Appendix 1

Capital Prudential Indicators 2023/24 to 2032/33

1. Capital Expenditure and Financing

1.1 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the 2024/25 budget setting. The Council's gross capital expenditure plans are summarised in Table A within Appendix 6. This forms the first of the prudential indicators. Total expenditure is partially funded by resources such as capital receipts, capital grants, etc. Any remaining expenditure which cannot be immediately funded from other resources will form a borrowing need.

1.2 A certain level of capital expenditure will be supported by the general capital grant provided by the Scottish Government, and also specific capital grants from the Scottish and UK Governments. Anything above this level will be funded from the Council's own resources (e.g. other grants, capital receipts, prudential borrowing).

1.3 There are two main limiting factors which may impact on the Council's ability to undertake unsupported capital expenditure:

- Whether the revenue resource is available to support the implications of capital expenditure (borrowing costs and running costs).

- The Government may use a control to limit either the total of all councils' plans nationally, or in the event of an assessment by central government that local plans are unaffordable at a specific council, it may implement a local control. No such control has been implemented since the inception of the prudential code, however, HM Treasury keep this under review.

1.4 The summary of capital expenditure, as per the capital plan reported to Council on 6 March 2024 for both HRA and General Services, is shown in table A in Appendix 6. The HRA capital plan refresh extends to 2028/29 with the period from 2028/29 to 2032/33 extracted from the HRA Business Plan for the purposes of Prudential Indicator calculations.

1.5 Under section 22 of Schedule 3 of the Local Government (Scotland) Act 1975 a local authority may establish a capital fund to be used for "defraying any expenditure of the authority to which capital is properly applicable, or in providing money for repayment of the principal of loans (but not any payment of interest on loans)". Furthermore paragraph 24 of Finance Circular 7/2018 confirms that capital receipts may also be used to "fund the cost of premiums, either as they are incurred, or as they are recharged back to the General Fund/ HRA"

1.6 The capital plan update for General Services reported to Council assumes an element of capital receipts is used to fund the principal element of loan charges and annual premium costs between 2023/24 and 2026/27. This has been adjusted for within these indicators, where appropriate.

2. The Council's Borrowing Need (the Capital Financing Requirement)

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 a measure of the Council's underlying borrowing need. The net capital financing need (as indicated in Table A in Appendix 6) impacts directly on the CFR.

2.2 Due to accounting requirements, the CFR currently includes any other long-term liabilities (i.e. PPP schemes, PPI schemes, finance leases) brought onto the Balance Sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has circa £90m for PPP schemes and leases within the CFR. From 1 April 2024, further accounting changes see operational leases (where the Council is lessee) also being brought onto Balance Sheet, which will further increase CFR through other long-term liabilities (value to be confirmed, however an estimate has been included within the appendices).

2.3 The CFR projections for both General Services and HRA are shown in table B in Appendix 6 and show that the CFR for the HRA and the CFR for General Services is projected to increase each year from 2022/23 to 2032/33

2.4 The expected impact of the capital expenditure decisions above on the Council's debt and investment position are shown in the treasury strategy (Appendix 2).

3. Statutory repayment of loans fund advances

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

3.2 A variety of options are provided to councils so long as a prudent provision is made each year as detailed below:

Option	Method	Detail
1	Statutory	Loans fund advances will be repaid by the annuity method. The Council was permitted to use this option for a transitional period only, of five years until 31 March 2021, at which time it was required to change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile as detailed below.
2	Depreciation	Annual repayment of loans fund advances will follow standard depreciation accounting procedures.
3	Asset Life	Loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method.
4	Funding/ Income Profile	Loans fund advances will be repaid by reference to an associated income stream

3.3 Council is recommended to approve the following policy for loans fund advances:

- For loans fund advances made before 1 April 2016, advances will be repaid by the annuity method, by the appropriate write off period (based upon useful asset lives, following the agreed Council policy).

- Recognising that the Council had forward capital expenditure plans and was already committed to that plan and the revenue implications of that plan, the policy for loans fund advances made from 1 April 2016 to 31 March 2021 was to mainly repay loans fund advances by the annuity method (with a write off period based upon useful asset lives) unless an alternative method is more appropriate.

