| | |
|---|---|
| Agenda Item | **7b.** |
| Report No | **RES/06/22** |

**THE HIGHLAND COUNCIL**

| | |
|---|---|
| **Committee:** | Corporate Resources Committee |
| **Date:** | 26 January 2022 |
| **Report Title:** | **Treasury Management Strategy Statement and Investment Statement – 2022/23** |
| **Report By:** | Executive Chief Officer, Resources and Finance |

## 1. Purpose/Executive Summary

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

## 2. Recommendations

2.1 Members are asked to approve the TMSS & IS for 2022/23 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 (2017) was updated in December 2021 with the accompanying Guidance Notes on the Code due to be published in early 2022. The new requirements of the 2021 revised Treasury Management and Prudential codes must be fully adopted in 2023/24.

This TMSS & IS for 2022/23 will follow the 2017 Treasury Management Code and the primary requirements of this 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 Looking ahead to 2023/24, the impact of the revised codes is outlined below. Members will be updated on the impact of the codes on our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement.
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment.
- address Ethical, Social and Governance (ESG) issues within the Capital Strategy.
- require implementation of a policy to review commercial property, with a view to divest where appropriate.
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices).
- ensure that any long term treasury investment is supported by a business model.
- a requirement to effectively manage liquidity and longer term cash flow requirements.
- amendment to TMP1 to address ESG policy within the treasury management risk framework.
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council.
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes:

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

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

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

4.5 Treasury Management Strategy for 2022/23

The proposed strategy for 2022/23 in respect of the following aspects of the treasury management function is based upon the Council officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, the Link Group (Link).

The strategy covers 2 main areas:

1. Capital issues - the capital plans and the prudential indicators.
2. Treasury management issues
    - the current treasury position
    - treasury limits and indicators for 2022/23 to 2024/25 (which will limit the treasury risk and activities of the Council)
    - prospects for interest rates
    - the borrowing requirement based upon the Council's current capital programmes
    - the borrowing strategy (including policy on borrowing in advance of need)
    - debt rescheduling
    - annual investment strategy
    - credit worthiness policy
    - policy on use of external service providers

4.6 Balanced Budget Requirement

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

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

- increases in interest charges caused by increased borrowing to finance additional capital expenditure
- 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

4.7 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.

4.8 Treasury management advisors

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

## 5. Treasury Limits for 2022/23 to 2024/25

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 December 2021 (Medium Term Financial Plan- Capital Strategy and Capital Programme to 2036/37 report), the Council agreed a capital programme covering the period up to 2036/37 containing over £938m of planned capital investment. The total planned capital spend over the next 15 year will be as follows:

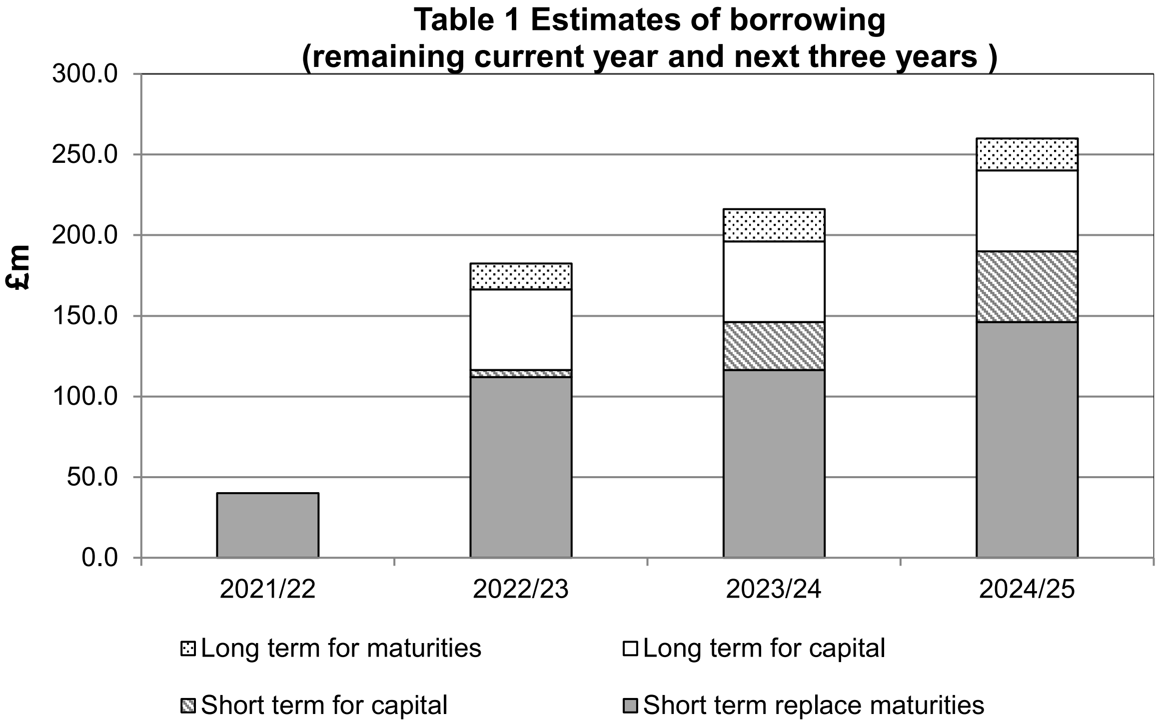
| Year | Net spend £m |
|---|---|
| 2022/23 | 101.616 |
| 2023/24 | 116.205 |
| 2024/25 | 131.375 |
| 2025/26 | 61.448 |
| 2026/27 | 61.809 |
| 2027/28 | 83.307 |
| 2028/29 | 46.378 |
| 2029/30 | 44.974 |
| 2030/31 | 43.931 |
| 2031/32 | 34.872 |
| 2032/33 | 40.740 |
| 2033/34 | 51.137 |
| 2034/35 | 47.590 |
| 2035/36 | 40.922 |
| 2036/37 | 32.590 |
| | **938.894** |

5.5 Substantial modelling work was done to inform the affordability of the new capital plan and whilst the new plan meets overall affordability across the whole period of the programme the frontloading of spend into the early part of the programme will necessitate some changes to the existing loans fund accounting methodology in order to bring it within affordability limits. Overall it is considered that the December 2021 programme is affordable within the current annual loans charges budget when the accounting changes identified in section seven of this report are implemented.

