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EAST DUNBARTONSHIRE COUNCIL	**THURSDAY, 28 SEPTEMBER 2023**
PR01-023-RC	**CHIEF FINANCE OFFICER**
LEAD OFFICER:	**JAMIE ROBERTSTON, CHIEF FINANCE OFFICER**
	ROSS CRAVEN, ACCOUNTANT
SUBJECT TITLE:	**TREASURY MANAGEMENT STRATEGY REPORT 2023 to 2027**

1.0 PURPOSE

1.1 The purpose of this Report is to present to Council the Treasury Management Strategy Report.

2.0 RECOMMENDATIONS

2.1 It is recommended that Council;

2.1.1 agrees to set aside the provisions of the Administrative Scheme - Scheme of Delegation to Committees, which require the Treasury Management Strategy to be submitted to both Policy & Resources and R&RM Committees in advance of Council, in accordance with the Financial Regulations;

2.1.2 agrees to raise the Temporary Borrowing Limit to 35%

2.1.3 agrees the Prudential Indicators and limits for 2023/24 to 2026/27;

2.1.4 agrees the Treasury Management Strategy 2023/24 to 2026/27;

2.1.5 agrees the Investment Strategy 2023/24;

2.1.6 approves the revised limits as detailed at paragraph 6.12, Table 7; and

2.1.7 approves the policy on loans fund repayments as outlined in Section 8.

ANN DAVIE
DEPUTE CHIEF EXECUTIVE

3.0 BACKGROUND/ MAIN ISSUES

3.1 The Annual Treasury Management Strategy complies with the CIPFA Code of Practice on Treasury Management. This will maintain the cautious but flexible and prudent approach to borrowing, loan debt and investment activities within the Council. It will also provide for effective management of associated risks. Debt rescheduling options will be continually monitored and will be given due consideration in terms of the best interests of the Council.

3.2 The Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA), as a professional code of practice to support local authorities in making their capital investment decisions. The Report highlights the key objectives of the Prudential Code, and presents the key indicators of affordability, sustainability and prudence, which are to be used as a means of demonstrating that these objectives are being fulfilled.

3.3 The Report considers capital plans and presents prudential indicators, the Treasury Management Strategy, including Treasury Indicators and the Investment Strategy detailing the parameters on how investments are to be managed.

3.4 At present, the Council's Administrative Scheme – Scheme of Delegation to Committees, requires the Treasury Management Strategy to be considered by both the Policy & Resources and Audit & Risk Management Committees in advance of being submitted to Council for final consideration and approval as appropriate.

3.5 Members will be aware that the Administrative Scheme is ordinarily reviewed on an annual basis prior to the summer recess. This year's review is taking part in stages due to the recent restructure of the Council's executive portfolios and also to accommodate the ongoing implementation of the new financial management system. As part of that regular review process, it was the intention of Officers to submit proposals for discharging Treasury Management Strategy, Mid-Term Review and Outturn Reporting requirements and to simplify the process for approval of the Strategy by Council. Subject to the finalisation of this process and, in order to be consistent with the approach in the prior year, whilst making best use of Council resources at this time, the Strategy is submitted to Council, as the ultimate decision-making body, for agreement. This approach reduces the respective agendas of the Audit & Risk Management Committee and the Policy & Resources Committee. It also recognises that the time between the meetings of each of those Committees and this Council meeting is such that it is not practical to consider the Strategy at each of three meetings. It is therefore proposed that Council agrees to set aside the relevant provisions of the Scheme of Delegation and to undertake the role of scrutiny and strategic agreement of the Strategy for the current financial year.

4.0 TREASURY MANAGEMENT OVERVIEW

4.1. The Council is required to operate a balanced budget, which broadly ensures that cash raised during the year will meet cash expenditure. Part of the main Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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

4.3. CIPFA defines treasury management as:

"The management of the local authority's 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."

A more detailed explanation of Treasury Management is included within *Appendix 1* which highlights the Financial Regulations relating to Treasury Management and details the Council's Treasury Management Policy Statement.

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

(1) Treasury Management Strategy Report (this Report) – the first, and most important report, covers:
- the capital plans (including prudential indicators),
- the Treasury Management Strategy (how the investments and borrowing are to be organised) and including treasury indicators, and
- an investment strategy (the parameters on how investments are to be managed).

(2) Mid-Year Treasury Management Report – this will update members on the progress of the capital position, amending prudential indicators as necessary, and updating on the achievement of the approved treasury strategy and whether any policies require revision.

