AGENDA ITEM No. 5

EAST RENFREWSHIRE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

20 February 2025

Report by Head of Finance (Chief Financial Officer)

Treasury Management Strategy Report for 2025/26

PURPOSE OF REPORT

1. To advise the Audit and Scrutiny Committee on the Treasury Management Strategy for the financial year 2025/26.

RECOMMENDATIONS

2. It is recommended that Members:

- consider the content of the Treasury Management Strategy Report for 2025/26;
- recommend to the Council that the Treasury Management Strategy for 2025/26 be approved, including the Prudential and Treasury Indicators and the amended list of organisations for investment of surplus funds (Annex E);
- recommend to the Council that they approve the policy on the repayment of loans fund advances (see section 3.4); and
- recommend to the Council the forms of investment Instruments for use as permitted investments (Annex C).

BACKGROUND

3. In line with the CIPFA Treasury Management Code of Practice 2021, the Audit and Scrutiny Committee is responsible for ensuring effective scrutiny of the treasury management strategy and policies.

4. The attached Treasury Management Strategy Report for the financial year 2025/26 is submitted in accordance with this requirement. Figures contained in the report have been compiled on the basis of the latest available information.

TREASURY MANAGEMENT STRATEGY FOR 2025/26

5. The Treasury Management Strategy for 2025/26 is attached (see Appendix 1).

EQUALITY IMPACT

6. A screening exercise has revealed that the Treasury Management Strategy has no direct relevance to the Council's equality duties.

Report Author

Head of Finance (Chief Financial Officer):	Kirsty Stanners
Chief Accountant:	Barbara Clark
Telephone Number:	0141 577 3068
E-mail:	barbara.clark@eastrenfrewshire.gov.uk
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APPENDIX 1

EAST RENFREWSHIRE COUNCIL

TREASURY MANAGEMENT STRATEGY 2025/26

CONTENTS

1 Background

The Council is required to operate a balanced budget, which broadly means that cash received during the year will meet cash expenditure. A major aspect of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, ensuring adequate liquidity before considering investment return.

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

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, including 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."

2 Reporting Requirements

2.1 The Council is required to receive and approve, as a minimum, six reports on treasury activity each year, which incorporate a variety of policies as well as estimated and actual figures. These reports are as follows:-

a) **Treasury Management Strategy 2025/26** (this report).

This report is the most important of the six reports and covers:

- the capital plans of the Council (including prudential indicators)
- a policy on statutory repayment of loans fund advances (how residual capital expenditure is charged to revenue over time)
- the Treasury Management Strategy (how the investments and borrowings are organised) including treasury indicators, and
- an Annual Investment Strategy (the parameters on how investments are to be managed).

b) **Quarterly Interim Treasury Management Reports** – These are primarily four progress reports and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) **Annual Treasury Report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimate within the strategy.

2.2 Scrutiny

These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit and Scrutiny Committee.

2.3 Capital Investment Strategy

The CIPFA revised 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital investment strategy report, which will provide the following:

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

The aim of this capital investment strategy is to ensure that all elected members fully understand the overall long term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. Council approved the current Capital Investment Strategy on 28 February 2024.

2.4 Treasury Management Strategy for 2025/26

The treasury management issues covered by this report are:

Capital Issues

- The capital expenditure plans and associated prudential indicators; and
- The policy for the statutory repayment on loans fund advances

Treasury management issues

- The current treasury position
- Treasury indicators which will limit the treasury risk and activities of the Council
- Prospects for interest rates
- The borrowing strategy
- Policy on borrowing in advance of need
- Debt rescheduling
- The Annual Investment Strategy; and
- Credit Worthiness Policy

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

2.5 Treasury Management Consultants

The Council uses MUFG Corporate Markets (previously Link Group, Treasury Services Ltd) as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that it does not rely solely upon information and advice from its treasury advisors.

It also recognises, however, that there is value in employing external providers of treasury management services in order to gain access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2.6 Council and Subsidiary Organisations

The Treasury Management Strategy covers the treasury management activities for the Council (including any subsidiary organisations i.e. East Renfrewshire Culture & Leisure Trust).

3 The Capital Prudential Indicators 2025/26 – 2029/30

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members to provide scrutiny and oversight, and confirm that capital expenditure plans are prudent, affordable and sustainable.

A summary of the indicators can be found in Annex A.

3.1 Capital Expenditure (Prudential Indicator PI-1)

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle. The indicator also includes expenditure financed by PFI and lease type arrangements which, for the purposes of financial planning and reporting, must be treated as capital expenditure.

The following capital expenditure forecasts are in line with the housing capital plan 2025/26 - 2034/35 and the general fund capital plan 2025/26 - 2034/35, both of which will be submitted to Council on 26 February 2025:

Capital Expenditure (PI-1) £'000	**2023/24 Actual**	**2024/25 Probable**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**	**2029/30 Estimate**
General Fund – Capital Programme	41,433	50,554	66,371	44,076	25,690	17,095	22,281
– Other Relevant Expenditure	-	37,362	954	954	954	954	954
General Fund Subtotal	**41,433**	**87,916**	**67,325**	**45,030**	**26,644**	**18,049**	**23,235**
Housing	**5,053**	**24,034**	**7,322**	**17,851**	**11,465**	**7,822**	**5,598**
Total	**46,486**	**111,950**	**74,647**	**62,881**	**38,109**	**25,871**	**28,833**

3.2 Capital Financing Assumptions

The table below summarises the capital expenditure plans for the General Fund and how these plans are being financed. Any shortfall of resources results in a borrowing need:

General Fund £'000	2023/24 Actual	2024/25 Probable	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Capital Expenditure	41,433	50,554	66,371	44,076	25,690	17,095	22,281
Other Relevant Expenditure (per IFRS 16 adjustments)	-	37,362	954	954	954	954	954
Total	41,433	87,916	67,325	45,030	26,644	18,049	23,235
Financed by:							
Capital Receipts	147	1,000	-	-	-	-	-
Capital Reserve	-	1,700	550	-	-	-	-
Developer Contributions	1,411	1,311	1,676	100	100	100	110
Govt. General Capital Grant	5,906	4,683	6,083	6,083	6,083	6,083	6,083
Govt. Specific Capital Grants	6,330	10,042	3,634	2,075	375	75	75
Other Grants & Contributions	-	-	-	-	600	-	-
Repairs & Renewals Fund/CFCR	799	-	-	-	-	-	-
Net Borrowing Requirement for the year	**26,840**	**69,180**	**55,382**	**36,772**	**19,486**	**11,791**	**16,967**

The table below summarises the capital expenditure plans for housing and how these plans are being financed. Any shortfall of resources results in a borrowing requirement:

Housing £'000	2023/24 Actual	2024/25 Probable	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Capital Expenditure	5,053	24,034	7,322	17,851	11,465	7,822	5,598
Financed by:							
Capital Receipts – Right to Buy	-	-	-	-	-	-	-
Capital Receipts – Land Disposal	-	-	-	-	-	-	-
Capital Reserve	-	4,000	6,500	1,700	-	-	-
Recharges to Owners	-	50	125	125	125	125	100
Govt. Specific Capital Grants	1,081	9,888	50	6,746	-	-	-
Commuted Sums	-	1,350	275	2,056	-	-	-
CFCR	-	-	250	-	2,275	2,090	2,050
Other	131	-	-	-	-	-	-
Net Borrowing Requirement for the year	**3,841**	**8,746**	**122**	**7,224**	**9,065**	**5,607**	**3,448**