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

## 6. Borrowing Requirement

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




## 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 For any loans fund advance made from 1 April 2022 onwards the Council will continue with its current approach as outlined in the two points immediately above- namely using the Annuity method with the Income method used as appropriate.

7.4 As outlined in section 5 some minor changes to the loans fund accounting treatment will be enacted in financial year 2022/23 in order to better match the repayment of loans fund advances with the asset life of the associated asset. In particular extensions to the asset life terms for flood works, new roads investment and certain office and leisure facilities will be made. Additionally flexibility on the use of accumulated capital receipts will be made to smooth the total annual loans fund repayments.

7.5 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.** The profile of these repayments will change once the alterations described in section 7.4 are instigated during 2022/23.

7.6 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.

7.7 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 20 December 2021 which are forecasts for certainty rates (gilt yields plus 80 bps).

| Link Group Interest Rate View 20.12.21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BANK RATE | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 |
| 3 month ave earnings | 0.20 | 0.30 | 0.50 | 0.50 | 0.60 | 0.70 | 0.80 | 0.90 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| 6 month ave earnings | 0.40 | 0.50 | 0.60 | 0.60 | 0.70 | 0.80 | 0.90 | 1.00 | 1.00 | 1.10 | 1.10 | 1.10 | 1.10 | 1.10 |
| 12 month ave earnings | 0.70 | 0.70 | 0.70 | 0.70 | 0.80 | 0.90 | 1.00 | 1.10 | 1.10 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |
| 5 yr PWLB | 1.40 | 1.50 | 1.50 | 1.60 | 1.60 | 1.70 | 1.80 | 1.80 | 1.80 | 1.90 | 1.90 | 1.90 | 2.00 | 2.00 |
| 10 yr PWLB | 1.60 | 1.70 | 1.80 | 1.80 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 | 2.10 | 2.20 | 2.30 |
| 25 yr PWLB | 1.80 | 1.90 | 2.00 | 2.10 | 2.10 | 2.20 | 2.20 | 2.20 | 2.30 | 2.30 | 2.40 | 2.40 | 2.50 | 2.50 |
| 50 yr PWLB | 1.50 | 1.70 | 1.80 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 | 2.20 | 2.20 | 2.30 | 2.30 |

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

- As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%. However, with the high level of uncertainty, Link expect to revise their forecasts again depending on current developments.

- With regard to PWLB certainty rates, the table above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there is likely be exceptional volatility and unpredictability during this forecast period. This is due to a range of factors which include the strength in correlation between gilt yields and US treasury yields, what action the Monetary Policy Committee (MPC) and the Federal Reserve Board (Fed) will take to counter increasing gilt yields, how strong the impact of inflationary pressure will be on gilt yields, how well central banks manage the withdrawal of quantity easing purchases of their national bonds.

- Short term borrowing and interest rates have been low so far in 2021/22 due to the impact of the Covid-19 on the economy but these are expected to increase in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.

- The policy of avoiding new borrowing by running down spare cash balances has worked well over the last few years. However, this needs to be carefully monitored to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or refinance maturing debt. In order to mitigate this risk £100m long-term PWLB borrowing was taken in 2021/22 (details of the borrowing undertaken are in para 11.1).

- 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, particularly with low investment returns.

## 10. Context

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

10.2 The impact of Covid 19 has had a significant impact on the Council's capital programme and meant the programme for 2020/21 being reprofiled to 2021/22 and 2022/23. The pandemic has impacted on both the expected delivery timescales for projects, as well as anticipated projects costs.

10.3 The Council is due to approve its revenue budget covering 2022/23 to 2024/25 in March 2022. Any decisions taken at that meeting on new capital commitments or the revenue budget more widely may influence the TMSS & IS.

10.4 The Council has received the draft revenue and capital budget settlement from the Scottish Government for financial year 2022/23. In addition, the Scottish Government has undertaken its capital spending review which provides an outline five-year indicative allocation for general capital grant and other specific funding streams provided through the local government finance settlement. Core capital grant allocations are expected to remain at their current levels over the five year period with some additional funds available for scheme in specific areas such as flood prevention and low-carbon schemes.

10.5 As outlined in section 5.4, the Council has developed a Capital Strategy and Capital Programme to 2036/37 which was approved by Council in December 2021

https://www.highland.gov.uk/download/meetings/id/79295/9_medium_term_financial_plan_-_capital_strategy_and_capital_programme_to_203637

The Capital Strategy includes details of planned capital expenditure and associated treasury management implications for the next 15 years in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured. A further report will go to Council later this year setting out enhanced governance arrangements for the Capital Programme, including the role of Council and its strategic committees and this will be reflected in the annual review of the Scheme of Delegation which will be brought to the same meeting.