- For loans fund advances made after 1 April 2021 (i.e. commencing 2021/22), the policy for the repayment of loans advances is to apply the following options, selecting the most suitable method for each individual advance.

    - **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method. It is likely that the equal instalment method will be used.

    - **Funding / Income profile method –** loans fund advances will be repaid by reference to an associated income stream.

3.4 The annuity rate applied to the loans fund repayments is based on historic interest rates and is currently 9%.

3.5 Table C in Appendix 6 details the loans fund repayment profile for 2023/24 onwards based on the balance outstanding at 1 April 2023 and capital expenditure plans 2023/24 to 2032/33 as per Table A.

4. Affordability Prudential Indicators

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

4.2 Actual and Estimates of the ratio of financing costs to net revenue stream. This indicator is detailed in Table D in Appendix 6, and identifies the trend in financing cost of capital (loan charges and long-term liability financing) against the net revenue stream (funding sources e.g. Scottish Government revenue support grant, council tax and HRA rental income).

The estimates of financing costs include current commitments and the impact of capital expenditure as per Table A and this indicator shows the percentage of total council revenue expenditure that is spent on repayment of loan charges and long-term liability capital and interest repayments.

5. Financial reporting changes in relation to leases

5.1 From 1 April 2024 there is a significant change to the Accounting Code of Practice which the Council follows for their Financial Statements, which will impact on debt levels and prudential indicators in the future. This change is in relation to assets the Council leases in.

5.2 Currently there are two types of leases which are treated differently through the Financial Statements. From April 2024, all leases (where the Council is lessee and with a few exceptions) will require to be accounted for on the Council Balance Sheet as assets. For illustrative purposes, leases currently held by the Council (but not owned and therefore not currently on the Council's Balance Sheet) include leases for properties (such as Aurora/ Clydebank Town Centre Office/ Bridge Street), photocopiers, and vehicles. The treatment of these leases will become similar to the current accounting reporting for PPP assets.

5.3 Accounting for these leases on the Balance Sheet will result in increases to assets and long-term liabilities, affecting a number of the prudential and treasury management indicators – increasing: the ‘level of debt’ identified by the Council; the Capital Financing Requirement; Operational Boundary; and Authorised Limit, by the value of the leases. Forecast and estimates of the ratio of financing costs to Net Revenue Stream may also be affected.

5.4 We have carried out an exercise is underway to identify all leases and values for both the assets and the liabilities. When leases are brought on balance sheet in 2024/25 this has resulted in an increase in the CFR of £2.159m.

Treasury Management Strategy 2023/24 – 2032/33

1. Background

1.1 The treasury management service is an important part of the overall financial management of the Council's affairs. Whilst the prudential indicators in Appendix 1 consider the affordability and impact of capital expenditure decisions, the treasury service covers the effective funding of these decisions. There are specific treasury prudential indicators included in this strategy which need approval.

1.2 The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management).

1.3 As a requirement of the Code Council is required to adopt a Treasury Management Policy Statement and four Treasury Management clauses. These form part of the Council's financial regulations and the following documents were adopted on 5 March 2018:

- Treasury Management Policy Statement
- Treasury Management Clauses
- The Treasury Management Role of the Section 95 Officer

1.4 The policy requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming three years, however in line with the longer capital planning process treasury management indicators have been provided (where appropriate) covering the period to 2032/33. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. Further reports are issued as follows:

- Mid-year monitoring report on actual activity during the year including revised indicators where appropriate.
- Year-end report on actual activity for the previous year.
- Updates as part of the capital BCR.

1.5 This strategy covers:

- The Council's debt and investment projections
- Limits to the Council's borrowing activity
- The economic climate and expected movement in interest rates
- The Council's borrowing, debt and investment strategies
- Treasury performance indicators
- Specific limits on treasury activities
- Policy on ethical investments.

2. The Council's debt and investment projections

2.1 The Council's forecast treasury portfolio position at 31 March 2024 with forward projections are summarised in Table E in Appendix 6 and shows the gross debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any under or over borrowing.

