer) is of an opinion that the banking system has returned to 'normal'. Similarly a restriction may be placed on the duration of investments.

## 5.5 Types of Investments

For institutions on the approved counterparty list, investments will be restricted to safer instruments (as listed in **Annex E**). Currently this involves the use of money market funds, the Debt Management Agency Deposit Facility (DMADF) and institutions with higher credit ratings than the minimum permissible rating outlines in the investment strategy, as well as the Council's own bank.

Where appropriate, investments will be made through approved brokers. The current list of approved brokers comprises:

- Sterling International Brokers Limited
- Tradition (UK) Limited
- Martins Brokers
- King and Shaxson Capital Limited
- Tullet Prebon Brokers
- Imperial Treasury Services
- Link Agency Services

## 5.6 Investment Strategy and bank rate projections

### a) In-house funds

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of the Bank rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

### b) Investment returns expectations

The current forecast shown in paragraph 4.3, includes a forecast for the Bank Rate to reach 4.5% in Q2 2023.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	
2022/23 ( remainder)	3.95%
2023/24	4.40%
2024/25	3.30%

2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Long term later years	2.80%

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

For its cash flow generated balances, the Council will seek to utilise its money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

**Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicator and limit:

**c) Investment Treasury Indicator And Limit (Treasury Indicator TI-4)  
Total Principal Funds Invested for Greater Than 365 days**

These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The treasury indicator and limit proposed is:

Maximum principal sums invested > 365 days (TI-4)			
	2021/22	2022/23	2023/24
Principal sums invested > 365 days	5%	5%	5%

## 5.7 Risk Benchmarking

These benchmarks are simple guides to minimise risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmarks is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or annual report.

**a) Security –**

The Council's **maximum** security risk benchmark for the current portfolio, when compared to historic default tables, is:

0.06% historic risk of default when compared to the whole portfolio for 1 year.

**b) Liquidity**

In respect of this area the Council seeks to maintain:

- Bank Overdraft: £100,000 East Renfrewshire Council



£25,000 East Renfrewshire Culture & Leisure Trust

**c) Yield**

Local Measures of yield benchmarks are:

Investments – Internal returns above the 7 day SONIA (Sterling Over Night Indexed Average) rate

**5.8 End of year investment report**

At the end of the financial year, the Head of Accountancy (Chief Financial Officer) will report on its investment activity as part of the annual treasury report.

**6 Performance Indicators**

**6.1** The CIPFA Code requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

**6.2 Debt Performance Indicators**

- (i) Average “Pool Rate” charged by the Loans Fund compared to Scottish Local Authority average Pool Rate:  
*Target is to be at or below the Scottish Average for 2022/23*
- (ii) Average borrowing rate movement year on year:  
*Target is to maintain or reduce the average borrowing rate for the Council versus 2022/23.*

**6.3 Loan Charges**

Loan Charges for 2023/24 are expected to be at or below the Revenue Budget estimate contained in the Council’s Financial Plans to be approved in March 2023, which are estimated as follows:

£m	2023/24 Estimate	2024/25 Estimate
Capital Repayments	2,896	3,929
Interest on Borrowing	5,361	6,859
Expenses	209	218
<b>Total Loan Charges*</b>	<b>8,466</b>	<b>11,006</b>

*\*The Loan Charges exclude the capital element of PPP repayments*

**6.4 Affordability prudential indicators**

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council’s overall finances.

**(i) Ratio of financing costs to net revenue stream**

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Non-HRA	7.2	7.5	6.7	7.5	7.8	8.7	9.7
HRA	31.3	30.3	34.4	36.2	37.9	27.1	27.9

The estimates of financing costs include current commitments and the proposals in the budget report.

