APPENDIX 1

ANGUS COUNCIL

2025/26 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY

Note: A brief glossary of some of the key technical terms utilised within this strategy statement is included for reference as Annex E at the end of the statement.

1 Introduction

1.1 Background

The council is required to operate a balanced budget, which broadly means that cash income raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that the flow of cash in and out is adequately planned and managed, with cash being available when it is needed.

Cash which is surplus for a period of time is invested with banks and other financial institutions (called counterparties). The council has a low risk appetite for the temporary investment of surplus cash so considers the following (in order of priority) when assessing potential investments:

1. security (the safety of the investment);
2. liquidity (accessibility of the cash); and
3. yield or return (income received) on the investment made.

The second main function of the treasury management service is to facilitate funding for the council's General Fund and Housing capital expenditure plans. These capital expenditure plans are therefore what the council's need for borrowing is based upon, in respect of longer term cash flow planning to ensure that the council can meet its capital expenditure spending plans and obligations. This management of longer term cash flows may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion existing debt may be restructured to meet council risk or cost objectives.

Treasury management is defined within the Treasury Management Code of Practice as:

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

It is the responsibility of the Director of Finance to ensure that the council's Treasury Management activities are in line with the approved Treasury Management Strategy and Annual Investment Strategy.

1.2 Treasury Management Strategy for 2025/26

The council's suggested strategy for 2025/26 is based upon the treasury management officers' views on future interest rates, supplemented with leading market forecasts provided by the council's treasury adviser, MUFG Corporate Markets (MUFG) (previously known as Link Group). The proposed strategy for 2025/26 covers the following:

- Section 2 - the council's current treasury position
- Section 3 - the Prudential and Treasury Indicators for 2024/25 to 2027/28
- Section 4 - the prospects for interest rates
- Section 5 - the borrowing strategy for 2025/26
- Section 6 - the investment strategy for 2025/26

Sections 2 to 6 form the core strategy statement (essentially the first 11 pages of this Appendix) for members consideration and approval. This Appendix however also contains a number of Annexes which are required for full compliance with the Treasury Management Code of Practice and as such are of a necessarily more technical nature. In the main however, they contain additional information and explanations of aspects of the core strategy document. The exception is Annex D which contains statutory indicators that require to be considered and approved by members.

The 2025/26 treasury management strategy has been prepared in accordance with the: Local Government in Scotland Act 2003; Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2021; CIPFA Treasury Management Code of Practice 2021; and Scottish Government Investment Regulations.

1.3 Treasury Management Reports

The council is required by the codes of practice to receive and approve, as a minimum, three main treasury management reports each financial year.

- an annual report on the strategy and the plan to be pursued in the coming year (this report)
- a mid year performance review report
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the council's treasury management policy statement and Treasury Management Practices.

1.4 Training

The Treasury Management Code of Practice requires that members with responsibility for treasury management have access to adequate training in treasury management.

Furthermore, pages 47 and 48 of the Code state that they expect "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 board/council 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."

Training was undertaken by members in December 2024 and further briefing/training sessions will be arranged by the Director of Finance as and when appropriate or requested.

A formal record of the training received by those finance officers involved in the Treasury function will be maintained by the Finance Service. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Finance Service.

1.5 Policy on the Use of External Service Providers

Treasury management is a highly technical and specialist area and there is value in employing external treasury management advisers to access specialist skills and resources. The Council currently uses MUFG Pension & Market Services (referred to as "MUFG" hereafter) in this regard.

Responsibility for treasury management decisions however remains with the council at all times and officers within the treasury management section will ensure that undue reliance is not placed upon the external advisers.

2 <u>Current Treasury Position</u>

At any point in time the council will have debt owing to external lenders and surplus cash held by approved counterparties.

In respect of surplus cash, the council had a cash balance of £53.3 million as at 31 March 2024 and it is currently projected that the cash balance at 31 March 2025 will be £15.011 million.

The council's external debt position at 31 March 2025 with forward projections, is summarised in Table 1 below. The table shows the actual and projected external debt as compared to the underlying need to borrow for capital purposes (known as the Capital Financing Requirement or CFR). This comparison highlights where there may be headroom to meet borrowing needs in the future.

Where the table refers to "PWLB Debt", this is debt sourced by the council from the Public Works Loans Board. LOBO debt covers lender option / borrower option debt where the Council can choose to discontinue those loans at certain points in time if the borrower seeks to increase the interest rate.

Table 1 - Movement in External Debt and CFR Position

External Debt	**2023/24 Actual £million**	**2024/25 Estimate £million**	**2025/26 Estimate £million**	**2026/27 Estimate £million**	**2027/28 Estimate £million**
PWLB Debt at 1 April	107.758	104.169	113.280	150.984	186.798
LOBO / Market Debt at 1 April	30.000	26.000	26.000	26.000	26.000
Total External Debt at 1 April	**137.758**	**130.169**	**139.280**	**176.984**	**212.798**
Actual / Estimated New Borrowing (see note 3 below)	0.000	10.000	40.000	37.000	42.489
Loans Maturing	(3.589)	(0.889)	(2.296)	(1.186)	(0.445)
Early repayment of Loan	(4.000)	0.000	0.000	0.000	0.000
Total External Debt at 31 March	**130.169**	**139.280**	**176.984**	**212.798**	**254.842**
Capital Financing Requirement	**Actual 31/03/24**	**Estimate 31/03/25**	**Estimate 31/03/26**	**Estimate 31/03/27**	**Estimate 31/03/28**
Capital Financing Requirement (CFR) - Excluding Other Long Term Liabilities (see note 4 below)	**181.806**	**222.462**	**241.490**	**248.851**	**254.842**
Borrowing Headroom Against CFR (see note 5 below)	**51.637**	**83.182**	**64.506**	**36.053**	**0.000**

Note 1 – The values in Table 1 above reflect the proposals agreed at the council's special budget setting meeting on 27 February 2025.

