Agenda Item	**18**
Report No	**HC/10/24**

THE HIGHLAND COUNCIL

Committee: The Highland Council

Date: 14 March 2024

Report Title: **Treasury Management Strategy Statement and Investment Statement – 2024/25**

Report By: Head of Corporate 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 & IS 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 & IS are prepared using the current approved capital programme, which was that approved by Council in September 2023, adjusted for the additional capital investment capacity over the period 2024/25 – 2026/27 as agreed by the Council on 29 February. Given ongoing development of the Council's capital strategy, the TMSS and IS may require further review during 2024.

2. Recommendations

2.1 Members are asked to approve

- the Treasury Management Strategy Statement and Investment Statement for 2024/25 and the Prudential Indicators as detailed in **Appendix 1** of the report.

3. Implications

3.1 Resource – The TMSS & IS is a key strategy document, and along with the appended Prudential Indicators is in place to ensure the Council has clear plans and reporting arrangements regarding affordability, prudence and sustainability. With regard to financial year 2024/25, this report aligns with the capital programme covering the 5-year period 2024/25 to 2028/29 which was approved by Council (14 September 2023). The report also includes additional capital investment capacity for which additional revenue loan charges were approved at Council (29 February 2024).

Treasury and Investment activity can however relate to multi-year, and often very long-term financial commitments beyond the life of capital programmes, and this report considers short, medium and longer-term prospects and implications in line with the requirements of the Code.

3.2 Legal – statutory requirements are set out in section 4.2.

3.3 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 interest rates. During the period since the approval of the previous 2023/24 TMSS and IS by Committee (March 2023) bank rates and PWLB borrowing rates continue to remain high and are above previous forecasts (forecasts are provided by the Council's investment advisor, Link). In February 2023, the forecast for March 2024 was that bank rate would be 4.00% and 50-year PWLB rate would be 3.90%.

The current position is that in March 2024 bank rate is 5.25% and as set out in section 9.2, forecast to remain at this level until September 2024 with 50-year PWLB currently at 5.40% and forecast to reduce gradually from June 2024. There is likely to continue to be exceptional volatility and unpredictability in rates.

3.4 There are no Community (Equality, Poverty, Rural and Island), Health & Safety (risks arising from changes to plant, equipment, process or people) or Gaelic implications arising as a direct result of this report.

3.5 Climate Change/Carbon Clever – the environment, social, governance (ESG) requirements of the CIPFA Treasury Codes 2021 are considered in section 13.2 to 13.6.

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 TMSS and IS are prepared taking account of the current capital programme which was approved by Council in September 2023 (Capital Programme Review report) in view of what was considered affordable, prudent and sustainable. The capital plans included in this report also include additional capital investment capacity for which loan charges were approved at Council (29 February 2024).

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

This TMSS & IS for 2024/25 will follow the 2021 CIPFA Code of Practice on Treasury Management and the primary requirements of this are:

- 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 Treasury Management Strategy for 2024/25

The proposed strategy for 2024/25 in respect of the following aspects of the treasury management function is based upon the Council 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 2024/25 to 2026/27 (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, online courses, 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.

In September 2023 Officers delivered training in Treasury Management to Members.

4.8 Treasury management advisors

The Council uses Link as its external treasury management advisors. Link were appointed to this role effective from 1 December 2022 for a three-year period with an option to extend for one year.

5. Treasury Limits for 2024/25 to 2026/27

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 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 context for this report is the new medium-term financial plan agreed by the Council on 29 February. The Council agreed a range of budget decisions to address an unprecedented £113m budget gap over the forthcoming financial years, and within that report also agreed a number of matters of relevance and taken account of in this strategy report, including: revenue funding to support additional capital investment capacity, the implementation of a PPP accounting flexibility, and a range of decisions relating to earmarking and use of Council reserves.

5.5 The Council remains in a still relatively high inflation and interest rate environment. Costs of service delivery are increasing, as are demands for services in many areas, and community expectations against a backdrop of ongoing pressure on public sector finances and no apparent prospect of an improvement in grant settlements over the short to medium term. The prospect of real-term reductions in funding over the coming years remain.

5.6 In September 2023 (Capital Plan Review report), the Council agreed a capital programme covering the period up to 2028/29 at a level that the Council considered affordable, prudent and sustainable which is set out in the following table. This table also includes additional capital investment capacity as agreed by Council on 29 February.

Net capital expenditure	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Total £000
Net capital expenditure incl c/fwd	129,788	81,905	74,531	52,216	40,510	378,950
Additional capital expenditure estimates	19,830	18,680	17,420	170	-	56,100
Revenue implications approved Feb 2024						
	149,618	**100,585**	**91,951**	**52,386**	**40,510**	**435,050**