(ii) HRA ratios

£	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
HRA debt £m	39.514	48.217	51.964	57.010	64.979	68.875	68.771
HRA revenues £m	13.415	15.192	15.421	16.211	16.903	17.616	18.227
Ratio of debt to revenues %	294.6	317.4	337.0	351.7	384.4	391.0	377.3

£	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
HRA debt £m	39.514	48.217	51.964	57.010	64.979	68.875	68.771
Number of HRA dwellings	3,061	3,146	3,159	3,205	3,268	3,314	3,331
Debt per dwelling £	12,909	15,326	16,450	17,788	19,883	20,783	20,646

## 7 Monitoring and Reporting

In line with the CIPFA Code the following formal reporting arrangements will be adopted:

Requirement	Purpose	Responsible Body	Frequency
Scrutiny of Treasury Management Strategy	Detailed scrutiny prior to annual approval by Council	Audit & Scrutiny Committee	Annually

Treasury Management Strategy	Reporting on Annual Strategy	Council	Annually prior to start of new financial year
Scrutiny of Treasury Management Mid-Year Report	Detailed scrutiny prior to approval by Council	Audit & Scrutiny Committee	Annually in October/November of the current year
Treasury Management Mid-Year Report	Mid-Year Performance Report	Council	Annually after reported to the Audit & Scrutiny Committee
Scrutiny of Treasury Management Annual Report	Detailed scrutiny prior to approval by Council	Audit & Scrutiny Committee	Annually in September/ October of the financial year
Treasury Management Annual Report	Annual Performance report for previous financial year	Council	Annually after reported to the Audit & Scrutiny Committee
Provide updates on the Prudential Indicators	To ensure that the council's borrowing remains affordable	Cabinet	Quarterly, along with the Capital Budget Monitoring Reports
Treasury Management Practices		Council	As appropriate
Treasury Management Policy Statement	Reviews and Revisions	Council	As required

## 8 Member and Officer Training

The CIPFA Code requires the Head of Accountancy (Chief Financial Officer) to ensure that both members and officers with responsibility for treasury management receive adequate training in this area.

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

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and members.
- Require treasury management officers and members to undertake self-assessment against the required competencies.
- Have regular communication with officers and members, encouraging them to highlight training needs on an ongoing basis."

In the current year, training was provided to members and staff by Link Group, Treasury solutions and further training will be arranged as required.

In addition the implementation and recommendation plan from the CIPFA self-assessment schedules, completed by the Audit & Scrutiny committee in 2022 is almost completed and in order to support future training requirements updated self-assessment schedules will be circulated to members mid administration.

The training needs of the Treasury management officers are periodically reviewed. A formal record of the training received by officers central to the Treasury function will be maintained by the Senior Treasury Officer who will also record any treasury management/capital finance training received by members.

**ANNEXES**

## ANNEX A

### SUMMARY OF PRUDENTIAL AND TREASURY INDICATORS

Indicator Reference	Indicator	Page Ref.	2023/24	2024/25	2025/26	2026/27	2027/28
<b>PRUDENTIAL INDICATORS</b>							
<b>Capital Expenditure Indicator</b>							
PI-1	Capital Expenditure Limits	Page 7	£'000	£'000	£'000	£'000	£'000
	General Fund		72,073	40,532	42,827	84,519	49,493
	Housing		9,904	17,429	16,870	10,036	3,558
	Total		81,167	57,961	59,697	94,555	53,051
PI-2	Capital Financing Requirement	Page 9	£'000	£'000	£'000	£'000	£'000
	General Fund		252,909	278,749	307,760	378,121	412,344
	Housing		51,964	57,010	64,979	68,875	68,771
	Total		304,873	335,759	372,739	446,996	481,115
<b>Affordability Indicator</b>							
<b>External Debt Indicators</b>							
PI-3	Gross Debt Borrowing	Page 13	£'000	£'000	£'000	£'000	£'000
	Other Long Term Liabilities		185,638	223,623	256,606	324,090	357,073
	Total		68,132	62,565	56,742	51,886	46,566
			253,770	286,188	313,348	375,976	403,638
PI-4	Operational Boundary for External Debt Borrowing	Page 13	£'000	£'000	£'000	£'000	£'000
	Other Long Term Liabilities		236,355	272,458	315,274	399,400	435,853
	Total		73,500	68,132	62,565	56,742	51,886
			309,855	340,590	377,839	456,142	487,739
PI-5	Authorised Limit for External Debt Borrowing	Page 14	£'000	£'000	£'000	£'000	£'000
	Other Long Term Liabilities		271,808	313,327	362,565	459,310	501,231
	Total		73,500	68,132	62,565	56,742	51,886
			345,308	381,459	425,130	516,052	553,117
	Ratio of Financing costs to net revenue Stream – Non -HRA	Page 25	6.7%	7.5%	7.8%	8.7%	9.7%
	Ratio of Financing costs to net revenue Stream - HRA	Page 25	34.4%	36.2%	37.9%	27.1%	27.9%
<b>Indicators of Prudence</b>							
PI-6	(Under)/Over Gross Borrowing against the CFR	Page 13	£'000	£'000	£'000	£'000	£'000
			(51,103)	(49,571)	(59,391)	(71,020)	(77,476)
<b>TREASURY INDICATORS</b>							
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt	Page 17	100% of debt position				
TI-2	Upper Limit to Variable Interest Rates based on Net Debt	Page 17	15% of debt position				