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

10.7 There are risks to the capital programme associated with rising inflation costs.

## 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 2021/22, due to favourable rates and the planned capital expenditure, £100m of PWLB borrowing was undertaken as follows.

| Start date | End Date | Rate | Principal |
|---|---|---|---|
| 08/12/2021 | 31/03/2071 | 1.35% | £25,000,000 |
| 08/12/2021 | 31/03/2061 | 1.49% | £25,000,000 |
| 03/12/2021 | 31/03/2071 | 1.46% | £10,000,000 |
| 16/11/2021 | 30/09/2071 | 1.51% | £10,000,000 |
| 04/11/2021 | 30/09/2071 | 1.63% | £25,000,000 |
| 25/06/2021 | 31/03/2071 | 1.91% | £5,000,000 |
| | | Total | £100,000,000 |

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 2022/23 the Council plans to predominately use short-term borrowing to fund the capital programme but will need to consider long-term borrowing to replace maturities, in order to manage refinancing risk.

Considering the risks within the economic forecast, caution will be adopted with 2022/23 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 Sensitivity of the forecast – In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- *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

| | 2020/21 Actual | 2021/22 Estimate | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate |
|---|---|---|---|---|---|
| External Debt (gross) | £963.5m | £1,046.2m | £1,135.6m | £1,211.0m | £1,294.1m |
| Temporary Investments | £112.6m | £50.0m | £50.0m | £50.0m | £50.0m |
| **External Debt (net)** | **£850.9m** | **£996.2m** | **£1,085.6m** | **£1,161.0m** | **£1,244.1m** |

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

- Another factor in considering the level of investments held is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments and mitigating of re-financing risk.
- With the planned level of capital expenditure, PWLB was taken of £100m in financial year 2021/22 to secure rate certainty. Although, there was a bank rate rise in December to 0.25%, short term borrowing rates are expected to continue to be

favourable. A balance between short term and long term borrowing will be achieved in order to manage interest and refinancing risk and secure value for money.

- The Treasury Team will monitor the interest rate market, take advice from our treasury advisor, and adopt a pragmatic approach to changing circumstances, reporting any decisions to the Corporate Resources Committee at the next available opportunity.

11.5 Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of, its needs purely 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. All rescheduling will be reported to the Corporate Resources Committee, at the earliest meeting following its action.

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

- 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).

## 13. Annual Investment Strategy

13.1 Investment Policy

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

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

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

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

The Council's policies in relation to Investment instruments and 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

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

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

13.6 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: | 12 January 2022 |
| Author: | Edward Foster |
| Background Papers: | Treasury Live system reports, Link economic forecasts |

https://www.highland.gov.uk/download/meetings/id/79295/9_medium_term_financial_plan_-_capital_strategy_and_capital_programme_to_203637

**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 31/12/2021
9. Treasury Management Practice 1 (TMP1) Credit and Counterparty Risk Management
10. Treasury Management Scheme of Delegation and Role of the Section 95 Officer
11. Commitment to repay loan fund advances (General Fund)
12. Commitment to repay loan fund advances (HRA)

## Appendix 1

## Prudential and Treasury Indicators

The borrowing set out within the Prudential Indicators is based upon the General Fund capital programme and further supplementary capital programme agreed by the Council in December 2021. The 5-year HRA capital plan was approved by the Housing and Property Committee in December 2021.

### 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.

| | 2020/21 Actual | 2021/22 Original Estimate | 2021/22 Revised Estimate | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate |
|---|---|---|---|---|---|---|
| General Fund | £76.6m | £132.2m | £142.3m | £149.3m | £132.8m | £131.4m |
| HRA | £48.8m | £48.5m | £66.7m | £36.5m | £49.4m | £51.5m |
| **Total** | **£125.4m** | **£180.7m** | **£209.0m** | **£185.8m** | **£182.2m** | **£182.9m** |
| **Income** | | | | | | |
| General Fund | (£57.8m) | (£51.2m) | (£52.6m) | (£71.8m) | (£40.5m) | (£26.8m) |
| HRA | (£24.6m) | (£19.5m) | (£18.7m) | (£16.6m) | (£17.4m) | (£18.1m) |
| **Total** | **(£82.4m)** | **(£70.7m)** | **(£71.3m)** | **(£88.4m)** | **(£57.9m)** | **(£49.3m)** |

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

| | | | | | | |
|---|---|---|---|---|---|---|
| General Fund | £18.8m | £81.0m | £89.7m | £77.5m | £92.3m | £104.6m |
| HRA | £24.2m | £29.0m | £48.0m | £19.9m | £32.0m | £33.3m |
| **Total** | **£43.0m** | **£110.0m** | **£137.7m** | **£97.4m** | **£124.3m** | **£137.9m** |

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

| | | | | | | |
|---|---|---|---|---|---|---|
| General Fund | (£29.9m) | (£30.9m) | (£30.1m) | (£31.9m) | (£32.7m) | (£32.5m) |
| HRA | (£9.6m) | (£11.2m) | (£11.0m) | (£11.0m) | (£11.8m) | (£11.6m) |
| **Total** | **(£39.5m)** | **(£42.1m)** | **(£41.1m)** | **(£42.9m)** | **(£44.5m)** | **(£44.1m)** |

#### Additional net borrowing in year

| | | | | | | |
|---|---|---|---|---|---|---|
| General Fund | (£11.1m) | £50.1m | £59.6m | £45.6m | £59.6m | £72.1m |
| HRA | £14.6m | £17.8m | £37.0m | £8.9m | £20.2m | £21.7m |
| **Total** | **£3.5m** | **£67.9m** | **£96.6m** | **£54.5m** | **£79.8m** | **£93.8m** |

**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.

| | 2020/21 Actual | 2021/22 Original Estimate | 2021/22 Revised Estimate | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate |
|---|---|---|---|---|---|---|
| General Fund excluding PPP/NPD | £711.9m | £773.6m | £770.6m | £816.1m | £875.7m | £947.9.m |
| PPP/NPD | £143.4m | £135.7m | £136.9m | £130.6m | £123.5m | £115.9m |
| HRA | £302.4m | £322.7m | £302.4m | £340.2m | £356.9m | £368.5m |
| **Total** | **£1,157.7m** | **£1,232.0m** | **£1,209.9m** | **£1,286.9m** | **£1,356.1m** | **£1.432.3m** |
| Joint Boards | £17.1m | £16.1m | £16.1m | £15.3m | £14.4m | £13.7m |
| **Total CFR (incl Police/Fire) (1)** | **£1,174.8m** | **£1,248.1m** | **£1,226.0m** | **£1,302.2m** | **£1,370.5m** | **£1,446.0m** |