(3) Annual Report – this details final actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

4.5. The strategy for 2023/24 covers two main areas:

(1) Capital Issues
- capital plans and prudential indicators (section 5.0 – 5.4)

(2) Treasury Management Strategy

- current treasury position (section 6.3- 6.6)
- treasury indicators which limit the treasury risk & activities of the Council (section 6.7 - 6.12)
- prospects for interest rates (section 6.13- 6.14)
- borrowing strategy (section 7.0)
- policy on borrowing in advance of need (section 8.0)
- debt rescheduling (section 9.0)
- investment strategy (section 10.0)
- treasury management prudential indicators (section 11.0), and
- member and officer training (section 11.3)

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

4.7. A Treasury Management Glossary of Terms is attached in *Appendix 2.*

5.0 CAPITAL PLANS AND PRUDENTIAL INDICATORS

5.1 Prudential Indicator 1 - Capital Expenditure Plans

5.1.1 The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

5.1.2 This prudential indicator is a summary of the Council's capital expenditure plans and forecasts are detailed in Table 1 below.

5.1.3 The projections in Table 1 are based on the current General Fund 10 Year Investment Programme with known changes incorporated. The Housing projections are based on the current Housing Business Plan model.

Table 1: Summary Capital Expenditure

	2022/23 Forecast £m	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
General Fund	71.471	66.569	76.268	68.869	45.503
Housing	15.813	20.980	79.488	65.831	30.611
TOTAL	**87.284**	**87.549**	**155.756**	**134.700**	**76.114**

5.1.4 Table 2 summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any expenditure not funded by resources results in a net financing or borrowing need.

Table 2: Net Capital Financing Need

	2022/23 Forecast £m	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
Total	87.284	87.549	155.756	134.700	76.114
Financed by:					
Capital Receipts	(1.270)	(0.350)	(0.520)	(0.480)	(0.600)
Capital Grants	(13.259)	(20.563)	(38.565)	(10.163)	(9.658)
CFCR	(4.059)	(4.371)	(4.000)	(4.000)	(4.000)
Contributions	(0.230)	(1.028)	(2.679)	(0.233)	(0.233)

Capital Fund	(3.000)	(3.600)	(0.000)	(0.000)	(0.000)
Other Funds	(0.000)	(0.525)	(3.072)	(5.107)	(18.180)
Net Capital Financing Need	**65.466**	**57.112**	**106.920**	**114.717**	**43.443**

5.1.5 The revised estimates, shown in Table 2, present the current projections for both the General Services and Housing Capital Programmes. This shows the net financing need. When taking the 'Net Capital Financing Need' from Table 2 above, if the financing costs for the borrowing required for 2023/24 to 2026/27 was estimated using the PWLB Interest Rate projections at Table 8, then Officers can forecast additional Annual Interest Rate Payments that would be incurred.

5.1.6 For example, using the table below, the forecast Annual Interest Payments on the proposed 2023/24 borrowing would result in interest payments of £2.856m each year, for 50 years

Table 2a – Cost of Servicing Current CFR at Current Interest Rate Projections

	Net CFR £m	**Date**	**Forecast 50yr PWLB Rate £m**	**Forecast Annual Interest Payment £m**
2023/24	£19.037m £19.037m £19.037m **£57.112m**	Sept. 2023 Dec. 2023 Mar. 2024	5.10% 5.00% 4.90%	£0.971m £0.952m £0.933m **£2.856m**
2024/25	£26.730m £26.730m £26.730m £26.730m **£106.920m**	June 2024 Sept. 2024 Dec. 2024 Mar. 2025	4.70% 4.50% 4.30% 4.00%	£1.256m £1.203m £1.149m £1.069m **£4.678m**
2025/26	**£114.717m**	June 2025 Rate	3.80%	**£4.359m**
2026/27	**£43.443m**	June 2025 Rate	3.80%	**£1.651m**

5.2 Prudential Indicator 2 - The Council's Borrowing Need (Capital Financing Requirement)

5.2.1 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The net capital financing need, as shown in Table 2 above, will impact directly on the CFR.

5.2.2 The CFR includes any other long-term liabilities brought onto the balance sheet (i.e., PPP). Whilst this increases the CFR, and therefore the Council's financing requirement, these types of schemes include a financing facility and so the Council is not required to separately borrow for these schemes.

Table 3: Capital Financing Requirement

	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
CFR – General Fund	410.442	452.848	503.946	545.016	547.435
CFR – Housing	60.040	63.191	105.356	162.021	182.750
Total CFR	470.482	516.039	609.302	707.037	730.185
Total Movement in CFR	92.422	45.557	93.263	97.734	23.148
Represented by:-	**2022/23 Forecast £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
Net Financing Need (Table 2)	65.466	64.313	106.920	114.717	43.443
Principal Repayments	26.956	(11.556)	(13.657)	(16.982)	(20.296)
Total Movement in CFR	**92.422**	**52.757**	**93.263**	**97.735**	**23.147**

The Use of the Council's Resources and the Investment Position

5.2.3 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new resources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Table 4: Year End Resources

	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
GF Balance	(46.846)	(17.792)	(17.792)	(17.792)	(17.792)
Housing Revenue Balance	(9.270)	(6.770)	(7.070)	(7.370)	(7.670)
Capital Receipts Reserve / Fund	(2.346)	(2.346)	(2.346)	(2.346)	(2.346)
Other	(0.255)	(0.255)	(0.255)	(0.255)	(0.255)
Provisions	(0.568)	(0.568)	(0.568)	(0.568)	(0.568)
Total Core Funds	(59.285)	(27.731)	(28.031)	(28.331)	(28.631)

5.2.4 At 31 March 2023, a total of £59.285m of core funds were available. Based on current projections a forecast of £27.731m is anticipated at end of March 2024.