2.2 Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits. One of these is that 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 within 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. This is illustrated by comparing the estimated gross debt as at 31 March 2024 with the CFR as at 31 March 2027.

2.3 **The Section 95 Officer (Chief Officer - Resources) reports that the Council has complied with this prudential indicator, and no difficulties are envisaged for the current or future years.** This view takes into account the capital plan refresh reports for General Services and HRA.

3. Limits to Borrowing Activity

3.1 The Operational Boundary is detailed in Table F in Appendix 6 and is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

3.2 **The Authorised Limit for External Borrowing –** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is not allowed to exceed. This needs to be set or revised by Members. 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. This is the statutory limit (Affordable Capital Expenditure Limit) determined under section 35(1) of the Local Government in Scotland Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the authorised limit detailed in Table G in Appendix 6.

3.3 **Policy on borrowing in advance of need -** This Council will not borrow more than or earlier than required purely in order to profit from the investment return 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. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

4. UK, World and Scottish Economy Update – Extraction from Link Treasury Advisor Reports (January 2024) and the Scottish Fiscal Commission Forecast (December 2023).

4.1 UK

The run of softer than expected news on CPI Inflation and wage growth means analysts now expect the Bank of England to cut interest rates sooner than before. Forecasters expect rates will be cut from 5.25% in June and will fall to 3.00% in 2025.

The recent fall in mortgage rates means total household payments may not rise by as much as analysts thought. The economic recovery may start earlier and be a bit stronger.

Unemployment rates stayed at 4.2% in November, the further fall in the job vacancy rate is consistent with wage growth slowing from 6.6% in October to 3.5% by the middle of this year.

The bigger than expected fall in CPI inflation to 3.9% in November means that the UK is no longer a big international inflation outlier.

4.2 US

PCE (Personal Consumption Expenditure) inflation is expected to return to 2% by middle of 2024 and analysts expect rates to fall between 3.00% and 3.25% in early 2025. The lagged impact of previous monetary policy tightening will continue to feed through the next few quarters, but forecasters do expect the economy to avoid a recession and rate cuts should fuel a pick up in GDP growth.

4.3 EU

The Eurozone will remain in or close to recession in the first half of 2024 as the effects of higher interest rates continue to weigh on household consumption and investment. Headline inflation has already dropped sharply and will be close to the ECB's (European Central Bank)2% target for most of 2024.

4.4 China

China's economy has regained some strength recently and analysts expect this to continue throughout 2024, on the back of support from fiscal policy and a further pick up in household spending. Property construction is likely to continue to decline along with exports and the recovery will lack momentum.

4.5 Japan

The recent sharp fall in Japan's ratio of public debt to GDP reflects one off factors that will not be sustained. Whilst the influence of rising bond yields on the trajectory of the public finances will largely be offset by higher inflation and nominal GDP growth, the Government will need to reduce its primary budget deficit sharply to prevent the public debt ratio from creeping higher again. Analysts now believe that inflation will ultimately reach 2% on a sustained basis, forcing the Bank of Japan to lift its policy rate to 2% as well. This in turn suggests that bond yields will rise further too.

6 Scotland Specific

The outlook for the Scottish economy and for living standards (as measured by real disposable income per person) is largely unchanged from our December 2022 and May 2023 forecasts, with a slightly less negative picture for 2023-24 compared to a year ago. For 2023-24, back in May, we forecast Gross Domestic Product (GDP) to remain stable rather than fall into the shallow recession we had predicted in December 2022, and this coincided with less of a fall in living standards. Since May, reflecting stronger nominal earnings growth than anticipated, we have further revised up our forecast of real disposable income per person although we still expect a small fall this year. The drop in living standards between 2021-22 and 2023-24, of 2.7 per cent, is still the largest reduction since Scottish records began in 1998. Living standards will take until 2026-27 to return to their level.

For 2024-25, we forecast slow and fragile growth in GDP and real disposable income per person, as the recent rises in interest rates continue to weigh on household incomes and the economy, with inflation also likely to stay higher for longer than we assumed previously.