The table below summarises the borrowing requirement resulting from both the General Fund (including PFI and leasing type arrangements) and housing capital plans:

Borrowing Requirement £'000	**2023/24 Actual**	**2024/25 Probable**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**	**2029/30 Estimate**
General Fund	26,840	69,180	55,382	36,772	19,486	11,791	16,967
Housing	3,841	8,746	122	7,224	9,065	5,607	3,448
Net Borrowing Requirement for the year	30,681	77,926	55,504	43,996	28,551	17,398	20,415

3.3 The Council's Borrowing Requirement (The Capital Financing Requirement – Prudential Indicator PI-2)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and, therefore its underlying borrowing need. Any capital expenditure identified above, which has not immediately been paid for (e.g. via grants), will increase the CFR.

The CFR does not increase indefinitely, as prudent annual repayments from revenue need to be made which reflect the useful life of capital assets financed by borrowing. From 1 April 2016 authorities may choose whether to use scheduled debt amortisation (loans pool charges) or another suitable method of calculation in order to repay borrowing. The Council's position is set out in paragraph 3.4 below.

The CFR includes any other long term liabilities (e.g. PPP schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI or PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council has liabilities of £68.132m relating to such schemes as at 31 March 2024.

The Council is asked to approve the CFR projections below:

Capital Financing Requirement (PI-2) £'000	**2023/24 Actual**	**2024/25 Probable**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**	**2029/30 Estimate**
General Fund	209,686	270,400	317,498	347,458	356,775	358,431	365,321
Housing	46,586	51,842	48,474	54,578	62,405	66,671	68,705
Total CFR (PI-2)*	**256,272**	**322,242**	**365,972**	**402,036**	**419,180**	**425,102**	**434,026**

Net borrowing requirement for the year (above)	30,681	77,926	55,504	43,996	28,551	17,398	20,415
Less loans fund principal repayment and other financing movements	(12,799) - 17,516	(16,554) - 4,598	(17,068) - 5,294	(11,588) - 3,656	(16,100) - 4,693	(17,626) - 6,150	(18,517) - 7,026
1Movement in CFR	**35,398**	**65,970**	**43,730**	**36,064**	**17,144**	**5,922**	**8,924**

**The CFR for this calculation includes capital expenditure to 31 March of each financial year.*

3.4 Statutory Repayment of Loans Fund Advances

The Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures 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.

A variety of options are provided to Council's so long as a prudent provision is made each year. The Council is recommended to approve 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 (in line with Schedule 3 of the Local Government (Scotland) Act 1975), with all loans fund advances being repaid by the annuity method in line with the repayment profile determined in previous years.
- Loans fund advances relating to City Deal projects which will be supported in later years by Government funding will be repaid in accordance with the funding/income profile method. This links the repayments to the project income stream.
- For loans fund advances made between 1 April 2016 and 31 March 2021, excluding the above, the Council will continue to calculate loan charge repayments in line with Schedule 3 of the Local Government (Scotland) Act 1975, using an annuity rate of 4%. The Council is permitted to use this option for new borrowing taken out over this transitional period.
- For loans fund advances from 1 April 2021 to 31 March 2024, these will be repaid with reference to the life of an asset using the equal instalments of Principal method.
- For loans fund advances from 1 April 2024, these will be repaid with reference to the life of the asset, using an annuity method which is in line with the policy adopted by the majority of Council's in Scotland. In addition, the period over which new build houses will now be written off has increased from 40 to 60 year period. The objective of the revised policy is to support a sustainable and deliverable longer term revenue budget strategy, whilst ensuring that provision remains prudent and appropriate to the benefits that are provided from the associated capital expenditure. This is permitted within the new draft regulations. The annuity rate applied to the loans fund repayments is based on historic rates and is currently just over 4% which the Council has assessed is a fair and prudent approach.

The table below shows what the future General Fund loans fund balances are expected to be, with year 1 being 2024/25:

£'000	Year 1	Years 2-4	Years 5-9	Years 10-14	Years 15-19	Years 20+
Opening Balance	124,038	152,097	249,741	262,146	238,342	206,429
Advances	31,818	108,778	38,749	4,050	-	-
Repayments	(3,759)	(11,134)	(26,344)	(27,854)	(31,913)	(206,429)
Closing Balance	152,097	249,741	262,146	238,342	206,429	-

The table below shows what the future HRA loans fund balances are expected to be, with year 1 being 2024/25:

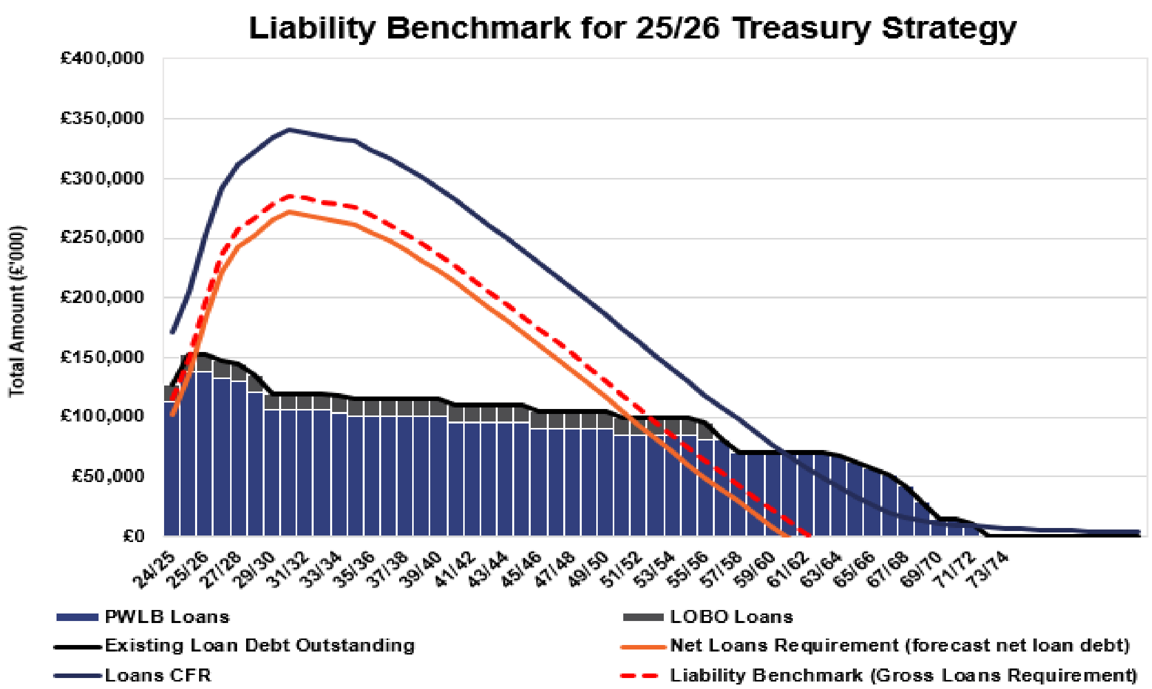
£'000	Year 1	Years 2-4	Years 5-9	Years 10-14	Years 15-19	Years 20+
Opening Balance	46,586	51,482	62,405	73,131	70,472	54,979
Advances	8,746	16,411	18,727	9,924	-	-
Repayments	(3,490)	(5,848)	(8,001)	(12,583)	(15,493)	(54,979)
Closing Balance	51,842	62,405	73,131	70,472	54,979	-

3.5 Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum. It is a projection of the amount of loan debt outstanding that the Council needs to fund its existing debt liabilities, planned prudential borrowing and other cash flows.