TI-3	Maturity Structure of Fixed Interest Rate Borrowing	Page 18	15% maturing in any one year at the time of borrowing				
TI-4	Maximum Principal Sum invested greater than 365 days	Page 24	5%	5%	5%	5%	5%

ANNEX B: INTEREST RATE FORECASTS 2022 – 2025 PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 19 December 2022

Link Group Interest Rate View		19.12.22												
		Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
<b>BANK RATE</b>		3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings		3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings		4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings		4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB		4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB		4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB		4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB		4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20
<b>Bank Rate</b>														
	NOW	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	
Link Group	3.50%	4.25%	4.50%	4.50%	4.50%	4.00%	3.75%	3.50%	3.25%	3.00%	2.75%	2.50%	2.50%	
Capital Economics	3.50%	4.50%	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%	3.00%	-	-	-	-	
<b>5yr PWLB Rate</b>														
	NOW	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	
Link Group	4.08%	4.20%	4.20%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%	3.40%	3.30%	3.20%	3.10%	
Capital Economics	4.08%	4.00%	3.80%	3.70%	3.50%	3.50%	3.40%	3.30%	3.30%	-	-	-	-	
<b>10yr PWLB Rate</b>														
	NOW	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	
Link Group	4.22%	4.40%	4.40%	4.30%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%	3.40%	3.30%	3.30%	
Capital Economics	4.22%	4.00%	3.80%	3.70%	3.60%	3.50%	3.40%	3.40%	3.30%	-	-	-	-	
<b>25yr PWLB Rate</b>														
	NOW	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	
Link Group	4.56%	4.60%	4.60%	4.50%	4.40%	4.20%	4.10%	4.00%	3.90%	3.70%	3.60%	3.50%	3.50%	
Capital Economics	4.56%	4.40%	4.20%	4.00%	3.80%	3.80%	3.70%	3.60%	3.60%	-	-	-	-	
<b>50yr PWLB Rate</b>														
	NOW	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	
Link Group	4.23%	4.30%	4.30%	4.20%	4.10%	3.90%	3.80%	3.70%	3.60%	3.50%	3.30%	3.20%	3.20%	
Capital Economics	4.23%	4.10%	4.00%	3.90%	3.80%	3.80%	3.70%	3.60%	3.60%	-	-	-	-	



## ANNEX C - LINK Group Economic Background (as at December 2022) –

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	<b>UK</b>	<b>Eurozone</b>	<b>US</b>
<b>Bank Rate</b>	3.0%	1.5%	3.75%-4.00%
<b>GDP</b>	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
<b>Inflation</b>	11.1%y/y (Oct)	10.0%y/y (Nov)	7.7%y/y (Oct)
<b>Unemployment Rate</b>	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

