Agenda Item	**15**
Report No	**HC/8/23**

THE HIGHLAND COUNCIL

Committee:	The Highland Council
Date:	9 March 2023
Report Title:	**Treasury Management Strategy Statement and Investment Statement – 2023/24**
Report By:	Head of Finance

1. Purpose/Executive Summary

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in Local Authorities (the Code). A requirement of the Code is for an annual Treasury Management Strategy Statement and Investment Statement (TMSS & IS) to be approved by Council for the forthcoming financial year.

This TMSS has been drafted in accordance with the CIPFA Treasury and Prudential Codes 2021 and guidance notes.

The key objectives of the Prudential Code are to ensure that, within a clear reporting framework, a local authority's capital expenditure plans and investment plans are *affordable* and proportionate and all external borrowing and long-term liabilities are within *prudent and sustainable levels*.

The TMSS and IS are prepared taking account of the current capital programme, with that being the December 2021 capital programme, and in turn the decisions made by Council on 2nd March in relation to a refreshed and reprofiled capital programme. Given the need to review the current capital programme to address current challenges regarding affordability, inflation, interest rates and investment demands, the TMSS and IS may require further review during 2023 to reflect any implications arising from the capital review.

2. Recommendations

2.1 Members are asked to approve

- the TMSS & IS for 2023/24 and the Prudential Indicators as detailed in **Appendix 1** of the report.

3. Implications

3.1 Resource – The TMSS and IS is a key strategy document, and along with the appended Prudential Indicators are in place to ensure the Council has clear plans and reporting arrangements regarding affordability, prudence and sustainability. With regard to financial year 2023/24, this report aligns with and takes account of the revenue and capital budget decisions made by the Council on 2nd March 2023. Treasury and Investment activity can however relate to multi-year, and often very long-term financial commitments, and this report considers short, medium and longer-term prospects and implications in line with the requirements of the Code.

3.2 Legal - none

3.3 Community (Equality, Poverty, Rural and Island) - none

3.4 Climate Change / Carbon Clever – none

3.5 Risk – A lack of available short-term borrowing, or increased interest rates for short-term borrowing due to supply and demand issues would result in increased borrowing costs. In such circumstances the Council may have no option but to take long term PWLB borrowing at higher interest rates.

A significant risk to the Council's treasury and capital plans is rising interest rates. During the period since the approval of the previous 2022/23 TMSS and IS by Committee (January 2022) bank rates and PWLB borrowing rates have increased significantly above previous forecasts (forecasts are provided by the Council's investment advisor, Link). In February 2022, the forecast for March 2023 bank rate was 0.75% and 50-year PWLB rate was 2.00%.

As set out in section 9.2, the current forecast is that in March 2023 the bank rate will be 4.25% and PWLB 4.30% which is a significant increase on the previous forecasts. Looking ahead, it is anticipated that both bank rate and PWLB will increase until December 2023 and then decrease gradually during the period to March 2024, though there is likely to continue to be exceptional volatility and unpredictability.

3.6 Gaelic – none

4. Introduction

As noted above, the TMSS has been drafted in accordance with the CIPFA Treasury and Prudential Codes 2021 and guidance notes which require that there is a clear reporting framework, and a local authority's capital expenditure plans and investment plans are *affordable* and proportionate and all external borrowing and long-term liabilities are within *prudent and sustainable levels*.

The Council's current 10-year capital programme and capital strategy was approved by Council in December 2021. As per the 2023/24 budget report to Council on 2nd March, "it is evident that the approved capital programme is no longer affordable". Challenges to the current programme include construction industry inflation and product and materials shortages leading to significant cost increases across the majority of project categories; fewer contractors participating in competitive tendering process; and increases in interest rates mean the revenue budget impact of financing capital investment has increased. Alongside these cost pressures, the Council has an extensive asset base which must be safely maintained and there is the challenge of replacing assets which have reached the end of their useful economic life.

The Council Budget 2023/24 included a reprofiled capital programme that will allow projects to continue through the design phase but, where feasible, defers decisions on entering into contracts for the construction or delivery phase until a fuller assessment of the project priority and affordability is completed. A full review of the capital programme will be undertaken during 2023 which is closely aligned to work on the Council's medium term financial strategy and clearly linked with the Council's programme 'Our Future Highland', approved in December 2022. The proposed reprofiled programme does not at this stage formally remove any commitments to previously approved projects, however it may lead to revised timescales for their delivery. Upon further review, decisions may be taken not to progress certain projects if they are no longer deemed as priorities or considered affordable. These decisions will be for elected Members to make.

In this TMSS, reprofiled programme capital expenditure per the 2 March Council report, has been used to estimate future borrowing. The Council Budget 2023/24 report to Council also recommended approval of a loans fund principal repayment 'holiday' in 2023 which is also covered in this report (sections 7.3 to 7.5 and Appendix 11).

Given the status of the capital programme, the intent to review that programme during 2023, and the context as outlined above in relation to unaffordability of the current capital programme, there may be a need for further revision to the TMSS as a result during the course of 2023.

4.1 Background

Treasury management is defined by the Code as:

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

4.2 Statutory Requirements

The Local Government in Scotland Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included in Section 13 of this report); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

4.3 CIPFA Requirements

The CIPFA Code of Practice on Treasury Management (2017) was updated in December 2021 with the accompanying Guidance Notes on the Code published in early 2022. The new requirements of the 2021 revised Treasury Management and Prudential codes apply to the TMSS for 2023/24.

This TMSS & IS for 2023/24 will follow the 2021 Treasury Management Code and the primary requirements of this are as follows:

- Creation and maintenance of a **Treasury Management Policy Statement** which sets out the policies, objectives and approach to risk management of the Council's treasury management activities.
- Receipt by the full council of an annual **Treasury Management Strategy Statement and Annual Investment Strategy** (this report) for the year ahead. Receipt by delegated Committee of a **Mid-year Review Report** and an **Annual Report** covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. This Council's delegated Committee is the Corporate Resources Committee.
- Creation and maintenance of **Treasury Management Practices** which set out the manner, in which the Council will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

4.4 In terms of the revised Treasury Management and Prudential codes 2021, it should be noted that there are the following new requirements which have been considered in this TMSS as set out below:

1. **Adopt a new liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.

   The new liability benchmark treasury indicator is at section 8.2.

2. **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case.

   The Council does not hold any long-term treasury or commercial investments.

3. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year.

   The Council does not participate in pooled investments with other Councils.

4. Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority.

   Information on the knowledge and skills register is at section 4.7.

5. **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that

highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the Authority's integrated revenue, capital and balance sheet monitoring.

The Council will adjust quarterly reporting to include forward-looking prudential indicators.

6. **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices (TMP1).

   The application of ESG principles is at sections 13.2 to 13.6.

4.5 Treasury Management Strategy for 2023/24

The proposed strategy for 2023/24 in respect of the following aspects of the treasury management function is based upon officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, the Link Group (Link).

The strategy covers 2 main areas:

1. Capital issues – the capital plans and the prudential indicators.
2. Treasury management issues

- the current treasury position
- treasury limits and indicators for 2023/24 to 2025/26 (which will limit the treasury risk and activities of the Council)
- prospects for interest rates
- the borrowing requirement based upon the Council's current capital programmes
- the borrowing strategy (including policy on borrowing in advance of need)
- debt rescheduling
- annual investment strategy
- credit worthiness policy
- policy on use of external service providers

4.6 Balanced Budget Requirement

It is a statutory requirement under Section 93 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, a local authority must calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions.

Therefore, increases in capital expenditure must be limited to a level whereby the corresponding increases in revenue charges are affordable and within the projected future income of the Council. Increases in revenue charges would include the following:

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure
2. any increases in running costs from new capital projects

3. Interest rates increasing for short-term borrowing and a lack of availability of short-term borrowing which requires the Council to take more expensive PWLB borrowing

4.7 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management, relevant to their needs and those responsibilities. This especially applies to members responsible for scrutiny (the Corporate Resources Committee).

The training needs of treasury management officers are periodically reviewed, with training provided throughout the year using several mediums; in-house training, meetings with and training provided by Treasury advisers, external training courses and attendance at treasury forum meetings with other Councils.

In accordance with the Code, Officers will maintain a knowledge and skills schedule. The schedule will set out the following amongst other information: legislation and guidance that must be understood and complied with; to whom policy applies; competencies for each role; how training will be delivered; need for formal qualifications; frequency of training; how knowledge skills gaps will be identified, arrangements for monitoring, reviewing and reporting knowledge and skills schedule). There will be a record of training maintained.

Officers are developing a plan for the delivery of member training in 2023/24.

4.8 Treasury management advisors

The Council uses Link as its external treasury management advisors. Link were appointed to this role effective from 1 July 2018 for a three-year period with an option to extend for one year. The contract was extended further to allow a tender process to be completed.

5. Treasury Limits for 2023/24 to 2025/26

5.1 It is a statutory duty under part 7 of the Local Government in Scotland Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to allocate to capital expenditure.

5.2 The Council must have regard to the Prudential Code when setting the Affordable Capital Expenditure Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council house rent levels is ‘acceptable’.

5.3 Whilst termed an “Affordable Capital Expenditure Limit”, the capital plans to be considered for inclusion may incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The affordable capital expenditure limit is to be set, on a rolling basis, for the forthcoming and two successive financial years.

5.4 The current financial environment is highly challenging with inflationary factors creating a budget gap for 2023/24 of £49.2m. Although a balanced budget for 2023/24 was presented for approval by Council 2023/24 on 2 March, this was only achievable through identifying areas where savings will be taken and completing a comprehensive review of reserves to see how these would be used on a short-term basis to smooth the delivery of balanced budget.

5.5 The medium to long-term financial outlook for the Council remains extremely challenging with an estimated residual budget gap of £77.7m over the period 2024/25 to 2027/28. In its current structure and model of service delivery the Council is not considered to be financially sustainable over the medium to long term and will not be able to offer the same breadth and current level of service provision. In view of this, the capital programme will have to be reviewed in 2023.

5.6 In December 2021 (Medium Term Financial Plan- Capital Strategy and Capital Programme to 2036/37 report), the Council agreed a capital programme covering the period up to 2036/37 containing over £938m of planned capital investment.