Note 2 – The values in Table 1 above represent the cash value of the council's external debt. This differs slightly from those presented in the council's Annual Accounts due to the application of specific accounting rules within the Accounts.

Note 3 – Historically the estimated new borrowing amounts included for future years are the maximum that can be undertaken, and this results in the external borrowing position being matched with the CFR. The CFR has increased significantly between 2023/24 and 2025/26 which reflects the timing of main construction phase and the expected spend profile in relation to the Monifieth Learning Campus project. The current borrowing strategy is to undertake short-term borrowing at the end of financial year 2024/25 and 2025/26 for a period 3 to 4 years. It is expected that interest rates after this period will have fallen to levels where it will be beneficial to commit to long-term borrowing. This borrowing strategy will result in the estimated new borrowing amounts being close to the assumed CFR headroom from 2025/26 onwards.

Note 4 - The CFR represents a 12 month forward looking position in accordance with the Investment Regulations. It therefore reflects the actual or projected borrowing requirement at the end of the following financial year.

Note 5 – As a matter of policy, the council does not borrow in advance of need and therefore the council does not borrow in excess of the CFR at any point in time (Section 5.2 of this strategy statement provides further information).

3 Prudential and Treasury Indicators for 2024/25 to 2027/28

Prudential and treasury indicators (as set out in Tables 1, 2 and 3 in Annex D to this strategy statement) are relevant for the purposes of setting an integrated treasury management strategy.

Although the council has already approved some of these as part of the Council Tax budget setting process (report 66/25 to the special budget meeting on 27 February 2025 refers) those already approved are however included in summary form in Table 1 of Annex D for completeness.

Members are however asked to approve the treasury indicators for 2025/26 to 2027/28 contained in Table 2 of Annex D and the upper and lower limits in Table 3 of Annex D in compliance with the Treasury Management Code of Practice. A brief description of each treasury indicator to be approved and its purpose is provided in the Annex.

The council formally adopted the Code of Practice on Treasury Management and the Prudential Code at full council on 25 March 2010 (Report 244/10 refers). The council continues to adhere to the latest versions of these codes as they are issued.

A new prudential indicator, the Liability benchmark, was introduced by the 2021 edition of the Code. The council is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum.

4 Interest Rate Prospects

Even in stable economic times it is extremely difficult to predict how interest rates will move over the course of a year. It must also be borne in mind that other factors (mainly the gilt market) affect the rates at which the council can borrow from the PWLB.

It remains very challenging to predict how interest rates may move as there are many external influences on the UK's economic position. Various global political tensions and developments and inflationary pressures will all have some part to play in the year ahead.

Part of the service provided by MUFG is to assist the council to formulate a view on interest rates and Table 2 below gives the central view from MUFG as at 10 February 2025 for key interest rate prospects.

Table 2 – Interest Rate Prospects

Date	Bank Base Rate	5 Year PWLB Rate	10 Year PWLB Rate	25 Year PWLB Rate	50 Year PWLB Rate
March 2025	4.50%	5.00%	5.30%	5.80%	5.50%
March 2026	3.75%	4.60%	4.90%	5.40%	5.10%
March 2027	3.50%	4.30%	4.60%	5.00%	4.70%
March 2028	3.50%	4.00%	4.40%	4.80%	4.50%

It will be noted from Table 2 that interest rates are expected to fall in the coming years and this assumption is being used to inform when the Council will undertake the new borrowing it requires.

For clarity in respect of the PWLB rates at which the council could potentially borrow, the interest rates contained within Table 2 above are stated after applying the 0.20% certainty rate reduction which is available to the council as noted in Section 5.1 below.

5 Borrowing Strategy for 2025/26

5.1 Borrowing Strategy

It is currently expected that any borrowing undertaken by the council in 2025/26 will be sourced from the Public Works Loans Board (PWLB) and would be expected to be undertaken at fixed interest rates with repayment of the loan amount taking place when the loan matures.

Borrowing from the wider financial market will however be considered should competitive rates make this beneficial to the council. Officers will also continue to monitor the borrowing potential from the UK Municipal Bonds Agency as a potential further option.

Members are asked to note that the council will continue to have access to the Government certainty rate which affords a reduction of 0.20% on the interest rate applicable to new borrowing sourced from the PWLB during financial year 2025/26. The Government also in June 2023 introduced the Housing Revenue Accounts (HRA) concessionary rate which applies a further 0.40% reduction to the PWLB standard rate. This rate is intended for use in Housing Revenue and primarily new housing delivery however this may allow the Council to borrow from PWLB at the standard rate less 0.60%.

Any one or a combination of the options detailed below can be used to continue to ensure that the loans portfolio delivers maximum benefit to Angus Council during the forthcoming financial year.

Variable Rate Borrowing

PWLB variable interest rates in 2025/26 may be lower over the short term than fixed interest rates. Taking loans at variable rates could be attractive compared to taking loans only on the basis of fixed interest rates and consideration will be given to borrowing at variable rates, but only over a relatively short term. This is because there is greater financial risk in terms of the potential for adverse movement in the variable interest rate where such borrowing is taken over the medium to long term.

Short Term Fixed Rate Borrowing

Interest rates in 2025/26 for PWLB loans of a shorter term nature (maturing in 10 years or less) are expected to continue to be marginally lower than longer term PWLB interest rates. This will provide the option to take a variety of loans with a mix of maturity periods to avoid too heavy a concentration of loans with longer term maturity periods.

Mid Range Fixed Rate Borrowing

There is expected to be little difference between PWLB interest rates for loans of a more medium term nature (15 to 25 years) and longer term loans (up to 50 years). Loans in this medium term period will therefore be considered as a means of managing the council's debt maturity profile by reducing the concentration of debt in longer term periods.