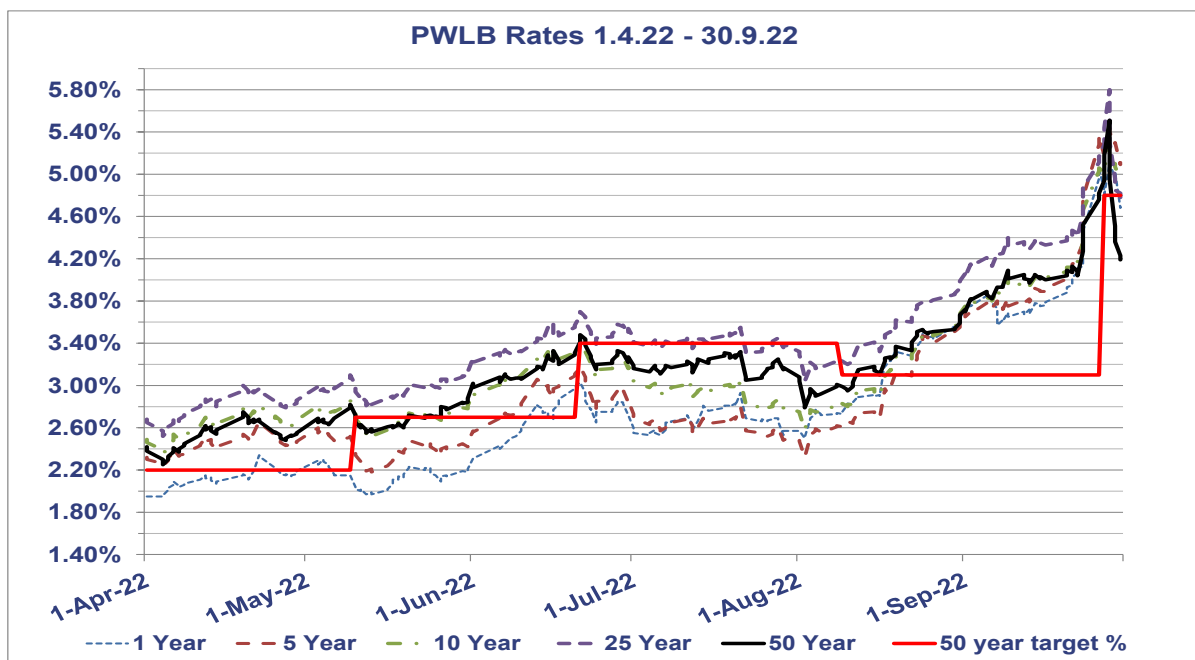
Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17<sup>th</sup> November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all

point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of \$1.035, on the Monday following the Truss government's "fiscal event", to \$1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28<sup>th</sup> September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%
<b>Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	5.11%	5.44%	5.35%	5.80%	5.51%
<b>Date</b>	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
<b>Average</b>	2.81%	2.92%	3.13%	3.44%	3.17%
<b>Spread</b>	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

**CENTRAL BANK CONCERNS – NOVEMBER 2022**

At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

## ANNEX D

### Treasury risks

All the investment instruments are subject to the following risks: -

1. **Credit and counter-party risk:** this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.
2. **Liquidity risk:** this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment e.g. gilts, CDs, corporate bonds can usually be sold immediately if the need arises, there are two caveats: - a. cash may not be available until a settlement date up to three days after the sale. b. there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer.
3. **Market risk:** this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.
4. **Interest rate risk:** this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in its Treasury Indicators in this report.
5. **Legal and regulatory risk:** this is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

### Controls on treasury risks

1. **Credit and counter-party risk:** this authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes. See paragraphs 5.2 and 5.3.
2. **Liquidity risk:** this authority has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.
3. **Market risk:** this authority purchases Certificate of Deposits, Corporate Bonds, Treasury Bills and Ultra-Short Bonds as they offer a higher rate of return than depositing in the DMADF. They are usually held until maturity but in exceptional

circumstances, they can be quickly sold at the current market value, (which may be below the purchase cost), if the need arises for extra cash at short notice. Their value does not usually vary much during their short life.

4. **Interest rate risk:** this authority manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing. See paragraph 5.6.
5. **Legal and regulatory risk:** this authority will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations.

## Objectives of each type of Permitted Investment instrument

### 1. DEPOSITS

The following forms of 'investments' are actually more accurately called deposits as cash is deposited in an account until an agreed maturity date or is held at call.

