Agenda Item	15
Report No	HC/5/20

THE HIGHLAND COUNCIL

Committee:	Highland Council
Date:	12 March 2020
Report Title:	Treasury Management Strategy Statement and Investment Statement – 2020/21
Report By:	Executive Chief Officer, Finance and Resources

1. Purpose/Executive Summary

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

2. Recommendations

2.1 Members are asked to approve the TMSS & IS for 2020/21 and the Prudential Indicators as detailed in **Appendix 1** of the report

3. Implications

3.1 Resource – covered in the Appendices to this report.

3.2 Legal - none

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

3.4 Climate Change / Carbon Clever – none

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

3.6 Gaelic - none

4. Introduction

4.1 Background

Treasury management is defined by the Code as:

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

4.2 Statutory Requirements

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

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

4.3 CIPFA Requirements

The CIPFA Code of Practice on Treasury Management was updated in December 2017.

The primary requirements of the Code are as follows:

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

4.4 Treasury Management Strategy for 2020/21

The proposed strategy for 2020/21 in respect of the following aspects of the treasury management function is based upon the Council officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Link Asset Services (Link).

The strategy covers 2 main areas:

1. Capital issues - the capital plans and the prudential indicators.
2. Treasury management issues
    - the current treasury position;
    - treasury limits and indicators for 2020/21 to 2022/23 (which will limit the treasury risk and activities of the Council);
    - prospects for interest rates;
    - the borrowing requirement based upon the Council's current capital programmes;
    - the borrowing strategy (including policy on borrowing in advance of need);
    - debt rescheduling;
    - annual investment strategy;
    - credit worthiness policy; and
    - policy on use of external service providers.

4.5 Balanced Budget Requirement

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

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

- increases in interest charges caused by increased borrowing to finance additional capital expenditure; and
- any increases in running costs from new capital projects.
- Interest rates increasing for short term borrowing and a lack of availability of short term borrowing which requires the Council to take more expensive PWLB borrowing.

4.6 Training

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

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

4.7 Treasury management advisors

The Council uses Link as its external treasury management advisors. Link were appointed to this role effective from 1 July 2018 for a three-year period with an option to extend for one year. The contract will expire on 30 June 2022.

5. Treasury Limits for 2020/21 to 2022/23

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

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

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

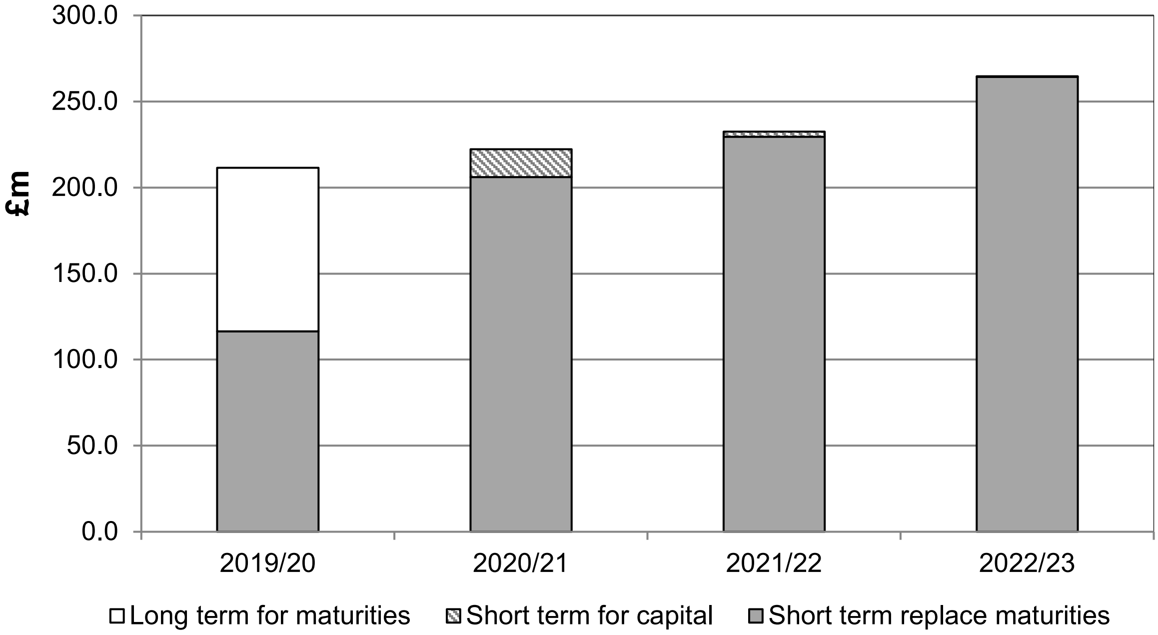
5.4 In March 2018, the Council agreed a capital programme which was considered to be affordable. Within this affordability limit, the Council decided that the annual general fund revenue budget for loans charges should not exceed £56.7m for future years which will include 2020/21.

5.5 The Council’s Housing Revenue account (HRA) capital programme was agreed in August 2015. The implications on HRA rent levels of the agreed programme were considered as part of the programme setting process.

6. Borrowing Requirement

6.1 The following table sets out the borrowing requirement, showing current year, as well as estimates for future years. The borrowing requirement takes account of borrowing to support the agreed capital programmes, less the projected instalments as capital repayments are charged to revenue accounts through loan charges. This figure is then adjusted to take account of any further borrowing required to go towards the capital financing requirement, or to replace existing loans maturing in these years.