5.2.5 It is assumed that in 2023/24, a minimum core level of funds of approximately £10.000m will be available, and the Investment Strategy considers options for investing this for periods up to 364 days. Other surplus balances will be available during the year as a result of daily cash flow activity. The core level will be reviewed during the year to reflect the most up to date forecasts.

Affordability Prudential Indicators

5.2.6 The previous sections cover the overall capital and control of borrowing Prudential Indicators but within this framework, prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators.

5.3 Prudential Indicator 3 - Ratio of Financing Costs to Net Revenue Stream

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

Table 5: Ratio of Financing Costs to Net Revenue Stream

	Forecast 2022/23 %	Estimate 2023/24 %	Estimate 2024/25 %	Estimate 2025/26 %	Estimate 2026/27 %
General Fund	6.17	9.10	9.43	9.53	9.96
Housing	21.13	21.87	24.66	34.28	43.12

5.3.2 The General Fund increases from 2023/24 onwards and is a result of increased borrowing to support the General Fund capital investment programme, against a background of reducing General Fund revenue resources anticipated in future years. The relatively low ratio for 2022/23 was a result of the General Fund taking a Loans Fund Holiday for the year.

5.3.3 The Housing position reflects an increasing trend aligned to the increased expenditure in relation to the Council House new build programme over the next few years.

5.4 Prudential Indicator 4 - Estimates of the incremental impact of Capital Investment decisions on the Council Tax & Rents

5.4.1 This affordability indicator relates to the impact capital investment decisions have on the Council Tax, and in the case of Housing, on Housing Rents. Within the Council, the additional costs of borrowing to fund new capital investment programmes are addressed through the revenue budget process.

6.0 TREASURY MANAGEMENT STRATEGY

2021 Revised CIPFA Treasury Management Code and Prudential Code

6.1 CIPFA published the revised Codes on 20th December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. The Council, therefore, has taken in to account these Codes of Practice in preparing this Report, and will do the same for all related reports during the financial year, which are taken to Full Council for approval.

The revised Treasury Management Code will require an authority to implement the following: -

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

The Liability Benchmark (LB) has been attached at *Appendix 3*

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

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

Amendment to the **knowledge and skills register** for Officers and Members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;

Reporting to Members is to be done quarterly. Specifically, the Chief Finance Officer is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The Chief Finance Officer is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to a meeting of the Council and should be reported as part of the Authority's integrated revenue, capital and balance sheet monitoring, which in the case of this Council is via the financial monitoring reports submitted to the Policy & Resources Committee;

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

Current Portfolio position and future year's projections

6.3 The capital expenditure plans set out in Section 5 provide details for the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where the capital plans require, the organisation of the appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

6.4 The Council's actual treasury portfolio at 31 March 2023, with forward projections is summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing. This table also forecasts future levels of investment.

6.5 Table 6 shows a comparison of the total Gross Debt at 31 March to the Capital Financing Requirement (CFR) and shows the Council is forecast to be under borrowed by approximately £96.003m at the end of 2022/23. This under borrowing trend is projected to continue through to 2026/27

6.6 The borrowing position will be reviewed on an ongoing basis during the year and the decision to proceed with the additional borrowing will be based on identifying when cash is actually required. This will be examined within the context of the Council's daily cashflow position and will seek to minimize holding costs by identifying the best possible time to undertake this.

Table 6: Current portfolio position and future projections

	2022/23 Forecast	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt					
Borrowing 1 April		301.574	358.690	465.614	580.331
Expected Change		57.116	106.924	114.718	43.448
Borrowing at 31 March	301.574	358.690	465.614	580.331	623.780
Liabilities		72.905	69.969	67.620	65.558
Expected change in Liabilities		-2.936	-2.349	-2.062	-2.153
Liabilities at 31 March	72.905	69.969	67.620	65.558	63.405
Total Gross Debt at 31 March	**374.479**	**428.659**	**533.234**	**645.889**	**687.185**
CFR	470.482	516.039	609.302	707.037	730.185
Under/(Over) Borrowing	**96.003**	**87.380**	**76.068**	**61.148**	**43.000**

Treasury Indicators: Limits to Borrowing Activity

6.7 Within the treasury prudential indicators there are a number of key indicators to ensure the Council operates its activities within well-defined limits.

6.8 For the first of these the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

6.9 The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the period covered by the strategy. This view takes into account current commitments, existing plans, and the budget proposals for next financial year.

Treasury Indicator 1 - The Authorised Limit

6.10 This is a key prudential indicator, which represents a control on the overall level of external debt. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It provides for a level of headroom over and above the operational boundary detailed below, to cope with short term unusual cash flow movement.