Long Term Fixed Rate Borrowing

PWLB interest rates are currently expected to reduce gradually throughout the 2025/26 financial year therefore there can be an element of flexibility in the timing of any new long-term borrowing.

In addition, consideration will be given to the following options:

- Internal borrowing – this is the utilisation of temporary surplus cash balances in place of taking new borrowing, foregoing interest earned on the surplus cash. In view of the forecast for long term borrowing rates to decrease over the next few years however, the short term disadvantage which would result from utilising internal borrowing would require to be assessed. This would be weighed against the potential for lower longer term costs if the opportunity is forgone for taking longer term loans at rates which may be higher than they are anticipated to be in future years;

- Temporary borrowing from the money markets or other local authorities; and

- Short term borrowing from non PWLB sources.

Against this background the interest rates available will be monitored and a practical and prudent approach to any changing circumstances adopted. The maturity structure limits set as part of the treasury indicators (Annex D – Table 3 refers) will also be considered prior to undertaking any new borrowing.

Sensitivity of the forecast – In conjunction with the council's treasury advisers, the interest rates available along with market conditions and forecasts will be continually monitored, adopting the following responses to a change of sentiment:

- If it is felt that there is a significant risk of a sharp rise in interest rates, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the loan portfolio position will be re-appraised and the possibility of undertaking fixed interest rate borrowing will be considered whilst interest rates are still relatively low.

- If it is felt that there is a significant risk of a sharp fall in interest rates – e.g. due to a marked increase of risks that could result in a fall back into recession or of risks of deflation, then long term borrowing will be postponed and the possibility of debt rescheduling will be considered with a view to possibly reducing the level of longer term fixed interest rate loans and replacing these with shorter term fixed or variable interest rate loans.

Ultimately, and because the position is so difficult to anticipate in advance, the council's proposed strategy for borrowing in 2025/26 is to be as flexible as possible within the constraints of the prudential indicators set so that any borrowing is undertaken at what is considered to be the best time (based on the information, intelligence and advice available at the time of making the decision).

At the point of preparing this strategy and based on the current capital programme, the council will need to undertake a significant level of borrowing during late 2024/25 and possibly 2025/26. The foregoing references to borrowing will, of course, always be assessed in terms of estimated funding requirements and prudent debt management. Such assessment of borrowing will also consider as a significant factor in the decision making process, the cost of holding the debt between the time the loan is taken and the time the loan is applied to fund capital expenditure.

5.2 Policy on Borrowing in Advance of Need

As a matter of policy 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 as such action is illegal. Borrowing in advance for other purposes may however be appropriate in certain circumstances.

Whilst the council does not intend to borrow in advance of need (as defined in the Investment Regulations), the position will be kept under review should circumstances change. Any decision to borrow in advance of need will be considered carefully to ensure value for money can be demonstrated and that the security of such funds can be ensured. Members will be asked to approve any proposal to borrow in advance of need.

5.3 Debt Rescheduling

Angus Council has previously used changing market conditions to take advantage of debt rescheduling and restructuring opportunities. Significant financial savings have previously been made through such action and opportunities to restructure the council's debt portfolio will continue to be sought during 2025/26. This will very much depend on how interest rates move.

Debt Rescheduling Opportunities

There may be opportunities to generate savings by switching from longer term debt to shorter term debt if shorter term borrowing interest rates are expected to be lower than longer term rates. These benefits do however need to be weighed against the potential disadvantage of giving up long term loans which may still have attractive interest rates over the longer term, as well as the risks associated with replacing a shorter term loan when it matures.

Where short term interest rates on investments in 2025/26 are lower than rates paid on current debt, consideration will be given to repaying some loans prematurely, or not replacing loans that mature naturally, by running down investment balances thus potentially making significant savings.

Reasons for Debt Rescheduling

The reasons for any debt rescheduling will include one or more of the following:

- the generation of cash savings and / or discounted cash flow savings at minimum risk;
- help fulfil the strategy outlined in section 5.1 above; and
- enhance the balance of the debt portfolio (amend the maturity profile).

Any debt rescheduling undertaken will be reported as part of the treasury management mid-year report or treasury management annual report.

5.4 Policy for the Statutory Repayment of Loans Fund Advances

A review of the council's loans fund repayment policy was undertaken by the council's treasury advisors, MUFG and their final report was issued in February 2022. The proposed revised policy for the repayment of loans fund advances was approved by council on 10 March 2022. Full details of the revised policy are contained in report 104/22.

5.5 Loans Fund Advances Movements / Commitments

As required by Finance Circular 7/2016, tables 3 and 4 below detail the movements in loans fund advances during 2023/24 as well as the future commitments to repay the loans fund advances outstanding at 31 March 2024. The year bandings are stipulated within the circular as is the requirement to show the General Fund, HRA and Police advances separately.

Table 3

Loans Fund Advances – Movements In Year	**Gen Fund £million**	**HRA £million**	**Police £million**	**Total £million**
Opening Balance – 1 April 2023	103.424	39.077	2.231	144.732
New Advances – 2023/24	13.781	4.341	0	18.122
Repayments Made – 2023/24	(6.506)	(1.913)	(0.390)	(8.809)
Closing Balance – 31 March 2024	**110.699**	**41.505**	**1.841**	**154.045**

Table 4

Loans Fund Advances – Future Repayment Commitments	**Gen Fund £million**	**HRA £million**	**Police £million**	**Total £million**
Repayments due within 1 year	5.983	0.793	0.100	6.876
Repayments due within 2 to 5 years	20.670	3.944	0.421	25.035
Repayments due within 6 to 10 years	9.063	3.555	0.435	13.053
Repayments due within 11 to 15 years	2.139	9.474	0.550	12.163
Repayments due within 16 to 20 years	10.342	4.245	0.096	14.683
Repayments due within 21 to 25 years	28.742	6.597	0.040	35.379
Repayments due within 26 to 30 years	23.045	5.745	0.071	28.861
Repayments due within 31 to 35 years	7.520	3.896	0.128	11.544
Repayments due within 36 to 40 years	3.195	3.256	0.000	6.451
Total Repayments Due	**110.699**	**41.505**	**1,841**	**154.045**

6 <u>Investment Strategy for 2025/26</u>

6.1 Investment Policy

Opportunities for investment arise naturally through treasury management activity and in particular the management of the timing of cash paid out and cash received, which can result in peaks and troughs in the amounts of surplus cash at any point during the year.