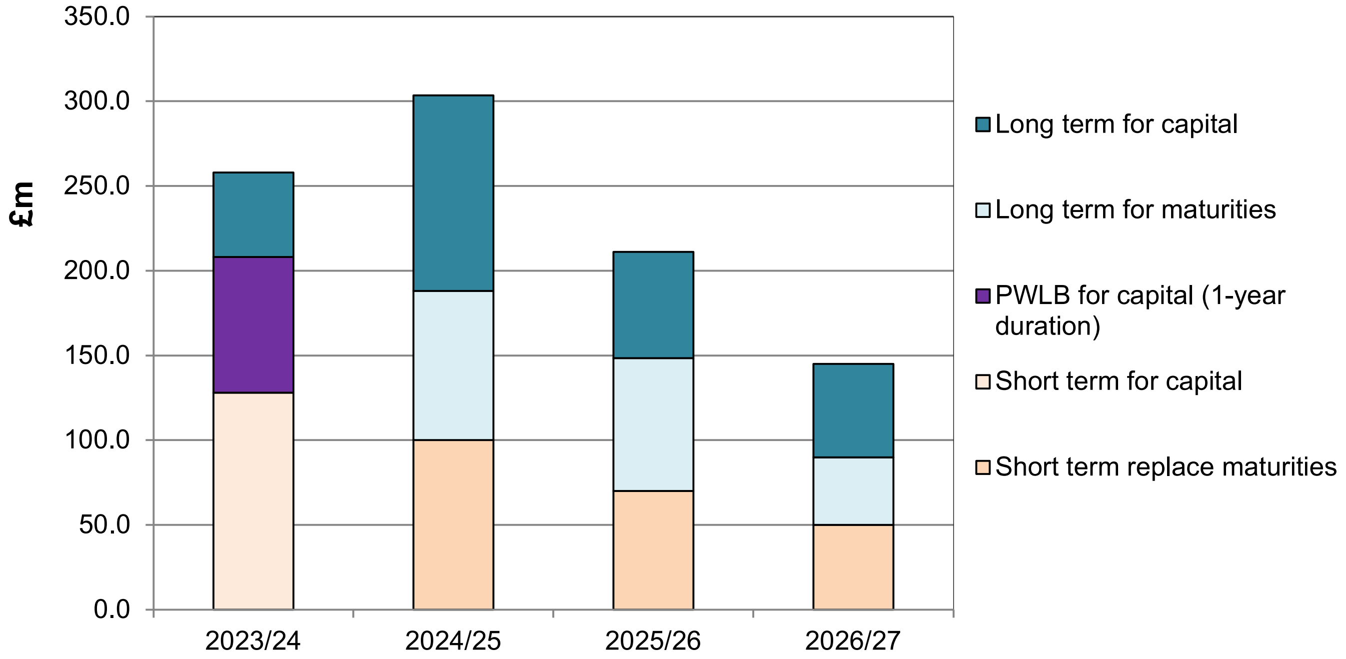
5.7 The Council's Housing Revenue account (HRA) 5-year capital programme (2022 to 2027) was agreed in December 2021.

Net capital expenditure	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
New builds	31,522	32,987	34,524	99,033
Existing homes	19,930	20,564	21,153	88,599
Total capital expenditure	51,452	53,551	55,677	**160,680**
Funded by				
Borrowing	33,336	34,641	35,934	103,911
Scottish Government Grant	15,876	16,670	17,503	50,049
Land bank	2,240	2,240	2,240	6,720
				160,680

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. Note that the level of 2024/25 planned borrowing is high as 1-year PWLB borrowing will need to be replaced with longer term but this will be dependent on prevailing rates. In 2026/27 £70m of maturing PWLB will need to be replaced.

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. There are indications of Scottish Government intend to review capital accounting arrangements for Local Authorities which may have consequences for future years Strategy Statements.

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 For loans fund advance made from 1 April 2024 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.

7.4 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 also a breakdown provided of the repayment of the delayed 2022/23 General Fund instalment. In March 2023 the Council agreed to defer the statutory repayment of debt for financial year 2022/23 for the General Fund (£29.2m) under the terms of the Statutory Guidance on Proper Accounting Practice – Statutory Repayment of Debt – Short Term Financial Flexibility (circular 5/2022).

7.5 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.

7.6 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.

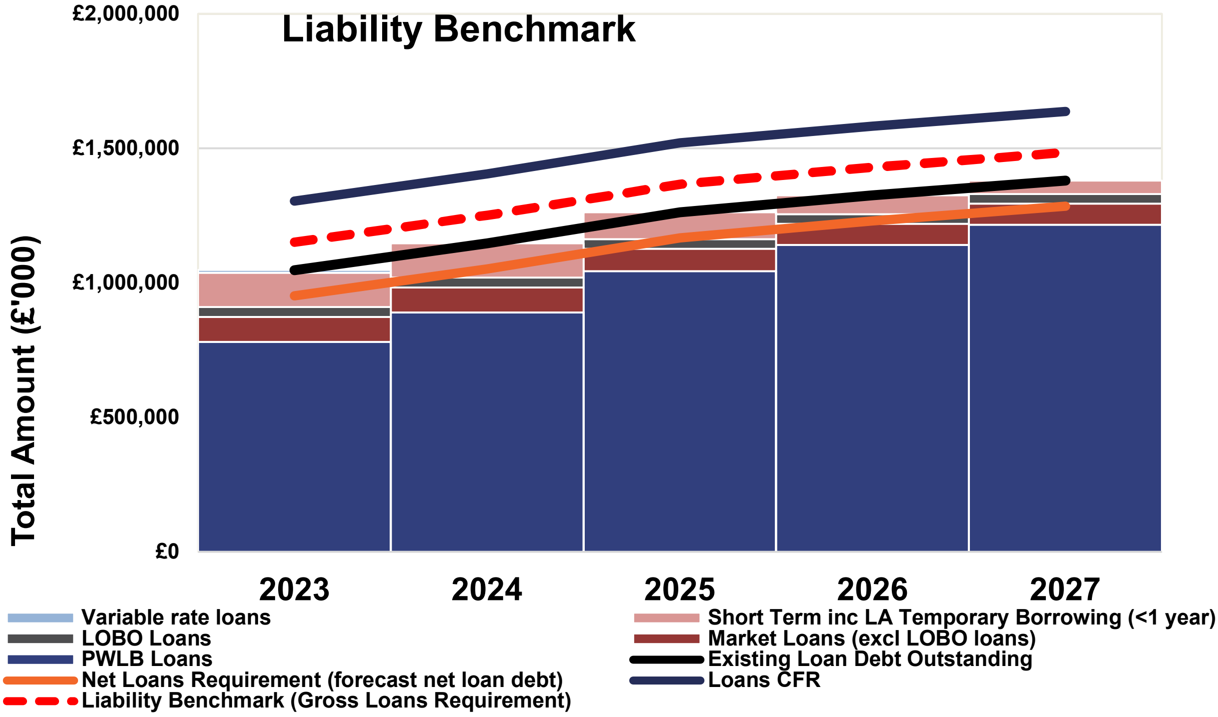
8.2 One of the indicators required by the 2021 CIPFA Treasury Management Code is the Debt Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