However, in view of immediate financial pressures, the plan has been reprofiled and presented to Council for approval (2nd March) with plans to complete a comprehensive review of the affordability of the capital programme during 2023. The current 10-year plan approved in December 2021 is no longer considered affordable.

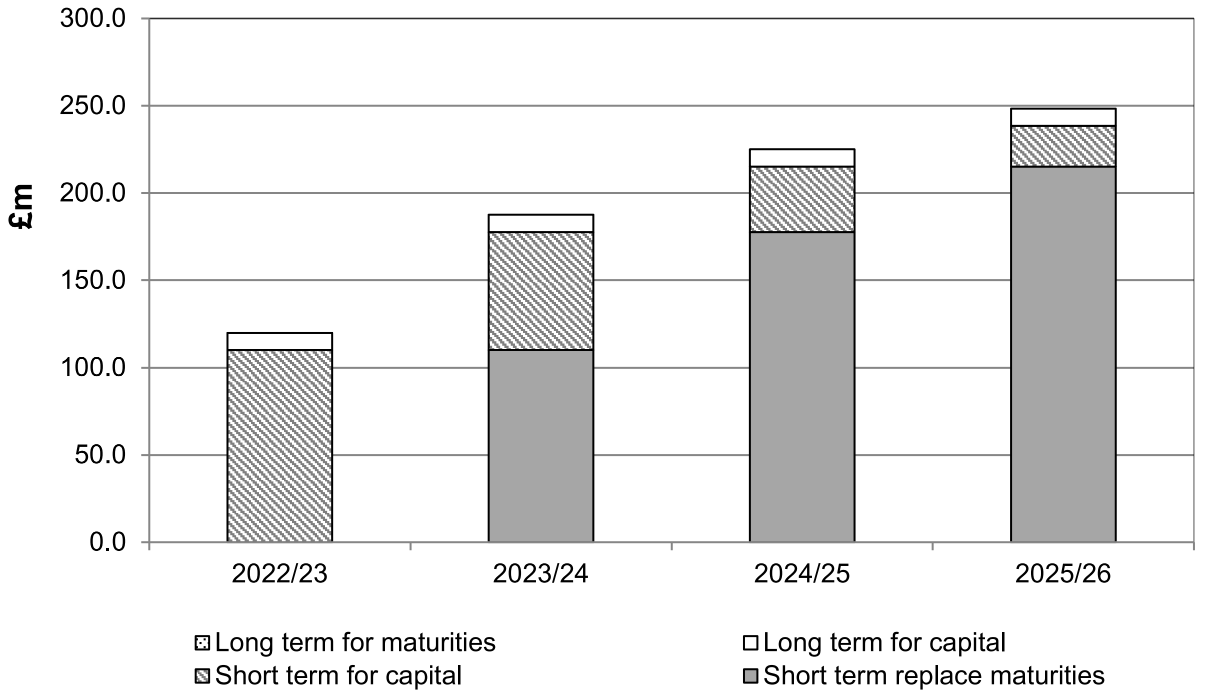
Year	Net spend £m (approved Dec 2021	**RE-PROFILED 2nd March 2023** Net spend £m
2023/24	101.616	117.701
2024/25	116.205	474.815
2025/26	131.375	
2026/27	61.448	
2027/28	61.809	
2028/29	83.307	
2029/30	46.378	The capital programme will be reviewed during 2023.
2030/31	44.974	
2031/32	43.931	
2032/33	34.872	
2033/34	40.740	
2034/35	51.137	
2035/36	47.590	
2036/37	40.922	
2037/38	32.590	
	938.894	

5.7 The Council's Housing Revenue account (HRA) 5-year capital programme (2022 to 2027) was agreed in December 2021. The implications on HRA rent levels of the agreed programme were considered as part of the programme setting process.

6. Borrowing Requirement

6.1 The following chart sets out the borrowing requirement, showing current year, as well as estimates for future years. The borrowing requirement takes account of borrowing to support the agreed capital programmes, less the projected instalments as capital repayments are charged to revenue accounts through loan charges. This figure is then adjusted to take account of any further borrowing required to go towards the capital financing requirement, or to replace existing loans maturing in these years. The funding of borrowing between short term and long-term borrowing will be completed to achieve best value by managing refinancing risk and securing favourable rates.

Table 1 Estimates of borrowing (current year and next three years)



7. Statutory repayment of loans fund advances

7.1 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016. The main change introduced by the Regulations is to provide options for the prudent repayment of debt and requires the Council 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.

7.2 A variety of options are provided to Councils so long as a prudent provision is made each year.

In February 2019 the Council adopted 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, using a fixed annuity rate.

- For loans fund advances made between 1 April 2016 and 31 March 2021, the policy for the repayment of loans advances will also be the Statutory method, with the majority of loans fund advances being repaid by the Annuity Method. The annuity rate applied to the loans fund repayments will continue to be based on the loans fund rate for the previous year which is calculated using interest paid as a proportion of the outstanding loans fund advances with the same rate applied for the full life of the asset.

- In certain circumstances the Council will consider using the Income Method, a new method available under the 2016 regulations. Under this method loans fund advances can be repaid linked to the phasing of income that is anticipated from a particular project. This method will be considered, where appropriate, for commercial, income generating projects.

7.3 In April 2022, the Scottish Government issued Statutory Guidance on Proper Accounting Practice – Statutory Repayment of Debt – Short Term Financial Flexibility (circular 5/2022) . https://www.gov.scot/publications/local-government-finance-circular-5-2022-statutory-repayment-of-debt-short-term-financial-flexibility/

During 2020-21 Scottish Government worked jointly with the Convention of Scottish Local Authorities (COSLA) to identify a package of financial flexibilities for councils to address the funding pressures they faced due to the pandemic. One of the financial flexibilities agreed was to allow a local authority to reduce the statutory repayment of debt in either the 2020-21 or 2021-22 financial year.

Due to the ongoing impact of COVID-19, in October 2021 COSLA requested a further one year extension to this flexibility for the 2022-23 financial year. Ministers agreed to the extension of the short-term financial flexibility for the statutory repayment of debt, which is enacted as an amendment to The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 by The Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2022 (SSI 2022 No. 122).

7.4 In accordance with the Regulations above, on 2 March the Council agreed to defer the statutory repayment of debt for financial year 2022/23 for the General Fund (£29.2m) (see sections 17.6 and Appendix 11 of 2nd March report). This loans fund principal repayment ‘holiday’ in 2022/23 was described in the Council Budget 2023/24 report at Agenda item 3 (Agenda Item 3, section 17.6 and Appendix 8).

7.5 The deferred debt for financial year will be repaid as set out in the Regulations over whichever is the shorter:

1) remainder of the period relevant to that loans fund advance as already determined by the local authority or
2) 20 years from the end of the financial year in which the reduction is made.

7.6 For any loans fund advance made from 1 April 2023 onwards the Council will continue with its current approach as outlined in section 7.2 above- namely using the Annuity method with the Income method used as appropriate.

7.7 As required by the Local Government Finance Circular 7/2016, the commitment to repay loans fund advances for the General Fund and HRA are contained in

Appendices 11 and 12. There is a breakdown provided of the repayment of the delayed 2022/23 General Fund instalment.

7.8 The annuity rate applied to the loans fund repayments on capital expenditure incurred before March 2016 is 4.52% for the life of the asset. For financial year 2015/16 onwards, the annuity rate used is the loans fund rate for the year the capital expenditure is incurred which is applied for the full life of the asset.

7.9 Under regulation 14 (2) of SSI 2016 No 123, the Council has reviewed and re-assessed the historic annuity rate to ensure that it is a prudent application and provides more certainty over principal repayments. The result of this review suggests that this is a fair and prudent approach and provides certainty over historic principal repayments.

8. Prudential and Treasury Indicators

8.1 The prudential and treasury indicators which are relevant for setting an integrated treasury management strategy are in **Appendix 1**. These Indicators are based on the approved capital programmes.

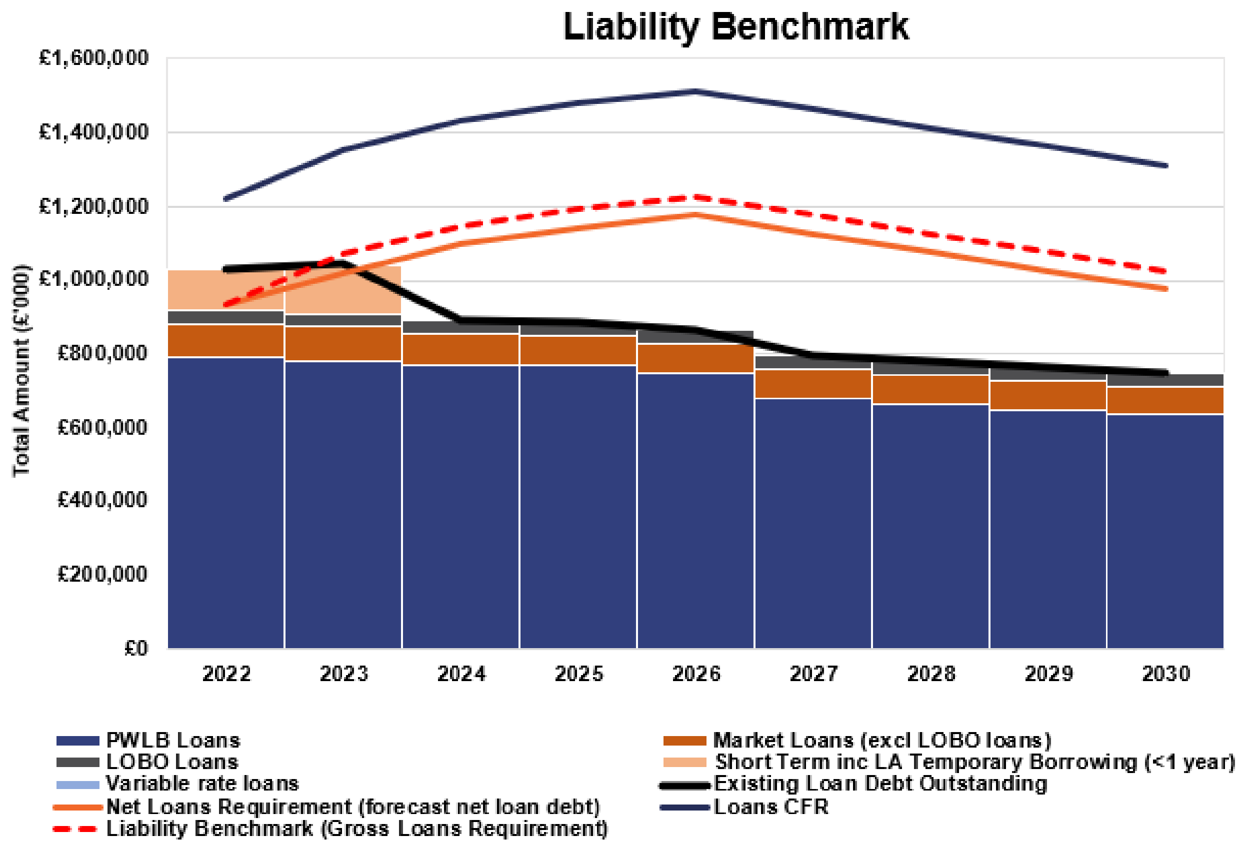
8.2 One of the new indicators required by the 2021 CIPFA Treasury Management Code is the Debt Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

8.3 The Liability Benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The Liability Benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans, while keeping treasury investments at the minimum level required to manage day-to-day cash flow. This is shown in table 4 below.