There are four components to the LB: -

1. **Existing loan debt outstanding**: the Council's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Loans Fund principal repayments.
3. **Net loans requirement**: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned Loans Fund principal repayments and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short term liquidity allowance.



4 Borrowing

The previous section of this report provides a summary of the capital expenditure plans. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity and the Council's Capital Investment Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the Annual Investment Strategy.

4.1 Current Portfolio Position

The Council's actual and projected debt portfolio is summarised below. The table compares the actual and projected external debt against the Council's estimated borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

£'000 as at 31 March	2023/24 Actual	2024/25 Probable	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Borrowing	127,639	172,624	215,108	255,092	273,075	280,558	293,040
Other Long Term Liabilities	68,132	96,189	87,138	79,726	71,277	61,372	50,592
Total Gross Debt (Prudential Indicator PI-3)	**195,771**	**268,813**	**302,246**	**334,818**	**344,352**	**341,930**	**343,632**
CFR – the borrowing need	**256,272**	**322,242**	**365,972**	**402,036**	**419,180**	**425,102**	**434,026**
(Under) / Over Borrowing (Prudential Indicator PI-6)	**(60,501)**	**(53,429)**	**(63,726)**	**(67,218)**	**(74,828)**	**(83,172)**	**(90,394)**

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these limits (PI-3) is ensuring that the Council's gross debt figure (shown above) does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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 by external loan debt as the cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy.

4.2 Treasury Indicators: Limits to Borrowing Activity

a) The Operational Boundary (Prudential Indicator PI-4)

This indicator takes account of capital expenditure and financing requirements, and projects the expected level of external debt for operational purposes. Temporary breaches of the operational boundary may occur as a result of unexpected cash movements. The Head of Finance (Chief Financial Officer) has delegated authority to manage the movement between borrowing and other long term liabilities such as finance leases in accordance with option appraisal and value for money considerations, if it is considered appropriate. Any such movement will be reported to Council following the change.

Operational boundary for external debt (PI-4) £'000	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Borrowing	**278,111**	**326,600**	**349,207**	**373,048**	**397,767**
Other Long Term Liabilities	**97,143**	**88,092**	**80,680**	**72,231**	**62,326**
Total	**375,254**	**414,692**	**429,887**	**445,279**	**460,093**

b) The Authorised Limit for External Debt (Prudential indicator PI-5)

This is a key prudential indicator and represents a control on the maximum level of borrowing. It is similar to the operational boundary but includes further headroom to accommodate adverse cash flow movements and opportunities for advance borrowing. It represents a legal limit which external debt is prohibited to exceed and reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. In circumstances where a breach takes place the reasons shall be reported to the next meeting of the Council and the limit revised if appropriate. It should be noted that under section 3(1) of the Local Government Act 2003, the Government retains an option to control either the total of all local authority plans, or those of a specific Council, although this power has not yet been exercised.

The proposed Authorised Limit for the Council is as follows:

Authorised limit for external debt (PI-5) £'000	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Borrowing	**319,828**	**375,591**	**401,588**	**429,005**	**457,432**
Other Long Term Liabilities	**97,143**	**88,092**	**80,680**	**72,231**	**62,326**
Total	**416,971**	**463,683**	**482,268**	**501,236**	**519,758**

c) Leasing - International Financial Reporting Standard (IFRS) 16

From 1 April 2024, leases which were previously off balance sheet will now be included. As leases form part of the other long term liability figures which make up the Prudential Indicators above, it is possible that the indicators currently suggested will be exceeded. Detailed data gathering has been substantially completed, however as this information is continually being reviewed and will be updated later in the 2025/26 financial year, an updated report may be required to inform members of any further impacts of IFRS 16 with amended Prudential Indicators for approval.

4.3 Prospects for Interest Rates

As noted previously the Council has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. MUFG Corporate Markets provided the following forecasts on 11 November 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

Additional notes by MUFG Corporate Markets on this forecast table: -

- Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, we have significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

- If we reflect on the 30 October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

- The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

- There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

- Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

- Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.

- Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

- So far, we have made little mention of the US President Election. Nonetheless, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.

- Our revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps).

MUFG Corporate Market Forecasts

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are to the upsides. Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 11.11.24 p.m.	Target borrowing rate now (end of Q3 2026)	Target borrowing rate previous (end of Q3 2026)
5 years	5.02%	4.30%	3.90%
10 years	5.23%	4.50%	4.10%
25 years	5.66%	4.90%	4.40%
50 years	5.42%	4.70%	4.20%

Borrowing advice: Our long term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

Average earnings in each year	Now	Previously
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%
Years 10+	3.50%	3.50%

We will continue to monitor economic and market developments as they unfold. Typically, we formally review our forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider our position on an ad hoc basis as required.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

4.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2025 even if some rate cuts arise.

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Head of Finance (Chief Financial Officer) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed; and

- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions to borrow externally in excess of the amounts shown in para 3.2 will be reported to Council at the next available opportunity.

4.5 Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs/improve performance. The indicators are:

(i) Upper limits on fixed interest rate exposure (Treasury Indicator TI-1)

This covers a maximum limit for borrowing exposure to fixed interest rates, based on the debt position and is set at 100%.

(ii) Upper limits on variable interest rate exposure (Treasury Indicator TI-2)

This identified a maximum limit for borrowing exposure to variable interest rates based upon the debt position and is set at 15%.

(iii) Maturity structure of borrowing (Treasury Indicator TI-3)

Gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing. The Council has set the limit of debt maturing in any one year to 15% at the time of borrowing.

4.6 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.

Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

The Head of Finance (Chief Financial Officer) has the authority to borrow in advance of need under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. The Head of Finance (Chief Financial Officer) will adopt a cautious approach to any such borrowing and a business case to support the decision making process must consider:

- the benefits of borrowing in advance
- the risks created by additional levels of borrowing and investment and
- how far in advance it is reasonable to borrow considering the risks identified

Any such advance borrowing should be reported through the quarterly or annual Treasury Management reporting mechanism.

4.7 Debt Rescheduling

Rescheduling of current borrowing in the Council's debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

All rescheduling will be reported to Council at the earliest meeting following its action.

5 Annual Investment Strategy 2025/26

5.1 Investment Policy

The Council's investment policy implements the requirements of the following:-

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

The above regulations and guidance place a high priority on the management of risk. The Council's investment priorities will be security first, liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, and with regard to the Council's risk appetite, whilst also accommodating Environmental, Social and Governance (ESG) principles as a fourth priority and principle to apply (see annex F).