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 at section 8.5.

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.

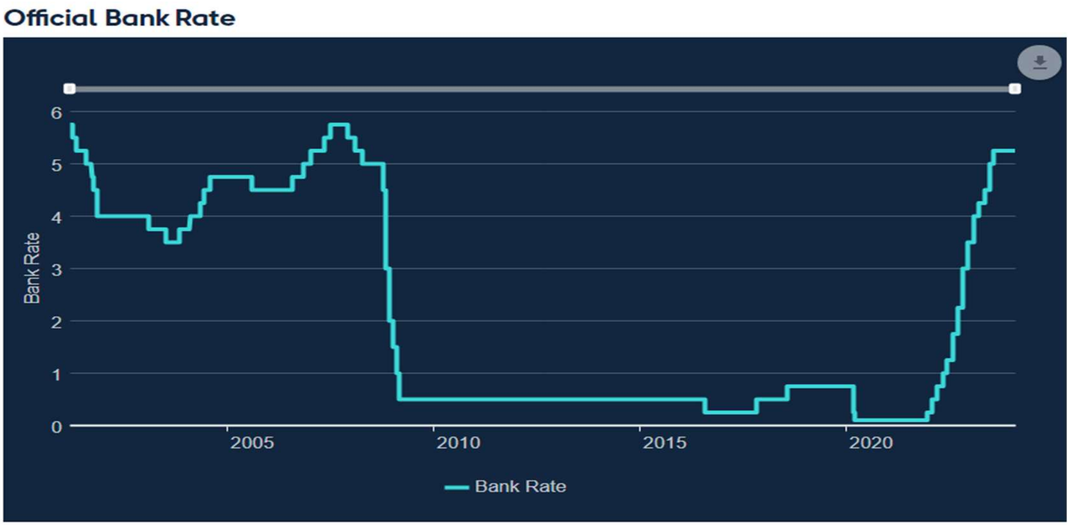
8.5 The liability benchmark below indicates that the current maturity profile is less than net loans requirement and the liability benchmark which indicates a borrowing need for the next few years, which is likely to be met using short-term borrowing, but this will depend on the prevailing rates for 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 with base rate increasing from 4.25% in April 2023 to the current base rate of 5.25% which was set in August 2023.