The council can also choose to have its various funds and reserves (as included on its balance sheet) backed by cash held rather than simply being accounting reserves not backed by cash held.

Accordingly at any given point in time the council can have sizeable sums of surplus cash available and in a best value context it is incumbent upon the council to generate income from such surplus cash by investing it wisely. Income generated on surplus cash helps to fund the services the council delivers.

The council's investment policy must have regard to the Local Government Investment (Scotland) Regulations (and accompanying Finance Circular) and the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes.

In line with these regulations and the code of practice, the council's investment priorities will be (in order of priority):

1. security (the safety of the investment);
2. liquidity (accessibility of cash when needed); and
3. return (income received).

In accordance with these principles and to minimise risk to investments, the council has clearly stipulated at section 6.3 below the minimum acceptable credit quality of counterparties for inclusion on the permitted counterparty lending list. In this regard the council utilises MUFG'S's creditworthiness service as described in section 6.3.

The Investment Regulations require the council to approve all types of investments that can be used for the investment of surplus cash and to set limits for the amount that can be held in each investment type. In this regard the types of investment (and their associated limits) that have been identified for potential use in the 2025/26 financial year are listed in Annex C.

Cash flows relating to Common Good Funds and Charitable Trusts administered by the council are not separately identifiable from those of Angus Council therefore investments undertaken by the council incorporate an element of Common Good and Charitable Trusts in respect of available surplus cash only. The permitted investments identified for use in Tables 1 to 5 in Annex C therefore cover investment of available cash balances for Angus Council, the Common Good and Charitable

Trusts. For clarity however, investments held by the Strangs Mortification Trust and Angus Council Charitable Trust are not covered by this investment policy. These investments are managed on behalf of the trusts by external portfolio managers and are subject to their own separate investment policies agreed with the trustees.

Ethical Investing

Ethical investing is a term used to describe an investment process which takes environmental, social and governance (ESG) or other ethical considerations into account. Investment guidance, both statutory and from CIPFA, makes clear however that all investment must adopt the principles of security, liquidity and yield and that ethical issues must play a subordinate role to these priorities.

The framework for evaluating investment opportunities is still developing and the council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. Should any investment in ESG products be undertaken by Angus Council in the future this would require to be within the approved counterparty and creditworthiness criteria, and with regard to the views of our treasury advisors on any proposals.

6.2 Investment Strategy

The council's investments will be managed by officers within the treasury management section, but they will seek advice from MUFG as required. The investments are determined with reference to the core surplus cash balance and cash flow requirements. The outlook for short-term interest rates will be a key factor when making investment decisions.

The benchmark rate against which the council measures its investment income is a rate based on SONIA (Sterling Overnight Index Average). For this 2025/26 strategy the council will aim to achieve a return of 4.35% on investments placed during the financial year.

For its cash flow generated balances, the council will seek to utilise its business reserve, instant access and notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest whilst still maintaining adequate accessibility of cash to deal with unforeseen needs for cash which might arise during the year.

6.3 Creditworthiness Policy

The council utilises the creditworthiness service provided by MUFG to compare counterparties with the council's view of the minimum acceptable credit quality. This view is set out under the counterparty criteria headings below. This service uses a sophisticated modelling approach based on credit ratings from all three of the main credit rating agencies (Fitch, Standard & Poors and Moodys). However, MUFG does not rely solely on the current credit ratings of counterparties but also uses the following to refine their creditworthiness view:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries; and
- information from other sources such as the financial press, share prices and the wider financial sector.

This modelling approach uses a weighting system to assess overall creditworthiness with the aim of generating a list of suitably creditworthy counterparties which will also enable diversification and thus avoidance of concentration of risk. The ultimate output from this approach is a series of colour coded bands which indicate the relative creditworthiness of counterparties along with the recommended maximum duration for investments with those counterparties – these are referred to under the investment duration heading below as durational bands.

All credit ratings are effectively monitored on a real time-basis and the council's treasury team is alerted in real-time to changes to ratings through the receipt of regular market update bulletins and access to an online information portal provided by MUFG. A comprehensive weekly review is however also undertaken, based on a weekly summary update received from MUFG. These updates are available as a result of the council's use of the MUFG creditworthiness service.

If a change highlighted through the MUFG service results in a counterparty no longer meeting the council's minimum acceptable credit quality criteria, it will not be considered for new investments of surplus cash until a future update results in it once again meeting that criteria.

It should be noted however, that investments already placed with such counterparties will be retained until their planned maturity, unless there are major concerns over the eventual return of the investment, in which case early repayment (likely to incur penalty charges) may be sought.

The one exception to this rule is the council's own banking services provider, currently the Clydesdale Bank. Further details regarding the utilisation of the Clydesdale Bank for investment purposes in the event of their ratings falling out with the council's minimum acceptable credit quality criteria are provided after Table 7 in the Investment Level section below.

As an added measure, sole reliance will not be placed on the use of this external service. In addition, council officers will independently use information from other sources such as the financial press and the wider financial sector when considering whether or not to make a specific investment.