6.11 This is the statutory limit determined by the Local Government (Scotland) Act 2003.

Treasury Indicator 2 - The Operational Limit

6.12 The operational boundary is based on the Council's estimate of most likely i.e., prudent, scenario for external debt. The operational boundary links directly to the Council's plans for capital expenditure, and the estimate for cash flow requirements for the year. In some cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt. This is a key tool for in-year monitoring. Revised limits are presented in Table 7 below.

The 2022/23 Operational Boundary and Authorised Limit disaggregated the Council's PPP and Finance Lease Liabilities as these have alternative sources of funding with limits set at £370m and £373m respectively. Following a review of this position, and keeping in line with best practice from CIPFA, these limits and the indicators that are measured against them will include PPP & Finance Lease calculations. Therefore, to afford a like-for-like comparison across years, the 2022/23 Operational Boundary and Authorised Limit have been adjusted accordingly.

Table 7: Authorised Limit / Operational Boundary

	2022/23 Estimate £m	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**
Authorised Limit	511.00	475.00	626.00	744.00
Operational Boundary	443.00	429.00	533.00	646.00

Table 8: Expected Movement in Interest Rates 2023-2025

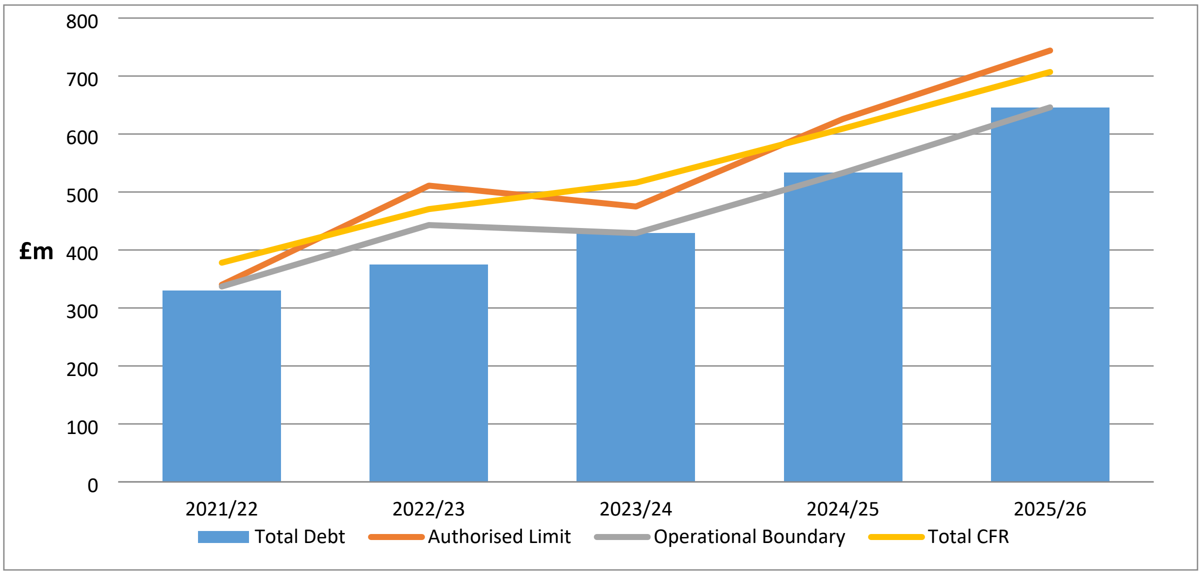
		Bank Rate %	**5yr Pwlb**	**10yr Pwlb**	**25yr Pwlb**	**50yr Pwlb**
2022/23	March	4.25	4.00	4.20	4.60	4.30
2023/24	June	4.50	4.00	4.20	4.60	4.30
	September	5.50	5.60	5.20	5.40	5.10
	December	5.50	5.30	5.00	5.20	5.00
	March	5.50	5.10	4.90	5.10	4.90
2024/25	June	5.25	4.80	4.70	4.90	4.70
	September	4.75	4.50	4.40	4.70	4.50
	December	4.25	4.20	4.20	4.50	4.30
	March	3.75	3.90	3.90	4.20	4.00
2025/26	**June**	**3.25**	**3.60**	**3.70**	**4.00**	**3.80**

6.13 The above table provides the current maturity interest rate projections from 2023 to 2025 and is caveated based on a number of assumptions, risks and economic variables.

6.14 Comparable annuity interest rates would represent a small reduction on the above rates. However, the Council tends to utilise maturity rates and whilst annuity rates are slightly less, they only tend to be used in more specific circumstances such as;

- where there is a falling CFR and it is desirable to have an element of debt due for repayment each year
- when interest rates are high but expected to fall as funding the principal repayments will potentially be cheaper in the future.
- in relation to specific schemes with a defined cashflow which can be married with the loan repayments.