- a) **Debt Management Agency Deposit Facility (DMADF).** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. However, it is very useful for authorities whose overriding priority is the avoidance of risk. The longest period for a term deposit with the DMADF is 6 months.
- b) **Term deposits with high credit worthiness banks and building societies.** This is the most widely used form of investing used by local authorities. It offers a much higher rate of return than the DMADF (dependent on term). The authority will ensure diversification of its portfolio of deposits ensuring that an approved maximum can be placed with any one institution or group. In addition, longer term deposits offer an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and higher earnings than the DMADF. Where it is restricted is that once a longer term investment is made, that cash is locked in until the maturity date.
- c) **Call accounts with high credit worthiness banks and building societies.** The objectives are as for 1b, but there is instant access to recalling cash deposited. This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit. Some use of call accounts is highly desirable to ensure that the authority has ready access to cash when needed to pay bills.
- d) **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits and provides greater flexibility to adopt

new instruments as and when they are brought to the market. Approval will be sought before making deposits using instruments under this generic title.

- e) **Collateralised deposits.** These are deposits placed with a bank which offers collateral backing based on specific assets. Examples seen in the past have included local authority LOBOs, where such deposits are effectively lending to a local authority as that is the ultimate security.

## 2. DEPOSITS WITH COUNTERPARTIES CURRENTLY IN RECEIPT OF GOVERNMENT SUPPORT / OWNERSHIP

These banks offer another dimension of creditworthiness in terms of Government backing through either partial or full direct ownership. The view of this authority is that such backing makes these banks attractive institutions with whom to place deposits, and that will remain our view if the UK sovereign rating were to be downgraded in the coming year.

- a) **Term deposits with high credit worthiness banks which are fully or semi nationalised.** As for 1b, but Government full (or substantial partial) ownership, implies that the Government stands behind this bank and will be deeply committed to providing whatever support that may be required to ensure the continuity of that bank. This authority considers that this indicates a low and acceptable level of residual risk.
- b) **Fixed term deposits with variable rate and variable maturities (structured deposits).** There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. Approval will be sought before making deposits using instruments under this generic title

## 3. COLLECTIVE INVESTMENT SCHEMES STRUCTURED AS OPEN ENDED INVESTMENT COMPANIES (OEICS)

- a) **Government liquidity funds.** These are the same as money market funds (see below) but only invest in government debt issuance with highly rated governments. Due to the higher quality of underlying investments, they offer a lower rate of return than MMFs. However, their net return is typically on a par with the DMADF, but with instant access.
- b) **Money Market Funds (MMFs).** By definition, MMFs are AAA rated and are widely diversified, using many forms of money market securities including types which this authority does not currently have the expertise or capabilities to hold directly. However, due to the high level of expertise of the fund managers and the huge amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as their 60 day WAM means they have locked in investments earning higher rates of interest than are currently available in the market. MMFs also help an authority to diversify its own portfolio as e.g. a £2m investment placed directly with HSBC is a 100% risk exposure to HSBC whereas £2m invested in a MMF may end up with say £10,000 being invested with HSBC

through the MMF. For authorities particularly concerned with risk exposure to banks, MMFs offer an effective way of minimising risk exposure while still getting much better rates of return than available through the DMADF.

- c) **Ultra-short dated bond funds.** These funds are similar to MMFs, can still be AAA rated but have variable net asset values (VNAV) as opposed to a traditional MMF which has a Constant Net Asset Value (CNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile. These funds can have WAM's and Weighted Average Life (WAL's) of 90 – 365 days or even longer. Their primary objective is yield and capital preservation is second. They therefore are a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.
- d) **Gilt funds.** These are funds which invest only in U.K. Government gilts. They offer a lower rate of return than bond funds but are highly rated both as a fund and through investing only in highly rated government securities. They offer a higher rate of return than investing in the DMADF but they do have an exposure to movements in market prices of assets held.
- e) **Bond funds.** These can invest in both government and corporate bonds. This therefore entails a higher level of risk exposure than gilt funds and the aim is to achieve a higher rate of return than normally available from gilt funds by trading in non-government bonds.

#### 4. SECURITIES ISSUED OR GUARANTEED BY GOVERNMENTS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it matures or is sold. The annual earnings on a security is called a yield i.e. it is normally the interest paid by the issuer divided by the price you paid to purchase the security unless a security is initially issued at a discount e.g. treasury bills.