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

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

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

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

4. This Council has defined the list of **types of investment instruments** that are permitted investments authorised for use in Annex C. Annex D expands on the risks involved in each type of investment and the mitigating controls.

5. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the information gathered (see points 1-3 above).

6. **Transaction limits** are set for each type of investment (see Annex E).

7. This Council has engaged **external consultants**, (see paragraph 2.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council and in the context of the expected level of cash balances and need for liquidity throughout the year.

8. This Council will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 5.7c).

9. The Council has determined that it will only use approved counterparties from within the United Kingdom.

However, this Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 5.8). Regular monitoring of investment performance will be carried out during the year.

5.2 Changes in Risk Management Policy from last year

The above criteria are unchanged from last year.

5.3 Creditworthiness Policy

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

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Head of Finance (Chief Financial Officer) will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary (see **Annex E**). These criteria provide an overall pool of classes of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by MUFG Corporate Markets the Council's treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list, with the exception of the Council's own banker. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applied to a counterparty that is already at the minimum Council criteria will be suspended from use, with all other counterparties being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties are:

- Banks 1 - good credit quality **–** the Council will only use UK banks which have, as a minimum, the following Fitch (or equivalent) ratings (where rated):
    - i. Short Term – *F1*
    - ii. Long Term – *A-*
- Banks 2 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies - The Council will use societies which meet the ratings for banks outlined above;
- Money Market Funds (LVNAV OR VNAV).
- Ultra-Short Dated Bond Funds.
- UK Government (including gilts, Treasury Bills and the Debt Management Agency Deposit Facility).
- Local authorities, including Police, Fire and the Council's subsidiary (East Renfrewshire Culture & Leisure Trust).

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

Hub Schemes. The Council also invests in hub projects, which are based on robust business cases and a cash flow from public sector organisations (i.e. low risk). As additional assurance, such investments are restricted to hub schemes where the Council is a significant participant.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as stated in **Annex E**.

Creditworthiness. Significant levels of downgrades to Short and Long Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Council will not set a minimum rating for the UK.

5.4 Country and Council's Banker

a) Country Limits

The Council's strategy is to only use approved counterparties from within the United Kingdom. The Head of Finance (Chief Financial Officer) may review this policy to countries with sovereign ratings of AAA should the sovereign rating for the UK be downgraded to below Fitch AA –, or equivalent.

b) Council's Own Banker

The Council's own banker (The Clydesdale bank) will be maintained on the Council's counterparty list in situations where rating changes mean this is below the above criteria. This is to allow the Council to continue to operate normal current account banking facilities overnight and short term investment facilities.

5.5 The Monitoring of Investment Counterparties

All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of the creditworthiness service of MUFG Corporate Markets.

If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

If the Council has funds invested in an institution which is downgraded to below the acceptable rating criteria, the Council will enter discussions with the counterparty to establish if the funds can be returned early. This, however, will be subject to an appropriate cost versus risk assessment of the specific situation.

The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Under exceptional market conditions, the Head of Finance (Chief Financial Officer) may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out in this strategy or restrict the duration of investments. These restrictions will remain in place until the Head of Finance (Chief Financial Officer) is of an opinion that the banking system has returned to 'normal'.

5.6 Types of Investments

For institutions on the approved counterparty list, investments will be restricted to safer instruments (as listed in **Annex D**). Currently this involves the use of money market funds, the Debt Management Agency Deposit Facility (DMADF) and institutions with higher credit ratings than the minimum permissible rating outlined in the investment strategy, as well as the Council's own bank.

Where appropriate, investments will be made through approved brokers. The current list of approved brokers comprises:

- Sterling International Brokers Limited
- Tradition (UK) Limited
- Martins Brokers
- King and Shaxson Capital Limited

- Tullet Prebon Brokers
- Imperial Treasury Services
- MUFG Corporate Markets Treasury Limited

5.7 Investment Strategy and bank rate projections

a) In-house funds

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short term interest rates (i.e. rates for investments up to 12 months).

Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that the risks are relatively balanced between the Bank Rate staying higher for longer, if inflation picks up markedly through 2025 post the 30 October 2024 Budget, or the rate being cut more quickly than expected if the economy stagnates. The economy only grew 0.1% in Quarter 3 2024, but the CPI measure of inflation is now markedly above the 2% target rate set by the Bank of England's Monetary Policy Committee two to three years forward.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

b) Investment returns expectations

The current forecast is that the Bank Rate will fall to a low of 3.5%.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	Now	Previously
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%
Years 10+	3.50%	3.50%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

For its cash flow generated balances, the Council will seek to utilise its money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. They are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicator and limit:

c) **Investment Treasury Indicator And Limit (Treasury Indicator TI-4)**
Total Principal Funds Invested for Greater Than 365 days

These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The treasury indicator and limit proposed is:

Maximum principal sums invested > 365 days (TI-4)			
	2025/26	2026/27	2027/28
Principal sums invested > 365 days	5%	5%	5%

5.8 Risk Benchmarking

These benchmarks are simple guides to minimise risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmarks is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons, in the quarterly or annual reports.

a) **Security**
The Council's **maximum** security risk benchmark for the current portfolio, when compared to historic default tables, is:

0.06% historic risk of default when compared to the whole portfolio for 1 year.

b) **Liquidity**
In respect of this area the Council seeks to maintain:

- Bank Overdraft: £100,000 East Renfrewshire Council
  £ 25,000 East Renfrewshire Culture & Leisure Trust

c) **Yield**
Local Measures of yield benchmarks are:

Investments - Internal returns above the 1 month compounded SONIA (Sterling Over-Night Indexed Average) rate.

5.9 End of year investment report

At the end of the financial year, the Head of Finance (Chief Financial Officer) will report on the Council's investment activity as part of the Annual Treasury Report.

6 Performance Indicators

6.1 The CIPFA Code requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

6.2 Debt Performance Indicator

(i) Average "Pool Rate" charged by the Loans Fund compared to Scottish Local Authority average Pool Rate:

Target is to be at or below the Scottish Average for 2024/25.

6.3 Loan Charges

Loan Charges for 2025/26 are expected to be at or below the Revenue Budget estimate contained in the Council's General Fund Financial Plans to be approved in February 2025, which are estimated as follows:

£m	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Capital Repayments	3,573	2,102	5,459	5,426	5,370
Interest on Borrowing	7,296	9,222	10,228	10,539	10,735
Expenses	219	255	247	248	254
Total Loan Charges*	**11,088**	**11,579**	**15,934**	**16,213**	**16,359**

**The Loan Charges exclude the capital element of PPP & IFRS 16 repayments*

6.4 Affordability Prudential Indicators

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

(i) Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Non-HRA	6.6	8.0	8.0	7.4	8.7	8.9	8.9
HRA	33.8	35.0	33.6	19.3	20.6	21.9	22.1

The estimates of financing costs include current commitments and the proposals in the budget report.