Table 9: Capital Financing Requirement (including PPP and finance leases)



The CFR graph visually demonstrates how the Councils Operational Boundary is set in line with anticipated approved borrowing. It also shows the Council's current and projected future underborrowing, when comparing the Total Debt Column to the CFR line.

7.0 BORROWING STRATEGY 2023/24 – 2026/27

7.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the first half of 2023.

7.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. One such measure will involve the Council's use of temporary borrowing. The Council currently restricts it's temporary borrowing (external debt with a maturity period of 364 days or less) to 30% of its total overall borrowing. It is proposed that this limit is increased to 35% for 2023/24 and is then subject to review again in the 2024/25 Treasury Management Strategy.

7.3 By increasing this limit to 35%, the Council would be permitted to increase its current temporary borrowing position by £20m, if and when required. This would give the Council additional capacity to avoid longer term borrowing, at high rates that are anticipated to fall.

7.4 The Council's Treasury advisor, Link, has advised that temporary borrowing rates are likely to remain near Bank Rate and may prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

7.5 Based on current projections as presented in Table 6, the under borrowing position is projected to continue over the following years. This will continue to be examined within the context of attempting to avoid incurring unnecessary holding costs in relation to increased borrowing before the actual cash is required.

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

7.7 In November 2012, the PWLB introduced the "Certainty Rate on New Borrowing" scheme, which in effect means a reduction of 0.20% on standard new loan rates.

7.8 In addition to the above certainty rate, from 15 June 2023, the government introduced the HRA rate which applies an interest rate of the gilt yield plus 40 basis points (0.40%). This rate is solely intended for use in Housing Revenue Accounts and primarily for new housing delivery. Loans taken out utilising this new rate will be limited to the prudential borrowing requirement of the HRA. A review of the rate will be undertaken at the time of borrowing for the HRA, to confirm if value-for-money will be achieved in using the HRA rate.

7.9 The Chief Finance Officer, under delegated powers, will make the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above consistent with the Treasury Management Strategy.

7.10 The Council's investments are at a similar level to 2022/23. During 2022/23, £35m new PWLB borrowing was undertaken and temporary cash flow borrowing totalled £98m. The Treasury team will consider both longer term PWLB borrowing and temporary borrowing rates in 2023/24 when deliberating any new loans. However, as stated above, a focus will be placed on securing more temporary borrowing during the financial year due current PWLB rates being high and projected to fall. This position will be reviewed as part of the Interim Treasury Management report.

7.11 The PWLB and HRA Certainty Rate may continue to have an impact on any debt rescheduling opportunities in 2023/24, and this area will, therefore, continue to be closely monitored.

7.12 New borrowing will be required in 2023/24 in line with capital investment plans, and advice will be sought as to the most suitable type and period for this borrowing. Borrowing projections are shown in table 6 above.

8.0 POLICY ON BORROWING IN ADVANCE OF NEED

8.1 The Council will not borrow more than, or in advance of, its needs, purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. External borrowing is currently below the CFR, so it is unlikely that this situation could arise.

9.0 DEBT RESCHEDULING

9.1 On the 5th of April 2022, Scottish Government issued a Finance Circular and Statutory Guidance on the Repayment of Debt – Short Term Financial Flexibility Debt rescheduling opportunity. The financial flexibilities agreed was to allow a local authority to reduce the statutory repayment of debt, this was issued in order to respond to the financial pressures faced by local authorities as a result of the pandemic, the Scottish Government worked jointly with the Convention of Scottish Local Authorities (COSLA) to identify a package of financial flexibilities for Local authorities, to address the funding pressures, these flexibilities included the option to defer the statutory repayment of debt in either 2021/22 or 2022/23.

9.2 This matter was presented to Council last year, as part of the 2022/23 Treasury Management Strategy. The Council subsequently took advantage of this debt rescheduling flexibility in 2022/23, saving £6.078m on debt charges expenditure.

9.3 Further rescheduling of current borrowing in the Council's debt portfolio is unlikely to occur during 2023/24, as there is still a large difference between premature redemption rates and new borrowing rates.

The treasury team in conjunction with Link, the Council's treasury advisors, will closely monitor any further restructuring opportunity in future years. The reasons for the rescheduling to take place will include;

- the generation of cash savings and/or discounted cash flow savings.
- helping to fulfill the treasury strategy.
- enhancing the balance of the portfolio e.g. amending the debt maturity profile and/or the balance of volatility.

If rescheduling is to be undertaken, it will be reported to the Council at the earliest meeting following its action.

9.4 In addition to the above and on the 31 May 2022, the Cabinet Secretary for Finance and Economy wrote to COSLA and the Leader of all Scottish Councils to provide an update on the further fiscal flexibilities including the use of capital receipts to fund Covid pressures and service concession arrangements. The Cabinet Secretary has confirmed that the Council will be able to recognise the principal debt repayments over the life of the asset and that this may be applied retrospectively. The letter also states that this decision must be taken by Council and may not be delegated.