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

| | | | | | | |
|---|---|---|---|---|---|---|
| Gross Borrowing – long term | £832.5m | £806.2m | £916.2m | £982.1m | £1,052.1m | £1,122.2m |
| Gross Borrowing – short term | £131.0m | £270.2m | £130.0m | £153.4m | £158.9m | £171.9m |
| **Total External Borrowing** | **£963.5m** | **£1,076.4m** | **£1,046.2m** | **£1,135.6m** | **£1,211.0m** | **£1,294.1m** |
| Other Long-Term Liabilities | £143.4m | £135.7m | £136.9m | £130.6m | £123.5m | £115.9m |
| **Total Gross Debt (2)** | **£1,106.9m** | **£1,212.1m** | **£1,183.1m** | **£1,266.2m** | **£1,334.5m** | **£1,410.0m** |
| Investments | (£112.6m) | (£50.0m) | (£50.0m) | (£50.0m) | (£50.0m) | (£50.0m) |
| **Net Borrowing** | **£994.3m** | **£1,162.1m** | **£1,133.1m** | **£1,216.2m** | **£1,284.5m** | **£1.360.0m** |

**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.

| | 2020/21 Actual | 2021/22 Original Estimate | 2021/22 Revised Estimate | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate |
|---|---|---|---|---|---|---|
| Difference between CFR (1) and Total Gross Debt (2) | £67.9m | £36.0m | £42.9m | £36.0m | £36.0m | £36.0m |

**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 | 2020/21 Actual | 2021/22 Original Estimate | 2021/22 Revised Estimate | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate |
|---|---|---|---|---|---|---|
| Borrowing | £1,032.5 (indicator £1,063.1m) | £1,129.4m | £1,129.4m | £1,185.2m | £1,266.4m | £1,352.4m |
| Other Long-Term Liabilities | £143.4m | £135.7m | £136.9m | £130.6m | £123.5m | £115.9m |

**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 | 2020/21 Actual | 2021/22 Original Estimate | 2021/22 Revised Estimate | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate |
|---|---|---|---|---|---|---|
| Borrowing | £1,032.5m (indicator £1,037.0m) | £1,093.4m | £1,093.4m | £1,149.2m | £1,230.4m | £1,316.4m |
| Other Long-Term Liabilities | £143.4m | £135.7m | £136.9m | £130.6m | £123.5m | £115.9m |

**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.

| | 2020/21 Actual | 2021/22 Original Estimate | 2021/22 Revised Estimate | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate |
|---|---|---|---|---|---|---|
| General Fund including PPP/NPD | 11.4% | 13.1% | 13.1% | 13.6% | 13.6% | 13.6% |
| Housing Revenue Account | 37.7% | 40.7% | 38.4% | 39.0% | 40.0% | 41.0% |

### Indicator 6- Interest rate exposures of debt net of investments

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

| Interest rate exposures of debt net of investments | 2020/21 Actual | 2021/22 Original Estimate | 2021/22 Revised Estimate | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate |
|---|---|---|---|---|---|---|
| Upper Limit (Fixed) | £917.0m (indicator £1,034.8m) | £1,112.4m | £1,112.4m | £1,171.6m | £1,247.0m | £1,330.0m |
| Upper Limit (Variable) | £21.2m (indicator £362.2m) | £389.3m | £389.3m | £410.0m | £436.5m | £465.5m |

### Maturity structure of fixed rate borrowing during 2022/23

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

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

### Maximum principal invested for period longer than 365 days

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

## Appendix 2

## Economic Background Provided by Link (22 December 2021)

### COVID-19 vaccines

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

### Summary Overview of the Future Path of Bank Rate

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

**MPC Meeting 16 December 2021**

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.
- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.
- On 10th December we learnt of the disappointing 0.1% m/m rise in GDP in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.
- On 14th December, the labour market statistics for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.
- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.
- On 15th December we had the CPI inflation figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).
- Other elements of inflation are also transitory e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.
- Although it is possible that the Government could step in with some fiscal support for the economy, the huge cost of such support to date is likely to pose a barrier to incurring further major expenditure unless it was very limited and targeted on narrow sectors like hospitality. The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!
- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a surprise increase in Bank Rate from 0.10% to 0.25%. What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".
- On the other hand, it did also comment that "the Omicron variant is likely to weigh on near-term activity". But it stressed that at the November meeting it had said it would raise rates if the economy

evolved as it expected and that now “these conditions had been met”. It also appeared more worried about the possible boost to inflation form Omicron itself. It said that “the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation”. It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning “global price pressures might persist for longer”. (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references this month to inflation being expected to be below the 2% target in two years’ time, which at November’s meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.
- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only a “modest tightening” in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. “Modest” seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.
- In as much as a considerable part of the inflationary pressures at the current time are indeed transitory, and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.
- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November’s statement that Bank Rate would be raised “in the coming months”. That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).
- The MPC’s forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
  Raising Bank Rate as “the active instrument in most circumstances”.
  Raising Bank Rate to 0.50% before starting on reducing its holdings.
  Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  Once Bank Rate had risen to at least 1%, it would start selling its holdings.

**US**

- Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, CPI inflation hit a near 40-year record level of 6.8% but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.
- Shortages of labour have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed’s 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the Fed’s meeting of 15th December would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – “maximum employment”. The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of

inflation as being “transitory” and instead referred to “elevated levels” of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent “for some time”. It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

See also comments in paragraph 3.3 under PWLB rates and gilt yields.