8.4 There are four components to the Liability Benchmark:

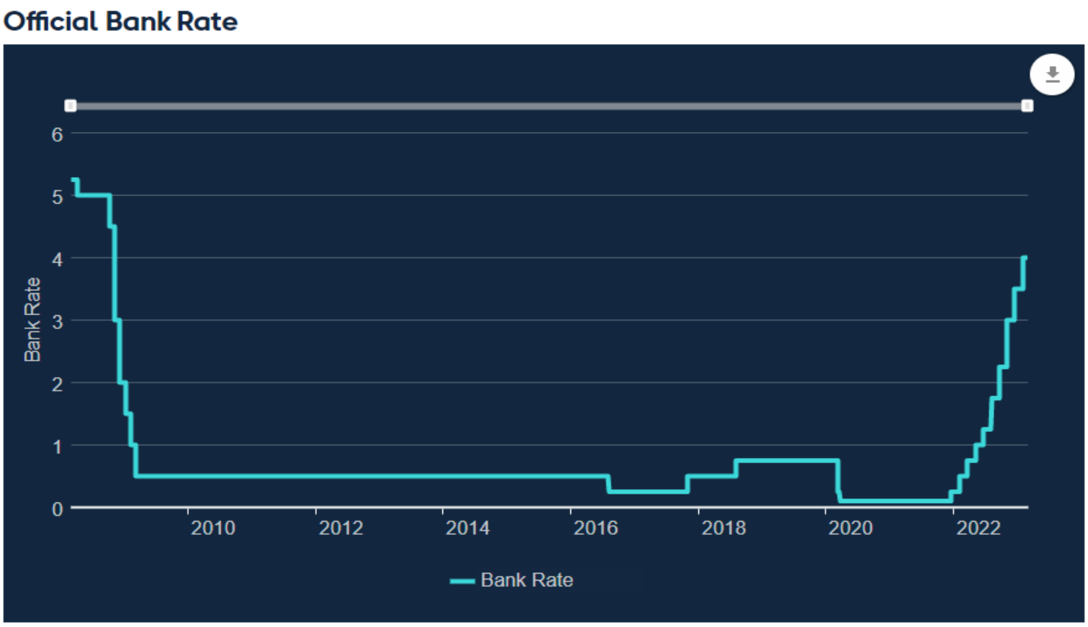
1. Existing loan debt outstanding: the Council's existing loans that are still outstanding in future years.
2. Loans Capital Financing Requirement (CFR): this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Loans Fund advances/Loans Fund principal repayments.
3. Net loans requirement: this shows the Council'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 (drawdowns/enhancement of reserves) forecast.
4. Liability Benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity/working capital allowance.

8.5 The Liability Benchmark below indicates that the current maturity profile is less than net loans requirement and the liability benchmark which indicates a borrowing need for the next few years, which is likely to be met using short term borrowing but this will depend on the prevailing rates for long and short term borrowing.



9. Economic Context and Prospects for Interest Rates

9.1 In the last year, both interest rates and borrowing rates have increased in excess of forecasts with base rate increasing from 0.75% in April 2022 to the current base rate of 4.00%. Bank rate has not been at this level since before the banking crisis in 2008 as illustrated by the Bank of England graph below. https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate



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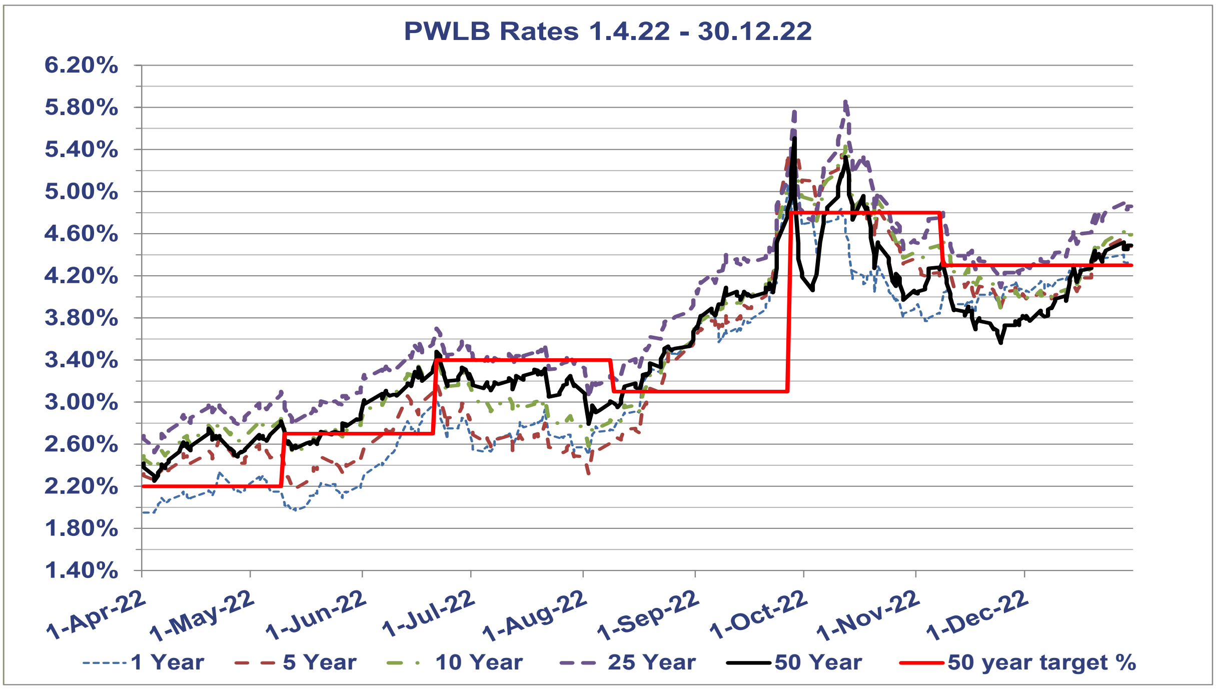
Alongside the increase in Bank rate, PWLB borrowing rates have been on an upwards trajectory due to the rise in gilt yields the first nine months of 2022/23.

The peak in rates on 28 September, as illustrated in the table below covering April to December 2022, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally around 1% lower now whilst the 50 years is just under 1% lower.

PWLB borrowing rates continue to be significantly higher with the 50-year PWLB rate at 28 February 2023 being 4.47% compared to 2.02% on the 28 February 2022.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.26%	3.41%	3.57%	3.85%	3.51%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

9.2 Link provide regular economic forecasts to inform the Council on interest rates and longer fixed interest rates projections. The following table is the current Link forecast for interest rates as at 07 February 2023 which are forecasts for certainty rates (gilt yields plus 80 bps).

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

9.3 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications though Link notes that there are so many variables that caution should be exercised in respect of all interest rate forecasts:

1. As shown in the forecast table above, the forecast for Bank Rate includes two increases, one in March 2023 to 4.25%, then June of 2023 to 4.50%, the forecast predicts a gradual decline to 2.50% by March 2026.It should be noted that with the high level of uncertainty, Link expect to revise their forecasts again depending on current developments.

2. Regarding PWLB certainty rates, the table above shows, there is forecast to be a steady, but slow, decline in both Bank Rate and gilt yields during the forecast period to March 2026, though there is likely be exceptional volatility and unpredictability during this forecast period. Link view the markets as having already built in nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

3. Short-term borrowing and interest rates have been steadily increasing in 2022/23 as bank rate has increased and these are expected to increase further in the first quarter of 2023/24. However, while markets continue to price in Bank Rate hikes, actual economic circumstances will influence the MPC decisions.

4. The policy of avoiding new borrowing by running down spare cash balances has worked well over the last few years. However, this needs to be carefully monitored to avoid incurring higher borrowing costs in the future when authorities

may not be able to avoid new borrowing to finance capital expenditure and/or refinance maturing debt.

5. There will remain a cost of carry on any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

10. Context

10.1 There are some matters relating to the Council's budgets, strategies and external environment that are highlighted below for context to this report. Any implications on this TMSS & IS will be reported to the Corporate Resources committee or Full Council as appropriate.

10.2 The current Cost of Living Crisis and rising inflationary costs has had a significant impact on the affordability of the Council's 10- year capital programme (approved December 2021). This has been re-profiled for 2023/24 and the next five years but will have to be comprehensively reviewed during 2023 as the current plan is unaffordable.

10.3 The Council approved its revenue budget covering 2023/24 on 2nd March which included a reprofiled capital programme with plans to revise the programme comprehensively during 2023. Any decisions taken at future meeting on capital commitments, or the revenue budget more widely may influence the TMSS & IS and a revised report may be required.

10.4 The Council has received the revenue and capital budget settlement from the Scottish Government for financial year 2023/24. In addition, the Scottish Government has undertaken its capital spending review which provides an outline five-year indicative allocation for general capital grant and other specific funding streams provided through the local government finance settlement. Core capital grant allocations are expected to remain at their current levels over the five-year period with some additional funds available for scheme in specific areas such as flood prevention and low-carbon schemes.