https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate

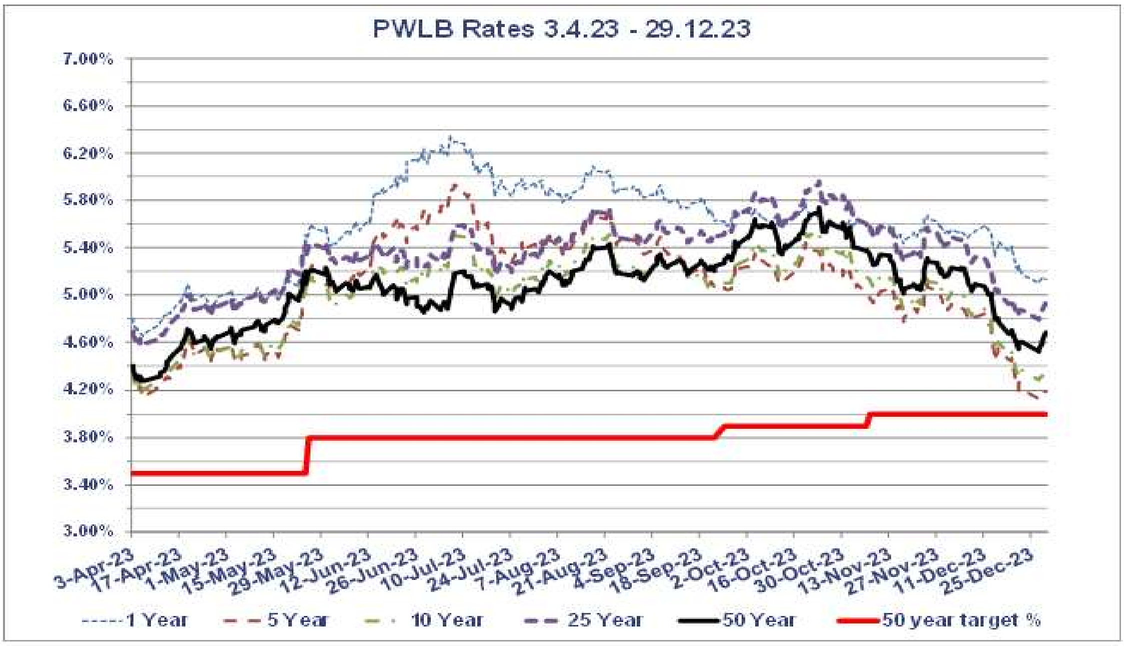


On 2nd November 2023, the Bank of England's Monetary Policy Committee (MPC) voted to hold Bank Rate at 5.25%, and on 14th December took the same view. Behind both decisions there was an underlying split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% due to concerns about "sticky" inflation.

Nonetheless, with UK CPI inflation now at 3.9%, and core inflation beginning to moderate (5.1%), markets are indicating that rate cuts could potentially begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.

In addition, what happens outside of the UK is also critical to movement in gilt yields. The US Federal Open Market Committee (FOMC) has kept short-term rates in the range of 5.25%-5.50%, whilst the European Central Bank (ECB) has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.



HIGH/LOW/AVERAGE PWLB RATES FOR 3.4.23 – 29.12.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.60%	5.09%	5.03%	5.35%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

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 05 February 2024 which are forecasts for certainty rates (gilt yields plus 80 bps).

Link Group Interest Rate View	05.02.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

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 is that this will remain at 5.25% until June 2024 after which there is forecast to be a gradual decline to 3.00% by September 2025. It is forecast that halfway through 2024, the bank rate will reduce when both the CPI inflation and wage/employment data are supportive of such a move. 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 2027, though there is likely be exceptional volatility and unpredictability during this forecast period. The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone.

3. Short-term borrowing rates have increased well in excess of bank rate due to supply and demand factors in the inter-local authority borrowing market.

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 In September 2023, the current General Fund capital programme was approved and set at a level that the Council considered affordable, prudent and sustainable.

10.3 The Council approved its revenue budget covering 2024/25 on 29 February 2024 which included an increase in loan charges to support additional capital investment. This report takes account of the expected level of additional capital investment capacity. Any decisions taken at future meetings on capital commitments, or the revenue budget more widely may influence the TMSS & IS and a revised report may be required.

10.4 As reported to Council in February 2024, it is the view of the Section 95 Officer that the Council is therefore making important and positive steps towards improving its medium to long-term financial sustainability. But this must be recognised as in the context of an environment of an ongoing pressure on public sector finances, and little prospect of this changing short-term.

10.5 The Council has received the revenue and capital budget settlement from the Scottish Government for financial year 2024/25. At this stage the Council has no indication of Scottish Government budget or grant settlement beyond that year. There clearly remain considerable ongoing risks and challenges to public sector finances, and at this stage no prospect of improvement over the short to medium term. Within the Council's medium term financial plan agreed 29 February 2024 the Council assumed a flat cash revenue settlement as a planning position for 2025/26 and 2026/27. For the purposes of capital planning, it is also assumed that generally capital grant funding will be flat, subject to any specific or known project specific grant funding streams.

10.6 As outlined in section 9 wider economic uncertainties at the time of writing this report and reduced availability of borrowing in the inter-authority market driven by supply and demand factors have seen an increase in short-term borrowing rates. Following this increase in short-term borrowing rates towards the end of 2023, the majority borrowing undertaken has been from the PWLB. The borrowing approach is under regular review as part of the process to manage liquidity requirements alongside managing interest rate risk and refinancing.

10.7 There are risks to the capital programme associated with inflation continuing to remain higher than the Bank of England target and relatively high interest rates on borrowing with these being considered during the process to reprofile the capital programme in September 2023.

10.8 Council Officers are currently implementing processes to comply with the International Financial Reporting Standard 16 (IFRS 16) which sets out the accounting requirements for leases. The key requirement of IFRS 16 is that all leases must be reported as capital expenditure and included in the balance sheet. IFRS 16 will be adhered to by Officers when preparing the 2024/25 financial accounts though it is an anticipated there will be a period of transition in fully implementing the Standard. The impact of IFRS 16 for the TMSS & IS will be an increase in capital expenditure and the Capital Financial requirement (with implications for Loans Fund Repayment policies), which will need to be incorporated in the prudential indicators and future versions of the TMSS & IS.

10.9 The financial flexibilities relating to School PPP accounting are to be implemented in 2023/24, following approval by Council on 29 February 2024. The accounting change will result in a large retrospective credit which would go into Council reserves (estimated at £68m) and would result in ongoing credits over the short to medium term (next 12 years) which on average are circa £6m p.a. The implementation of this financial flexibility will increase the PPP/NPD figures and the overall Capital Financing Requirement in the Prudential and Treasury Indicators which is reflected in Appendix 1.