We forecast living standards to remain broadly flat in 2024-25 as inflation will largely offset growth in nominal household disposable income. Higher interest rates will continue to reduce disposable income over the next year.[6] In part, this is because the widespread use of fixed-rate mortgages means that the recent rises in interest rates are passing through to mortgage costs with a longer lag than in the past.

The forecast for inflation is higher and more persistent than last December. We do not expect the Bank of England's target of 2 per cent to be met until the second quarter of 2025, after which the outlook is relatively stable.

Due to strong earnings growth, we have revised up our forecast of real disposable income per person. Despite this, the drop between 2021-22 and 2023-24 is the largest reduction in living standards since Scottish records began in 1998.

5. Prospect for Interest Rates

5.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Table H in Appendix 6 gives the current Link Asset Services central view.

6. Borrowing and Debt Strategy 2024/25 – 2032/33

6.1 Table E in Appendix 6 forecasts that the capital borrowing need (the Capital Financing Requirement) will be almost fully funded with external borrowing which is a mixture of short term and long term debt.

6.2 Against this background and the risk within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Section 95 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

6.3 If it was felt that there was a significant risk of fall in long and short term rates, e.g. due to a marked increase of risks around recession or of risks of deflation, then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

6.4 If it was 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 a greater than expected increase in world economic activity or further increases in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

6.5 Any decisions will be reported to Members via the Members Bulletin at the next available opportunity.

6.6 Approved sources of long and short term borrowing include:

	Fixed	Variable
PWLB	X	X
Local Authorities	X	X
Banks	X	X
Pension Funds	X	X
Insurance Companies	X	X
Market – long term	X	X
Market – short term	X	X
Market – LOBOs	X	X
Overdraft	X	X
Internal (capital receipts / revenue balances)	X	X
Finance Leases	X	X

7. Investment Strategy

7.1 The Council's investment policy has regard to the Local Government Investment (Scotland) Regulations (and accompanying finance circular). Council has also adopted both the Treasury Management Code of Practice and the Prudential Code and is required to adopt revised editions. The day to day investment policies and practices are contained in the Council's Treasury Management Practices, which reflect the requirements of these codes.

7.2 **Key Objectives** – Following the economic background above, the current investment climate has one over-riding risk consideration - counterparty security risk. As a result of these underlying concerns, officers have implemented an operational investment strategy which **prioritises security first, liquidity second and then return**.

7.2.1 The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

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

- 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.

- The Council has defined the list of types of investment instruments that the treasury management team are authorised to use.

- Transaction limits are set for each type of investment.

- All investments will be denominated in sterling.

7.2.2 The aim of the strategy is to generate a list of highly creditworthy counterparties which will enable diversification, and thus avoidance of concentration, with the prime intention of providing security of investment and minimisation of risk.

7.3 Investment Strategy – The process for investment strategy under the regulations covers a wide range of Council investments and will be broadly managed in the following way:

- Short Term Cash – Cash relating to day to day cash flow will be maintained on a shorter term basis in cash type products with consideration to liquidity requirements.

- Longer Term Cash – Cash relating to reserves, provisions and balances on the balance sheet may be held for longer periods of time in cash type products or in longer term bonds or funds depending on:

  - cash flow requirements
  - the underlying expectation for interest rates
  - the economic background of these investments may be held longer term.

- Service Type Investments – These will predominantly be policy driven and approved by Members. Shareholdings, development opportunities, loans to third parties, equity instruments and investment properties held for rental returns will be regularly reviewed to judge the investment performance.

- Non Service Type Investments – Investments such as Joint venture delivery companies such as Hub West Scotland and investments in regeneration partnerships and development opportunities.

7.4 Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service
A development for Member reporting is the consideration and approval of security, liquidity and discreet benchmarks. Yield benchmarks are currently widely used to assess investment performance.

7.4.1 These benchmarks are 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 and 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.

7.4.2 In the context of benchmarking, assessing security is a very subjective area to assess. Security is currently evidenced by the application of minimum quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch/ Moody's and Standard and Poors). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. Table I in Appendix 6 shows average defaults for differing periods of investment grade products for each Fitch/ Moody's Standard and Poors long term rating category.