10.5 As outlined in section 5.4, the Council is to review the affordability of the capital programme during 2023. The 2023/24 budget report at Item 3 of the 2nd March Council, was set in a highly challenging financial environment with inflationary factors creating a budget gap for 2023/24 of £49.2m.

10.6 As outlined in section 9 wider economic uncertainties at the time of writing this report have seen significant volatility in borrowing rates. Borrowing rates for both short and long-term debt have increased significantly and as always, a balance will need to be struck between the security afforded by long term borrowing compared to the lower rates available on short term borrowing.

10.7 There are risks to the capital programme associated with rising inflation costs and increased interest rates on borrowing. It was reported to Council on 27 October the significant impact of these on the affordability of the current capital programme as follows. The example below highlights how the rise in interest rates impacts on the overall affordability of delivering a £15m capital project, the estimated cost of a new primary school in 2021, to be borrowed over 60 years:

	£15m @ 2%	*£15m @ 5%*	*£20m @ 5%*
Total loans charges over 60 years	**£22.9m**	**£38.0m**	**£50.7m**

The repayment of borrowing through loans charges consists of the repayment of the principal and interest. A £15m construction cost 12 months ago, borrowed at 2%, would have cost around £22.9m, whereas a £15m project at current interest rates of 5% would now cost around £38.0m, an increase of 66% purely as a result of the increase in the interest rate. However, because of cost inflation, a £15m project from 12 months ago would now cost in the region of at least £20m. A £20m project borrowed at a current interest rate of 5% would result in a total cost of borrowing of around £50.7m. After accounting for cost inflation coupled with interest rate rises, the result is that the Council would face a 121% increase in the cost of a similar project compared to 12 months ago.

The level of borrowing required to support capital investment presents an ongoing challenge to the Council's financial sustainability. As reflected above, the impact of a £5m increase to the cost of construction of a capital project combined with increased interest rates actually creates an additional £28m long term commitment that the Council will have to fund through its future revenue budgets.

11. Borrowing Strategy

11.1 Over the past few years, the Council has benefitted from lower borrowing costs due to low interest rates by using short term temporary borrowing and internal borrowing (use of existing cash). However, during 2022/23 rates have been rising for both short and long term borrowing. During 2022/23, new PWLB borrowing of £20m (3.89%, period of 4 years) was taken to replace £29.8m of PWLB borrowing that was repaid in September 2022 (at higher interest rates), but no other PWLB borrowing was undertaken due to the high rates.

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 investment returns are low and it helps mitigate counterparty risk.

11.2 During 2023/24 the Council plans to predominately use short-term borrowing to fund the capital programme but will need to consider long-term borrowing to replace maturities, in order to manage refinancing risk.

Considering the risks within the economic forecast, caution will be adopted with 2023/24 treasury operations. The Section 95 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. Any decisions will be reported to the appropriate committee at the next available opportunity.

The Council will ensure its strategy remains flexible, and will consider new borrowing from the following sources based on prevailing market conditions:

- Short-dated borrowing from non PWLB sources through the Sterling Money Market.

- Appropriately dated PWLB borrowing.
- Long term fixed/variable rate market loans from the Sterling Money Market at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
- Consideration of any government supported or promoted lending initiatives, which may offer attractive sources of finance e.g., low-cost borrowing for specific energy efficiency projects.

11.3 Sensitivity of the forecast – In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

1. *if it were felt that there was a significant risk of a sharp FALL in long and short-term rates,* e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then medium/ long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
2. *if it were felt that there was a significant risk of a much sharper RISE in long and short-term rates than that currently forecast,* perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

11.4 External v. Internal Borrowing

As reflected in the table below, the Council's objective is to maintain a level of temporary investments which will ensure a level of liquid cash available to the Council. The level shown takes account of the level of Council reserves and balances, and potential for these to be utilised through planned use or unforeseen events. Through this approach, the Council seeks to mitigate re-financing risk, particularly were the Council's reserves to be eroded due to unforeseen events.

Comparison of gross and net debt positions at year end

	2021/22 Actual	**2022/23 Revised Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
External Debt (gross)	£1,028.2m	£1,087.4m	£1,165.0m	£1,212.5m	£1,245.8m
Temporary Investments	£96.0m	£50.0m	£50.0m	£50.0m	£50.0m
External Debt (net)	**£932.2m**	**£1,037.4m**	**£1,115.0m**	**£1,162.5m**	**£1,195.8m**

The Table above excludes long-term liabilities e.g., PPP/NPD (Public Private Partnership/non-Profit Distributing) schemes

- Another factor in considering the level of investments held is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments and mitigating of re-financing risk.
- A balance between short term and long-term borrowing will be achieved to manage interest and refinancing risk and secure value for money.
- The Treasury Team will monitor the interest rate market, take advice from our treasury advisor, and adopt a pragmatic approach to changing circumstances, reporting any decisions to the Corporate Resources Committee at the next available opportunity.

11.5 Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of, its needs purely to profit from the investment of the extra sums borrowed. In accordance with the revised Code, any decision to borrow in advance will be within the 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.

In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- consider the merits and demerits of alternative forms of funding.
- consider the prevailing and projected interest rates based on best available information.
- Consider appropriate maturity profiles of new borrowing.
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

The maximum extent to which borrowing in advance would be undertaken will be based upon the existing and projected capital financial requirement, and existing level of debt.

11.6 It should be noted that as required by the CIPFA Treasury Management Code, Local authorities “must not borrow to invest for the primary purpose of financial return.” Highland Council does not and has not borrowed to invest for the primary purpose of financial return.

12. Debt Rescheduling

12.1 At this time, and due to the early repayment penalties imposed by the PWLB, the opportunities for debt rescheduling are not cost effective. However, this position will be kept under regular review. All rescheduling will be reported to the Corporate Resources Committee, at the earliest meeting following its action.

12.2 The reasons for any rescheduling to take place will include:

1. the generation of cash savings and/or discounted cash flow savings;
2. helping to fulfil the strategy outlined in section 11 above; and
3. to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

13. Annual Investment Strategy

13.1 Investment Policy

The Council's investment policy has regard to the Scottish Government's Investments Investment (Scotland) Regulations, (and accompanying Finance Circular), and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021, ("the CIPFA TM Code"). **The Council's investment priorities will be**

1. **Security**
2. **Liquidity**
3. **Yield**

The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

The Council's policies in relation to Investment instruments and counterparties identified for use are listed in **Appendices 4, 5, 6, 7 and 8** and explanatory notes on investment types and risks are detailed in **Appendix 9**.

13.2 Environmental, Social and Governance (ESG)

One of the changes to the CIPFA Treasury Management Code 2021, was to include ESG in Treasury Management Practice 1 (page 18 of the Treasury Management Code). CIPFA set out the requirements as follows but also noted that ESG investment considerations is a developing area:

The organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

13.3 Further on in the Treasury Management code 2021 (page 50), CIPFA recommends the following approach in respect of ESG issues, acknowledging that ESG analysis is less developed for short-term cash deposits (the majority of treasury deposits placed by Highland Council are short duration):

ESG issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult.

Organisations are therefore recommended to consider their credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with their organisation's own relevant policies, such as environmental and climate change policies.

13.4 As noted in the section 13.7 below, the Council uses the Link creditworthiness service which relies on ratings provided by all three rating agencies. ESG risks are considered by the rating agencies alongside more traditional financial risk metrics when assessing counterparties. The assessment of the corporate governance of a counterparty is a key consideration as poor/weak corporate governance can have an immediate impact on the financial outlook of a counterparty. Those financial institutions viewed as having poor/weak corporate governance are generally less well rated in the first instance or have a higher propensity to being subject to negative rating action, and the Council's existing creditworthiness policy will therefore take this into account.

13.5 Environment and social factors are important and relevant for longer-term, investments (for example equity voting rights can be used to influence company decision making). The Council should note that the key investment priority is **security** of Treasury deposits and placing undue weight on the Environmental and Social factors in the decision-making process could have the unintended consequences of limiting the list of potential counterparty options and decreasing diversification. There is also the risk that by placing deposits with counterparties with stronger "ESG" performance, other risk factors are not adequately considered.

13.6 The inclusion of ESG criteria therefore remains an area which requires ongoing review. Council officers will work with the Council's treasury advisers Link, to monitor and assess ongoing developments in this area. The methods in which the Council can incorporate ESG factors into our creditworthiness assessment process will be reviewed and officers will report back to Council accordingly.

13.7 <u>Creditworthiness policy</u>

The Council recognises the vital importance of credit-worthiness checks on the counterparties it uses for investments.

This Council uses the creditworthiness service provided by Link. This service employs a sophisticated modelling approach with credit ratings from all three rating agencies – Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with further credit overlays to provide a colour coded system based on recommended durational band for use of the counterparty.

This Council does not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The Link creditworthiness service uses a wider array of information than just primary ratings, from all three agencies and using a risk weighted scoring system, does not give undue consideration to just one agency's ratings.

The Link creditworthiness service is used on an advisory basis, with the decision on creditworthiness ultimately resting with the Treasury Team.

13.8 Foreign Exposures/Country limits

In relation to Money Market Funds, only AAA rated Sterling denominated funds will be used.

At present the Council uses mainly UK based institutions for investment (AA rating) and should the UK's credit rating be downgraded the Council will review its requirement and use AA- rated and above counterparties.

Examples of the institutions that the Council will invest in include UK banks and building societies, UK Local Authorities, non-UK banks and building societies of high credit worthiness, HM Treasury Debt Management Office.

The Council continues to use non-UK counterparties of high credit worthiness. The Link rating model is used in the same way as for UK institutions. In addition to UK counterparties, only institutions registered in countries with an AAA or AA+ credit rating will be considered. The list of countries where the Council will consider investing is at **Appendix 7**.

13.9 Investment Strategy

In-house funds are mainly cash-flow derived and investments will be made in accordance with cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments of up to 12 months).

13.10 Investment return expectations

The Link group's view of interest rates is outlined in section 9. There are upside risks to these forecasts (i.e., increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk.

The Council will avoid locking into longer term deals unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set.

13.11 End of Year Investment Report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report. Forecasts of investment balances for the next three years are provided in **Appendix 1**.

13.12 Policy on the Use of External Service Providers

The Council's tendered Treasury Management advisor contract is subject to regular review. The Council currently uses Link as its external treasury management advisers. 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 subject to regular review.