(ii) HRA ratios

£	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
HRA debt £m	**46,586**	**51,842**	**48,474**	**54,578**	**62,405**	**66,671**	**68,706**
HRA revenues £m	**15,170**	**15,951**	**16,855**	**17,355**	**18,184**	**18,724**	**19,280**
Ratio of debt to revenues %	**307.1**	**325.0**	**287.6**	**314.5**	**343.2**	**356.1**	**356.4**

£	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
HRA debt £m	**46,586**	**51,842**	**48,474**	**54,578**	**62,405**	**66,671**	**68,706**
Number of HRA dwellings	**3,136**	**3,230**	**3,230**	**3,230**	**3,296**	**3,296**	**3,296**
Debt per dwelling £	**14,855**	**16,050**	**15,007**	**16,897**	**18,934**	**20,228**	**20,845**

7 Monitoring and Reporting

In line with the CIPFA Code, the following formal reporting arrangements will be adopted:

Requirement	Purpose	Responsible Body	Frequency
Scrutiny of Treasury Management Strategy	Detailed scrutiny prior to annual approval by Council	Audit & Scrutiny Committee	Annually
Treasury Management Strategy	Reporting on Annual Strategy	Council	Annually prior to start of new financial year
Scrutiny of Interim Treasury Management Reports	Detailed scrutiny prior to approval by Council	Audit & Scrutiny Committee	Quarterly in September/ November/January/March of the current year
Interim Treasury Management Reports	Quarterly Performance Report	Council	Quarterly after reported to the Audit & Scrutiny Committee
Scrutiny of Treasury Management Annual Report	Detailed scrutiny prior to approval by Council	Audit & Scrutiny Committee	Annually in August of the financial year

Treasury Management Annual Report	Annual Performance report for previous financial year	Council	Annually after reported to the Audit & Scrutiny Committee
Treasury Management Practices		Council	As appropriate
Treasury Management Policy Statement	Reviews and revisions	Council	As required

8 Member and Officer Training

The CIPFA Code requires the Head of Finance (Chief Financial Officer) to ensure that both members and officers with responsibility for treasury management receive adequate training in this area.

Furthermore, the Code states that it expects "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and members.
- Require treasury management officers and members to undertake self-assessment against the required competencies.
- Have regular communication with officers and members, encouraging them to highlight training needs on an ongoing basis."

The training needs of the treasury management officers and members are periodically reviewed and on this basis a mid-term self-assessment of the Audit & Scrutiny Committee has commenced, the outcome of which may contribute to the determination of what further training is required.

A formal record of the training received by officers central to the treasury function will be maintained by the Senior Treasury Officer, who will also record any treasury management/capital finance training received by members. Training can be arranged with the Council's treasury advisors, as required.

ANNEXES

ANNEX A
SUMMARY OF PRUDENTIAL AND TREASURY INDICATORS

Indicator (Page Ref.)	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
PRUDENTIAL INDICATORS							
Capital Expenditure Indicator							
PI-1 (Page7) Capital Expenditure Limits	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund	67,325	45,030	26,644	18,049	23,235	16,160	8,465
Housing	7,322	17,851	11,465	7,822	5,598	5,826	5,021
Total	**74,647**	**62,881**	**38,109**	**25,871**	**28,833**	**21,986**	**13,486**
PI-2 (Page 8) Capital Financing Requirement General Fund	£'000 317,498	£'000 347,458	£'000 356,775	£'000 358,431	£'000 365,321	£'000 365,912	£'000 358,583
Housing	48,474	54,578	62,405	66,671	68,705	70,821	72,041
Total	**365,972**	**402,036**	**419,180**	**425,102**	**434,026**	**436,733**	**430,625**
Affordability Indicator							
External Debt Indicators							
PI-3 (Page 11) Gross Debt	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Borrowing	215,108	255,092	273,075	280,558	293,040	298,021	298,001
Other Long Term Liabilities	87,138	79,726	71,277	61,372	50,592	38,933	31,151
Total	**302,246**	**334,818**	**344,352**	**341,930**	**343,632**	**336,954**	**329,152**
PI-4 (Page 12) Operational Boundary for External Debt	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Borrowing	278,111	326,600	349,207	373,048	397,767	397,149	398,839
Other Long Term Liabilities	97,143	88,092	80,680	72,231	62,326	51,546	39,887
Total	**375,254**	**414,692**	**429,887**	**445,279**	**460,093**	**448,695**	**438,726**
PI-5 (Page 12) Authorised Limit for External Debt	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Borrowing	319,828	375,591	401,588	429,005	457,432	456,721	458,664
Other Long Term Liabilities	97,143	88,092	80,680	72,231	62,326	51,546	39,887
Total	416,971	**463,683**	**482,268**	**501,236**	**519,758**	**508,267**	**498,551**

(Page 23) Finance Costs General Fund Other Long Term Liabilities Housing Total	£'000 11,088 16,451 5,665 **33,204**	£'000 11,579 14,127 3,355 **29,061**	£'000 15,934 14,649 3,755 **34,338**	£'000 16,213 15,515 4,097 **35,825**	£'000 16,359 15,697 4,269 **36,325**	£'000 16,124 15,818 4,501 **36,443**	£'000 16,362 11,123 4,803 **32,288**
(Page 23) Ratio of Financing costs to Net Revenue Stream – Non –HRA	**8.0**	7.4	**8.7**	**8.9**	**8.9**	**8.8**	**7.4**
(Page 23) Ratio of Financing costs to Net Revenue Stream – HRA	**33.6**	**19.3**	**20.6**	**21.9**	**22.1**	**22.7**	**23.5**
(Page 24) Ratio of HRA Debt To HRA Revenue	**287.6**	**314.5**	**343.2**	**356.1**	**356.4**	**356.7**	**352.6**
(Page 24) HRA Debt per Dwelling £	**15,007**	**16,897**	**18,934**	**20,228**	**20,845**	**21,487**	**21,857**
Indicators of Prudence							
PI-6 (Page 11) (Under)/Over Gross Borrowing against the CFR	£'000 **(63,726)**	£'000 **(67,218)**	£'000 **(74,828)**	£'000 **(83,172)**	£'000 **(90,394)**	£'000 **(99,779)**	£'000 **(101,473)**
TREASURY INDICATORS							
TI-1 (Page 16) Upper Limit to Fixed Interest Rates based on Net Debt	100% of debt position						
TI-2 (Page 16) Upper limit to Variable Interest Rates based on Net Debt	15% of debt position						
TI-3 (Page 16) Maturity Structure of Fixed Interest Rate Borrowing	15% maturing in any one year at the time of borrowing						
TI-4 (Page 22) Maximum Principal Sum invested greater than 365 days	5%	5%	5%	5%	5%	5%	5%

ANNEX B – MUFG Corporate Markets Economic Background (to 30 September 2024)

- The third quarter of 2024 (July to September) saw:
- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.
- The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.
- The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.
- The Government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Our colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.
- The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.
- Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

- CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.
- The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.
- Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.
- Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.
- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to how events in the Middle East (and Ukraine) and the impacts of new US President unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.