Counterparty Criteria (Call Accounts, Term Deposit or Certificates of Deposit Investments)

In deciding suitable counterparties for Call Accounts, Term Deposit or Certificates of Deposit investment purposes the following criteria must be met at the time of making the investment:

- the counterparty must be authorised with the UK Financial Conduct and Prudential Regulation Authorities
- the counterparty must be authorised by the Bank of England to accept deposits through a branch in the UK
- the counterparty must have a colour code according to the MUFG Creditworthiness model (a no colour code rating would exclude the counterparty); and
- the counterparty must have minimum Fitch credit ratings as follows:

Table 5 – Counterparty Minimum Rating Criteria

Rating	Minimum Rating
Long Term Rating	A minus
Short Term Rating	F1

Alternatively, the counterparty must be a UK bank which has been part or fully nationalised by the UK Government.

If the above relevant tests are met, then the counterparty will be deemed suitable for inclusion on Angus Council's permitted counterparty lending list.

Counterparty Criteria (Money Market Fund Investments)

To be included on the councils' permitted funds list for the investment of surplus cash balances, a Money Market Fund must meet the following criteria at the time of making the investment:

- the fund must be registered with the Institutional Money Market Funds Association (IMMFA)
- the fund must have a Fitch MMF money market fund rating (or equivalent) – this is equivalent to triple A long term credit ratings for financial institutions.

Counterparty Criteria (Ultra Short Dated Bond Funds)

In order to be included on the councils' permitted funds list for the investment of surplus cash balances, an Ultra Short Dated Bond Fund must meet the following criteria at the time of making the investment:

- the fund must have a Fitch triple A (or equivalent) long term credit rating; and
- a Fitch volatility rating of S1 (or equivalent).

Investment Duration

The maximum length of term an investment can be placed with any one counterparty will be determined at all times by reference to MUFG'S's durational bands (unless there are exceptional circumstances). The durational bands currently are:

Table 6 – MUFG Durational Bands

Durational Band Colour	Maximum term of investment
Yellow	5 years (for triple A rated Government debt or its equivalent)
Dark Pink	5 years (for Ultra Short Dated Bond Funds with a credit score of 1.25)
Light Pink	5 years (for Ultra Short Dated Bond Funds with a credit score of 1.5)
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK banks)
Orange	1 year
Red	6 months
Green	100 Days
No Colour	Not to be used

On a practical basis, investments undertaken may marginally exceed the suggested durational band but only where the Director of Finance considers this appropriate on a case by case basis in respect of the overall details and risk profile of the investment.

Investment Level

The limits for the levels of investments which can be placed with permitted counterparties have been set as detailed in Table 7 below. These investment limits were approved by council on 16 December 2021 (report 391/21). It is proposed to retain these limits during 2025/26.

Table 7 – Permitted Counterparty Investment Levels

Long Term Fitch Rating / Institution type	Maximum Value of Investment per Institution £ million	Maximum Level of Total Council Investments with Same Rated Institutions
A minus (UK Domiciled)	£5.0	35%
A / A plus (UK Domiciled)	£15.0	60%
A / A plus (Non-UK Domiciled)	£5.0	50%
AA minus or greater (UK Domiciled)	£20.0	100%
AA minus or greater (Non-UK Domiciled)	£15.0 (£30.0 in total)	50%
UK Nationalised Banks	£20.0	100%
Money Market Funds	£15.0 (£30.0 in total)	100%
Ultra Short Dated Bond Funds	£5.0 (£10.0 in total)	25%

The one exception to the above mentioned limits is the council's own bank, currently the Clydesdale Bank, for which an overall investment limit of £25.0 million is maintained for operational reasons. However, the overall £25.0 million limit applies only to investments of up to one month. Within the £25.0 million investment limit a maximum amount can be invested for a longer term (i.e. greater than one month), this amount being in line with those stated above relative to the Clydesdale's rating at the time of the longer term investment. If the Clydesdale Bank's credit rating or colour rating is however below the minimum acceptable credit quality requirements, then the placement of funds would be limited to overnight only, until such time that the credit rating, or colour rating, meets the council's minimum criteria.

6.4 Country Limits

The Strategy proposes that the Council will only use approved counterparties authorised by the Bank of England to take deposits through a branch in the United Kingdom. Per Table 7 above, a maximum of £30 million or 50% of the council's total investments would be placed with non-UK domiciled banks.

6.5 Longer term investments

The Investment Regulations allow the council to consider investing surplus funds for terms over a longer period (defined as greater than 365 days). It is prudent for the council to have the ability to make use of this power at times when such investing is both appropriate and attractive.

The regulations require however that the risks of such longer term investing are explained, and the following risks are highlighted in this regard:

- longer term investments have an increased risk of potential repayment default. The council will manage this risk through the application of the MUFG credit rating durational bands.
- the risk associated with movements in interest rates increases as rates could move unexpectedly compared to the expectations at the time the investment was made. The council will manage this risk by having a view of the future course of interest rates and then formulating a treasury management strategy which aims to maximise investment earnings consistent with control of risk.

Longer term investing could be attractive where there is an expectation that interest rates will fall and it is beneficial to lock in a higher level of earnings than would be available from a series of shorter term investments successively renewed over the same period. It can also be attractive in times when the market is over ambitious in its expectations of the speed with which interest rates will rise and is exposed to a fall back in rates when more realistic expectations eventually come to the fore.

Notwithstanding the ability to invest on a longer term basis, a cautious approach will continue to be adopted to the freedoms allowed in the Investment Regulations. Except where specifically indicated in the permitted investments list (Annex C to this Appendix), the maximum period which the council will invest for in excess of one year will be limited to up to two years.

6.6 End of year investment report

After the end of the financial year, the council will report on its investment activities as part of its Annual Treasury Report. This report will be placed before the full Council by 30 September.