The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

The Council recognises that responsibility for treasury management decisions remains with the Authority at all times and will ensure that undue reliance is not placed upon our external service providers.

13.13 Treasury Management Responsibilities

The Treasury Management Scheme of Delegation and Role of the Section 95 Officer are at **Appendix 10.**

Designation:	Head of Finance
Date:	2 March 2023
Author:	Brian Porter, Head of Finance Catriona Stachan, Principal Accountant
Background Papers:	Treasury Live system reports, Link economic forecasts

https://www.highland.gov.uk/download/meetings/id/81258/item_3_revenue_and_capital_budgets_202324_and_medium-term_financial_outlook

https://www.highland.gov.uk/download/meetings/id/81218/5b_corporate_capital_monitoring_to_31_december_2022

Appendices

1. Prudential and Treasury Indicators
2. Economic Background
3. Treasury Management Policy
4. Permitted Investments – Common Good, Charitable, Educational and Other Trust Funds
5. Permitted Investments – Non-treasury Investments
6. Permitted Investments – Treasury Management
7. Approved countries for investment
8. Current counter party list as at 28/02/2023
9. Treasury Management Practice 1 (TMP1) Credit and Counterparty Risk Management
10. Treasury Management Scheme of Delegation and Role of the Section 95 Officer
11. Commitment to repay loan fund advances (General Fund)
12. Commitment to repay loan fund advances (HRA)

Appendix 1

Prudential and Treasury Indicators

The borrowing set out within the Prudential Indicators is based upon the General Fund capital programme and capital programme as reprofiled by Council in March 2023 (there may be a need for further revision to these indicators to reflect any implications arising from the capital review to be completed later in 2023). The 5-year HRA capital plan was approved by the Housing and Property Committee in December 2021.

1. Indicators for Affordability, Prudence and Capital Expenditure

Indicator 1 – Capital Expenditure

Gross Capital Expenditure

In absolute terms rather than as a ratio, these show the overall levels of estimated capital investment irrespective of how they are being funded. For the General Fund, financial years 2024/25 and 2025/26 will be updated following a review of the capital programme.

	2021/22 Actual	2022/23 Original Estimate	2022/23 Revised Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund	£143.7m	£149.3m	£175.7m	£138.5m	£90.2m	£68.0m
HRA	£62.9m	£36.5m	£48.5m	£49.4m	£51.4m	£53.5m
Total	**£206.6m**	**£185.8m**	**£224.2m**	**£187.9m**	**£141.6m**	**121.5m**
Income						
General Fund	(£78.0m)	(£71.8m)	(£56.8m)	(£44.8m)	(£29.2m)	(£22.0m)
HRA	(£17.5m)	(£16.6m)	(£20.1m)	(£17.4m)	(£18.1m)	(£18.9m)
Total	**(£95.5m)**	**(£88.4m)**	**(£76.9m)**	**(£62.2m)**	**(£47.3m)**	**(£40.9m)**

Net Capital Expenditure is the borrowing or funding requirement for new capital investment in each year.

General Fund	£65.7m	£77.5m	£118.9m	£93.7m*	£61.0m**	£46.0m**
HRA	£45.4m	£19.9m	£28.4m	£32.0m	£33.3m	£34.6m
Total	**£111.1m**	**£97.4m**	**£147.3m**	**£125.7m**	**£94.3m**	**£80.6m**

*this is the 23/24 net capital expenditure per the budget report to Highland Council on 2nd March 2023, Item 3, the Council Budget report Appendix 6, £117.7m less assumption made for General Capital Grant of £24m
** assumption is made that net capital expenditure will be £85m and £70m for 24/25 and 25/26 respectively less General Capital Grant. Profile of capital programme for 2024/25 and subsequent years will be subject to a review of the capital programme,

Loan charge instalments (based on no change to asset lives)

General Fund	(£33.3m)	(£31.9m)	-*	(£36.0m)**	(£35.4m)	(£35.6m)
HRA	(£11.9m)	(£11.0m)	(£10.3m)	(£12.1m)	(£11.4m)	(£11.7m)
Total	**(£45.2m)**	**(£42.9m)**	**(£10.3m)**	**(£48.1m)**	**(£46.8m)**	**(£47.3m)**

*22/23 instalment will be delayed in accordance with Scottish Government regulations (see sections 7.4 to 7.6)
** instalment for 23/24 will be higher as there is £5m of 22/23 delayed instalment which will be repaid in 23/24

Additional net borrowing in year

General Fund	£32.4m	£45.6m	£118.9m	£57.7m	£25.6m	£10.4m
HRA	£33.5m	£8.9m	£18.1m	£19.9m	£21.9m	£22.9m
Total	**£65.9m**	**£54.5m**	**£137.0m**	**£77.6m**	**£47.5m**	**£33.3m**

Indicator 2 – Capital Financing Requirement (CFR)

These indicators represent the level of the Council's underlying need to borrow or finance by other long-term liabilities for a capital purpose. This includes past and future borrowing or funding.

	2021/22 Actual	**2022/23 Original Estimate**	**2022/23 Revised Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
General Fund excluding PPP/NPD	£746.1m	£816.1m	£828.3m	£885.9m	£924.8m	£935.3m
PPP/NPD	£136.7m	£130.6m	£130.4m	£123.3m	£115.7m	£107.7m
HRA	£335.9m	£340.2m	£343.9m	£364.7m	£374.0m	£397.7m
Total	**£1,218.7m**	**£1,286.9m**	**£1,302.6m**	**£1,373.9m**	**£1,414.5m**	**£1,440.7m**
Joint Boards	£16.1m	£15.3m	£15.3m	£14.4m	£13.7m	£12.9m
Total CFR (incl Police/Fire) (1)	**£1,234.8m**	**£1,302.2m**	**£1,317.8m**	**£1,388.3m**	**£1,428.2m**	**£1,453.6m**

Treasury Position This indicator shows the expected borrowing position, net of investments.

Gross Borrowing – long term	£916.2m	£982.1m	£909.4m	£919.4m	£929.4m	£939.4m
Gross Borrowing – short term	£112.0m	£153.4m	£178.0m	£245.6m	£283.1m	£306.4m
Total External Borrowing	**£1,028.2m**	**£1,135.6m**	**£1,087.4m**	**£1,165.0m**	**£1,212.5m**	**£1,245.8m**
Other Long-Term Liabilities	£136.7m	£130.6m	£130.4m	£123.3m	£115.7m	£107.7m
Total Gross Debt (2)	**£1,164.9m**	**£1,266.2m**	**£1,217.8m**	**£1,288.3m**	**£1,328.2m**	**£1,353.5m**
Investments	(£96.0m)	(£50.0m)	(£50.0m)	(£50.0m)	(£50.0m)	(£50.0m)
Net Borrowing	**£1,068.9m**	**£1,216.2m**	**£1,167.8m**	**£1,238.3m**	**£1,278.2m**	**£1.303.5m**

Difference between CFR (1) and Total Gross Debt (2)

This indicator shows the difference between the Capital Financing Requirement, and the Estimated Gross Debt. The difference represents an ‘under-borrowed’ position, with capital financed from internal cash flows.

	2021/22 Actual	2022/23 Original Estimate	2022/23 Revised Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Difference between CFR (1) and Total Gross Debt (2)	£69.9m	£36.0m	£100.0m	£100.0m	£100.0m	£100.0m

Indicator 3 – Authorised Limit for Borrowing

The Authorised Limit is the maximum level of external borrowing which should not be exceeded. The limit is linked to the estimated level of capital financing requirement, with some capacity for variations from that sum e.g. if capital expenditures are exceeded.

Authorised Limit	2021/22 Actual	2022/23 Original Estimate	2022/23 Revised Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Borrowing	£1,028.2 (indicator £1,129.4m)	£1,185.2m	£1,185.2m	£1,284.4m	£1,324.4m	£1,354.1m
Other Long-Term Liabilities	£136.7m	£130.6m	£130.6m	£123.3m	£115.7m	£107.7m

Indicator 4 – Operational Boundary for Borrowing

An Operational Boundary is also required which represents the Section 95 Finance Officer’s estimate of the day to day limit for the Treasury Management activity based on the most likely i.e. prudent but not worse-case scenario.

Operational Boundary	2021/22 Actual	2022/23 Original Estimate	2022/23 Revised Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Borrowing	£1,028.2m (indicator £1,093.4m)	£1,149.2m	£1,149.2m	£1,184.4m	£1,224.4m	£1254.1m
Other Long-Term Liabilities	£136.7m	£130.6m	£130.6m	£123.3m	£115.7m	£107.7m

Indicator 5 – Ratio of financing costs to net revenue stream

These indicators show the capital financing costs (interest charges, the provision for the repayment of debt and the financing of PPP/NPD outstanding capital investment liability) as a percentage of government grant (revenue), Council Tax, Rents and other income. This allows the authority to track how much of its annual income is needed to pay for its capital investment plans and outstanding funding liabilities compared to its day to day running costs.

	2021/22 Actual	**2022/23 Original Estimate**	**2022/23 Revised Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
General Fund including PPP/NPD	11.6%	13.6%	13.6%	13.6%	13.6%	13.6%
Housing Revenue Account	41.0%	39.0%	39.0%	39.0%	40.0%	41.0%

Indicator 6- Interest rate exposures of debt net of investments

Interest rate exposures of debt net of investments are required to be set in compliance with the Code. This limits the Council's exposure to both fixed and variable interest rate movements as part of the overall risk management strategy for Treasury Management activities. It promotes a prudent strategy aimed to avoid the adverse effects of fluctuating interest rates. The limits are based on the Capital Financing Requirement (CFR) with variable exposures limited to 35% of the CFR.

Interest rate exposures of debt net of investments	**2021/22 Actual**	**2022/23 Original Estimate**	**2022/23 Revised Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Upper Limit (Fixed)	£991.7m (indicator £1,112.4)	£1,171.6m	£1,171.6m	£1,265.0m	£1,312.5m	£1,345.9m
Upper Limit (Variable)	£39.6m (indicator £389.3m)	£410.0m	£410.0m	£442.7m	£459.3m	£471.0m

Maturity structure of fixed rate borrowing during 2023/24

This indicator identifies the amount of debt maturing in specified periods. The overarching principle is that steps should be taken to limit exposure to significant refinancing risk in any short period of time. The Council currently applies the prudent practice of ensuring that no more than 30% of its total gross fixed rate debt matures in any one financial year unless triggered through specific debt restructuring exercises.