9.5 Along with the financial flexibilities outline above at 9.1, this information was also communicated to Council last year, as part of the 2022/23 Treasury Management Strategy. The Council subsequently took advantage of this fiscal flexibility and engaged with treasury management experts to reprofile the debt liability repayments of the Councils Public Private Partnership (PPP) scheme. This change sought to reprofile the Councils debt liability of its Service Concession Arrangement from a 30-year period, to a 60 year period, resulting in a pre-2022/23 reduction of £29.097m and a 2022/23 reduction of £3,066, totalling a £32.163m saving that was recognised at the end of financial year 2022/23.

9.6 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely, if short term rates on investments are likely to be lower than rates paid on current debt.

10.0 INVESTMENT STRATEGY 2023/24 – 2026/27

10.1 The Council's investment policy implements the requirements of the following;

- Local Government Investments (Scotland) Regulations 2010, (and accompanying Finance Circular 5/2010),
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

10.2 The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes;

Treasury Management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service Delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial Return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to the Council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. The Council must not borrow to invest primarily for financial return.

10.3 The main requirements of the Prudential Code relating to service and commercial investments are;

The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;

An authority must not borrow to invest for the primary purpose of commercial return;

It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;

An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;

A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;

Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

10.4 An authority's Capital Strategy or Annual Investment Strategy should include**;**

The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;

An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);

Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed

Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);

Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy);

State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

10.5 In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

10.6 The Council recognises that ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

10.7 Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

10.8 The aim of the strategy is to generate a list of highly creditworthy counterparties, which will also enable diversification, and thus avoidance of concentration risk.

10.9 The Councils investment priorities will be security first, portfolio liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Council's risk appetite.

10.10 As a result of the change in accounting standards for 2022/23 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

10.11 The Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

10.12 Investment instruments identified for use in 2023/24 are listed. Counterparty limits will be as set through Council's Treasury Management Practices (TMPs) Schedules.

Types of Investment and Key Objectives

10.13 The Investment Regulations (Code on the Investment of Money by Local Authorities) requires the Council to approve all the types of investments to be used, and to set appropriate limits for the amount that can be held in each investment type. These types of investment are termed permitted investments and any investment used which has not been approved, as a permitted investment will be considered ultra vires. The permitted investments, which will be used in the forthcoming year, are detailed below.

Normal Investment of Surplus Funds – Cash Type Instruments

10.14 This will include surplus funds arising from treasury management activities, which can be invested with banks and similar institutions for short- or long-term periods. For 2023/24 this will include the following;

- Call account deposit accounts with financial institutions (banks and building societies).
- Term deposits with financial institutions (banks and building societies).
- Money Market Funds.
- Deposits with other local authorities or public bodies.
- Deposits with the Debt Management Account Facility (UK Government).
-

10.15 The Council's first key objective is safeguarding the repayment of the principal and interest of its investments on time, followed by ensuring adequate liquidity, and finally the actual investment return. Following the economic background detailed earlier, the current investment climate has one over-riding risk consideration, that of counterparty security. As a result of these underlying concerns, Treasury officers are implementing an operational investment strategy, which tightens the controls already in place in the approved investment strategy. Investment rules allow Scottish Local Authorities to invest for periods of up to five years, but it is not envisaged that the Council will invest for longer than 364 days for the foreseeable future. It is anticipated that core funds of up to £10m will be available for fixed term investment up to 364 days, and the rest will be kept liquid to ensure immediate availability.

Other Investments

10.16 These may include the following;

- Loans to third parties, including soft loans.
- Loans to a local authority company.
- Shareholdings in a local authority company.
- Non-local authority shareholdings.
- Shared Equity.

10.17 There are risks, mitigating controls and limits associated with each of these permitted categories.

10.18 The Investment Regulations stipulate that the Council should separately identify the permitted investments relating to the Common Good.

Risks and Controls

10.19 The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as credit risk, interest rate risk, and the investment of surplus funds, through Treasury Management Practices (TMPs). These TMPs are a requirement of the Codes and are reviewed on a regular basis.

10.20 *Risk Benchmarking* – A development in the revised Codes and the Investment Regulations is the consideration and approval of security and liquidity benchmarks. Currently, yield benchmarks are widely used to assess investment performance. However, it is now felt that separate security and liquidity benchmarks would be beneficial new requirements for reporting to Members, even though the application of these is more subjective in nature.

10.21 These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

10.22 *Security* – The Council's maximum security risk benchmark for the current portfolio, when compared to the historic default tables, is shown in *Appendix 6* but any benchmark is an average maximum risk of default measure (based on Long Term Rating A-), and would not constitute an expectation of loss against a particular investment.