7.4.3 The Council's minimum long term rating criteria is currently "A-", meaning the average expectation of default for a one year investment in a counterparty with a "A" long term rating would be 0.05% of the total investment (e.g. for a £1m investment the average loss would be

£500). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

7.4.4 As required by the CIPFA Treasury Management Code of Practice The Council will "ensure that it has adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives". In respect to liquidity as defined above the Council seeks to maintain:

- Bank overdraft - £1m
- Liquid short term deposits of at least £5m available on an overnight basis.

7.4.5 Local measures of yield investment benchmarks that will be used to assess returns are:

Benchmark	Benchmark Return	Average Return
Compound 12 month SONIA*	**4.71%**	**4.92%**
Council's Instant Access Account	**5.15%**	**4.92%**

*** SONIA is Sterling Overnight Index Average and has replaced LIBOR & LIBID**

7.5 Council Permitted Investments – The Investments Regulations (Code on the Investment of Money by Scottish Local Authorities) requires Council approval of all the types of investment to be used and set appropriate limits for the amount that can be held for each investment type. These types of investment are termed permitted investments and any investments used which have not been approved as a permitted investment will be considered ultra vires.

7.5.1 The permitted investments which may be used in the forthcoming year are noted below. Details of the risks, mitigating controls and limits associated with each of these permitted categories are shown in Appendix 3.

- **Cash Type Instruments**

  - Deposits with the Debt Management Account Facility (UK Government)
  - Deposits with other local authorities or public bodies
  - Money Market Funds
  - Call accounts, deposit accounts with financial institutions (banks and building societies
  - Term deposits with financial institutions (banks and building societies)
  - UK Government Gilts and Treasury Bills
  - Certificates of deposits will financial institutions (banks and building societies)
  - Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates, etc).

- **Other Investments**

  - Investment properties
  - Loans to third parties, including soft loans
  - Loans to a local authority company
  - Shareholding in a local authority company
  - Non-local authority shareholdings
  - Joint venture delivery companies such as Hub West Scotland
  - Regeneration partnerships and development opportunities
  - District Heating Schemes

- Local Authority Mortgage Scheme (LAMS).

7.5.2 Permitted investments related to the Common Good are also shown in Appendix 3, and where applicable the same counterparty selection criteria as noted in 6.6 below will be applied.

7.6 Investment Counterparty Selection Criteria

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.

7.6.1 The Section 95 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. This criteria selects which counterparties the Council will choose from, rather than defining what its investments are.

7.6.2 Credit rating type and definitions are attached within Appendices 4 and 6.

7.6.3 Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. 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 any counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

7.6.4 The criteria for providing a pool of high quality cash type investment counterparties is:

- **Category 1 - Good Credit Quality** – the Council will only use financial institutions (including certificates of deposit and corporate bonds) which:

    - Are UK banks; and/or
    - Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AA; The UK will be excluded from any Sovereign rating criteria.
    - And have, as a minimum, the following Fitch, Moody's and Standard and Poors (S&P) credit ratings (where rated):
        - Short Term – F1 (or equivalent from Fitch, Moody's and S&P)
        - Long Term – A- (or equivalent from Fitch, Moody's and S&P)

    The difference between the ratings will be reflected in the money limits as noted in Table K in Appendix 6.

- **Category 2** – **Part nationalised UK banks –**Royal Bank of Scotland Group. These banks can be included if they continue to be part nationalised or they meet the ratings in Category 1 above.

- **Category 3** - **The Council's own banker** for transactional purposes if the bank falls below the above criteria specified in category 1, although in this case balances will be minimised in both monetary size and time.

- **Category 4 - Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined in category 1.

- **Category 5 - Building Societies** – the Council will use all Societies which meet the ratings for banks outlined in category 1.

- **Category 6 - Money Market Funds –** the Council will use either Constant Net Asset Value (CNAV) or Low Volatility Net Asset Value (LVNAV) money market funds that are AAA rated (by at least one of the 3 rating agencies)

- **Category 7 - UK Government** (including gilts, treasury bills and the Debt Management Account Deposit Facility (DMADF/HM Treasury)

- **Category 8 - Local Authorities, etc**

7.6.5 Due to the uncertainty in the financial markets it is recommended that the Investment Strategy is approved which will provide officers with the flexibility to deal with any unexpected occurrences. Officers can restrict the pool of available counterparties from these criteria to safer instruments and institutions.