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



7. Statutory repayment of loans fund advances

7.1 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016. The main change introduced by the Regulations is to provide options for the prudent repayment of debt and requires the Council to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

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

In February 2019 the Council adopted the following policy on the repayment of loans fund advances:

- For loans fund advances made before 1 April 2016, the policy will be to maintain the practice of previous years and apply the Statutory Method, using a fixed annuity rate.

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

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

7.3 As required by the Local Government Finance Circular 7/2016, the commitment to repay loans fund advances for the General Fund and HRA are contained in **Appendices 11 and 12.**

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

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

8. Prudential and Treasury Indicators

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

9. Economic Context and Prospects for Interest Rates

9.1 Link provide regular economic forecasts to inform the Council on interest rates and longer fixed interest rates projections. The following table is the current Link forecast for interest rates as at 4 February 2020.

Link Asset Services Interest Rate View													
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-2
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80

9.2 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Investment returns are likely to remain low during 2020/21 but to be on a gently rising trend over the next few years.

- Borrowing interest rates have been volatile so far in 2019/20 and while they were on a rising trend during the first half of the year, they then backtracked until early January.

The policy of avoiding new borrowing by running down spare cash balances has worked well over the last few years. However, this needs to be carefully monitored to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or refinance of maturing debt.

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

10. Context

10.1 There are some matters relating to the Council's budgets, strategies and external environment that are highlighted below for context to this report. Given the emergent nature of a number of these items a review of the Council's capital programme will be undertaken over the coming months. Any implications of that review on this TMSS & IS will be reported to the Corporate Resources committee or full Council as appropriate.

10.2 The Council is due to approve its revenue budget covering 2020/21 to 2022/23 on the 5th March 2020. Any decisions taken at that meeting on new capital commitments or the revenue budget more widely may influence the TMSS & IS. At the time of writing this report the Council is planning to use a portion of a proposed increase in Council Tax rates to finance additional capital investment.

10.3 The Council does not yet have a confirmed final revenue or capital budget settlement from the Scottish Government for financial year 2020/21. Indicative figures suggest the capital settlement may be some £7.66m less than that assumed when setting the capital programme. The consequences of this significant change in the potential capital settlement will be factored into the planned capital programme review.

10.4 The Council continues to develop its Capital Strategy which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured. The Capital Strategy will be produced in tandem with the reviewed capital programme.

10.5 Wider economic uncertainties at the time of writing this report have seen significant volatility in borrowing rates. Members are also reminded of the decision of the UK Treasury announced on the 9th October 2019 to change the methodology for calculating PWLB borrowing rates which resulted in an overnight increase of 1% in rates. Without that change rates would be very close to historic lows. Any full or part reversal of that change may impact on this strategy.

11. Borrowing Strategy

11.1 Over the past few years the Council has benefitted from lower borrowing costs due to low interest rates by using short term temporary borrowing and internal borrowing (use of existing cash). During financial year 2019/20, in order to achieve savings, the Council made the best use of the low rates available on temporary borrowing but also took PWLB borrowing at historically low rates (£85m at an average rate below 2%).

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and it helps mitigate counterparty risk.

11.2 During 2020/21 the Council plans to continue to use short term borrowing to fund the capital programme but will need to consider long term borrowing to replace maturities, in order to manage refinancing risk.

Considering the risks within the economic forecast, caution will be adopted with 2020/21 treasury operations. The Executive Chief Officer, Finance and Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. Any decisions will be reported to the appropriate committee at the next available opportunity.

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

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

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

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

Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

11.4 External v. Internal Borrowing

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

Comparison of gross and net debt positions at year end

	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt (gross)	£964.1m	£992.7m	£1,008.9m	£1,011.7m	£1,012.1m
Temporary Investments	£78.4m	£30.0m	£50.0m	£50.0m	£50.0m
External Debt (net)	**£885.7m**	**£962.7m**	**£958.9m**	**£961.7m**	**£962.1m**

The Table above excludes long-term liabilities e.g. PPP/NPD schemes

- Another factor in considering the level of investments held is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments and mitigating of re-financing risk.
- PWLB borrowing interest rates were on a major falling trend during the first half of 2019/20 but then jumped up by 1% on 9/10/19. The unexpected increase of 1% in PWLB rates has meant that this will not be a source of borrowing unless rates reduce significantly. In the long-term Bank Rate is not expected to rise above 2.5%.
- The Treasury Team will monitor the interest rate market, take advice from appointed professional advisors, and adopt a pragmatic approach to changing circumstances, reporting any decisions to the Corporate Resources Committee at the next available opportunity.

11.5 Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed. In accordance with the revised Code, any decision to borrow in advance will be within the approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated, and that the Council can ensure the security of such funds.

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

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.

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

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

12. Debt Rescheduling

12.1 At this time, and due to the early repayment penalties imposed by the PWLB, the opportunities for debt rescheduling are not cost effective. However, this position will be kept under regular review.

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

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

12.3 Consideration will also be given to the potential for making savings by running down investment balances to repay debt prematurely as short-term rates on investments are likely to be lower than rates paid on current debt. All rescheduling will be reported to the Corporate Resources Committee, at the earliest meeting following its action.

13. Annual Investment Strategy

13.1 <u>Investment Policy</u>

The Council's investment policy has regard to the Scottish Government's Investments Investment (Scotland) Regulations, (and accompanying Finance Circular), and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017, ("the CIPFA TM Code"). **The Council's investment priorities will be**

1. **Security**
2. **Liquidity**
3. **Return**

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

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

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

13.2 Creditworthiness policy

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

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

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

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

13.3 Foreign Exposures/Country limits

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

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

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

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

13.4 Investment Strategy

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

13.5 Investment return expectations

As detailed in section 9, the Link's view of interest rates, Bank Rate will remain at 0.75% with an increase in March 2021 to 1%, with further increases in in June 2022.