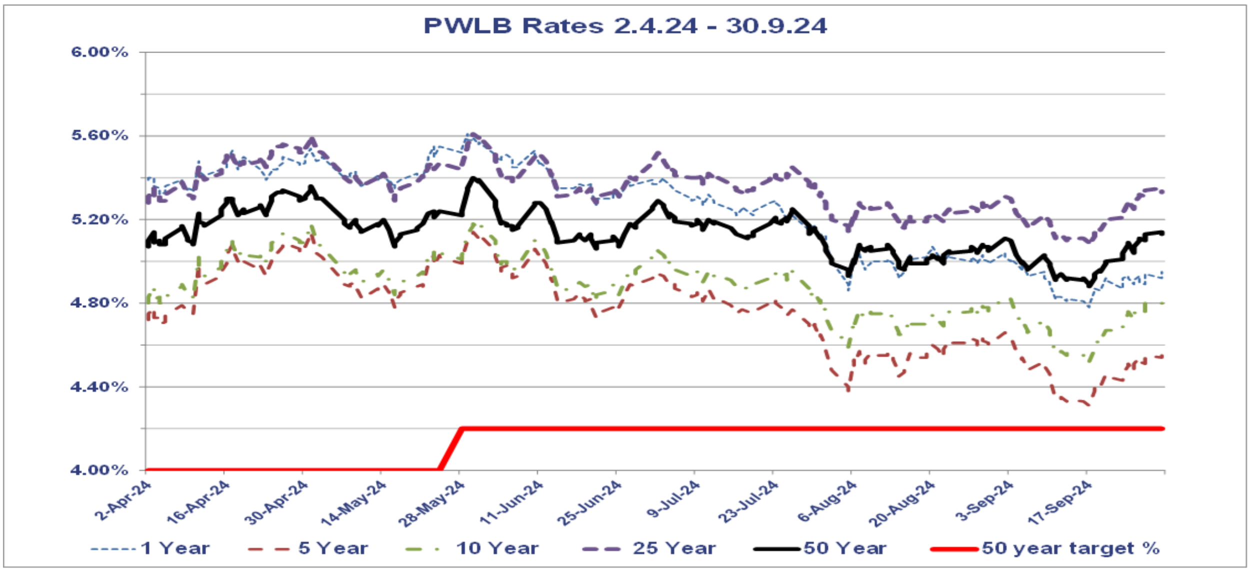
MPC meetings: 9 May, 20 June, 1 August, 19 September 2024

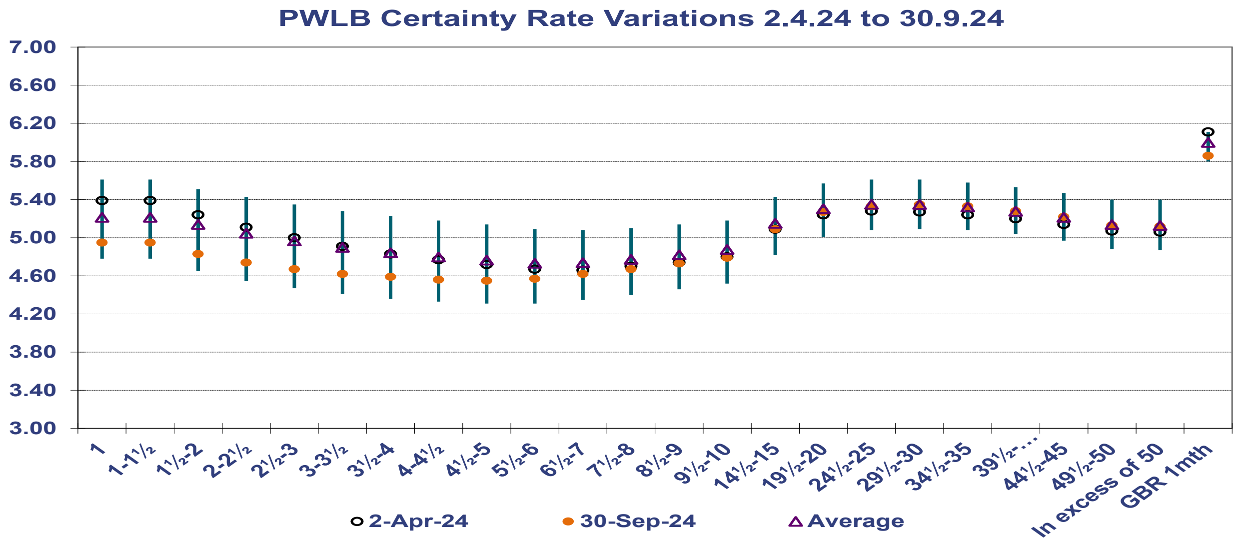
- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.

- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.

In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.

PWLB RATES 02.04.24 - 30.09.24





HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

ANNEX C

Permitted Investment Instruments

Treasury risks

All the investment instruments are subject to the following risks:

1. **Credit and counter-party risk:** this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.

2. **Liquidity risk:** this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk, a credit risk can never be zero. In this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment, e.g. gilts, CDs, corporate bonds, can usually be sold immediately if the need arises, there are two caveats:

   a) cash may not be available until a settlement date up to three days after the sale, and
   b) there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer

3. **Market risk:** this is the risk of potential for losses arising from factors influencing the overall performance of financial markets.

4. **Interest rate risk**: this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This Council has set limits for its fixed and variable rate exposure. These are set out in the Treasury Indicators in this report.

5. **Legal and regulatory risk:** this is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

Controls on treasury risks

1. **Credit and counter-party risk:** this Council has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes. See paragraphs 5.3 and 5.4.

2. **Liquidity risk:** this Council has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.

3. **Market risk:** this Council purchases Certificate of Deposits, Corporate Bonds, Treasury Bills and Ultra-Short Bonds as they offer a higher rate of return than depositing in the DMADF. They are usually held until maturity but in exceptional circumstances, they can be quickly sold at the current market value, (which may be below the purchase cost), if the need arises for extra cash at short notice. Their value does not usually vary much during their short life.

4. **Interest rate risk**: this Council manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly. This strategy aims to maximise investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing. See paragraph 5.7.

5. **Legal and regulatory risk:** the Council will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations. This applies to all types of investment instruments.

Objectives of each type of Permitted Investment instrument

1. DEPOSITS

The following forms of 'investments' are actually more accurately called deposits as cash is deposited in an account until an agreed maturity date or is held at call.

a) **Debt Management Agency Deposit Facility (DMADF).** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. However, it is very useful for authorities whose overriding priority is the avoidance of risk. The longest period for a term deposit with the DMADF is 6 months.

b) **Term deposits with high credit worthiness banks and building societies.** This is the most widely used form of investing used by local authorities. It offers a much higher rate of return than the DMADF (dependent on term). The Council will ensure diversification of its portfolio of deposits ensuring that an approved maximum can be placed with any one institution or group. In addition, longer term deposits offer an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing offers a lot of flexibility and provides higher earnings than the DMADF however once a longer term investment is made, that cash is locked in until the maturity date.

c) **Call accounts with high credit worthiness banks and building societies.** The objectives are as for 1b, but there is instant access to recalling cash deposited. This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit. Some use of call accounts is highly desirable to ensure that the Council has ready access to cash when needed to pay bills.

d) **Fixed term deposits with variable rate and variable maturities (structured deposits).** This encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits and provides greater flexibility to adopt new instruments, as and when they are brought to the market. Approval will be sought before making deposits using instruments under this generic title.

e) **Collateralised deposits.** These are deposits placed with a bank which offers collateral backing based on specific assets. Examples seen in the past have included local authority LOBOs, where such deposits are effectively lending to a local authority as that is the ultimate security.