Angus Council - Treasury Management Policy Statement

The need to prepare a Treasury Management Policy Statement is a requirement of the Treasury Management in the Public Services Code of Practice published by the Chartered Institute of Public Finance and Accountancy.

The Treasury Management Policy Statement for the council is as follows:

- The council defines its treasury management activities as: the management of the authority's investments and cash flows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

- The council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the council, and any financial instruments entered into to manage these risks.

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

- The council's policy regarding borrowing is to borrow as required to meet our Capital Financing Requirement all in accordance with the council's Annual Treasury Management Strategy. The council will not borrow for the purpose of re-investing.

- The council's policy regarding investments is to invest surplus funds with reference to the council's core cash balances and cashflow requirements all in accordance with the council's Annual Investment Strategy.

CIPFA Treasury Management Code of Practice Key Principles and Clauses

Key Principles

The Chartered Institute of Public Finance and Accountancy Treasury Management in the Public Services Code of Practice identifies the following 3 key principles in respect of treasury management in the public services:

1. Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities

2. Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing treasury management funds

3. They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

Approved Clauses

The Chartered Institute of Public Finance and Accountancy Treasury Management in the Public Services Code of Practice recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

1. This organisation will create and maintain, as the cornerstones for effective treasury management:
   - a Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of its treasury management activities
   - suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities
   - Investment management practices (IMPs) for investments that are not for treasury management purposes.

   The content of the policy statement and TMPs and IMPs will follow the recommendations contained in Sections 6,7 and 8 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code’s key principles.

2. The full Council will receive reports on its treasury and investment management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs and IMPs.

3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Policy and Resources Committee, and for the execution and administration of treasury management decisions to the Director of Finance who will act in accordance with the organisation’s policy statement TMPs and IMPs and, if he or she is a Chartered Institute of Public Finance and Accountancy member, the Standard of Professional Practice on Treasury Management.

4. This organisation nominates the Scrutiny and Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

PERMITTED INVESTMENTS

This council approves the following forms of investment instrument for use as permitted investments as set out in Tables 1 to 5 below.

Table 1 – Deposits

Investment Type	Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max maturity period
Debt Management Agency Deposit Facility (DMADF)	Not Applicable	Term of investment	No	Unlimited	2 Years
Term deposits with UK local authorities	Not Applicable	Term of investment	No	Unlimited	2 Years
Call accounts – banks and building societies	Refer to Section 6.3 of Strategy Statement – Counterparty Criteria	Instant	No	Refer to Section 6.3 of Strategy Statement – Counterparty Criteria	2 Years
Term deposits – banks and building societies	Refer to Section 6.3 of Strategy Statement – Counterparty Criteria	Term of investment	No	Refer to Section 6.3 of Strategy Statement – Counterparty Criteria	2 Years
UK part or fully nationalised banks	Refer to Section 6.3 of Strategy Statement – Counterparty Criteria	Term of investment	No	Unlimited	2 Years
Fixed term deposits with variable rate and variable maturities (structured deposits).	Refer to Section 6.3 of Strategy Statement – Counterparty Criteria	Term of investment	No	40%	2 Years
Collateralised deposit	UK Sovereign Rating	Term of investment	No	40%	2 Years

Table 2 – Collective Investment Schemes Structured as Open Ended Investment Companies

Investment Type	Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max maturity period
Government Liquidity Funds	UK Sovereign Rating	Instant	No	15%	2 Years
Money Market Funds	Refer to Section 6.3 of Strategy Statement – Counterparty Criteria	Transaction plus 1 day	No	Refer to Section 6.3 of Strategy Statement – Counterparty Criteria	2 Years
Ultra Short Dated Bond Funds	Refer to Section 6.3 of Strategy Statement – Counterparty Criteria	Transaction plus 1 day	Yes	Refer to Section 6.3 of Strategy Statement – Counterparty Criteria	2 Years
Enhanced Cash Funds	UK Sovereign Rating	Transaction plus 1 day	Yes	5%	2 Years
Gilt Funds	UK Sovereign Rating	Transaction plus 1 day	Yes	5%	2 Years
Bond Funds	UK Sovereign Rating	Transaction plus 1 day	Yes	5%	2 Years

Table 3 – Securities Issued or Guaranteed by Governments

Investment Type	Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max maturity period
Treasury Bills	UK Sovereign Rating	Transaction plus 1 day	Yes	See note below	2 Years
UK Government Gilts	UK Sovereign Rating	Transaction plus 1 day	Yes	See note below	2 Years
Bonds issued by a financial institution which is explicitly guaranteed by the UK Government	UK Sovereign Rating	Transaction plus 3 days	Yes	See note below	2 Years

Note – Investments in securities issued or guaranteed by the Government are limited to a maximum of £15 million in any one of the investment types listed however 100% of the council's investments can be placed in these types of investments and is therefore classed as unlimited.

Table 4 – Securities Issued by Corporate Organisations

Investment Type	Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max maturity period
Certificates of deposit	Refer to Section 6.3 of Strategy Statement – Counterparty Criteria	Transaction plus 1 day	Yes	Unlimited	2 Years
Commercial paper	Refer to Section 6.3 of Strategy Statement – Counterparty Criteria	Transaction plus 1 day	Yes	5%	2 Years
Corporate bonds issuance	Refer to Section 6.3 of Strategy Statement – Counterparty Criteria	Transaction plus 3 days	Yes	5%	2 Years
Other debt issuance by UK banks	Refer to Section 6.3 of Strategy Statement – Counterparty Criteria	Transaction plus 3 days	Yes	5%	2 Years

Note – Accounting treatment of investments - Accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the council. To ensure the council is protected from any adverse revenue impact which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Table 5 – Non Treasury Investments

Investment Type	Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max maturity period
Property funds	Not Applicable	Not Applicable	Yes	5%	2 Years
Local authority mortgage guarantee scheme	Not Applicable	Not Applicable	No	5%	7 Years
Investment properties	Not Applicable	Not Applicable	Yes	Unlimited	Unlimited
Home loans	Not Applicable	Not Applicable	No	Unlimited	Unlimited
East Central Territory DBFM projects	Not Applicable	Minimum 5 Year Term per project	No	£1.5m	30 Years
Common Good Loans	Not Applicable	Not Applicable	No	Unlimited	30 Years
Registered Social Landlord (RSL) loans	Not Applicable	Not Applicable	No	Unlimited	20 Years
Third party loans	Not Applicable	Not Applicable	No	Unlimited	25 Years

Note – Any Common Good, RSL Loans or third party loans would in practice be subject to separate committee reporting arrangements and the agreement of members before progressing. Each loan would therefore be assessed on a case by case basis and this would include an assessment of the appropriate loan term up to the maximum in Table 5 above.