There are upside risks to these forecasts (i.e. increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk.

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

13.6 End of Year Investment Report

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

13.7 Policy on the Use of External Service Providers

The Council's tendered Treasury Management advisor contract is subject to regular review. The Council currently uses Link as its external treasury management advisers. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed, are properly agreed and documented, and subject to regular review.

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

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

13.8 Treasury Management Responsibilities

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

Designation:	Executive Chief Officer- Finance and Resources
Date:	28 February 2020
Author:	Edward Foster
Background Papers:	Treasury Live system reports, Link economic forecasts

Appendices

1. Prudential and Treasury Indicators
2. Economic Background
3. Treasury Management Policy
4. Permitted Investments – Common Good, Charitable, Educational and Other Trust Funds
5. Permitted Investments – Non-treasury Investments
6. Permitted Investments – Treasury Management
7. Approved countries for investment
8. Current counter party list as at 31/12/2019
9. Treasury Management Practice 1 (TMP1) Credit and Counterparty Risk Management
10. Treasury Management Scheme of Delegation and Role of the Section 95 Officer
11. Commitment to repay loan fund advances (General Fund)
12. Commitment to repay loan fund advances (HRA)

Appendix 1

Prudential and Treasury Indicators

The borrowing set out within the Prudential Indicators is based upon the General Fund capital programme agreed by the Council in March 2018. In relation to the HRA, borrowing is required to fund the programme agreed in August 2015. The Estimates of Capital Expenditure below in indicator 3 and 4 include expenditure in relation to the National Housing Trust which is self-financing.

A. Indicators for Affordability, Prudence and Capital Expenditure

Indicator 1 - Capital Expenditure

Gross Capital Expenditure

In absolute terms rather than as a ratio, these show the overall levels of estimated capital investment irrespective of how they are being funded.

	2018/19 Actual	2019/20 Original Estimate	2019/20 Revised Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund	£96.2m	£142.1m	£98.0m	£96.0m	£68.8m	£67.2m
HRA	£42.0m	£47.3m	£47.7m	£41.9m	£42.6m	£43.5m
Total	**£138.2m**	**£189.4m**	**£145.7m**	**£137.9m**	**£111.4m**	**£110.7m**
Income						
General Fund	(£52.0m)	(£78.9m)	(£47.8m)	(£64.9m)	(£50.7m)	(£53.1m)
HRA	(£14.5m)	(£10.7m)	(£17.9m)	(£15.0m)	(£15.0m)	(£15.0m)
Total	**(£66.5m)**	**(£89.6m)**	**(£65.7m)**	**(£79.9m)**	**(£65.7m)**	**(£68.1m)**

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

General Fund	£44.2m	£63.2m	£50.2m	£31.1m	£18.1m	£14.1m
HRA	£27.5m	£36.6m	£29.8m	£26.9m	£27.6m	£28.5m
Total	**£71.7m**	**£99.8m**	**£80.0m**	**£58.0m**	**£45.7m**	**£42.6m**

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

General Fund	(£29.5m)	(£30.6m)	(£30.3m)	(£30.8m)	(£30.5m)	(£30.2m)
HRA	(£7.6m)	(£9.9m)	(£9.6m)	(£10.1m)	(£11.4m)	(£11.0m)
Total	**(£37.1m)**	**(£40.5m)**	**(£39.9m)**	**(£40.9m)**	**(£41.9m)**	**(£41.2m)**

Additional net borrowing in year

General Fund	£14.7m	£32.6m	£19.9m	£0.3m	(£12.4m)	(£16.1m)
HRA	£19.9m	£26.7m	£20.2m	£16.8m	£16.2m	£17.5m
Total	**£34.6m**	**£59.3m**	**£40.1m**	**£17.1m**	**£3.8m**	**£1.4m**

Indicator 2 – Capital Financing Requirement (CFR)

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

	2018/19 Actual	**2019/20 Original Estimate**	**2019/20 Revised Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
General Fund excluding PPP/NPD	£712.3m	£729.2m	£715.8m	£716.1m	£703.8m	£687.7m
PPP/NPD	£154.8m	£148.8m	£148.8m	£142.1m	£135.7m	£129.3m
HRA	£265.4m	£287.3m	£284.9m	£301.7m	£317.8m	£335.2m
Total	**£1,132.5m**	**£1,165.3m**	**£1,149.5m**	**£1,159.9m**	**£1,157.3m**	**£1,152.2m**
Joint Boards	£19.0m	£18.0m	£18.0m	£17.1m	£16.1m	£15.3m
Total CFR (incl Police/Fire) (1)	**£1,151.5m**	**£1,183.3m**	**£1,167.5m**	**£1,177.0m**	**£1,173.4m**	**£1,167.5m**

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

Gross Borrowing – long term	£778.1m	£758.5m	£824.2m	£799.3m	£791.9m	£760.1m
Gross Borrowing – short term	£186.0m	£240.0m	£168.5m	£209.6m	£219.8m	£252.0m
Total External Borrowing	**£964.1m**	**£998.5m**	**£992.7m**	**£1,008.9m**	**£1,011.7m**	**£1,012.1m**
Other Long-Term Liabilities	£154.8m	£148.8m	£148.8m	£142.1m	£135.7m	£129.4m
Total Gross Debt (2)	**£1,118.9m**	**£1,147.3m**	**£1,141.5m**	**£1,151.0m**	**£1,147.4m**	**£1,141.5m**
Investments	£78.4m	£50.0m	£30.0m	£50.0m	£50.0m	£50.0m
Net Borrowing	**£1,040.5m**	**£1,097.3m**	**£1,111.5m**	**£1,101.0m**	**£1,097.4m**	**£1,091.5m**