**EU**

- The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.
- November’s inflation figures breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to persistently higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB’s target of 2% and it is likely to average 3% in 2022, in line with the ECB’s latest projection.
- ECB tapering. The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB’s target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.
- The ECB will now also need to consider the impact of Omicron on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered into a period of political uncertainty where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

**China**

- After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of 2020; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China’s economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.
- However, the pace of economic growth has now fallen back in 2021 after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been

struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time.

- The People's Bank of China made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

**Japan**

- 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.
- The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

**World Growth**

- World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is 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, and vice versa. This is likely to reduce world growth rates from those in prior decades.

**Supply Shortages**

- The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

**Interest Rates**

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

Significant risks to the forecasts

- Mutations of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. 25% of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.
- Labour and supply shortages prove more enduring and disruptive and depress economic activity.
- The Monetary Policy Committee acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- The Monetary Policy Committee tightens monetary policy too late to ward off building inflationary pressures.
- The Government acts too quickly to cut expenditure to balance the national budget.
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Longer term US treasury yields rise strongly and pull gilt yields up higher than forecast.
- Major stock markets e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.
- Geopolitical risks, for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including risks from Covid and its variants - both domestically and their potential effects worldwide.

**Forecasts for Bank Rate**

It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.
- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.
- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge

spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.

- We also recognise there could be further nasty surprises on the Covid front beyond the Omicron mutation.
- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

**Forecasts for PWLB rates and gilt and treasury yields**
Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.
US treasury yields. During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend $1trn on infrastructure, (which was eventually passed by both houses later in 2021), and an even larger sum on an American families plan over the next decade; this is still caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme had enabled a rapid opening up of the economy during 2021.
2. The economy was growing strongly during the first half of 2021 although it has weakened overall during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its December meeting with an aggressive response to damp inflation down during 2022 and 2023.

At its 3rd November Fed meeting, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its 15th December meeting it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period and after the taper ends, all other things being equal. The Fed also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

There are also possible DOWNSIDE RISKS from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising earlier and higher in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and Russia, China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A new era – a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.

- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

**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 yield.**

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

2.3 The Council's Treasury Management 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 rowspan="5" colspan="2">Relevant parameters as per specific investment mandates and/or specific trust deeds</td></tr>
<tr><td>Equities – UK and Overseas</td><td>term</td><td>yes</td></tr>
<tr><td>Fixed Income, Index Linked Bonds, Unit Trusts</td><td>term</td><td>yes</td></tr>
<tr><td>War Stock</td><td>term</td><td>no</td></tr>
<tr><td>Alternative Investments - Property</td><td>term</td><td>yes</td></tr>
</table>

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

Definition of non-treasury investments

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

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 timeframe, these funds attempt to reduce risk. The objective of these Funds is to maintain the net asset value, but they hold assets which can vary in value. Each Money Market Fund is treated as a single counterparty in relation to counter-party limits.

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

**<u>Stage 2 – Credit worthiness policy and assessment</u>**

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 counterparties meet the minimum credit criteria described in the table above.

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

**Stage 3 – Counter-party Limits**

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

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

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

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

**Appendix 7**

**Approved countries for investment (as at 22/12/2021)**

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

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- U.K.

**Appendix 8**

**Current counter party list as at 31/12/2021**

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

| | **At time of investment use Link current credit Link Current Credit Rating 31/12/21** | **Maximum Duration per TMSS** (would refer to Link current credit rating before placing deposit) | **Investment limits** | |
|---|---|---|---|---|
| | | | **Highland Council** | **Highland Council Pension Fund (note 1)** |
| **Government Backed Deposits** | | | | |
| Debt Management Agency Deposit Facility | Yellow (5 years) | 6 months | Unlimited | Not used |
| **Deposits with Counterparties currently in receipt of Government Support/Ownership** | | | | |
| RBS | Blue (12 mths) | 2 years | £20m | £10m |
| Bank of Scotland | Red (6 mths) | 2 years | £20m | Not used |
| **Term deposits (*restricted to £20m invested >365 days*)** | | | | |
| Term deposits – local authorities | Purple (2 years) | 2 years | £20m | Not used |
| Term deposits – banks and building societies (UK only) | Varies | 2 years | £20m | Not used |
| Commonwealth Bank of Australia | Orange (12 mths) | 2 years | £20m | Not used |
| Coventry Building Society | Red (6 mths) | 2 years | £20m | Not used |
| DZ Bank | Orange (12 mths) | 2 years | £20m | Not used |
| Goldman Sachs | Red (6 mths) | 2 years | £20m | Not used |
| Nationwide | Red (6 mths) | 2 years | £20m | Not used |
| **Certificates of deposit** | | | | |
| Standard Chartered | Red (6 mths) | 1 Year | £20m | Not used |
| Royal Bank of Scotland | Blue (12 mths) | 2 years | £20m | Not used |

| | **At time of investment use Link current credit Link Current Credit Rating 31/12/21** | **Maximum Duration per TMSS (would refer to Link current credit rating before placing deposit)** | **Investment limits** | |
|---|---|---|---|---|
| | | | **Highland Council** | **Highland Council Pension Fund (note 1)** |
| **Call accounts** | | | | |
| Clydesdale Bank (Council's Banker) | Green (100 days) | 1 year | £20m | £20m |
| Barclays | Red (6 mths) | 1 year | £20m | Not used |
| Santander | Red (6 mths) | 1 year | £20m | Not used |
| Svenska Handelsbanken | Orange (12 mths) | 1 year | £20m | £20m |
| **Money Market Funds** | | | | |
| Aberdeen Standard Asset Management | AAA | 1 Year | £20m | Not used |
| Insight Asset Management | AAA | 1 Year | £20m | Not used |
| Blackrock Asset Management | AAA | 1 Year | £20m | Not used |
| Northern Trust | AAA | 1 Year | £20m | Not used |