Treasury risks

All the investment instruments in Tables 1 to 5 above are subject to the following risks:

1. **Credit and counterparty 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 triple A rated organisations have a very high 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 as 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 (for example gilts, certificates of deposits, 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.

   The column in the Tables 1 to 5 above headed as 'liquidity risk' will show each investment instrument as being instant access, transaction date plus 1 to 3 business days before cash is received, or term, for example, money is locked in until an agreed maturity date.

3. **Market risk -** this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

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.

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 counterparty risk -** the council has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to enable investments to be made safely. Section 6 of the strategy statement provides additional information in this regard.

2. **Liquidity risk -** the council uses 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 -** the council may purchase investment instruments (for example Gilts and Treasury Bills) which are subject to market risk in terms of fluctuation in their value only if they are not held to maturity. In this regard the council will not trade any investment instruments prior to maturity (unless it would be beneficial to the council) and therefore market risk will be minimal.

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

5. **Legal and regulatory risk -** this authority will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations.

   In addition, the council's external treasury adviser will be consulted when forming views or taking decisions in respect of controls on treasury risk. However, sole reliance will not be placed on the treasury advisers and final treasury decisions will be made by council officers.

Unlimited investments

Paragraph 24 of the Investment Regulations states that an investment can be shown in an authority's permitted investments as being unlimited in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment. However, it also requires that an explanation must be given for using that category.

The Council has given the following types of investment an unlimited category:

1. **Debt Management Agency Deposit Facility (DMADF) -** This is considered to be the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of HM Treasury (the UK Government's sovereign rating stands behind the DMADF). It is also a deposit account and avoids the potential complications of buying and holding Government issued treasury bills or gilts.

2. **High credit worthiness banks and building societies (including Certificates of Deposit) –** Section 6 of the Strategy Statement provides an explanation of this authority's definition of high credit worthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with sufficiently high credit worthiness, Angus Council will ensure diversification of its portfolio by limiting the value of investments that can be placed with any one institution or group.

3. **Deposits with UK local authorities** – It is considered that there is negligible counterparty risk with such lending (local authorities effectively having the same credit rating as the Government itself). On this basis such lending should have no limits placed upon it.

4. **Money Market Funds –** These investments are considered relatively low risk as they are normally the equivalent of triple A rated (the highest credit rating available), offer instant access to funds and are a widely diversified form of investment. Additional protection is afforded by limiting the value of investment that can be placed with any one fund.

5. **Securities issued or guaranteed by the Government –** These investment types are considered low risk as they are issued by the Government and therefore are backed by the sovereign rating of the UK.

6. **Investment properties –** The values of the properties held by the council are driven by external market forces and therefore they are subject to fluctuations in value upwards or downwards. It is considered that setting an upper limit would not be practical operationally and these have, therefore, been classed as an unlimited investment.

7. **Registered Social Landlord (RSL) loans –** In order for the council to be as flexible as possible when considering any lending in this category, RSL loans will be regarded as an unlimited investment as placing an upper limit on these would not be practical operationally.

8. **Third party loans –** In order for the council to be as flexible as possible when considering any lending in this category, third party loans will be regarded as an unlimited investment as placing an upper limit on these would not be practical operationally.

Objectives of each type of permitted investment instrument

Paragraph 25 of the Investment Regulations guidance notes requires an explanation of the objectives of every type of investment instrument which an authority approves as being 'permitted'.

In this regard, the objective of the council in utilising any permitted investment is to protect the capital invested whilst optimising the return on the investment with a minimum possible risk. This is in line with Key Principle 2 identified in the Code, which notes that organisations should ensure that priority is first given to security and liquidity when investing funds.

1. DEPOSITS

The following forms of investment are actually more accurately called deposits as cash is deposited into 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 potential 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 term deposit that can be made 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 by local authorities. It offers a much higher rate of return than the DMADF (dependent on term) and now that measures have been put in place to avoid over reliance on credit ratings, it is considered that the residual risks around using such banks and building societies are at a low, reasonable and acceptable level. Angus Council will ensure diversification of its portfolio by limiting the value of investments that 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 interest rates ahead of an expected fall in the level of interest rates. At other times, longer term interest rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and higher earnings than the DMADF. Where it is restricted is that once a longer term investment is made, that cash is locked in until the maturity date, unless early repayment (with associated penalties) is sought.

c) Call accounts with high credit worthiness banks and building societies

The objectives are as for 1(b) above however 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 utilisation of call accounts is highly desirable to ensure that the treasury team has access to cash when required.

Some call accounts operate a notice period (e.g. 95 days) whereby the cash is not available until the end of that notice period. These call accounts offer further flexibility in so far as the notice period and the date notice is given and operate on a rolling basis agreement.

d) Term deposits with high credit worthiness banks which are fully or semi nationalised

As for b) above, 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. It's considered that this indicates a low and acceptable level of residual risk.

e) 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 so as to provide the council with greater flexibility to adopt new instruments as and when they are brought to the market.

f) Collateralised Deposits

These are deposits placed with a bank which offers collateral backing based on Lender Option Borrower Option loans borrowed by local authorities. Such deposits are effectively lending to a local authority as that is the ultimate security.