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

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

	2018/19 Actual	**2019/20 Original Estimate**	**2019/20 Revised Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
Difference between CFR (1) and Total Gross Debt (2)	£32.6m	£36.0m	£26.0m	£26.0m	£26.0m	£26.0m

Indicator 3 – Authorised Limit for Borrowing

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

Authorised Limit	**2018/19 Actual**	**2019/20 Original Estimate**	**2019/20 Revised Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
Borrowing	£966.1m (indicator £1,003.7m)	£1,049.7m	£1,049.7m	£1,063.1m	£1,062.7m	£1,062.6m
Other Long-Term Liabilities	£154.8m	£148.8m	£148.8m	£142.1m	£135.7m	£129.4m

Indicator 4 - Operational Boundary for Borrowing

An Operational Boundary is also required which represents the Executive Chief Officer, Finance and Resources' estimate of the day to day limit for the Treasury Management activity based on the most likely i.e. prudent but not worse case scenario.

Operational Boundary	**2018/19 Actual**	**2019/20 Original Estimate**	**2019/20 Revised Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
Borrowing	£966.1m (indicator £967.3m)	£1,013.7m	£1,013.7m	£1,037.0m	£1,036.6m	£1,036.5m
Other Long-Term Liabilities	£154.8m	£148.8m	£148.8m	£142.1m	£135.7m	£129.4m

Indicator 5 – Ratio of financing costs to net revenue stream

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

	2018/19 Actual	**2019/20 Original Estimate**	**2019/20 Revised Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
General Fund including PPP/NPD	13.3%	13.3%	13.0%	13.2%	13.2%	13.2%
Housing Revenue Account	34.1%	36.5%	36.2%	38.0%	41.3%	40.6%

Indicator 6- Interest rate exposures of debt net of investments

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

Interest rate exposures of debt net of investments	2018/19 Actual	2019/20 Original Estimate	2019/20 Revised Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Upper Limit (Fixed)	£823.6m (indicator £990.2m)	£1,034.9m	£1,034.9m	£1,034.8m	£1,037.7m	£1,038.2m
Upper Limit (Variable)	£75.7m (indicator £346.6m)	£361.8m	£361.8m	£362.2m	£363.2m	£363.4m

Maturity structure of fixed rate borrowing during 2019/20

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

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

Maximum principal invested for period longer than 365 days

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

Appendix 2

Economic Background Provided by Link (as at 04/02/20)

UK Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the general election on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

GDP growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The forward-looking surveys in January have indicated that there could be a significant recovery of growth now that much uncertainty has gone. Nevertheless, economic growth may only come in at about 1% in 2020, pending the outcome of negotiations on a trade deal. Provided there is a satisfactory resolution of those negotiations, which are in both the EU's and UK's interest, then growth should strengthen further in 2021.

At its 30 January meeting, the Monetary Policy Committee held Bank Rate unchanged at 0.75%. The vote was again split 7-2, with two votes for a cut to 0.50%. The financial markets had been predicting a 50:50 chance of a rate cut at the time of the meeting. Admittedly, there had been plenty of downbeat UK economic news in December and January which showed that all the political uncertainty leading up to the general election, together with uncertainty over where Brexit would be going after the election, had depressed economic growth in quarter 4. In addition, three members of the MPC had made speeches in January which were distinctly on the dovish side, flagging up their concerns over weak growth and low inflation; as there were two other members of the MPC who voted for a rate cut in November, five would be a majority at the January MPC meeting if those three followed through on their concerns.

However, that downbeat news was backward looking; more recent economic statistics and forward-looking business surveys, have all pointed in the direction of a robust bounce in economic activity and a recovery of confidence after the decisive result of the general election removed political and immediate Brexit uncertainty. In addition, the September spending round increases in expenditure will start kicking in from April 2020, while the Budget in March is widely expected to include a substantial fiscal boost by further increases in expenditure, especially on infrastructure. The Bank of England cut its forecasts for growth from 1.2% to 0.8% for 2020, and from 1.8% to 1.4% for 2021. However, these forecasts could not include any allowance for the predicted fiscal boost in the March Budget. Overall, the MPC clearly decided to focus on the more recent forward-looking news than the earlier downbeat news.

The quarterly Monetary Policy Report did, though, flag up that there was still a risk of a Bank Rate cut; "Policy may need to reinforce the expected recovery in UK GDP growth should the more positive signals from recent indicators of global and domestic activity not be sustained or should indicators of domestic prices remain relatively weak." Obviously, if trade negotiations with the EU failed to make satisfactory progress, this could dampen confidence and growth. On the other hand, there was also a warning in the other direction, that if growth were to pick up strongly, as suggested by recent business surveys, then "some modest tightening" of policy might be needed further ahead. It was therefore notable that the Bank had dropped its phrase that tightening would be "limited and gradual", a long-standing piece of forward guidance; this gives the MPC more room to raise Bank Rate more quickly if growth was to surge and, in turn, lead to a surge in inflation above the 2% target rate.