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

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

| Type of Permitted Investment | Treasury Risks | Mitigating Controls |
|---|---|---|
| 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.<br><br>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.<br><br>Non-local authority deposits will follow the approved credit rating criteria. |
| c. Money Market Funds (MMFs) **(Very low risk)**<br><br>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.<br>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, 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 to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe (to be determined in accordance with local priorities).
- 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)

| 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 GF LF debt £000 |
|---|---|---|---|---|---|---|---|
| 2021-22 | 710,934 | 30,124 | 0 | 0 | 30,124 | 89,769 | 770,579 |
| 2022-23 | 680,810 | 30,798 | 89,769 | 1,144 | 31,942 | 77,456 | 816,093 |
| 2023-24 | 650,012 | 30,367 | 166,081 | 2,324 | 32,691 | 92,295 | 875,697 |
| 2024-25 | 619,645 | 29,576 | 256,052 | 2,883 | 32,459 | 104,632 | 947,870 |
| 2025-26 | 590,069 | 28,839 | 357,801 | 4,993 | 33,832 | 36,448 | 950,486 |
| 2026-27 | 561,230 | 28,204 | 389,256 | 6,459 | 34,663 | 36,810 | 952,633 |
| 2027-28 | 533,026 | 27,705 | 419,607 | 6,891 | 34,596 | 58,306 | 976,343 |
| 2028-29 | 505,321 | 27,129 | 471,022 | 7,764 | 34,893 | 21,378 | 962,828 |
| 2029-30 | 478,192 | 26,019 | 484,636 | 9,023 | 35,042 | 19,974 | 947,760 |
| 2030-31 | 452,173 | 25,614 | 495,587 | 9,569 | 35,183 | 18,931 | 931,508 |
| 2031-32 | 426,559 | 24,948 | 504,949 | 10,261 | 35,209 | 9,872 | 906,171 |
| 2032-33 | 401,611 | 23,871 | 504,560 | 10,768 | 34,639 | 15,740 | 887,272 |
| 2033-34 | 377,740 | 23,214 | 509,532 | 11,385 | 34,599 | 26,137 | 878,810 |
| 2034-35 | 354,526 | 21,800 | 524,284 | 12,203 | 34,003 | 22,590 | 867,397 |
| 2035-36 | 332,726 | 19,571 | 534,671 | 12,984 | 32,555 | 15,922 | 850,764 |
| 2036-37 | 313,155 | 16,640 | 537,609 | 13,684 | 30,324 | 7,590 | 828,030 |
| 2037-38 | 296,515 | 14,936 | 531,515 | 14,282 | 29,218 | | 798,812 |
| 2038-39 | 281,579 | 13,924 | 517,233 | 14,798 | 28,722 | | 770,090 |
| 2039-40 | 267,655 | 12,260 | 502,435 | 15,332 | 27,592 | | 742,498 |
| 2040-41 | 255,395 | 11,636 | 487,103 | 15,886 | 27,522 | | 714,976 |
| 2041-42 | 243,759 | 9,875 | 471,217 | 15,482 | 25,357 | | 689,619 |
| 2042-43 | 233,884 | 9,554 | 455,735 | 15,015 | 24,569 | | 665,050 |
| 2043-44 | 224,330 | 9,474 | 440,720 | 15,014 | 24,488 | | 640,562 |
| 2044-45 | 214,856 | 9,195 | 425,706 | 15,333 | 24,528 | | 616,034 |
| 2045-46 | 205,661 | 8,877 | 410,373 | 13,217 | 22,094 | | 593,940 |
| 2046-47 | 196,784 | 8,418 | 397,156 | 11,794 | 20,212 | | 573,728 |
| 2047-48 | 188,366 | 7,709 | 385,362 | 12,036 | 19,745 | | 553,983 |
| 2048-49 | 180,657 | 7,028 | 373,326 | 11,748 | 18,776 | | 535,207 |
| 2049-50 | 173,629 | 6,354 | 361,578 | 10,613 | 16,967 | | 518,240 |
| 2050-51 | 167,275 | 6,283 | 350,965 | 10,814 | 17,097 | | 501,143 |
| 2051-52 | 160,992 | 6,327 | 340,151 | 10,584 | 16,911 | | 484,232 |
| 2052-53 | 154,665 | 6,463 | 329,567 | 10,552 | 17,015 | | 467,217 |
| 2053-54 | 148,202 | 6,613 | 319,015 | 10,431 | 17,044 | | 450,173 |
| 2054-55 | 141,589 | 6,343 | 308,584 | 10,284 | 16,627 | | 433,546 |
| 2055-56 | 135,246 | 6,591 | 298,300 | 10,331 | 16,922 | | 416,624 |
| 2056-57 | 128,655 | 6,475 | 287,969 | 10,604 | 17,079 | | 399,545 |
| 2057-58 | 122,180 | 6,423 | 277,365 | 10,990 | 17,413 | | 382,132 |
| 2058-59 | 115,757 | 6,707 | 266,375 | 11,391 | 18,098 | | 364,034 |
| 2059-60 | 109,050 | 6,228 | 254,984 | 11,806 | 18,034 | | 346,000 |
| 2060-61 | 102,822 | 6,257 | 243,178 | 12,235 | 18,492 | | 327,508 |
| 2061-62 | 96,565 | 6,323 | 230,943 | 11,043 | 17,366 | | 310,142 |
| 2062-63 | 90,242 | 6,376 | 219,900 | 10,302 | 16,678 | | 293,464 |
| 2063-64 | 83,866 | 6,440 | 209,598 | 9,470 | 15,910 | | 277,554 |
| 2064-65 | 77,426 | 6,607 | 200,128 | 9,016 | 15,623 | | 261,931 |
| 2065-66 | 70,819 | 6,803 | 191,112 | 8,932 | 15,735 | | 246,196 |
| 2066-67 | 64,016 | 6,754 | 182,180 | 8,684 | 15,438 | | 230,758 |
| 2067-68 | 57,262 | 5,947 | 173,496 | 8,444 | 14,391 | | 216,367 |
| 2068-69 | 51,315 | 5,993 | 165,052 | 8,374 | 14,367 | | 202,000 |
| 2069-70 | 45,322 | 5,943 | 156,678 | 8,305 | 14,248 | | 187,752 |
| 2070-71 | 39,379 | 5,638 | 148,373 | 8,223 | 13,861 | | 173,891 |
| 2071-72 | 33,741 | 5,223 | 140,150 | 8,327 | 13,550 | | 160,341 |