- a) **Treasury bills.** These are short term bills (up to 18 months, but usually 9 months or less) issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a term deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.
- b) **Gilts.** These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a term deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity (for most periods) if the yield curve is positive.
- c) **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government** e.g. National Rail. This is similar to a gilt due to the explicit Government guarantee.

## 5. SECURITIES ISSUED BY CORPORATE ORGANISATIONS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it is sold. The annual earnings on a security is called a yield i.e. is the interest paid by the issuer divided by the price you paid to purchase the security. These are similar to the previous category but corporate organisations can have a wide variety of credit worthiness so it is essential for local authorities to only select the organisations with the highest levels of credit worthiness. Corporate securities are generally a higher risk than government debt issuance and so earn higher yields.

- a) **Certificates of deposit (CDs).** These are shorter term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so can be sold ahead of maturity and also purchased after they have been issued. However, that liquidity can come at a price, where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.
- b) **Commercial paper.** This is similar to CDs but is issued by commercial organisations or other entities. Maturity periods are up to 365 days but commonly 90 days
- c) **Corporate bonds.** These are (long term) bonds (usually bearing a fixed rate of interest) issued by a financial institution, company or other non-government issuer in order to raise capital for the institution as an alternative to issuing shares or borrowing from banks. They are generally seen to be of a lower creditworthiness than government issued debt and so usually offer higher rates of yield.
- d) **Floating rate notes.** These are bonds on which the rate of interest is established periodically with reference to short-term interest rates.

## 6. OTHER

- a) **Property fund.** This is a collective investment fund specialising in property. Rather than owning a single property with all the risk exposure attached to one property in one location rising or falling in value, maintenance costs, tenants actually paying their rent / lease etc., a collective fund offers the advantage of diversified investment over a wide portfolio of different properties. This can be attractive for authorities who want exposure to the potential for the property sector to rise in value. However, timing is critical to entering or leaving this sector at the optimum times of the property cycle of rising and falling values. Typically, the minimum investment time horizon for considering such funds is at least 3-5 years.
- b) **Loans to 3<sup>rd</sup> parties.** These are loans provided to third parties at either market rates of interest or below market rates. Each application is supported by the service rationale behind the loan and requires member approval. These loans are highly illiquid and may exhibit credit risk.
- c) **Loans to a Local Authority Company/ Partnership or Charity.** These loans have to be supported by the service rationale /business case and requires member approval. In



general these loans will involve some form of security or clear cash flow that is available to service the debt. These loans are highly illiquid and may exhibit credit risk.

- d) **Shares in Hub schemes.** These are shares in projects that have both Council and the Scottish Government as participants. As such the Council are well placed to influence and ensure the successful completion of the projects, which are based on robust business cases with a cash flow from the public sector organisations. These investments are highly illiquid with a low credit risk.

## ANNEX E

### Credit and Counterparty Risk Management

#### Permitted Investments, Associated Controls and Limits for East Renfrewshire Council and East Renfrewshire Culture & Leisure Trust

Type of Investment	Treasury Risks	Mitigating Controls	Limits
a. Deposits with the Debt Management Account Facility (UK Government) <b>(Very low risk)</b>	This is a deposit with the UK Government and, as such, counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months	Little mitigating controls required. As this is a UK Government investment, the monetary limit is high.	£30m  Maximum 6 months
b. Deposits with other local authorities or public bodies  <b>(Very low risk)</b>	These are considered quasi UK Government debt and, as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply.  Deposits with non-local authority bodies will be restricted to the overall credit rating criteria	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment.  Non-local authority deposits will follow the approved credit rating criteria	£5m ( per body), maximum 6 months
c. Money Market Funds (MMFs) Low Volatility Net Asset Value (LVNAV) <b>(Low to very low risk)</b>	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs has “AAA” rated status from either Fitch, Moody’s or Standard & Pools.	£10m per fund/£60m overall
d. Ultra-Short Dated Bond Funds  <b>( Low risk)</b>	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where they have “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	£10m overall, part of category c.
e. Call account deposit accounts with financial institutions	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. These type of investments have no risk to	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured	As shown in the counterparty