2. DEPOSITS WITH COUNTERPARTIES CURRENTLY IN RECEIPT OF GOVERNMENT SUPPORT/OWNERSHIP

These banks (not applicable currently) offer another dimension of creditworthiness in terms of Government backing through either partial or full direct ownership. The view of this Council is that such backing makes these banks attractive institutions with whom to place deposits, and that will remain the view if the UK sovereign rating were to be downgraded in the coming year.

a) **Term deposits with high credit worthiness banks which are fully or semi nationalised.** As for 1b, but Government full (or substantial partial) ownership, implies that the Government stands behind this bank and will be deeply committed to providing whatever support that may be required to ensure the continuity of that bank. This Council considers that this indicates a low and acceptable level of residual risk.

b) **Fixed term deposits with variable rate and variable maturities (structured deposits).** There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. Approval will be sought before making deposits using instruments under this generic title.

3. COLLECTIVE INVESTMENT SCHEMES STRUCTURED AS OPEN ENDED INVESTMENT COMPANIES (OEICS)

a) **Government liquidity funds.** These are the same as money market funds (see below) but only invest in government debt issuance with highly rated governments. Due to the higher quality of underlying investments, they offer a lower rate of return than MMFs. However, their net return is typically on a par with the DMADF, but with instant access.

b) **Money Market Funds (MMFs).** By definition, MMFs are AAA rated and are widely diversified, using many forms of money market securities including types which this Council does not currently have the expertise or capabilities to hold directly. However, due to the high level of expertise of the fund managers, the huge amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as their 60 day WAM means they have locked in investments earning higher rates of interest than are currently available in the market. MMFs also help an authority to diversify its own portfolio and, therefore, minimise risk exposure while still getting much better rates of return than available through the DMADF.

c) **Ultra-short dated bond funds.** These funds are similar to MMFs, can still be AAA rated but have variable net asset values (VNAV) as opposed to a traditional MMF which has a Constant Net Asset Value (CNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile. These funds can have WAM's and Weighted Average Life (WAL's) of 90 – 365 days or even longer. Their primary objective is yield rather than capital preservation. They, therefore, are a higher risk than MMFs and, correspondingly, have the potential to earn higher returns than MMFs.

d) **Gilt funds.** These are funds which invest only in UK Government gilts. They offer a lower rate of return than bond funds but are highly rated both as a fund and through investing only in highly rated government securities. They offer a higher rate of return than investing in the DMADF but they do have an exposure to movements in market prices of assets held.

e) **Bond funds.** These can invest in both government and corporate bonds. This, therefore, entails a higher level of risk exposure than gilt funds but the aim is to achieve a higher rate of return than normally available from gilt funds by trading in non-government bonds.

4. SECURITIES ISSUED OR GUARANTEED BY GOVERNMENTS

The following types of investments are where an authority directly purchases a particular investment instrument, a security. A security has a market price when purchased and that value can change during the period the instrument is held until it matures or is sold. The annual earnings on a security is called a yield, which is normally the interest paid by the issuer divided by the price paid to purchase the security, unless a security is initially issued at a discount e.g. treasury bills.

a) **Treasury bills.** These are short term bills (up to 18 months, but usually 9 months or less) issued by the Government and, therefore, are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF. Another advantage compared to a term deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.

b) **Gilts.** These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF. Another advantage compared to a term deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity (for most periods) if the yield curve is positive.

c) **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government** e.g. National Rail. This is similar to a gilt due to the explicit Government guarantee.

5. SECURITIES ISSUED BY CORPORATE ORGANISATIONS

The following types of investments are where an authority directly purchases a particular investment instrument, a security. These are similar to the previous category but corporate organisations can have a wide variety of credit worthiness so it is essential for local authorities to only select the organisations with the highest levels of credit worthiness. Corporate securities are generally a higher risk than government debt issuance and so earn higher yields.

a) **Certificates of deposit (CDs).** These are shorter term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so can be sold ahead of maturity and also purchased after they have been issued. However, that liquidity can come at a price, where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.

b) **Commercial paper**. This is similar to CDs but is issued by commercial organisations or other entities. Maturity periods are up to 365 days but commonly 90 days.

c) **Corporate bonds.** These are (long term) bonds (usually bearing a fixed rate of interest) issued by a financial institution, company or other non-government issuer in order to raise capital for the institution as an alternative to issuing shares or borrowing from banks. They are generally seen to be of a lower creditworthiness than government issued debt and so usually offer higher rates of yield.

d) **Floating rate notes.** These are bonds on which the rate of interest is established periodically with reference to short term interest rates.

6. OTHER

a) **Property fund.** This is a collective investment fund specialising in property. Rather than owning a single property with all the risk exposure attached to one property in one location rising or falling in value, maintenance costs, tenants actually paying their rent / lease etc., a collective fund offers the advantage of diversified investment over a wide portfolio of different properties. This can be attractive for authorities who want exposure to the potential for the property sector to rise in value. However, timing is critical to entering or leaving this sector at the optimum times of the property cycle. Typically, the minimum investment time horizon for considering such funds is at least 3-5 years.

b) **Loans to third parties.** These are loans provided to third parties at either market rates of interest or below market rates. Each application is supported by the service rationale behind the loan and requires member approval. These loans are highly illiquid and may exhibit credit risk.

c) **Loans to a Local Authority Company/ Partnership or Charity**. These loans have to be supported by the service rationale/ business case and requires member approval. In general these loans will involve some form of security or clear cash flow that is available to service the debt. These loans are highly illiquid and may exhibit credit risk.

d) **Shares in Hub schemes**. These are shares in projects that have both Council and the Scottish Government as participants. As such the Council are well placed to influence and ensure the successful completion of the projects, which are based on robust business cases with a cash flow from the public sector organisations. These investments are highly illiquid with a low credit risk.

ANNEX D

Credit and Counterparty Risk Management

Permitted Investments, Associated Controls and Limits for East Renfrewshire Council and East Renfrewshire Culture & Leisure Trust

Type of Investment	Treasury Risks	Mitigating Controls	Limits
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 high.	£30m Maximum 6 months
b. Deposits with other local authorities or public bodies (**Very low risk**)	These are considered quasi UK Government debt and, as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with non-local authority bodies will be restricted to the overall credit rating criteria	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. Non-local authority deposits will follow the approved credit rating criteria	£5m (per body), maximum 6 months
c. Money Market Funds (MMFs) These are LVNAV (Low Volatility Net Asset Value) or VNAV (Variable Net Asset Value) **(Low to very low risk**)	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs has "AAA" rated status from either Fitch, Moody's or Standard & Poors.	£10m per fund/£60m overall
d. Ultra-Short Dated Bond Funds these are VNAV (Variable Net Asset Value) **(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 they have "AAA" rated status from either Fitch, Moody's or Standard and Poor's.	£10m overall, part of category c.