## 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 |
| 2072-73 | 28,518 | 4,722 | 131,823 | 8,324 | 13,046 | | 147,295 |
| 2073-74 | 23,796 | 4,475 | 123,499 | 8,218 | 12,693 | | 134,602 |
| 2074-75 | 19,321 | 4,112 | 115,281 | 8,107 | 12,219 | | 122,383 |
| 2075-76 | 15,209 | 4,018 | 107,174 | 8,088 | 12,106 | | 110,277 |
| 2076-77 | 11,191 | 3,223 | 99,086 | 8,239 | 11,462 | | 98,815 |
| 2077-78 | 7,968 | 2,704 | 90,847 | 8,539 | 11,243 | | 87,573 |
| 2078-79 | 5,264 | 2,470 | 82,308 | 8,850 | 11,320 | | 76,252 |
| 2079-80 | 2,794 | 1,469 | 73,458 | 9,172 | 10,641 | | 65,611 |
| 2080-81 | 1,325 | 1,180 | 64,286 | 9,506 | 10,686 | | 54,925 |
| 2081-82 | 145 | 145 | 54,780 | 8,557 | 8,702 | | 46,223 |
| 2082-83 | 0 | 0 | 46,223 | 8,148 | 8,148 | | 38,075 |
| 2083-84 | 0 | 0 | 38,075 | 7,626 | 7,626 | | 30,449 |
| 2084-85 | 0 | 0 | 30,449 | 7,550 | 7,550 | | 22,899 |
| 2085-86 | 0 | 0 | 22,899 | 5,414 | 5,414 | | 17,485 |
| 2086-87 | 0 | 0 | 17,485 | 3,834 | 3,834 | | 13,651 |
| 2087-88 | 0 | 0 | 13,651 | 3688 | 3,688 | | 9,963 |
| 2088-89 | 0 | 0 | 9,963 | 3079 | 3,079 | | 6,884 |
| 2089-90 | 0 | 0 | 6,884 | 1724 | 1,724 | | 5,160 |
| 2090-91 | 0 | 0 | 5,160 | 1594 | 1,594 | | 3,566 |
| 2091-92 | 0 | 0 | 3,566 | 1284 | 1,284 | | 2,282 |
| 2092-93 | 0 | 0 | 2,282 | 1077 | 1,077 | | 1,205 |
| 2093-94 | 0 | 0 | 1,205 | 704 | 704 | | 501 |
| 2094-95 | 0 | 0 | 501 | 371 | 371 | | 130 |
| 2095-96 | | | 130 | 130 | 130 | | 0 |
| | | 710,934 | | 653,850 | 1,364,784 | 653,850 | |