7.6.6 The time limits for institutions on the Council's cash type counterparty list are as noted in Table J in Appendix 6.

7.6.7 The Council's bankers are currently Virgin Money (previously known as the Clydesdale Bank Plc) which falls within Category 3. It is recognised that the money limit of £5million may be breached for purely operational purposes on a temporary overnight basis only. The Chief Officer - Resources will endeavour to avoid this scenario but this allows for circumstances that are outwith the Council's control where funds may be deposited unexpectedly or at short notice into the Council's accounts after the dealing deadline for the day has passed. In such a circumstance the funds will require to be kept on an overnight basis in the Council's bank account until appropriate arrangements can be made for investment.

7.6.8 Table J does not include a monetary limit for category 7 which are funds deposited with the UK Government namely the DMADF. This facility allows local authorities to deposit surplus cash on flexible terms and receive a market related rate of interest. Funds are held by the Bank of England and the scheme carried the Government's own sovereign credit rating offering the highest available security and therefore no maximum monetary limit has been set.

7.6.9 **Country and sector 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 and the list of approved countries for investments are detailed in Appendix 5. In addition:

- No more than 25% will be placed with any country outside of the UK at any time
- Limits in place above will apply to Group companies

- Sector limits will be monitored regularly for appropriateness.

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

7.6.11 Economic Investment Considerations – Current forecasts on shorter-term interest rates, on which investment decisions are based, show a potential for the current 5.25% Bank Rate to continue to slowly decrease. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

7.6.12 There is an operational difficulty arising from the current economic situation. There is currently little value investing longer term unless credit quality is reduced. Whilst some selective options do provide additional yield uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

7.6.13 The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Section 95 Officer (Chief Officer - Resources) 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 the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

7.7 Sensitivity to Interest Rate Movements - Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. Table K in Appendix 6 highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. 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.

7.8 Ethical Investments - This is the placing of funds and selecting investments in a manner that reflects an authority's ethical values. Generally, two sets of criteria are drawn up – negative and positive values whereby investments are to be avoided or encouraged.

7.8.1 The following policy statement was approved on 25 October 2017:

7.8.2 The Council will not knowingly invest directly in organisations (including financial institutions and money market funds) whose activities and practices pose a risk of serious harm to individuals and/or groups, or whose activities are inconsistent with the Council's vision, values and priorities. This could include avoiding direct investment in organisations with material links to:

- Human rights abuse (e.g. child labour)
- Environmentally harmful activities (e.g. destruction of habitat)
- Socially harmful activities (e.g. gambling).

7.8.3 In order to give effect to its commitment to this policy the Chief Officer - Resources contacted all investment counterparties on 9 January 2018 advising of our policy.

7.8.4 In accordance with the further commitments that were given in October 2017 it is considered that this policy statement remains relevant and does not require to be amended at this time.

8. Treasury Management Limits on Activity

8.1 There are four further treasury activity limits, which were previously prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function 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.

- *Upper limits on variable interest rate exposure* – This indicator 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* – These limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

- *Total principal funds invested for greater than 364 & 365 days* - These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The proposed indicators are shown within Table L in Appendix 6.

9. Performance Indicators

9.1 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available
- Debt – Average rate movement year on year
- Investments – Internal returns above the 7 day SONIA rate.

9.2 The results of these indicators will be reported in the Treasury Annual Report for 2023/24.

10. Treasury Management Advisors

10.1 The Council uses Link Asset Services as its treasury management advisors. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports

- Economic and interest rate analysis
- Debt services which includes advice on the timing of borrowing
- Debt rescheduling advice surrounding the existing portfolio
- Generic investment advice on interest rates, timing and investment instruments
- Credit ratings/market information service comprising the three main credit rating agencies.

10.2 The current treasury advisor contract was awarded to Link Asset Services following a quick quote exercise and commencing on 1 May 2021 until 30 April 2023, with an option to extend for one year. This option was recently agreed with the contract now due to terminate on the 30th April 2024. Officers are actively reviewing the treasury advisor contract and are reviewing options to secure best value for the Council.