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. These type of investments have no risk to value, liquidity is high and investment can be returned at short notice	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty listing (Annex E)
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, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty listing (Annex E)
g. UK 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.	£5m, maximum 6 months
h. Certificates of Deposit with Financial Institutions (Banks & Building Societies) **(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 (no loss if these are held to maturity). Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	Dependent on institution as listed in counterparty listing in annex E

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, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	Dependent on institution as listed in counterparty listing in annex E
j. Corporate Bonds **(Medium to high risk depending on period and credit rating)**	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Corporate bonds will be restricted to those meeting the base criteria. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	Dependent on institution as listed in counterparty listing in annex E
k. Investment properties	These are non-service properties which are being held pending disposal or for a longer term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids)	In larger investment portfolios, some small allocation of property based investment may counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.	No limit
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 rationale behind the loan and the likelihood of partial or full default.	£0.5m
m. Loans to a local authority company/ partnership or charity	These are service investments either at market rates of interest or below market rates (soft loans). These types of	Each loan to a local authority company requires Member approval and each application is supported by the service	£1m

	investments may exhibit credit risk and are likely to be highly illiquid	rationale/business case behind the loan and the likelihood of partial or full default.	
n. Shares in Hub Schemes	These are investments that are exposed to the success or failure of individual projects and are highly illiquid.	The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. As such they are well placed to influence and ensure the successful completion of the project's term. These projects are based on robust business cases with a cash flow from public sector organisations (i.e. low credit risk)	Investment limited to HUB schemes where the Council is a major participant

The Monitoring of Investment Counterparties

The status of counterparties will be monitored regularly. The Council receives credit rating and market information from MUFG Corporate Markets, 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 (with the exception of the Council's Bank) and if required new counterparties which meet the criteria will be added to the list with written permission from the Head of Finance (Chief Financial Officer).

ANNEX E **EAST RENFREWSHIRE COUNCIL**

ORGANISATIONS APPROVED FOR THE INVESTMENT OF SURPLUS FUNDS

Banking / Building Society Group	**Individual Counterparty**	**Limits Deposit**	**Transaction**
Bank of England	Debt Management Office	£30m	£10m
	UK Treasury Bills	£5m	£5m
Barclays Banking Group	Barclays Bank plc	£5m	£5m
Goldman Sachs International Bank		£10m	£10m
Lloyds Banking Group:	Bank of Scotland plc Lloyds Bank of Corporate Mkt (NRF) plc	£10m	£10m
Royal Bank of Scotland Group:	Royal Bank of Scotland National Westminster Bank plc	£10m	£10m
Santander Group	Santander UK plc	£10m	£10m
Standard Chartered Bank		£10m	£10m
Nationwide BS Group	Nationwide BS Virgin Money plc (Clydesdale Bank)	£10m	£10m
Local Authorities			
All Local Authorities including Police & Fire (per fund)		£5m	£5m
Money Market Funds and Ultra-Short Dated Bond Funds Maximum limit of £10m per fund,		£60m	£10m

Credit Ratings

	Fitch		**Moodys**		**S&P**	
	LT	ST	LT	ST	LT	ST
Minimum Criteria	A-	F1	A3	P-1/P-2	A	A-1/A-2

(Unless Government backed)
(Please note credit ratings are not the sole method of selecting counterparty)

Limit

Investment of surplus funds is permitted in each of the above organisations, with the limits set on an individual basis by the Head of Finance (Chief Financial Officer).

The limit may only be exceeded or another organisation approved with written permission from the Head of Finance (Chief Financial Officer).

Deposit Periods

The maximum period for any deposit is currently set at 6 months, based on the MUFG Corporate Markets suggested Duration Matrix. These limits can only be exceeded with the written permission of the Head of Finance (Chief Financial Officer).

Hub scheme deposit periods are dependent on the lifetime of the associated scheme.

ANNEX F Environmental, Social and Governance (ESG) risk management

This Council is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Council uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in the Credit Risk and Ratings statement, which is as follows:

> *"We, the undersigned, recognise that environmental, social and governance (ESG) factors can affect borrowers' cash flows and the likelihood that they will default on their debt obligations. ESG factors are therefore important elements in assessing the creditworthiness of borrowers. For corporates, concerns such as stranded assets linked to climate change, labour relations challenges or lack of transparency around accounting practices can cause unexpected losses, expenditure, inefficiencies, litigation, regulatory pressure and reputational impacts.*
>
> *At a sovereign level, risks related to, inter alia, natural resource management, public health standards and corruption can all affect tax revenues, trade balance and foreign investment. The same is true for local governments and special purpose vehicles issuing project bonds. Such events can result in bond price volatility and increase the risk of defaults.*
>
> *In order to more fully address major market and idiosyncratic risk in debt capital markets, underwriters, credit rating agencies and investors should consider the potential financial materiality of ESG factors in a strategic and systematic way. Transparency on which ESG factors are considered, how these are integrated, and the extent to which they are deemed material in credit assessments will enable better alignment of key stakeholders.*
>
> *In doing this the stakeholders should recognise that credit ratings reflect exclusively an assessment of an issuer's creditworthiness. Credit rating agencies must be allowed to maintain full independence in determining which criteria may be material to their ratings. While issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable.*
>
> *With this in mind, we share a common vision **to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness**."*

For short term investments with counterparties, this Council utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings. The Council will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

Typical examples of ESG factors that are considered by Credit Rating Agencies, such as Fitch, Moody's and Standard & Poor's when assigning credit ratings to counterparties are:

- ***Environmental:*** *Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.*

- ***Social:*** *Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.*

- ***Governance:*** *Management structure, governance structure, group structure, financial transparency.*

The credit ratings provided by these agencies are also used as the basis for selecting suitable counterparties.

GLOSSARY OF TERMS

CIPFA	Chartered Institute of Public Finance and Accountancy.
CIPFA Code	Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.
CFR	Capital Financing Requirement is the estimated level of borrowing or financing needed to fund capital expenditure.
Fed	The Federal Reserve: the United States central banking system.
Gilts	A gilt is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock Exchange. The term "gilt" or "gilt-edged security" is a reference to the primary characteristic of gilts as an investment: their security. This is a reflection of the fact that the British Government has never failed to make interest or principal payments on gilts as they fall due.
MPC	Monetary Policy Committee.
Other Long Term Liabilities	Balance sheet items such as Public Private Partnership (PPP), and leasing arrangements which already include borrowing instruments.
PPP	Public-Private Partnership.
Prudential Indicators	The Prudential Code sets out a basket of indicators (the Prudential Indicators) that must be prepared and used in order to demonstrate that local authorities have fulfilled the objectives of the Prudential Code.
QE	Quantitative Easing.
SONIA	Sterling Overnight Interest Average: this is a risk-free rate for sterling markets administered by the Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.
Spread	A spread in trading terms is the difference between the buy (offer) and Sell (bid) prices quoted for an asset. Many brokers will quote their prices in the form of a spread.
Treasury Indicators	These consist of a number of Treasury Management Indicators that local authorities are expected to 'have regard' to, to demonstrate compliance with the Treasury Management Code of Practice.