As for inflation itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5% and then even further to 1.3% in December. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the labour market, growth in numbers employed has been quite resilient through 2019 until the three months to September, where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000 and then a stunning increase of 208,000 in the three months to November. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.4% in November (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

Coronavirus. The recent Coronavirus outbreak could cause disruption to the economies of affected nations. The Chinese economy is now very much bigger than it was at the time of the SARS outbreak in 2003 and far more integrated into world supply chains. However, a temporary dip in Chinese growth could lead to a catch up of lost production in following quarters with minimal net overall effect over a period of a year. However, no one knows quite how big an impact this virus will have around the world; hopefully, the efforts of the WHO and the Chinese authorities will ensure that the current level of infection does not multiply greatly.

USA After growth of 2.9% y/y in 2018 fuelled by President Trump's massive easing of fiscal policy, growth has weakened in 2019. After a strong start in quarter 1 at 3.1%, (annualised rate), it fell to 2.0% in quarter 2 and then 2.1% in quarters 3 and 4. This left the rate for 2019 as a whole at 2.3%, a slowdown from 2018 but not the precursor of a recession which financial markets had been fearing earlier in the year. Forward indicators are currently indicating that growth is likely to strengthen somewhat moving forward into 2020.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment'. It also ended its programme of quantitative tightening in August 2019, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%. It left rates unchanged at its December meeting. Rates were again left unchanged at its end of January meeting although it had been thought that as the yield curve on Treasuries had been close to inverting again, (with 10 year yields nearly falling below 2 year yields - this is often viewed as being a potential indicator of impending recession), that the Fed could have cut rates, especially in view of the threat posed by the coronavirus. However, it acknowledged that coronavirus was a threat of economic disruption but was not serious at the current time for the USA. In addition, the phase 1 trade deal with China is supportive of growth. The Fed though, does have an issue that despite reasonably strong growth rates, its inflation rate has stubbornly refused to rise to its preferred core inflation target of 2%; it came in at 1.6% in December. It is therefore unlikely to be raising rates in the near term. It is also committed to reviewing its approach to monetary policy by midyear 2020; this may include a move to inflation targeting becoming an average figure of 2% so as to allow more flexibility for inflation to under and over shoot.

"The NEW NORMAL." The Fed chairman has given an overview of the current big picture of the economy by summing it up as A NEW NORMAL OF LOW INTEREST RATES, LOW INFLATION AND PROBABLY LOWER GROWTH. This is indeed an affliction that has mired Japan for the last two decades despite strenuous efforts to stimulate growth and inflation by copious amounts of fiscal stimulus and cutting rates to zero. China and the EU are currently facing the same difficulty to trying to get inflation and growth up. Our own MPC may well have growing concerns and one MPC member specifically warned on the potential for a low inflation trap in January.

It is also worth noting that no less than a quarter of total world sovereign debt is now yielding negative returns.

EUROZONE Growth has been slowing from +1.8 % during 2018 to nearly half of that in 2019. Growth was +0.4% q/q in quarter 1, +0.2% q/q in quarters 2 and 3; it then fell to +0.1% in quarter 4 for a total overall growth rate of only 1.0% in 2019. Recovery from quarter 4 is expected to be slow and gradual. German GDP growth has been struggling to stay in positive territory in 2019 and grew by only 0.6% in 2019, with quarter 4 potentially being a negative number. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and in 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March 2019 meeting, it said that it expected to leave interest rates at their present levels “at least through to the end of 2019”, but that was of little help to boosting growth in the near term. Consequently, it announced a third round of TLTROs; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they would have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt for an unlimited period. At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by ‘growth friendly’ fiscal policy. There have been no changes in rates or monetary policy since October. In January, the ECB warned that the economic outlook was ‘tilted to the downside’ and repeated previous requests for governments to do more to stimulate growth by increasing national spending. The new President of the ECB, Christine Lagarde who took over in December, also stated that a year long review of monetary policy, including the price stability target, would be conducted by the ECB.

On the political front, Austria, Spain and Italy have been in the throes of forming coalition governments with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The most recent results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU.

CHINA Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.

The trade war between the US and China is a major concern to financial markets due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries.

Treasury management policy **Appendix 3**

1.1 Treasury management is defined as:

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

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

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

Investment policy

2.1 The Council's investment policy has regard to the Local Government Investment (Scotland) Regulations (and accompanying finance circular) and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). **The Council's investment priorities will be security first, liquidity second, and then return.**

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

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

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

Borrowing policy

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

- Short dated borrowing (for a period of 365 days or less, 366 in a Leap Year) from non PWLB sources through the Sterling Money Market.
- Appropriately dated PWLB borrowing.
- Long term fixed rate market loans (for a period greater than 365 days, or 366 in a leap year) from the Sterling Money Market at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
- Consideration of any government supported or promoted lending initiatives, which may offer attractive sources of finance e.g. low-cost borrowing for specific energy efficiency projects.

Appendix 4

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

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

Investments

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

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

Definition of non-treasury investments

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

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

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

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

Permitted Investments – Non-Treasury Investments

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

Investments

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

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

permitted investment the risk assessment must support that categorisation and an explanation provided as to why an unlimited categorisation is recommended.

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

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

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

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

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

Current Approvals

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

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

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

Permitted Investments – Treasury Investments **Appendix 6**

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

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

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

Stage 1 - Permitted Investments

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

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

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

a. Deposits (UK institutions only)

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

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

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

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

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

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

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

Stage 2 – Credit worthiness policy and assessment

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

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

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

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

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

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

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

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

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

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

<u>Stage 3 – Counter-party Limits</u>

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

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

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

The Council will place overnight and call deposits with the Council's bankers irrespective of credit rating. The limit on placing call deposits with the Council's bankers is currently £10m for the Highland Council bank accounts.