	Upper limit	**lower limit**
under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	25%

Maximum principal invested for period longer than 365 days The maximum total principal sum which may be invested with a maturity for a period longer than 365 (366 in a leap year) days and within the permitted investment limits is £20m.

Appendix 2

Economic Background Provided by Link (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 in 2022. 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.

	UK	Eurozone	US
Bank Rate	4.0%	2.5%	4.5%-4.75%
GDP	-0.3%q/q Q3 (1.9%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.9% Q4 Annualised
Inflation	10.5%y/y (Dec)	8.5%y/y (Jan)	6.5%y/y (Dec)
Unemployment Rate	3.7% (Nov)	6.6% (Dec)	3.4% (Jan)

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 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 face some further upward pressures before dropping back slowly through 2023 to finish the year in the range of 4% - 5%.

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 over 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 22 February 2022.

Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Since then, rates rose to 3.5% in December and 4% in February and the market currently expects Bank Rate to hit 4.5% by June 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 the 17th 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 2023. 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. Indeed, their

February Monetary Policy Report suggests five quarters of negative growth, albeit a shallow recession with GDP expected to shrink 0.5% in 2023 and 0.25% in 2024.

The £ has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.22. 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.

The S&P 500 and FTSE 100 have climbed in the early weeks of 2023, albeit the former finished 19% down in 2022 whilst the latter finished up 1%.

CENTRAL BANK CONCERNS – DECEMBER 2022 & FEBRUARY 2023

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in 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.

At the start of February, US rates have further increased by 0.25% to a range of 4.5% - 4.75%, whilst UK Bank Rate increased 0.5% to 4%.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.25% - 4.5%, 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 and labour market have proven stronger than expected.

In addition, the Bank's central message that GDP will fall for five quarters starting with Q1 2023 may prove to be a little pessimistic. Will the 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).

Treasury management policy **Appendix 3**

1.1 Treasury management is defined as:

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

1.2 The Council regards the successful identification, monitoring and control of risk to be key to the effectiveness of its treasury management activities. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.

1.3 The Council acknowledges that effective treasury management will support the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Investment policy

2.1 The Council's investment policy has regard to the Local Government Investment (Scotland) Regulations (and accompanying finance circular) and the 2021 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). **The Council's investment priorities will be security first, liquidity second, and then yield.**

2.2 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

2.3 The Council's Treasury Management Advisors provide a creditworthiness matrix to aid the assessment of the risk involved in lending to individual counterparties.

2.5 The Council's detailed policies in relation to Investment instruments and counterparties identified for use in the financial year are listed in **Appendices 5, 6, 7, 8 and 9** and explanatory notes on investment types and risks are detailed in **Appendix 10**.

Borrowing policy

3.1 The Council will ensure its strategy remains flexible, and will give consideration to new borrowing from the following sources based on prevailing market conditions:

1. Short-dated borrowing (for a period of 365 days or less, 366 in a Leap Year) from non PWLB sources through the Sterling Money Market.
2. Appropriately dated PWLB borrowing.
3. Long term fixed rate market loans (for a period greater than 365 days, or 366 in a leap year) from the Sterling Money Market at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

4. Consideration of any government supported or promoted lending initiatives, which may offer attractive sources of finance e.g., low-cost borrowing for specific energy efficiency projects.

Appendix 4

Permitted Investments – Common Good, Charitable, Educational and Other Trust Funds

The Council approves the following forms of investment instruments for use as permitted investments for these Funds as set out in the Table below (these include internally and externally managed funds):

Investments

	Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investmt	Max. maturity period
Cash deposits – local authorities, banks, building societies and cash funds such as money market funds	Relevant parameters as per specific investment mandates and/or specific trust deeds	term	yes	Relevant parameters as per specific investment mandates and/or specific trust deeds	
Equities – UK and Overseas		term	yes		
Fixed Income, Index Linked Bonds, Unit Trusts		term	yes		
War Stock		term	no		
Alternative Investments - Property		term	yes		

Permitted Investments – Non-Treasury Investments **Appendix 5**

Definition of non-treasury investments

Regulation 9 of the Local Government Investment (Scotland) Regulations 2010 adds to the normal definition of investments the following categories: -

- All shareholding, unit holding and bond holding, including those in a local authority owned company, is an investment;
- Loans to a local authority company or other entity formed by a local authority to deliver services, is an investment;
- Loans made to third parties are investments;
- Investment property is an investment.

However, the following loans are excluded from the definition of investments: -

3) Loans made by a local authority to another authority or harbour authority using powers contained in Schedule 3, paragraph 10 or 11 of the Local Government (Scotland) Act 1975.

Permitted Investments – Non-Treasury Investments

The Council approves the following forms of investment instruments for use as permitted investments for Non-Treasury Investments as set out in the Table below:

Investments

	Minimum Credit Criteria	**Liquidity risk**	**Market risk**	**Max % of total investments**	**Max. maturity period**
Loans to Companies, including Local Authority owned.	See Regulation Notes below	term	no	See Regulation requirements and current approvals below.	
Shares and Bonds in Companies, including Local Authority owned.		term	no		
Loans to Third Parties including investments in sub-ordinated debt (see note 1 and 2).		instant	no		
Local Authority Investment Properties.		term	no		
Other Investment Deposits (see note 3)		term	no		

Regulation 24. A local authority shall state the limits for the amounts which, at any time during the financial year, may be invested in each type of permitted investment, such limit being applied when the investment is made. The limits may be defined by reference to a sum of money or a percentage of the local authority's overall investments, or both. A local authority may state that a permitted investment is unlimited. Where a limit is not placed on any type of permitted investment the risk assessment must support that categorisation and an explanation provided as to why an unlimited categorisation is recommended.

Regulation 25. The local authority should identify for each type of permitted investment the objectives of that type of investment. Further, the local authority should identify the treasury risks associated with each type of investment, together with the controls put into place to limit those risks. Treasury risks include credit or security risk of default, liquidity risk – the risks associated with committing funds to longer term investments and market risk – the effect of market prices on investment value.

Regulation 32. The Strategy shall include details of the maximum value and maximum periods for which funds may prudently be invested. The Strategy shall set out the local authority objectives for holding longer term investments. The Strategy shall also refer to the procedures for reviewing the holding of longer-term investments particularly those investments held in properties, shareholdings in companies or joint ventures.

The policy above, and requirements of regulations 24, 25 and 32, will be considered, and reported to members, as part of any report pertaining to new investment proposals.

In Part 1, section 12 of the Regulations, Consent includes as an investment any loan issued to a third party. Such loans are neither capital nor revenue transactions but are often made for Service reasons and for which specific statutory provision exists. For Service reasons these loans may be offered at an interest rate below the market rate. All loans to third parties are classified as investments for the purposes of the Consent. Where the loan is advanced at less than a market interest rate there is an associated loss of investment return which would otherwise have been earned on these monies. The Council's Annual Accounts will recognise and present all loans to third parties as investments.

This Council will refrain from issuing loans to third parties at less than market rate. If, in exceptional circumstances, the Council agrees to issue a loan/s to third parties at less than market rate the associated loss of investment return will be chargeable to the budget of the sponsoring Service. In circumstances where investment risk is a predominant factor the rate chargeable will reflect the equivalent market rate where this is greater than the Council's Loans Fund's most recent actual average interest rate. In all other cases the interest rate chargeable will be the Council's Loans Fund's most recent actual average interest rate.

Current Approvals

Note 1 – Subordinated Debt – the Highland Council, on 25 October 2012, agreed to permit an investment, at a maximum level of £1m for all current and future investments, for a maximum maturity period of 25 years, in 'Hub Co' projects.

Note 2 – Land banking Fund and Loan Advances to Registered Social Landlords (RSLs) – the Council has for many years operated a 'land bank fund'. The fund is used to provide loans and grants to partner organisations (including RSLs), enabling strategic sites to be secured or prepared for development of housing. The Land bank Fund is a revolving facility with loans repaid as land and property is resold or developed.

Note 3 – From May 2005 The Council has held £1.175m of unsecured loan stock in Inverness Airport Business Park Ltd (IABP). Under the Loan Stock Instrument IABP can exercise a right to defer the repayment due to be made to the Council in May 2010 and in May 2015. IABP have exercised this right on both repayment dates so the full amount of Loan Stock due to the council remains outstanding.

Permitted Investments – Treasury Investments **Appendix 6**

The Council's policy in relation to permitted investments is a three-stage process as summarised below.

1. Only use of permitted investments per the investment strategy is allowed. See Appendix 10 for definition of the different types of investment.
2. Credit-worthiness of counter-parties will be assessed having taken advice from the Council's treasury management advisers, Link. Maximum maturity periods for individual counter-parties will be based upon advice from the Adviser, with limits on treasury investments > 365 days as per the prudential indicators and shown below.
3. Counter-party limits, as set out within the investment strategy will be applied.

The following sections explain each aspect of the 3-stage process in further detail.

<u>Stage 1 - Permitted Investments</u>

The Council approves the following forms of investment instruments for use as permitted treasury management investments as set out in the Tables below. While there is a maximum permitted maturity period set out in the Tables, the actual maturity period will be based on an assessment of risk as part of the credit-worthiness assessment (see stage 2).

In relation to Money Market Funds, only AAA rated Sterling denominated funds will be used.