(banks and building societies) <b>(Low risk depending on credit rating)</b>	value, liquidity is high and investment can be returned at short notice	primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	listing (Annex F)
f. Term deposits with financial institutions (banks and building societies) <b>(Low to medium risk depending on period &amp; credit rating)</b>	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors.  Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty listing (Annex F)
g. UK Government Gilts and Treasury Bills <b>(Very low risk)</b>	These are marketable securities issued by the UK Government and, as such, counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity).	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	£5m, maximum 6 months
h. Certificates of Deposit with Financial Institutions ( Banks & Building Societies) <b>( Low risk)</b>	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a), (b) and (c) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates (no loss if these are held to maturity). Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	Dependent on institution as listed in counterparty listing in annex F
i. Gilt fund deposit facilities with banks & building societies	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured	Dependent on institution as listed in

(escalating rates, de-escalating rates etc.). <b>(Low to medium risk depending on period &amp; credit rating)</b>	Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with these criteria will be further strengthened by the use of additional market intelligence	counterparty listing in annex F
j. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) <b>(Low to medium risk depending on period &amp; credit rating)</b>	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	Dependent on institution as listed in counterparty listing in annex F
k. Corporate Bonds <b>( Medium to high risk depending on period and credit rating)</b>	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Corporate bonds will be restricted to those meeting the base criteria.  Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	Dependent on institution as listed in counterparty listing in annex F
l. Investment properties	These are non-service properties which are being held pending disposal or for a longer-term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids)	In larger investment portfolios, some small allocation of property based investment may counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.	No limit

m. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rationale behind the loan and the likelihood of partial or full default.	£0.5m
n. Loans to a local authority company/ partnership or charity	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid	Each loan to a local authority company requires Member approval and each application is supported by the service rationale/business case behind the loan and the likelihood of partial or full default.	£1m
o. Shares in Hub Schemes	These are investments that are exposed to the success or failure of individual projects and are highly illiquid.	The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. As such they are well placed to influence and ensure the successful completion of the project's term. These projects are based on robust business cases with a cash flow from public sector organisations (i.e. low credit risk)	Investment limited to HUB schemes where the Council is a major participant

### The Monitoring of Investment Counterparties

The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Link Group: Treasury Solutions, including when ratings change, and counterparties are checked promptly. On occasion rating may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately (with the exception of the Council's Bank) and if required new counterparties which meet the criteria will be added to the list with written permission of the Head of Accountancy (Chief Financial Officer).

## ANNEX F

## EAST RENFREWSHIRE COUNCIL

## ORGANISATIONS APPROVED FOR THE INVESTMENT OF SURPLUS FUNDS

Banking Group	Individual Counterparty	Limits	
		Deposit	Transaction
Bank of England	Debt Management Office	£30m	£10m
	UK Treasury Bills	£5m	£5m
Barclays Banking Group	Barclays Bank	£5m	£5m
Goldman Sachs International Bank		£10m	£10m
Lloyds Banking Group:	Bank of Scotland	£5m	£5m
	Lloyds Bank of Corporate Mkt (NRF)	£5m	£5m
Royal Bank of Scotland Group:	Royal Bank of Scotland National Westminster Bank	£5m	£5m
Santander Group	Santander UK PLC	£10m	£10m
Standard Chartered Bank		£10m	£10m
Clydesdale Bank		£5m	£5m
<b>Building Societies</b>			
Nationwide		£10m	£10m
<b>Local Authorities</b>			
All Local Authorities including Police & Fire (per fund)		£5m	£5m
<b>Money Market Funds and Ultra-Short Dated Bond Funds</b>			
Maximum limit of £10m per fund,		£60m	£10m

## Credit Ratings

	Fitch		Moody's		S&P	
	LT	ST	LT	ST	LT	ST
Minimum Criteria	A-	F1	A3	P-1/P-2	A	A-1/A-2

(Unless Government backed)

(Please note credit ratings are not the sole method of selecting counterparty)

## Limit

Investment of surplus funds is permitted in each of the above organisations, with the limits set on an individual basis by the Head of Accountancy (Chief Financial Officer).

The limit may only be exceeded or another organisation approved with the written permission of the Head of Accountancy (Chief Financial Officer).