The Highland Council Pension Fund will place overnight and call deposits with the Council's bankers irrespective of credit rating. The limit on placing call deposits with the Council's bankers is currently £10m. The Pension Fund may also use other suitable counterparties, with a £10m limit applying to each.

Appendix 7

Approved countries for investment (as at 04/02/20)

If a country rating is downgraded, this will be removed from our approved countries for investment.

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Hong Kong
- France
- U.K.

AA-

- Belgium
- Qatar

Appendix 8

Current counter party list as at 31/12/2019

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

	At time of investment use Link rating Current rating 31/12/19	**Maximum Duration per TMSS**	**Investment limits**	
			Highland Council	**Highland Council Pension Fund (note 1)**
Government Backed Deposits				
Debt Management Agency Deposit Facility	Yellow (5 years)	6 months	Unlimited	Not used
Deposits with Counterparties currently in receipt of Government Support/Ownership				
RBS	Blue (1 year)	2 years	£25m	£10m
Bank of Scotland	Orange (1 year)	2 years	£20m	Not used
Term deposits (*restricted to £20m invested >365 days*)				
Term deposits – local authorities	Purple (2 years)	2 years	£20m	Not used
Term deposits – banks and building societies (UK only)	Varies	2 years	£20m	Not used
Commonwealth Bank of Australia	Orange (1 year)	2 years	£20m	Not used
Coventry Building Society	Red (6 months)	2 years	£20m	Not used
DZ Bank	Orange (1 year)	2 years	£20m	Not used
Goldman Sachs	Red (6 months)	2 years	£20m	Not used
Nationwide	Red (6 months)	2 years	£20m	Not used
Certificates of deposit				
Standard Chartered	Red (6 months)	1 Year	£20m	Not used
Royal Bank of Scotland	Blue (1 year)	2 years	£20m	Not used

Call accounts				
Clydesdale Bank (Council's Banker)	No colour	1 year	£10m	£10m
Barclays	Red (6 months)	1 year	£20m	Not used
Santander	Red (6 months)	1 year	£20m	Not used
Svenska Handelsbanken	Orange (1 year)	1 year	£20m	Not in use
Money Market Funds				
Aberdeen Standard Asset Management	AAA	1 Year	£20m	Not used
Insight Asset Management	AAA	1 Year	£20m	Not used
Blackrock Asset Management	AAA	1 Year	£20m	Not used

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

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

Type of Permitted Investment	Treasury Risks	Mitigating Controls
a. 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.
b. 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.
c. Money Market Funds (MMFs) **(Very low risk)** CNAV, LVNAV, VNAV	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs have a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.
d. Ultra short dated bond funds **(low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the bonds have a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.
e. Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties.

Type of Permitted Investment	Treasury Risks	Mitigating Controls
f. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	These tend to be low risk investments but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties.
g. 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.
h. Certificates of deposits with financial institutions **(Low risk)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low but will exhibit higher risks than categories (a), (b) and (c) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties.
i. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) **(Low to medium risk depending on period & credit rating)**	These tend to be medium to low risk investments but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties.
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.

Type of Investment	Treasury Risks	Mitigating Controls
k. Investment properties	These are non-service properties which are being held pending disposal or for a longer-term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	In larger investment portfolios some small allocation of property-based investment may counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.
l. 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.
m. 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.
n. 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.
o. Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.

The Monitoring of Investment Counterparties - The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Link, including when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Executive Chief Officer, Finance and Resources, and if required new counterparties which meet the criteria will be added to the list.

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

Appendix 10

Treasury Management Scheme of Delegation

(i) The Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) The Council’s Corporate Resources Committee

- approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices;
- receiving and reviewing regular monitoring reports and acting on recommendations; including scrutiny/review of annual strategy, annual report and mid-year report;

(iii) Executive Chief Officer, Finance and Resources

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- approval of the division of responsibilities;
- approving the selection of external service providers and agreeing terms of appointment.

The Treasury Management Role of the Section 95 Officer

The S95 (responsible) Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit recommending the appointment of external service providers.
- preparation of a capital strategy from 2020/21 to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe (say 20+ years – to be determined in accordance with local priorities).
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources

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

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

	HISTORIC DEBT		NEW DEBT				
Financial year	Opening Balance	Instalment	Opening Balance	Instalment	Total Instalment	New Borrowing	Total GF LF debt
	£000	£000	£000	£000	£000	£000	£000
2019-20	695,895	30,311			30,311	50,199	715,783
2020-21	665,584	30,454	50,199	350	30,804	31,138	716,117
2021-22	635,130	29,922	80,987	564	30,486	18,149	703,780
2022-23	605,208	29,490	98,572	708	30,198	14,121	687,703
2023-24	575,718	29,009	111,985	820	29,829	27,493	685,367
2024-25	546,709	28,167	138,658	1,128	29,295	24,499	680,571
2025-26	518,542	27,376	162,029	1,442	28,818	24,150	675,903
2026-27	491,166	26,685	184,737	1,763	28,448	24,144	671,599
2027-28	464,481	26,136	207,118	2,097	28,233	24,126	667,492
2028-29	438,345	25,505	229,147	2,444	27,949	25,000	664,543
2029-30	412,840	24,334	251,703	2,814	27,148	25,000	662,395
2030-31	388,506	23,863	273,889	3,198	27,061	25,000	660,334
2031-32	364,643	23,133	295,691	3,597	26,730	25,000	658,604
2032-33	341,510	21,986	317,094	4,011	25,997	25,000	657,607
2033-34	319,524	21,257	338,083	4,442	25,699	25,000	656,908
2034-35	298,267	19,769	358,641	4,889	24,658	25,000	657,250
2035-36	278,498	17,463	378,752	5,354	22,817	25,000	659,433
2036-37	261,035	14,452	398,398	5,837	20,289	25,000	664,144
2037-38	246,583	12,665	417,561	6,338	19,003	25,000	670,141
2038-39	233,918	11,566	436,223	6,859	18,425	25,000	676,716
2039-40	222,352	10,216	454,364	7,401	17,617	25,000	684,099
2040-41	212,136	9,481	471,963	7,780	17,261	25,000	691,838
2041-42	202,655	9,085	489,183	8,227	17,312	25,000	699,526
2042-43	193,570	8,907	505,956	8,747	17,654	25,000	706,872
2043-44	184,663	8,801	522,209	9,374	18,175	25,000	713,697
2044-45	175,862	8,497	537,835	10,015	18,512	25,000	720,185
2045-46	167,365	8,152	552,820	10,684	18,836	25,000	726,349
2046-47	159,213	7,665	567,136	11,373	19,038	25,000	732,311
2047-48	151,548	6,927	580,763	12,091	19,018	25,000	738,293
2048-49	144,621	6,217	593,672	12,833	19,050	25,000	744,243
2049-50	138,404	5,511	605,839	13,604	19,115	25,000	750,128
2050-51	132,893	5,515	617,235	14,318	19,833	25,000	755,295
2051-52	127,378	5,551	627,917	15,150	20,701	25,000	759,594
2052-53	121,827	5,658	637,767	16,015	21,673	25,000	762,921
2053-54	116,169	5,778	646,752	16,913	22,691	25,000	765,230
2054-55	110,391	5,475	654,839	17,846	23,321	25,000	766,909
2055-56	104,916	5,691	661,993	18,828	24,519	25,000	767,390
2056-57	99,225	5,540	668,165	19,848	25,388	25,000	767,002
2057-58	93,685	5,453	673,317	20,908	26,361	25,000	765,641
2058-59	88,232	5,699	677,409	21,991	27,690	25,000	762,951
2059-60	82,533	5,183	680,418	22,294	27,477	25,000	760,474
2060-61	77,350	5,214	683,124	23,423	28,637	25,000	756,837
2061-62	72,136	5,291	684,701	24,589	29,880	25,000	751,957
2062-63	66,845	5,304	685,112	25,800	31,104	25,000	745,853
2063-64	61,541	5,328	684,312	27,073	32,401	25,000	738,452
2064-65	56,213	5,452	682,239	27,160	32,612	25,000	730,840
2065-66	50,761	5,604	680,079	27,251	32,855	25,000	722,985
2066-67	45,157	5,509	677,828	27,346	32,855	25,000	715,130
2067-68	39,648	4,654	675,482	27,445	32,099	25,000	708,031
2068-69	34,994	4,651	673,037	27,548	32,199	25,000	700,832

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

Financial year	HISTORIC DEBT Opening Balance	Instalment	NEW DEBT £000	Instalment	Total Instalment	New Borrowing	Total GF LF debt
	£000	£000		£000	£000	£000	£000
2069-70	30,343	4,549	670,489	27,655	32,204	25,000	693,628
2070-71	25,794	4,579	667,834	27,768	32,347	25,000	686,281
2071-72	21,215	4,124	665,066	27,884	32,008	25,000	679,273
2072-73	17,091	3,581	662,182	28,006	31,587	25,000	672,686
2073-74	13,510	3,290	659,176	28,133	31,423	25,000	666,263
2074-75	10,220	2,882	656,043	28,266	31,148	25,000	660,115
2075-76	7,338	2,741	652,777	28,403	31,144	25,000	653,971
2076-77	4,597	1,897	649,374	28,547	30,444	25,000	648,527
2077-78	2,700	1,327	645,827	28,697	30,024	25,000	643,503
2078-79	1,373	1,041	642,130	28,854	29,895	25,000	638,608
2079-80	332	332	638,276	27,576	27,908	25,000	635,700
2080-81	0	0	635,700	26,408	26,408	25,000	634,292
2081-82	0	0	634,292	25,646	25,646	25,000	633,646
2082-83	0	0	633,646	25,055	25,055	25,000	633,591
2083-84	0	0	633,591	24,922	24,922	25,000	633,669
2084-85	0	0	633,669	24,936	24,936	25,000	633,733
2085-86	0	0	633,733	24,956	24,956	25,000	633,777
2086-87	0	0	633,777	24,977	24,977	25,000	633,800
		695,895		1,079,219	1,775,114		

An assumption has been made that borrowing for the General Fund will be £25m on an annual basis after the completion of the current capital programme which ends in 2027/28.