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). Throughout the recent period of rising and high interest rates, the Council had maintained that approach for much of 2023, with short-term borrowing offering some relative benefit compared to longer-term rates. However, towards the end of 2023 due to reduced availability of borrowing in the inter-authority market driven by supply and demand factors, short term temporary borrowing rates increased. These rates are currently more expensive than PWLB borrowing in all periods (at the end of February 2024 rates of 6.50% are being quoted for 4-month short term temporary borrowing compared to 5.47% for one-year PWLB borrowing).

11.2 In these economic circumstances towards the end of 2023 the borrowing approach moved towards taking longer term PWLB borrowing. Since November 2023, a total of £80m has been borrowed from the PWLB across a range of periods with the majority of borrowing less than two years, and an average rate of 4.75%.

11.3 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.

11.4 During 2024/25 the Council will continue to remain flexible in its approach to borrowing to fund the capital programme and replace maturities. The strategy for 2024/25 will continue to be to consider all borrowing options on an ongoing basis, manage liquidity, refinancing and interest rate risks in order to minimise loan charge interest costs as much as possible.

Considering the risks within the economic forecast, caution will be adopted with 2024/25 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

	2022/23 Actual	**2023/24 Revised Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
External Debt (gross)	£1,047.4m	£1,147.0m	£1,262.4m	£1,325.1m	£1,380.3m
Temporary Investments	£62.8m	£50.0m	£50.0m	£50.0m	£50.0m
External Debt (net)	**£984.6m**	**£1,097.0m**	**£1,212.4m**	**£1,275.1m**	**£1,330.3m**

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 <u>Foreign Exposures/Country limits</u>

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 risks to these forecasts, upside (i.e., Bank Rate remains at current high level for longer) 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 Corporate Finance
Date:	4 March 2024
Author:	Brian Porter, Head of Corporate Finance Catriona Stachan, Principal Accountant
Background Papers:	Treasury Live system reports, Link economic forecasts

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 28/02/2024
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 which was reprofiled and approved by Council in September 2023, and includes additional capital investment capacity over the period 2024/25 – 2026/27 as agreed by the Council on 29 February 2024. 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.

	2022/23 Actual	2023/24 Original Estimate	2023/24 Revised Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	£155.1m	£138.5m	£168.1m	£155.1m	£101.7m	£97.3m
HRA	£57.9m	£49.4m	£61.9m	£51.5m	£53.6m	£55.6m
Total	**£213.0m**	**£187.9m**	**£230.0m**	**£206.6m**	**£155.3m**	**152.9m**
Income						
General Fund	(£93.5m)	(£44.8m)	(£60.7m)	(£26.0m)	(£23.1m)	(£26.1m)
HRA	(£18.2m)	(£17.4m)	(£23.7m)	(£18.1m)	(£18.9m)	(£19.7m)
Total	**(£111.7m)**	**(£62.2m)**	**(£84.4m)**	**(£44.1m)**	**(£42.0m)**	**(£45.8m)**

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

General Fund	£61.6m	£93.7m	£107.4m	£129.1m	£78.6m	£70.0m
HRA	£39.7m	£32.0m	£38.2m	£33.4m	£34.7m	£35.9m
Total	**£101.3m**	**£125.7m**	**£145.6m**	**£162.5m**	**£113.3m**	**£105.9m**

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

General Fund	(£5.7m)*	(£36.0m)**	(£32.6m)***	(£34.0m)**	(£36.5m)	(£35.9m)
HRA	(£10.3m)	(£12.1m)	(£12.7m)	(£13.1m)	(£14.0m)	(£14.8m)
Total	**(£16.0m)**	**(£48.1m)**	**(£45.3m)**	**(£47.1m)**	**(£50.5m)**	**(£50.7m)**

*22/23 instalment was delayed in accordance with Scottish Government regulations (see section 7.4)
** instalment for 23/24 will be higher as there is £5m of 22/23 delayed instalment which will be repaid in 23/24
***at time of drafting 2023/24 TMSS when this indicator was, the loans fund delayed instalment implications were being assess and calculated which is why forecast actual will be less.

Additional net borrowing in year

General Fund	£55.9m	£57.7m	£74.8m	£95.1m	£42.1m	£34.1m
HRA	£29.4m	£19.9m	£25.5m	£20.3m	£20.7m	£21.1m
Total	**£85.3m**	**£77.6m**	**£100.3m**	**£115.4m**	**£62.8m**	**£55.2m**

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.

	2022/23 Actual	2023/24 Original Estimate	2023/24 Revised Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund excluding PPP/NPD	£808.8m	£885.9m	£841.0m	£937.7m	£980.6m	£1,015.4m
PPP/NPD	£131.7m	£123.3m	£192.8m*	£191.9m	£190.1m	£187.3m
HRA	£363.4m	£364.7m	£390.8m	£411.0m	£431.6m	£452.8m
Total	**£1,303.9m**	**£1,373.9m**	**£1,424.6m**	**£1,540.6m**	**£1,602.3m**	**£1,655.5m**
Joint Boards	£15.3m	£14.4m	£14.4m	£13.7m	£12.9m	£12.1m
Total CFR (incl Police/Fire) (1)	**£1,319.2m**	**£1,388.3m**	**£1,439.8m**	**£1,554.3m**	**£1,615.2m**	**£1,667.6m**