**Deposit Periods**

The maximum period for any deposit is currently set at 6 months, based on the Link Assets Services suggested Duration Matrix. These limits can only be exceeded with the written permission of the Head of Accountancy (Chief Financial Officer).

Hub scheme deposit periods are dependent on the lifetime of the associated scheme.

## ANNEX G Environmental, Social and Governance (ESG) risk management

This Council is supportive of the Principles for Responsible Investment ([www.unpri.org](http://www.unpri.org)) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Council uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in the Credit Risk and Ratings statement, which is as follows:

*"We, the undersigned, recognise that environmental, social and governance (ESG) factors can affect borrowers' cash flows and the likelihood that they will default on their debt obligations. ESG factors are therefore important elements in assessing the creditworthiness of borrowers. For corporates, concerns such as stranded assets linked to climate change, labour relations challenges or lack of transparency around accounting practices can cause unexpected losses, expenditure, inefficiencies, litigation, regulatory pressure and reputational impacts.*

*At a sovereign level, risks related to, inter alia, natural resource management, public health standards and corruption can all affect tax revenues, trade balance and foreign investment. The same is true for local governments and special purpose vehicles issuing project bonds. Such events can result in bond price volatility and increase the risk of defaults.*

*In order to more fully address major market and idiosyncratic risk in debt capital markets, underwriters, credit rating agencies and investors should consider the potential financial materiality of ESG factors in a strategic and systematic way. Transparency on which ESG factors are considered, how these are integrated, and the extent to which they are deemed material in credit assessments will enable better alignment of key stakeholders.*

*In doing this the stakeholders should recognise that credit ratings reflect exclusively an assessment of an issuer's creditworthiness. Credit rating agencies must be allowed to maintain full independence in determining which criteria may be material to their ratings. While issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable.*

*With this in mind, we share a common vision **to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness.**"*

For short term investments with counterparties, this Council utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings. The Council will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

Typical examples of ESG factors that are considered by Credit Rating Agencies, such as Fitch, Moody's and Standard & Poor's when assigning credit ratings to counterparties are:

- **Environmental:** Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.



- **Social:** *Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.*
- **Governance:** *Management structure, governance structure, group structure, financial transparency.*

The credit ratings provided by these agencies are also used as the basis for selecting suitable counterparties.

## GLOSSARY OF TERMS

<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>CIPFA Code</b>	Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes
<b>CFR</b>	Capital Financing Requirement is the estimated level of borrowing or financing needed to fund capital expenditure.
<b>Consent to Borrow</b>	Para 1 (1) of Schedule 3 of the Local Government (Scotland) Act 1975 (the 1975 Act) effectively restricts local authorities to borrowing only for capital expenditure. Under the legislation Scottish Ministers may provide consent for local authorities to borrow for expenditure not covered by this paragraph, where they are satisfied that the expenditure should be met by borrowing.
<b>Gilts</b>	A gilt is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock Exchange. The term “gilt” or “gilt-edged security” is a reference to the primary characteristic of gilts as an investment: their security. This is a reflection of the fact that the British Government has never failed to make interest or principal payments on gilts as they fall due.
<b>MPC</b>	Monetary Policy Committee
<b>NHT</b>	National Housing Trust initiative undertaken in partnership with the Scottish Futures Trust (SFT)
<b>Other Long Term Liabilities</b>	Balance sheet items such as Public Private Partnership (PPP), and leasing arrangements which already include borrowing instruments.
<b>PPP</b>	Public-Private Partnership.
<b>Prudential Indicators</b>	The Prudential Code sets out a basket of indicators (the Prudential Indicators) that must be prepared and used in order to demonstrate that local authorities have fulfilled the objectives of the Prudential Code.
<b>QE</b>	Quantitative Easing
<b>SONIA</b>	Sterling Overnight Interest Average: this is a risk-free rate for sterling markets administered by the Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.
<b>Spread</b>	A spread in trading terms is the difference between the buy (offer) and Sell (bid) prices quoted for an asset. Many brokers will quote their prices in the form of a spread.
<b>Treasury Indicators</b>	These consist of a number of Treasury Management Indicators that local authorities are expected to ‘have regard’ to, to demonstrate compliance with the Treasury Management Code of Practice.