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

10.4 The Council 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 is assessed are properly agreed and documented, and subjected to regular review.

10.5 Whilst the advisers provide support to the internal treasury function the final decision on treasury matters remains with the Council.

11. The Monitoring of Investment Counterparties

11.1 The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and 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 by the Chief Officer - Resources and, if required, new counterparties which meet the criteria will be added to the list.

Appendix 3

West Dunbartonshire Council and Common Good Funds Permitted Investments, Associated Controls and Limits

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Cash Type Instruments			
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.	As shown in Table J.
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.	As shown in Table J.
Money Market Funds (MMFs) **(Very 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 MMFs has an “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	As shown in Table J.
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 the first three categories 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, measured primarily by credit ratings from Fitch, Moody’s and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
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 the first three categories above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.
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.	As shown in Table J.
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 the first three categories 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, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.

Type of Investment	**Treasury Risks**	**Mitigating Controls**	**Council and Common Good Limits**
Structured deposit facilities with banks and building societies (escalating / 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 the first three categories above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.
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, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. Corporate bonds will be restricted to those meeting the base criteria. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.
Other Types of Investments			
Investment properties	These are properties that are not used to facilitate service delivery but are held solely to earn rentals or for capital appreciation or both. 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.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
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.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
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.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
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.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments, likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by rational behind the service the investment and the likelihood of loss.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Joint venture delivery companies such as hub West Scotland	Public sector organisations across a hub territory will work in partnership with each other, and a private sector delivery partner, in a joint venture delivery company called hub West Scotland. .	Any investment in hub West Scotland requires approval from the Section 95 Officer (Chief Officer - Resources) and the Chief Executive in consultation with the Leader of the Council and the Leader of the Opposition and each application will be supported by the service rational behind the investment and the likelihood of loss.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Regeneration partnerships and development opportunities	Investments undertaken with the prime intention of local area regeneration.	Any investment in a regeneration partnership / development opportunity requires Member approval with each application supported by rational behind the investment and the likelihood of loss.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Investment in Projects procured and managed by third parties e.g. District Heating Schemes	Investments undertaken to assist in facilitating third party projects where the Council has an interest in the successful outcome of the project. Expectation of a financial return for the Council.	Any investment in such projects requires Member approval and each application will be supported by a business case for the investment and the expectation of a financial benefit to the Council.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Local Authority Mortgage Scheme (LAMS)	These are service investments at market rates of interest. Under this scheme the Council is required to place funds for a number of years with the bank which is participating in this scheme	Any investment in the LAMS requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.

Appendix 4

Type of Rating	Rating	Explanation
Fitch -Short Term	F1+	Indicates exceptionally strong capacity for timely payment of financial commitments
	F1	Indicates strong capacity for timely payment of financial commitments
Fitch - Long Term	AA-	Indicates very strong capacity for timely payment of financial commitments and this capacity is not significantly vulnerable to foreseeable events
	A-	Indicates strong capacity for timely payment of financial commitments. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings
Moody's - Short Term	P-1	Banks based Prime-1 for deposits offer superior credit quality and a very strong capacity for timely payment of short term deposit obligations
Moody's - Long Term	Aa	Offer excellent credit quality, with susceptibility to long term risks with a vulnerability to greater fluctuations within protective elements
	A	Offer excellent credit quality, but elements suggest a Susceptibility to impairment over the long term
Standard & Poors - Short Term	A-1	Indicates a strong capacity to meet institutions financial commitments. Within this category, certain obligors are design with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments is EXTREMELY STRONG
Standard & Poors - Long Term	AA-	Indicates strong capacity for timely payment of financial commitments
	A-	Indicates strong capacity for timely payment of financial commitments. This capacity may, nevertheless, be more susceptible to the adverse effects of changes in circumstances or in economic conditions than is the case for higher rated category

Appendix 5

West Dunbartonshire Council and Common Good Funds Permitted Investments, Approved Countries for Investments

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France
- Qatar
- **U.K.**

Please note that this is the list will be updated as required on an ongoing basis