10.23 *Liquidity* – The Council's main source of long-term borrowing is the Treasury's Public Works Loan Board. For day-to-day cash flow requirements, the Council has ready access to borrowings from the money markets as required. The Council is required to set a balanced budget annually, which should ensure that sufficient funds are raised to cover expenditure. There is, therefore, no significant risk that it will be unable to raise finance to meet its commitments. The Council manages its liquidity position through effective cash flow management procedures, which seek to ensure that cash is available when needed. In respect of this area the Council seeks to maintain;

- Bank Facility – the Council has no overdraft facility and therefore must maintain an overall credit end of day group balance.
- Liquid short-term deposits of at least £1m available with a day's notice.

10.24 Weighted Average Life benchmark for investments is expected to be 3 months, with a maximum of 364 days.

10.25 *Yield* – Local measures of yield benchmarks are;

- Investments – Internal returns above the daily market rate available.

Investment Counterparty Selection Criteria

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

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.
- Credit rating information is supplied by Link, the Council's treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer-term change) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

10.27 The criteria for providing a pool of high-quality investment counterparties are;

- **Banks 1 – Good Credit Quality** – the Council will only use banks which as a minimum have at least one of the following Fitch, Moody's and Standards and Poor's ratings (where rated), and where the institution is non-UK where the Sovereign has a minimum long-term rating of AAA from all three rating agencies. The UK has lost its AAA status, but UK institutions will continue to be used.
    i. Short Term – F1
    ii. Long Term – A-(A Minus)

- **Banks 2 – Part Nationalised UK bank** – Royal Bank of Scotland. This bank can be included if it continues to be part nationalised or meets the ratings in Bank 1 above.

- **Banks 3** – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised where possible and maintained in an instantly accessible call account.

- **Limit 4 - Building Societies** – the Council will *use* all UK Societies which:
    i. meets the ratings for banks outlined above

- **Limit 5 - UK Government** (including gilts and the DMADF)

- **Limit 6 - Money Market Funds** – Funds used will be AAA rated.

- **Limit 7 - Local Authorities**.

10.28 *Investment Counterparty Considerations* – Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above. In addition;
- For banks and building societies, no more than 25% will be placed with any non-UK country at the time of placing the investment.
- Limits in place above will apply to Group companies.
- Sector limits will be monitored regularly for appropriateness.

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

10.30 *Time and Monetary Limits applying to Investments* – Although Investment Regulations allow local authorities to invest for periods greater than 364 days, this is not anticipated for this Council during 2023/24, and possibly longer. For this reason, the time limits have been kept in line with current practice. The time and monetary limits for institutions on the Council's Counterparty List are as follows;

Table 10: Time and Monetary Limits

	Fitch (Or equivalent)	**Money Limit**	**Time Limit**
Banks 1	F1	£ 10m	364 day
Banks 2 Part Nationalised	F1	£ 10m	364 day
Banks 3 Council's banker (if not Banks 1 & 2)	-	£ 10m	1 day
Limit 4 UK B.Societies	F1	£ 4m	6 months
Limit 5 UK Government	-	Unlimited	6 months

	Fitch (Or equivalent)	Money Limit	Time Limit
Limit 6 Money Market Funds	AAA	£10m (per fund) £30m overall limit	n/a
Limit 7 Other L.A's	-	£5m (per L.A)	364 day

10.31 Although the above time limits are currently being set, it is not anticipated that the Council will be investing for more than 364 days over the medium term.

10.32 Members are asked to approve the limits for Banks and Building Societies as detailed in *Table 9* above.

Economic Investment Considerations

10.33 Economic forecasting remains difficult, with so many external influences including the degree to which inflation has taken root in the UK and thus Bank Rate forecasts and MPC decisions, will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year.

10.34 In the years prior to 2017/18, the Council had been advised by Link that longer fixed term deposits (although only up to 364 days) had become a viable investment tool once more. The Treasury team was able to place several fixed term deposits at more attractive rates than the instant access or callable accounts they had been restricted to following the banking crisis. However, rates on fixed term deposit accounts were reduced during 2017/18 in reaction to the decrease in Bank Rate, and there was no benefit in longer term investments. The Treasury team will consider the benefits of any potential additional yield from longer term (but still only up to 364 days) deposits with suitable counterparties during 2023/24.

10.35 The criteria for choosing counterparties set out above provides a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under any exceptional market conditions the Chief Finance Officer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until normal conditions return and similarly the time periods for investments will be restricted.

10.36 Examples of any restrictions would be the greater use of the Debt Management Deposit Account Facility (DMADF – a Government body that accepts local authority deposits), Money Market Funds, guaranteed deposit facilities and strongly rated institutions offered support by the UK Government. Credit criteria have been amended to reflect these facilities.

Sensitivity to Interest Rate Movements

10.37 The Council is currently required to disclose the impact of risks on the Council's treasury management activity within its Annual Accounts. Whilst most of the risks facing the treasury management service are addressed elsewhere in this Report (credit risk, liquidity risk, market risk, and maturity profile risk), the impact of interest rate risk is discussed but not quantified.