In relation to all other counterparties, the Council will mainly use UK based institutions but where non-UK counterparties of high credit worthiness are available these may be used. In determining whether a counterparty is UK or non-UK, entities are classified under where their primary regulator is based. The list of countries where the Council can invest are at **Appendix 7**. For example, UK banks and building societies, UK Local Authorities, non-UK banks and building societies of high credit worthiness, HMT Treasury Debt Management Office.

a. Deposits (UK institutions only)

	Minimum Credit Criteria	**Liquidity risk**	**Market risk**	**Max % of total investments (Stage 2 Below)**	**Max. maturity period**
Debt Management Agency Deposit Facility	UK sovereign rating	term	no	**100**	**6 mths**
Term deposits – local authorities	N/A	term	no	**100**	**2 yrs**
Term deposits – banks and building societies	See Stage 2 below	term	yes	**100**	**2 yrs**
Call accounts – banks and building societies	See Stage 2 below	instant	yes	**100**	**1 yr**

b. Deposits with counterparties currently in receipt of government support/ownership (UK institutions only)

	Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments (Stage 2 Below)	Max. maturity period
UK nationalised banks	See Stage 2 Below	term	limited	**100**	**2 yrs**
Term deposits – banks and building societies	See Stage 2 below	term	limited	**100**	**2 yrs**
UK Government support to the banking sector (implicit guarantee)	See Stage 2 below	term	limited	**100**	**2 yrs**

c. Collective investment schemes structured as Open-Ended Investment Companies (OEICs) Sterling Deposits Only

	Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Government Liquidity Funds CNAV	AAA	Instant		**100**	**1 year**
Money Market Funds LVNAV	AAA	Instant		**100**	**1 year**
Money Market Funds VNAV	AAA	Instant		**100**	**1 year**

Note 1 – Money Market Funds: These funds invest across a wide spread of short-term instruments such as Government/Treasury issues, short-term corporate paper and Certificates of Deposits. By keeping a short timeframe, these funds attempt to reduce risk. The objective of these Funds is to maintain the net asset value, but they hold assets which can vary in value. Each Money Market Fund is treated as a single counterparty in relation to counter-party limits.

Note 2 - If forward deposits are to be made, the forward period plus the deal period will not exceed one year in aggregate.

Stage 2 – Credit worthiness policy and assessment

This Council uses the creditworthiness service provided by Link. This service employs a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

1. credit watches and credit outlooks from credit rating agencies
2. Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings
3. sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments.

- All credit ratings are monitored from a weekly list which can be updated daily by Link. The Council is alerted to changes to ratings of all three agencies as these occur through its use of the Link creditworthiness service.
- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, immediate consideration will be given to whether funds should be withdrawn from this counterparty and the timescale for doing this.
- in addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a daily basis via its Passport website. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

Based on the Link approach, the Council will therefore use counterparties within the following durational bands:

Yellow	5 years *
Dark pink	5 years for Enhanced cash funds (EMMFs) with a credit score of 1.25
Light pink	5 years for Enhanced cash funds (EMMFs) with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No Colour	Not to be used

*Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.

Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

In relation to Money Market Funds, the Council will use Link's Weekly Investment report, and other regular updates, to ensure its MMF counterparties meet the minimum credit criteria described in the table above.

As set out within the Prudential Indicators, a limit is set on the value of Treasury Investments which can be invested for more than 365 days. The limit is £20m, which represents the maximum sum invested for longer than 365 days. Though the period of investment must be decided using Link credit ratings and maximum limits in permitted investments.

<u>Stage 3 – Counter-party Limits</u>

The limits described below apply to the Council's treasury management operations. Separate limits apply for the Highland Council Pension Fund, with Highland Council limits relating to all operations excluding the Pension Fund. If for unavoidable short-term operational reasons, limits are breached this will be communicated to management at the earliest opportunity.

Due to market volatility in treasury management investments and varying levels of investment it is possible that at any time in the year one category of investment could represent 100% of the portfolio although it is likely that investments will carry greater diversification than this.

No more than £20m can be invested with any single counterparty, with the exception of the nationalised or semi nationalised UK banks (see section B above) where no more than £25m can be invested in each bank.

The Council will place overnight and call deposits with the Council's bankers irrespective of credit rating. The limit on placing call deposits with the Council's bankers is currently £20m for the Highland Council bank accounts.

The Highland Council Pension Fund will place overnight and call deposits with the Council's bankers irrespective of credit rating. The limit on placing call deposits with the Council's bankers is currently £20m. The Pension Fund may also use other suitable counterparties, with a £20m limit applying to each.

Appendix 7

Approved countries for investment (as at 08/02/2023)

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

1. Australia
2. Denmark
3. Germany
4. Netherlands
5. Norway
6. Singapore
7. Sweden
8. Switzerland

AA+

1. Canada
2. Finland
3. U.S.A.

AA

1. Abu Dhabi (UAE)
2. France

AA-

1. Belgium
2. Qatar
3. **U.K.**

Appendix 8

Current counter party list as at 28/02/2023

The following table is for use by the in-house treasury management team and is a list of current counterparties used. However, the use of counterparties depends on credit ratings and the Council may stop using certain counterparty's and/or decide to use alternative counterparties within its permitted investments. If for unavoidable short-term operational reasons, limits are breached this will be communicated to management immediately.

	At time of investment use Link current credit Link Current Credit Rating 28/02/23	**Maximum Duration per TMSS** (would refer to Link current credit rating before placing deposit)	**Investment limits**	
			Highland Council	**Highland Council Pension Fund (note 1)**
Government Backed Deposits				
Debt Management Agency Deposit Facility	Yellow (5 years)	6 months	Unlimited	Not used
Deposits with Counterparties currently in receipt of Government Support/Ownership				
Bank of Scotland	Red (6 mths)	2 years	£20m	Not used
Term deposits (*restricted to £20m invested >365 days*)				
Term deposits – local authorities	Purple (2 years)	2 years	£20m	Not used
Term deposits – banks and building societies (UK only)	Varies	2 years	£20m	Not used
Call accounts				
Clydesdale Bank now Virgin Money (Council's Banker)	Green (100 days)	1 year	£20m	£20m
Barclays	Red (6 mths)	1 year	£20m	Not used
Santander	Red (6 mths)	1 year	£20m	Not used
Svenska Handelsbanken	Orange (12 mths)	1 year	£20m	£20m
Money Market Funds				
Aberdeen Standard Asset Management	AAA	1 Year	£20m	Not used
Insight Asset Management	AAA	1 Year	£20m	Not used
Blackrock Asset Management	AAA	1 Year	£20m	Not used
Northern Trust	AAA	1 Year	£20m	Not used

Note 1 – the Pension Fund currently uses a limited number of counterparties as shown above. In line with the limits detailed on **appendix 6**, additional counterparties could be considered up to the limits stipulated.

Appendix 9 Treasury Management Practice 1 (TMP1) Credit and Counterparty Risk Management

Type of Permitted Investment	Treasury Risks	Mitigating Controls
1. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	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 unlimited to allow for a safe haven for investments.
2. Deposits with other local authorities or public bodies **(Very low risk)**	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 other 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.
3. Money Market Funds (MMFs) **(Very low risk)** CNAV, LVNAV, VNAV	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 have a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.
4. Ultra short dated bond funds **(low risk)**	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 bonds have a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.
5. Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	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 high, and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties.

Type of Permitted Investment	Treasury Risks	Mitigating Controls
6. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	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.
7. Government Gilts and Treasury Bills **(Very low risk)**	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.
8. Certificates of deposits with financial institutions **(Low risk)**	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. Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties.
9. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) **(Low to medium risk depending on period & credit rating)**	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.
10. Corporate bonds **(Medium to high risk depending on period & credit rating)**	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.

Type of Investment	Treasury Risks	Mitigating Controls
11.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.
12.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 rational behind the loan and the likelihood of partial or full default.
13.Loans to a local authority company	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 rational behind the loan and the likelihood of partial or full default.
14.Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.
15.Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.

The Monitoring of Investment Counterparties - The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Link, including when ratings change, and counterparties are checked promptly. On occasion ratings 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, and if required new counterparties which meet the criteria will be added to the list.

Use of External Fund Managers – It is the Council's policy to use an external fund manager for the investment portfolio relating to the Common Good Funds and Benevolent Funds. The fund managers are contractually committed to keep to the Council's investment strategy. The terms of the fund managers' investment policies are set out in the Investment Management Agreement. The performance of each manager is reviewed at least quarterly at the Investment Sub Committee by the Section 95 officer.

Appendix 10

Treasury Management Scheme of Delegation

(i) The Council

a) receiving and reviewing reports on treasury management policies, practices and activities

b) approval of annual strategy.

(ii) The Council's Corporate Resources Committee

A. approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;

B. receiving and reviewing regular monitoring reports and acting on recommendations; including scrutiny/review of annual strategy, annual report and mid-year report;

(iii) Section 95 Officer

C. reviewing the treasury management policy and procedures and making recommendations to the responsible body.

D. approval of the division of responsibilities;

E. approving the selection of external service providers and agreeing terms of appointment.

The Treasury Management Role of the Section 95 Officer

The S95 (responsible) Officer

1) recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
2) submitting regular treasury management policy reports
3) submitting budgets and budget variations
4) receiving and reviewing management information reports
5) reviewing the performance of the treasury management function
6) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
7) ensuring the adequacy of internal audit, and liaising with external audit recommending the appointment of external service providers.
8) preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe (to be determined in accordance with local priorities).
9) ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
10) ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
11) ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
12) ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources

13) ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
14) provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
15) ensuring that members are adequately informed and understand the risk exposures taken on by an authority
16) ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
17) creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed.