*23/24 PPP/NPD increased following the approval of fiscal flexibilities at Council (29 February 2024)

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

Gross Borrowing – long term	£909.4m	£919.4m	£1,019.0m*	£1,162.4m	£1,255.1m	£1,330.3m
Gross Borrowing – short term	£138.0m	£245.6m	£128.0m	£100.0m	£70.0m	£50.0m
Total External Borrowing	**£1,047.4m**	**£1,165.0m**	**£1,147.0m**	**£1,262.4m**	**£1,325.1m**	**£1,380.3m**
Other Long-Term Liabilities	£131.7m	£123.3m	£192.8m	£191.9m	£190.1m	£187.3m
Total Gross Debt (2)	**£1,179.1m**	**£1,288.3m**	**£1,339.8m**	**£1,454.3m**	**£1,515.2m**	**£1,567.6m**
Investments	(£62.8m)	(£50.0m)	(£50.0m)	(£50.0m)	(£50.0m)	(£50.0m)
Net Borrowing	**£1,116.3m**	**£1,238.3m**	**£1,289.8m**	**£1,404.3m**	**£1,465.2m**	**£1.517.6m**

*Note that although long term, £40m of PWLB is for periods of 1-2 years, with further PWLB borrowing planned with similar durations until March 2024.

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.

	2022/23 Actual	2023/24 Original Estimate	2023/24 Revised Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Difference between CFR (1) and Total Gross Debt (2)	£140.1m	£100.0m	£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	**2022/23 Actual**	**2023/24 Original Estimate**	**2023/24 Revised Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Borrowing	£1,049.3 (indicator (£1,185.2m)	£1,284.4m	£1,284.4m	£1,391.2m	£1,440.8m	£1,494.1m
Other Long-Term Liabilities	£131.7m	£123.3m	£123.3m	£191.9m	£190.1m	£187.3m

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	**2022/23 Actual**	**2023/24 Original Estimate**	**2023/24 Revised Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Borrowing	£1,049.3m (indicator £1,149.2m)	£1,184.4m	£1,184.4m	£1,291.3m	£1,340.8m	£1,394.1m
Other Long-Term Liabilities	£131.7m	£123.3m	£123.3m	£191.9m	£190.1m	£187.3m

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.

	2022/23 Actual	**2023/24 Original Estimate**	**2023/24 Revised Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
General Fund including PPP/NPD	7.5%	13.6%	13.6%	13.7%	13.7%	13.7%
Housing Revenue Account	38.7%	39.0%	39.0%	40.0%	41.0%	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	2022/23 Actual	2023/24 Original Estimate	2023/24 Revised Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Upper Limit (Fixed)	£1,000.9m (indicator £1,171.6)	£1,265.0m	£1,265.0m	£1,554.3m	£1,615.2m	£1,667.6m
Upper Limit (Variable)	£16.4m (indicator £410.0m)	£442.7m	£442.7m	£544.0m	£565.3m	£583.7m

Maturity structure of fixed rate borrowing during 2024/25

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.

Economic update (1 February 2024) **Appendix 2**

- The third quarter of 2023/24 saw:
  - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
  - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS "experimental" rate of unemployment has remained low at 4.2%;
  - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
  - Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;
  - The Bank of England holding Bank Rate at 5.25% in November and December;
  - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.
- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.
- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with the Halifax house price index recently pointing to a 1.7% year on year increase whilst Nationwide's December data pointed to a -1.8% year on year decrease.

However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.

- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.

- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% in early January, with further declines likely if the falling inflation story is maintained.
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from $1.21 in November to $1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February 2023. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

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

<table>
<tr><th></th><th>Minimum Credit Criteria</th><th>Liquidity risk</th><th>Market risk</th><th>Max % of total investment</th><th>Max. maturity period</th></tr>
<tr><td>Cash deposits – local authorities, banks, building societies and cash funds such as money market funds</td><td rowspan="5">Relevant parameters as per specific investment mandates and/or specific trust deeds</td><td>term</td><td>yes</td><td rowspan="5" colspan="2">Relevant parameters as per specific investment mandates and/or specific trust deeds</td></tr>
<tr><td>Equities – UK and Overseas</td><td>term</td><td>yes</td></tr>
<tr><td>Fixed Income, Index Linked Bonds, Unit Trusts</td><td>term</td><td>yes</td></tr>
<tr><td>War Stock</td><td>term</td><td>no</td></tr>
<tr><td>Alternative Investments - Property</td><td>term</td><td>yes</td></tr>
</table>

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: -

1) 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.

Stage 1 - Permitted Investments

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~~ has access to information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a daily basis via its Passport website and will be advised by Link of any extreme market movements that 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.

Stage 3 – Counter-party Limits

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.