10.38 The Council is exposed to interest rate changes on borrowings and investments. Movements in interest rates influence interest payable on borrowings and interest receivable on investments. The Council has a number of strategies for managing interest rate risk. For example, Treasury Prudential Indicators provide maximum and minimum limits for fixed and variable interest rate exposure. More details on this are provided in section 12.

10.39 The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management investment income for next year. The figures are based on full year projections. That element of the debt and investment portfolios, which are of a longer term, fixed interest rate nature, will not be affected by interest rate changes. A core potential level of investment funds of between £25m to £30m has been estimated for 2022/23 and, therefore, a mid-point of £27.5m has been used in the example shown in Table 10.

Table 11: Impact of 1% Increase/Decrease in interest rates linked to Investments

	2023/24 Estimate
Investment Income	£275,000

Monitoring of Investment Counterparties

10.40 Counterparty credit rating is monitored regularly. The Council receives rating information (changes, rating watches, outlooks) from Link as ratings change, and counterparties are checked promptly. Ratings may be downgraded when an investment has been made but a minor downgrading should not affect the full receipt of principal and interest.

11.0 TREASURY MANAGEMENT PRUDENTIAL INDICATORS

11.1 There are four further treasury activity limits (previously prudential indicators) to contain treasury activity within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- Maturity structures of borrowing – gross limits are set to reduce exposure to large fixed-rate sums falling due for refinancing and are required for upper/lower limits.
- Total principal funds invested for greater than 364 days – These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

11.2 The activity limits are detailed in the table below.

Table 12 - Activity Limits

	2023/24	2024/25	2025/26
Interest Rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates: • Debt only • Investments only	95% 100%	95% 100%	95% 100%
Limits on variable int. rates: • Debt only • Investments only	25% 50%	25% 50%	25% 50%
Maturity Structures 2023/24: -			
Fixed Rate Borrowing		Lower	Upper
Under 12 months		0%	20%
12 months to 2 years		0%	40%
2 years to 5 years		0%	60%
5 years to 10 years		0%	80%
10 years and above		50%	100%
Variable Rate Borrowing		Lower	Upper
Under 12 months		0%	25%
12 months to 2 years		0%	25%
2 years to 5 years		0%	25%
5 years to 10 years		0%	25%
10 years and above		0%	25%
Maximum principal sums invested > 364 days			
Currently – Principal sums invested > 364 days	£0m	£0m	£0m

11.3 Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council has addressed this important issue by:

- Planning to run a Members training session on Treasury Management.
- Planning further training options for officers.
- Regular contact with Link Asset Services.
- Attendance at Link workshops and seminars
- CIPFA Treasury Management Forum.

11.4 Policy on the use of External Service Providers

The Council uses Link Asset Services as its external treasury management advisors. The Council recognises that ultimate responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers.

It also 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 will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

The current Treasury Management Advisors contract was awarded in May 2022 for one year. This was extended to May 2023. Work is currently ongoing by officers to tender for a Treasury Management Advisory service.

12.0 IMPLICATIONS

The implications for the Council are as undernoted.

12.1 Frontline Service to Customers - None.

12.2 Workforce (including any significant resource implications) – None.

12.3 Legal Implications – This Report discharges the Council's requirements in relation to Treasury Management Practices.

12.4 Financial Implications – This Report discharges the Council's requirements in relation to Treasury Management Practices.

12.5 Procurement – No direct implications.

12.6 ICT – No direct implications.

12.7 Corporate Assets – This Report sets out how the Council will fund future capital programme commitments and the levels of borrowing required to ensure that this is completed as planned.

12.8 Equalities Implications – None.

12.9 Corporate Parenting – None.

12.10 Sustainability – None

12.11 Other - None.

13.0 MANAGEMENT OF RISK

The risks and control measures relating to this Report are as follows: -

13.1 The Report seeks to manage the risks associated with delivering an extensive capital programme at a time where inflation and interest rates are increasing. The overall affordability of the Capital programme remains a risk with this being kept under constant review and aligning to strategic planning.

14.0 IMPACT

14.1 ECONOMIC GROWTH & RECOVERY – No impact.

14.2 EMPLOYMENT & SKILLS - No impact.

14.3 CHILDREN & YOUNG PEOPLE – No impact.

14.4 SAFER & STRONGER COMMUNITIES - No impact.

14.5 ADULT HEALTH & WELLBEING - No impact.

14.6 OLDER ADULTS & VULNERABLE PEOPLE & CARERS – No impact.

14.7 CLIMATE CHANGE – No impact.

14.8 STATUTORY DUTY – This Report is a requirement of the Local Government Scotland Act and satisfies the requirements of the CIPFA Prudential Code.

15.0 POLICY CHECKLIST

15.1 This Report has been assessed against the Policy Development Checklist and has been classified as being an operational report and not a new policy or change to an existing policy document.

16.0 APPENDICES

16.1 **Appendix 1**: Treasury Management Clauses and Policy Statement.
16.2 **Appendix 2**: TM Glossary of Terms.
16.3 **Appendix 3**: Liability Benchmark