Appendix 11 Commitment to pay to repay loans fund advances (General Fund)

Financial year	HISTORIC DEBT Opening Balance	Instalmt	Instalmt 22/23 debt	NEW DEBT Opening Balance	Instalmt	Total Instalmt	New Borrowing	Total GF LF debt
	£000	£000	£000	£000	£000	£000	£000	£000
2022-23	742,751	0	0	0	0	0	118,906	861,657
2023-24	742,751	30,988	5,007	118,906	71	36,066	93,701	919,292
2024-25	706,756	30,439	3,580	212,536	1,393	35,412	61,000	944,880
2025-26	672,737	29,732	2,782	272,143	3,082	35,596	46,000	955,284
2026-27	640,223	29,127	2,323	315,061	4,461	35,911	0	919,373
2027-28	608,773	28,660	2,036	310,600	5,547	36,243	0	883,130
2028-29	578,077	28,116	1,811	305,053	6,065	35,992	0	847,138
2029-30	548,150	27,040	1,563	298,988	6,340	34,943	0	812,195
2030-31	519,547	26,670	1,447	292,648	6,574	34,691	0	777,504
2031-32	491,430	26,041	1,329	286,074	6,802	34,172	0	743,332
2032-33	464,060	24,966	1,192	279,272	7,038	33,196	0	710,136
2033-34	437,902	24,346	1,111	272,234	7,117	32,574	0	677,562
2034-35	412,445	22,972	992	265,117	7,234	31,198	0	646,364
2035-36	388,481	20,783	839	257,883	7,400	29,022	0	617,342
2036-37	366,859	17,894	665	250,483	7,593	26,152	0	591,190
2037-38	348,300	16,233	569	242,890	7,857	24,659	0	566,531
2038-39	331,498	15,265	516	235,033	8,129	23,910	0	542,621
2039-40	315,717	13,647	440	226,904	8,412	22,499	0	520,122
2040-41	301,630	13,070	413	218,492	8,703	22,186	0	497,936
2041-42	288,147	11,359	346	209,789	9,005	20,710	0	477,226
2042-43	276,442	10,530	315	200,784	9,318	20,163	0	457,063
2043-44	265,597	10,212	0	191,466	8,753	18,965	0	438,098
2044-45	255,385	9,958	0	182,713	8,356	18,314	0	419,784
2045-46	245,427	9,666	0	174,357	7,201	16,867	0	402,917
2046-47	235,761	9,234	0	167,156	6,139	15,373	0	387,544
2047-48	226,527	8,552	0	161,017	5,633	14,185	0	373,359
2048-49	217,975	7,899	0	155,384	5,264	13,163	0	360,196
2049-50	210,076	7,323	0	150,120	5,313	12,636	0	347,560
2050-51	202,753	7,352	0	144,807	5,455	12,807	0	334,753
2051-52	195,401	7,457	0	139,352	5,630	13,087	0	321,666
2052-53	187,944	7,672	0	133,722	5,825	13,497	0	308,169
2053-54	180,272	7,725	0	127,897	5,484	13,209	0	294,960
2054-55	172,547	7,493	0	122,413	5,246	12,739	0	282,221
2055-56	165,054	7,781	0	117,167	5,150	12,931	0	269,290
2056-57	157,273	7,706	0	112,017	5,118	12,824	0	256,466
2057-58	149,567	7,697	0	106,899	5,296	12,993	0	243,473
2058-59	141,870	8,025	0	101,603	5,479	13,504	0	229,969
2059-60	133,845	7,591	0	96,124	5,670	13,261	0	216,708
2060-61	126,254	7,668	0	90,454	5,866	13,534	0	203,174
2061-62	118,586	7,783	0	84,588	6,070	13,853	0	189,321
2062-63	110,803	6,971	0	78,518	6,013	12,984	0	176,337
2063-64	103,832	7,057	0	72,505	4,568	11,625	0	164,712
2064-65	96,775	7,245	0	67,937	3,453	10,698	0	154,014
2065-66	89,530	7,463	0	64,484	2,729	10,192	0	143,822
2066-67	82,067	7,436	0	61,755	2,266	9,702	0	134,120
2067-68	74,631	6,653	0	59,489	2,344	8,997	0	125,123
2068-69	67,978	6,723	0	57,145	2,426	9,149	0	115,974
2069-70	61,255	6,698	0	54,719	2,510	9,208	0	106,766
2070-71	54,557	6,420	0	52,209	2,597	9,017	0	97,749
2071-72	48,137	6,032	0	49,612	2,687	8,719	0	89,030

Appendix 11 Commitment to pay to repay loans fund advances (General Fund)

	HISTORIC DEBT			NEW DEBT				
Financial year	Opening Balance £000	Instalmt £000	Instalmt 22/23 debt £000	Opening Balance £000	Instalmt £000	Total Instalmt £000	New Borrowing £000	Total GF LF debt £000
2072-73	42,105	5,558	0	46,925	2,780	8,338	0	80,692
2073-74	36,547	5,340	0	44,145	2,876	8,216	0	72,476
2074-75	31,207	5,007	0	41,269	2,976	7,983	0	64,493
2075-76	26,200	4,944	0	38,293	3,080	8,024	0	56,469
2076-77	21,256	4,181	0	35,213	3,187	7,368	0	49,101
2077-78	17,075	3,697	0	32,026	3,297	6,994	0	42,107
2078-79	13,378	3,557	0	28,729	3,412	6,969	0	35,138
2079-80	9,821	2,594	0	25,317	3,530	6,124	0	29,014
2080-81	7,227	2,344	0	21,787	3,652	5,996	0	23,018
2081-82	4,883	1,349	0	18,135	3,779	5,128	0	17,890
2082-83	3,534	370	0	14,356	3,910	4,280	0	13,610
2083-84	3,164	0	0	10,446	3,462	3,462	0	10,148
2084-85	0	0	0	6,984	3,123	3,123	0	3,861
2085-86	0	0	0	3,861	2,089	2,089	0	1,772
2086-87	0	0	0	1,772	1,110	1,110	0	662
2087-88	0	0	0	662	537	537	0	125
2088-89	0	0	0	125	105	105	0	20
2089-90	0	0	0	20	20	20	0	0
2090-91	0	0	0	0	0	0	0	0
2091-92	0	0	0	0	0	0	0	0
2092-93	0	0	0	0	0	0	0	0
2093-94	0	0	0	0	0	0	0	0
2094-95	0	0	0	0	0	0	0	0
2095-96	0	0	0	0	0	0	0	0
		710,311	29,276		319,607	1,059,194	319,607	0

Appendix 12 Commitment to pay to repay loans fund advances (HRA)

Financial year	HISTORIC DEBT Opening Balance	Instalment	NEW DEBT Opening Balance	Instalment	Total Instalment	New Borrowing	Total HRA LF debt
	£000	£000	£000	£000	£000	£000	£000
2022-23	335,804	10,294	0	0	0	28,389	353,899
2023-24	325,510	12,051	28,389	261	10,294	32,020	373,607
2024-25	313,459	11,413	60,148	724	12,312	33,336	394,806
2025-26	302,046	11,729	92,760	1,227	12,137	34,641	416,491
2026-27	290,317	11,828	126,174	1,772	12,956	35,934	438,825
2027-28	278,489	11,995	160,336	2,360	13,600		424,470
2028-29	266,494	12,292	157,976	2,443	14,355		409,735
2029-30	254,202	12,743	155,533	2,529	14,735		394,463
2030-31	241,459	12,808	153,004	2,618	15,272		379,037
2031-32	228,651	13,171	150,386	2,710	15,426		363,156
2032-33	215,480	13,542	147,676	2,806	15,881		346,808
2033-34	201,938	13,401	144,870	2,905	16,348		330,502
2034-35	188,537	12,717	141,965	3,007	16,306		314,778
2035-36	175,820	11,785	138,958	3,113	15,724		299,880
2036-37	164,035	9,308	135,845	3,223	14,898		287,349
2037-38	154,727	8,619	132,622	3,336	12,531		275,394
2038-39	146,108	7,704	129,286	3,454	11,955		264,236
2039-40	138,404	6,830	125,832	3,576	11,158		253,830
2040-41	131,574	5,828	122,256	3,702	10,406		244,300
2041-42	125,746	5,448	118,554	3,832	9,530		235,020
2042-43	120,298	4,203	114,722	3,968	9,280		226,849
2043-44	116,095	4,238	110,754	4,108	8,171		218,503
2044-45	111,857	4,111	106,646	4,252	8,346		210,140
2045-46	107,746	4,103	102,394	4,402	8,363		201,635
2046-47	103,643	4,141	97,992	4,558	8,505		192,936
2047-48	99,502	4,039	93,434	4,719	8,699		184,178
2048-49	95,463	3,971	88,715	4,885	8,758		175,322
2049-50	91,492	3,560	83,830	5,057	8,856		166,705
2050-51	87,932	3,071	78,773	5,236	8,617		158,398
2051-52	84,861	2,754	73,537	5,420	8,307		150,224
2052-53	82,107	2,361	68,117	5,110	8,174		142,753
2053-54	79,746	2,308	63,007	4,209	7,471		136,236
2054-55	77,438	2,148	58,798	3,247	6,517		130,841
2055-56	75,290	2,153	55,551	2,227	5,395		126,461
2056-57	73,137	2,152	53,324	1,151	4,380		123,158
2057-58	70,985	2,125	52,173	1,192	3,303		119,841
2058-59	68,860	2,165	50,981	1,235	3,317		116,441
2059-60	66,695	2,135	49,746	1,279	3,400		113,027
2060-61	64,560	2,168	48,467	1,325	3,414		109,534
2061-62	62,392	2,214	47,142	1,372	3,493		105,948
2062-63	60,178	2,262	45,770	1,421	3,586		102,265
2063-64	57,916	2,351	44,349	1,472	3,683		98,442
2064-65	55,565	3,108	42,877	1,525	3,823		93,809
2065-66	52,457	3,235	41,352	1,580	4,633		88,994
2066-67	49,222	3,368	39,772	1,636	4,815		83,990
2067-68	45,854	4,262	38,136	1,695	5,004		78,033
2068-69	41,592	3,581	36,441	1,755	5,957		72,697
2069-70	38,011	3,726	34,686	1,818	5,336		67,153
2070-71	34,285	3,878	32,868	1,883	5,544		61,392
2071-72	30,407	4,505	30,985	1,951	5,761		54,936

Financial year	HISTORIC DEBT Opening Balance	Instalment	NEW DEBT Opening Balance	Instalment	Total instalment	New Borrowing	Total HRA LF debt
	£000	£000	£000	£000	£000	£000	£000
2072-73	25,902	3,901	29,034	2,020	5,921		49,015
2073-74	22,001	3,737	27,014	2,093	5,830		43,185
2074-75	18,264	3,336	24,921	2,168	5,504		37,681
2075-76	14,928	3,086	22,753	2,245	5,331		32,350
2076-77	11,842	2,941	20,508	2,326	5,267		27,083
2077-78	8,901	2,655	18,182	2,409	5,064		22,019
2078-79	6,246	2,320	15,773	2,495	4,815		17,204
2079-80	3,926	1,864	13,278	2,585	4,449		12,755
2080-81	2,063	1,285	10,693	2,677	3,962		8,794
2081-82	778	778	8,016	2,773	3,551		5,243
2082-83	0	0	5,243	2,026	2,026		3,217
2083-84	0	0	3,217	1,573	1,573		1,644
2084-85	0	0	1,644	1,084	1,084		560
2085-86	0	0	560	560	560		0
2086-87	0	0	0	0	0		0
2087-88	0	0	0	0	0		0
		335,804		164,320	500,125	164,320	