For The Highland Council Pension Fund 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 09 February 2024)

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)

AA-

1. Belgium
2. France
3. Qatar
4. U.K.

Current counter party list as at 28/02/2024 **Appendix 8**

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 Rating using Weekly Credit List & any inter-week amendments	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				
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
Bank of Scotland	Red (6 mths)	2 years	£20m	Not used
Call accounts				
Virgin Money, previously Clydesdale Bank (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 £000	Instalmt £000	Instalmt 22/23 debt £000	NEW DEBT Opening Balance £000	Instalmt £000	Total Instalmt £000	New Borrowing £000	Total GF LF debt £000
2023-24	804,152	27,712	4,896	-	-	32,608	107,386	878,930
2024-25	771,544	29,035	3,694	107,386	1,271	34,000	129,146	974,076
2025-26	738,815	31,180	2,782	235,261	2,512	36,474	78,585	1,016,187
2026-27	704,853	30,178	2,322	311,334	3,436	35,936	69,951	1,050,202
2027-28	672,353	29,779	2,035	377,849	4,887	36,701	0	1,013,501
2028-29	640,539	29,301	1,811	372,962	5,850	36,962	0	976,539
2029-30	609,427	28,265	1,563	367,112	6,354	36,182	0	940,357
2030-31	579,599	27,932	1,447	360,758	6,633	36,012	0	904,345
2031-32	550,220	27,346	1,328	354,125	6,925	35,599	0	868,746
2032-33	521,546	26,317	1,191	347,200	7,229	34,737	0	834,009
2033-34	494,038	25,734	1,111	339,971	7,547	34,392	0	799,617
2034-35	467,193	24,408	992	332,424	7,879	33,279	0	766,338
2035-36	441,793	22,269	839	324,545	8,226	31,334	0	735,004
2036-37	418,685	19,432	664	316,319	8,588	28,684	0	706,320
2037-38	398,589	17,824	569	307,731	8,966	27,359	0	678,961
2038-39	380,196	16,912	516	298,765	9,360	26,788	0	652,173
2039-40	362,768	15,352	440	289,405	9,772	25,564	0	626,609
2040-41	346,976	14,835	413	279,633	10,202	25,450	0	601,159
2041-42	331,728	13,216	347	269,431	10,651	24,214	0	576,945
2042-43	318,165	12,452	316	258,780	11,119	23,887	0	553,058
2043-44	305,397	11,838	0	247,661	9,957	21,795	0	531,263
2044-45	293,559	11,640	0	237,704	9,611	21,251	0	510,012
2045-46	281,919	11,179	0	228,093	8,874	20,053	0	489,959
2046-47	270,740	10,753	0	219,219	7,891	18,644	0	471,315
2047-48	259,987	10,074	0	211,328	6,059	16,133	0	455,182
2048-49	249,913	9,451	0	205,269	4,981	14,432	0	440,750
2049-50	240,462	8,928	0	200,288	5,199	14,127	0	426,623
2050-51	231,534	9,014	0	195,089	5,426	14,440	0	412,183
2051-52	222,520	9,176	0	189,663	5,663	14,839	0	397,344
2052-53	213,344	9,452	0	184,000	5,911	15,363	0	381,981
2053-54	203,892	9,498	0	178,089	5,720	15,218	0	366,763
2054-55	194,394	9,328	0	172,369	5,821	15,149	0	351,614
2055-56	185,066	9,680	0	166,548	6,050	15,730	0	335,884
2056-57	175,386	8,840	0	160,498	6,287	15,127	0	320,757
2057-58	166,546	8,871	0	154,211	6,533	15,404	0	305,353
2058-59	157,675	9,239	0	147,678	6,791	16,030	0	289,323
2059-60	148,436	8,849	0	140,887	7,089	15,938	0	273,385
2060-61	139,587	8,969	0	133,798	7,399	16,368	0	257,017
2061-62	130,618	9,130	0	126,399	7,724	16,854	0	240,163
2062-63	121,488	8,364	0	118,675	8,062	16,426	0	223,737
2063-64	113,124	7,474	0	110,613	6,764	14,238	0	209,499
2064-65	105,650	7,677	0	103,849	5,885	13,562	0	195,937
2065-66	97,973	7,910	0	97,964	5,247	13,157	0	182,780
2066-67	90,063	7,898	0	92,717	4,467	12,365	0	170,415
2067-68	82,165	7,131	0	88,250	3,772	10,903	0	159,512
2068-69	75,034	7,217	0	84,478	3,298	10,515	0	148,997
2069-70	67,817	7,210	0	81,180	3,444	10,654	0	138,343
2070-71	60,607	6,949	0	77,736	3,597	10,546	0	127,797
2071-72	53,658	6,579	0	74,139	3,756	10,335	0	117,462
2072-73	47,079	6,124	0	70,383	3,923	10,047	0	107,415

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
2073-74	40,955	5,926	0	66,460	4,097	10,023	0	97,392
2074-75	35,029	5,613	0	62,363	4,278	9,891	0	87,501
2075-76	29,416	5,571	0	58,085	4,468	10,039	0	77,462
2076-77	23,845	4,830	0	53,617	4,666	9,496	0	67,966
2077-78	19,015	4,368	0	48,951	4,873	9,241	0	58,725
2078-79	14,647	4,251	0	44,078	5,089	9,340	0	49,385
2079-80	10,396	3,313	0	38,989	5,315	8,628	0	40,757
2080-81	7,083	3,087	0	33,674	5,550	8,637	0	32,120
2081-82	3,996	2,146	0	28,124	5,796	7,942	0	24,178
2082-83	1,850	1,194	0	22,328	6,053	7,247	0	16,931
2083-84	656	257	0	16,275	5,647	5,904	0	11,027
2084-85	399	266	0	10,628	4,769	5,035	0	5,992
2085-86	133	82	0	5,859	3,373	3,455	0	2,537
2086-87	51	46	0	2,486	2,353	2,399	0	138
2087-88	5	5	0	133	133	138	0	0
2088-89	0	0	0	0	0	0	0	0
2089-90	0	0	0	0	0	0	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
2096-97	0	0	0	0	0	0	0	0
		774,876	29,276		385,068	1,189,220	385,068	0