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

| Financial year | HISTORIC DEBT Opening Balance | Instalment | NEW DEBT Opening Balance | Instalment | Total Instalment | New Borrowing | Total HRA LF debt |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| 2021-22 | 302,424 | 11,041 | 0 | 0 | 0 | 48,019 | 339,402 |
| 2022-23 | 291,383 | 10,525 | 48,019 | 437 | 11,041 | 19,860 | 348,300 |
| 2023-24 | 280,858 | 11174 | 67,442 | 659 | 10,962 | 32,020 | 368,487 |
| 2024-25 | 269,684 | 10506 | 98,803 | 1,137 | 11,833 | 33,336 | 390,180 |
| 2025-26 | 259,178 | 10,790 | 131,002 | 1,655 | 11,643 | 34,641 | 412,376 |
| 2026-27 | 248,388 | 10,856 | 163,988 | 2,216 | 12,445 | 35,934 | 435,238 |
| 2027-28 | 237,532 | 10,990 | 197,706 | 2,819 | 13,072 | | 421,429 |
| 2028-29 | 226,542 | 11,252 | 194,887 | 2,920 | 13,809 | | 407,257 |
| 2029-30 | 215,290 | 11,667 | 191,967 | 3,024 | 14,172 | | 392,566 |
| 2030-31 | 203,623 | 11,695 | 188,943 | 3,131 | 14,691 | | 377,740 |
| 2031-32 | 191,928 | 12,019 | 185,812 | 3,242 | 14,826 | | 362,479 |
| 2032-33 | 179,909 | 12,308 | 182,570 | 3,358 | 15,261 | | 346,813 |
| 2033-34 | 167,601 | 12,124 | 179,212 | 3,477 | 15,666 | | 331,212 |
| 2034-35 | 155,477 | 11,396 | 175,735 | 3,600 | 15,601 | | 316,216 |
| 2035-36 | 144,081 | 10,418 | 172,135 | 3,728 | 14,996 | | 302,070 |
| 2036-37 | 133,663 | 7,894 | 168,407 | 3,861 | 14,146 | | 290,315 |
| 2037-38 | 125,769 | 7,155 | 164,546 | 3,998 | 11,755 | | 279,162 |
| 2038-39 | 118,614 | 6,190 | 160,548 | 4,140 | 11,153 | | 268,832 |
| 2039-40 | 112,424 | 5,264 | 156,408 | 4,287 | 10,330 | | 259,281 |
| 2040-41 | 107,160 | 4,207 | 152,121 | 4,439 | 9,551 | | 250,635 |
| 2041-42 | 102,953 | 3,771 | 147,682 | 4,597 | 8,646 | | 242,267 |
| 2042-43 | 99,182 | 3,738 | 143,085 | 4,761 | 8,368 | | 233,768 |
| 2043-44 | 95,444 | 3,758 | 138,324 | 4,930 | 8,499 | | 225,080 |
| 2044-45 | 91,686 | 3,614 | 133,394 | 5,105 | 8,688 | | 216,361 |
| 2045-46 | 88,072 | 3,588 | 128,289 | 5,287 | 8,719 | | 207,486 |
| 2046-47 | 84,484 | 3,608 | 123,002 | 5,475 | 8,875 | | 198,403 |
| 2047-48 | 80,876 | 3,488 | 117,527 | 5,669 | 9,083 | | 189,246 |
| 2048-49 | 77,388 | 3,402 | 111,858 | 5,871 | 9,157 | | 179,973 |
| 2049-50 | 73,986 | 2,971 | 105,987 | 6,080 | 9,273 | | 170,922 |
| 2050-51 | 71,015 | 2,460 | 99,907 | 6,296 | 9,051 | | 162,166 |
| 2051-52 | 68,555 | 2,123 | 93,611 | 5,749 | 8,756 | | 154,294 |
| 2052-53 | 66,432 | 2,033 | 87,862 | 5,508 | 7,872 | | 146,753 |
| 2053-54 | 64,399 | 1,969 | 82,354 | 4,623 | 7,541 | | 140,161 |
| 2054-55 | 62,430 | 1,798 | 77,731 | 3,675 | 6,592 | | 134,688 |
| 2055-56 | 60,632 | 1,791 | 74,056 | 2,671 | 5,473 | | 130,226 |
| 2056-57 | 58,841 | 1,777 | 71,385 | 1,612 | 4,462 | | 126,837 |
| 2057-58 | 57,064 | 1,736 | 69,773 | 1,670 | 3,389 | | 123,431 |
| 2058-59 | 55,328 | 1,763 | 68,103 | 1,730 | 3,406 | | 119,938 |
| 2059-60 | 53,565 | 1,719 | 66,373 | 1,793 | 3,493 | | 116,426 |
| 2060-61 | 51,846 | 1,738 | 64,580 | 1,857 | 3,512 | | 112,831 |
| 2061-62 | 50,108 | 1,769 | 62,723 | 1,924 | 3,595 | | 109,138 |
| 2062-63 | 48,339 | 1,842 | 60,799 | 1,994 | 3,693 | | 105,302 |
| 2063-64 | 46,497 | 1,917 | 58,805 | 2,065 | 3,836 | | 101,320 |
| 2064-65 | 44,580 | 2,658 | 56,740 | 2,140 | 3,982 | | 96,522 |
| 2065-66 | 41,922 | 2,770 | 54,600 | 2,217 | 4,798 | | 91,535 |
| 2066-67 | 39,152 | 2,886 | 52,383 | 2,297 | 4,987 | | 86,352 |
| 2067-68 | 36,266 | 3,623 | 50,086 | 2,380 | 5,183 | | 80,349 |
| 2068-69 | 32,643 | 3,074 | 47,706 | 2,466 | 6,003 | | 74,809 |
| 2069-70 | 29,569 | 3,200 | 45,240 | 2,555 | 5,540 | | 69,054 |
| 2070-71 | 26,369 | 3,335 | 42,685 | 2,647 | 5,755 | | 63,072 |
| 2071-72 | 23,034 | 3,834 | 40,038 | 2,742 | 5,982 | | 56,496 |

| Financial year | HISTORIC DEBT Opening Balance | Instalment | NEW DEBT Opening Balance | Instalment | Total instalment | New Borrowing | Total HRA LF debt |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| 2072-73 | 19,200 | 3,329 | 37,296 | 2,841 | 6,170 | | 50,326 |
| 2073-74 | 15,871 | 3,145 | 34,455 | 2,944 | 6,089 | | 44,237 |
| 2074-75 | 12,726 | 2,723 | 31,511 | 3,050 | 5,773 | | 38,464 |
| 2075-76 | 10,003 | 2,452 | 28,461 | 3,160 | 5,612 | | 32,852 |
| 2076-77 | 7,551 | 2,285 | 25,301 | 3,274 | 5,559 | | 27,293 |
| 2077-78 | 5,266 | 1,977 | 22,027 | 3,392 | 5,369 | | 21,924 |
| 2078-79 | 3,289 | 1,618 | 18,635 | 3,515 | 5,133 | | 16,791 |
| 2079-80 | 1,671 | 1,137 | 15,120 | 3,642 | 4,779 | | 12,012 |
| 2080-81 | 534 | 534 | 11,478 | 3,773 | 4,307 | | 7,705 |
| 2081-82 | 0 | 0 | 7,705 | 2,462 | 2,462 | | 5,243 |
| 2082-83 | 0 | 0 | 5,243 | 2,026 | 2,026 | | 3,217 |
| 2083-84 | 0 | 0 | 3,217 | 1,573 | 1,573 | | 1,644 |
| 2084-85 | 0 | 0 | 1,644 | 1,084 | 1,084 | | 560 |
| 2085-86 | 0 | 0 | 560 | 560 | 560 | | 0 |
| 2086-87 | 0 | 0 | | | | | |
| 2087-88 | 0 | 0 | | | | | |
| | | 302,424 | | 203,810 | 506,234 | 203,810 | |