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

Financial year	HISTORIC DEBT Opening Balance £000	HISTORIC DEBT Instalment £000	NEW DEBT Opening Balance £000	NEW DEBT Instalment £000	Total Instalment £000	New Borrowing £000	Total HRA LF debt £000
2019-20	264,778	9,619			9,619	28,809	283,968
2020-21	255,159	9,527	28,809	628	10,155	26,893	273,813
2021-22	245,632	10,620	55,074	820	11,440	27,582	289,266
2022-23	235,012	10,090	81,836	995	11,085	28,524	305,763
2023-24	224,922	10,724	109,365	1,234	11,958	29,507	322,329
2024-25	214,198	10,041	137,638	1,509	11,550	30,332	340,286
2025-26	204,157	10,310	166,461	1,818	12,128	31,199	358,490
2026-27	193,847	10,359	195,842	2,611	12,970	31,199	376,719
2027-28	183,488	10,477	224,430	3,437	13,914	31,199	394,004
2028-29	173,011	10,721	252,192	4,296	15,017	31,199	410,186
2029-30	162,290	11,119	279,095	5,189	16,308	31,199	425,077
2030-31	151,171	11,089	305,105	6,118	17,207	31,199	439,069
2031-32	140,082	10,838	330,186	7,084	17,922	31,199	452,346
2032-33	129,244	10,593	354,301	8,088	18,681	31,199	464,864
2033-34	118,651	9,853	377,412	9,133	18,986	31,199	477,077
2034-35	108,798	8,689	399,478	10,220	18,909	31,199	489,367
2035-36	100,109	7,301	420,457	11,350	18,651	31,199	501,915
2036-37	92,808	5,056	440,306	12,525	17,581	31,199	515,533
2037-38	87,752	4,593	458,980	13,747	18,340	31,199	528,392
2038-39	83,159	3,921	476,432	15,018	18,939	31,199	540,652
2039-40	79,238	3,191	492,613	16,341	19,532		552,319
2040-41	76,047	3,140	476,272	16,359	19,499		532,820
2041-42	72,907	3,116	459,913	16,611	19,727		513,093
2042-43	69,791	3,058	443,302	16,837	19,895		493,198
2043-44	66,733	3,052	426,465	17,020	20,072		473,126
2044-45	63,681	2,881	409,445	17,158	20,039		453,087
2045-46	60,800	2,828	392,287	16,809	19,637		433,450
2046-47	57,972	2,819	375,478	16,398	19,217		414,233
2047-48	55,153	2,669	359,080	15,971	18,640		395,593
2048-49	52,484	2,552	343,109	15,528	18,080		377,513
2049-50	49,932	2,089	327,581	15,066	17,155		360,358
2050-51	47,843	1,797	312,515	14,423	16,220		344,138
2051-52	46,046	1,647	298,092	13,712	15,359		328,779
2052-53	44,399	1,539	284,380	12,971	14,510		314,269
2053-54	42,860	1,456	271,409	12,197	13,653		300,616
2054-55	41,404	1,265	259,212	11,389	12,654		287,962
2055-56	40,139	1,238	247,823	10,547	11,785		276,177
2056-57	38,901	1,203	237,276	9,669	10,872		265,305
2057-58	37,698	1,141	227,607	8,756	9,897		255,408
2058-59	36,557	1,146	218,851	7,806	8,952		246,456
2059-60	35,411	1,078	211,045	6,818	7,896		238,560
2060-61	34,333	1,123	204,227	6,725	7,848		230,712
2061-62	33,210	1,166	197,502	6,663	7,829		222,883
2062-63	32,044	1,215	190,839	6,594	7,809		215,074
2063-64	30,829	1,267	184,245	6,515	7,782		207,292
2064-65	29,562	1,984	177,730	6,426	8,410		198,882
2065-66	27,578	2,070	171,304	6,327	8,397		190,485
2066-67	25,508	2,611	164,977	6,217	8,828		181,657
2067-68	22,897	2,209	158,760	6,103	8,312		173,345
2068-69	20,688	2,305	152,657	5,984	8,289		165,056
2069-70	18,383	2,403	146,673	5,860	8,263		156,793

Financial year	HISTORIC DEBT Opening Balance	Instalment	NEW DEBT Opening Balance	Instalment	Total instalment	New Borrowing	Total HRA LF debt
	£000	£000	£000	£000	£000	£000	£000
2070-71	15,980	2,771	140,813	5,949	8,720	0	148,073
2071-72	13,209	2,558	134,864	6,041	8,599	0	139,474
2072-73	10,651	2,453	128,823	6,138	8,591	0	130,883
2073-74	8,198	2,235	122,685	6,238	8,473	0	122,410
2074-75	5,963	1,779	116,447	6,342	8,121	0	114,289
2075-76	4,184	1,473	110,105	6,450	7,923	0	106,366
2076-77	2,711	1,268	103,655	6,562	7,830	0	98,536
2077-78	1,443	921	97,093	6,679	7,600	0	90,936
2078-79	522	522	90,414	6,801	7,323	0	83,613
2079-80	0		83,613	6,927	6,927	0	76,686
2080-81	0		76,686	6,838	6,838	0	69,848
2081-82	0		69,848	6,602	6,602	0	63,246
2082-83	0		63,246	6,354	6,354	0	56,892
2083-84	0		56,892	6,093	6,093	0	50,799
2084-85	0		50,799	5,818	5,818	0	44,981
2085-86	0		44,981	5,530	5,530	0	39,451
2086-87	0		39,451	5,228	5,228	0	34,223
2087-88	0		34,223	4,913	4,913	0	29,310
2088-89	0		29,310	4,586	4,586	0	24,724
2089-90	0		24,724	4,246	4,246	0	20,478
2090-91	0		20,478	3,893	3,893	0	16,585
2091-92	0		16,585	3,525	3,525	0	13,060
2092-93	0		13,060	3,142	3,142	0	9,918
2093-94	0		9,918	2,744	2,744	0	7,174
2094-95	0		7,174	2,331	2,331	0	4,843
2095-96	0		4,843	1,900	1,900	0	2,943
2096-97	0		2,943	1,453	1,453	0	1,490
2097-98	0		1,490	987	987	0	503
2098-99			503	503	503		0
		264,778		608,433		873,211	

An assumption has been made that borrowing for HRA will continue based on 2025/26 levels until 2038/39