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

Financial year	HISTORIC DEBT Opening Balance £000	Instalment £000	NEW DEBT Opening Balance £000	Instalment £000	Total Instalment £000	New Borrowing £000	Total HRA LF debt £000
2023-24	365,233	12,730	-	-	12,730	38,247	390,750
2024-25	352,503	12,325	38,247	764	13,089	33,336	410,997
2025-26	340,178	12,665	70,819	1,354	14,019	34,641	431,619
2026-27	327,513	12,789	104,106	1,991	14,780	35,934	452,773
2027-28	314,724	12,982	138,049	2,684	15,666		437,107
2028-29	301,742	13,306	135,365	2,799	16,105		421,002
2029-30	288,436	13,785	132,566	2,919	16,704		404,298
2030-31	274,651	13,879	129,647	3,045	16,924		387,374
2031-32	260,772	14,272	126,602	3,175	17,447		369,927
2032-33	246,500	14,673	123,427	3,311	17,984		351,943
2033-34	231,827	14,573	120,116	3,454	18,027		333,916
2034-35	217,254	13,923	116,662	3,602	17,525		316,391
2035-36	203,331	13,026	113,060	3,756	16,782		299,609
2036-37	190,305	10,585	109,304	3,918	14,503		285,106
2037-38	179,720	9,932	105,386	4,086	14,018		271,088
2038-39	169,788	9,056	101,300	4,261	13,317		257,771
2039-40	160,732	8,221	97,039	4,444	12,665		245,106
2040-41	152,511	7,260	92,595	4,635	11,895		233,211
2041-42	145,251	6,922	87,960	4,834	11,756		221,455
2042-43	138,329	5,787	83,126	5,041	10,828		210,627
2043-44	132,542	4,683	78,085	4,112	8,795		201,832
2044-45	127,859	4,539	73,973	3,404	7,943		193,889
2045-46	123,320	4,540	70,569	2,637	7,177		186,712
2046-47	118,780	4,586	67,932	1,822	6,408		180,304
2047-48	114,194	4,493	66,110	1,900	6,393		173,911
2048-49	109,701	4,436	64,210	1,982	6,418		167,493
2049-50	105,265	4,034	62,228	2,067	6,101		161,392
2050-51	101,231	3,554	60,161	2,156	5,710		155,682
2051-52	97,677	3,248	58,005	2,248	5,496		150,186
2052-53	94,429	3,066	55,757	2,345	5,411		144,775
2053-54	91,363	2,670	53,412	1,999	4,669		140,106
2054-55	88,693	2,452	51,413	1,739	4,191		135,915
2055-56	86,241	2,464	49,674	1,456	3,920		131,995
2056-57	83,777	2,469	48,218	1,157	3,626		128,369
2057-58	81,308	2,449	47,061	1,206	3,655		124,714
2058-59	78,859	2,496	45,855	1,258	3,754		120,960
2059-60	76,363	2,473	44,597	1,312	3,785		117,175
2060-61	73,890	2,514	43,285	1,368	3,882		113,293
2061-62	71,376	2,568	41,917	1,427	3,995		109,298
2062-63	68,808	2,623	40,490	1,488	4,111		105,187
2063-64	66,185	2,656	39,002	1,422	4,078		101,109
2064-65	63,529	3,420	37,580	1,382	4,802		96,307
2065-66	60,109	3,553	36,198	1,337	4,890		91,417
2066-67	56,556	3,693	34,861	1,289	4,982		86,435
2067-68	52,863	4,666	33,572	1,345	6,011		80,424
2068-69	48,197	3,917	32,227	1,402	5,319		75,105
2069-70	44,280	4,069	30,825	1,462	5,531		69,574
2070-71	40,211	4,229	29,363	1,525	5,754		63,820
2071-72	35,982	4,923	27,838	1,591	6,514		57,306
2072-73	31,059	4,265	26,247	1,659	5,924		51,382

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
2073-74	26,794	4,108	24,588	1,730	5,838		45,544
2074-75	22,686	3,716	22,858	1,804	5,520		40,024
2075-76	18,970	3,476	21,054	1,881	5,357		34,667
2076-77	15,494	3,339	19,173	1,962	5,301		29,366
2077-78	12,155	3,064	17,211	2,046	5,110		24,256
2078-79	9,091	2,738	15,165	2,134	4,872		19,384
2079-80	6,353	2,292	13,031	2,226	4,518		14,866
2080-81	4,061	1,724	10,805	2,321	4,045		10,821
2081-82	2,337	1,228	8,484	2,420	3,648		7,173
2082-83	1,109	989	6,064	2,524	3,513		3,660
2083-84	120	120	3,540	1,724	1,844		1,816
2084-85	0	0	1,816	1,197	1,197		619
2085-86	0	0	619	619	619		0
2086-87	0	0	0	0	0		0
2087-88	0	0	0	0	0		0
2088-89	0	0	0	0	0		0
		365,233		142,158	507,391	142,158	0