2. COLLECTIVE INVESTMENT SCHEMES STRUCTURED AS OPEN ENDED INVESTMENT COMPANIES

a) Government liquidity funds

These are very similar to money market funds (see below) but only invest in government debt issuance with highly rated governments. They offer a lower rate of return than Money Market Funds, however are typically on a par with the returns from the DMADF. As this is an investment placed with highly rated governments it is regarded as a low risk investment with high security on the principal sum invested.

b) Money Market Funds (MMF)
Money Market Funds are normally triple A rated and are widely diversified, using many forms of money market securities including types which the council does not currently have the expertise or risk appetite to hold directly. However, due to the high level of expertise of the fund managers and the extensive sums of money invested in Money Market Funds, and the fact that the weighted average maturity cannot currently exceed 60 days, Money Market Funds offer a combination of high security, instant access to funds, high diversification and reasonable rates of return compared to equivalent instant access facilities.

c) Ultra Short Dated Bond Funds (USDBF)
These are similar to MMFs, can still be triple A 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 Weighted Average Maturities (WAMs) and Weighted Average Life's (WALs) of 90 – 365 days or even longer. Their primary objective is yield and capital preservation is second. They therefore are a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs. They are however available with very low volatility and the council would use those funds to mitigate the capital risk element.

d) Other enhanced cash funds
These funds would be expected to be very similar to USDBFs, but with an expectation of greater volatility than USDBFs. Their primary objective is yield and capital preservation is second and are therefore, a higher risk than USDBFs but have the potential to earn higher returns.

e) Gilt funds
These are funds which invest only in UK Government gilts. They offer a lower rate of return than bond funds (see below) but are highly rated both as a fund and through investing only in highly rated gilts. 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.

f) Bond funds
These invest in both government and corporate bonds. This therefore entails a higher level of risk exposure than gilt funds and the aim is to achieve a higher rate of return than normally available from gilt funds by trading in bonds. They do have an exposure to movements in market prices of assets held so do not offer Constant Net Asset Value.

3. SECURITIES ISSUED OR GUARANTEED BY GOVERNMENTS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it 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.

a) Treasury bills
These are short term bills (up to 12 months) issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time 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 and another advantage compared to a time 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. 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 (refers solely to Guaranteed Export Finance Corporation)
This is similar to a gilt due to the explicit Government guarantee.

4. SECURITIES ISSUED BY CORPORATE ORGANISATIONS

The following types of investments are where an authority directly purchases a particular investment instrument security, for example it has a market price when purchased and that value can change during the period the instrument is held until it is sold. The annual earnings on a security is called a yield. 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

These are shorter term securities issued by deposit taking institutions (mainly banks) so they can be sold if there is a need for access to cash at any point in time.

b) Commercial Paper

These are similar to certificates of deposits but are 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 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 lower creditworthiness than government issued debt and so usually offer higher rates of yield.

d) Other debt issuance by UK banks

For example, Floating Rate Notes are bonds on which the rate of interest is established periodically with reference to short term interest rates.

5. NON TREASURY INVESTMENTS

a) Property Fund

This is a collective investment fund specialising in property. Rather than owning a single property with all the risk exposure that means 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 of rising and falling values unless a long term commitment is made to retain exposure to the property market.

b) Local Authority Mortgage Guarantee Scheme

Authorities who are participating in the Local Authority Mortgage Guarantee Scheme may be required to place a deposit with the mortgage provider up to the full value of the guarantee. The deposit will be in place for the term of the guarantee which is 5 years (with the possibility of a further 2 year extension if the account is 90 or more days in arrears at the end of the initial 5 years) – and may have conditions / structures attached. The mortgage provider will not hold a legal charge over the deposit.

c) Investment Properties

A property not held by the council for the achievement of service objectives and which generates rental income and or capital gains. Examples include cemetery and park lodge houses, schoolhouses, bowling pavilions, shops and offices.

d) East Central Territory Design, Build, Finance & Maintain (DBFM) Projects

The council is a participant in the East Central Territory Hub established under the direction of the Scottish Futures Trust. This is a private limited company (East Central HubCo) which takes forward various infrastructure projects. A separate subsidiary private limited company (Sub HubCo) will be established to progress each individual project and the Council will have an opportunity to invest on a subordinated debt basis in these separate companies. Full details of the investment principles, opportunities, returns and risks (credit, counterparty, liquidity, market and interest rate) are contained in report 72/14 to the Policy and Resources Committee of 4 February 2014. The maturity period for the permitted investment entry in the above Table 5 to this Annex C, has been set at 30 years which is at variance to the 25 years approved by report 72/14. This is to allow flexibility to respond to the potential for Sub HubCo projects to extend beyond the currently anticipated 25 years as project agreements develop.

e) Common Good Loans
The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 allow the council to borrow through its loans fund and to then on-lend this borrowing to the area's Common Good Funds.

f) RSL Loans
The Scottish Government issued a specific consent which allows, in certain circumstances, the council to borrow to on-lend to Registered Social Landlords (RSLs). A requirement of this consent is that it is included as a permitted investment within the council's treasury management strategy.

g) Third Party Loans
Such loans are included within Table 5 above as a permitted investment in order to provide flexibility for the council to consider circumstances where it may be beneficial to make a loan of this nature for service reasons.

It should be noted that the figures contained within Table 1 below reflect the proposals that were approved at the Special Housing Committee meeting on 11 February 2025 and those presented at the Council's special budget setting meeting on 27 February 2025.

It should also be noted that the Capital Financing Requirement (CFR) in Table 1 below has been presented on a slightly different basis to the CFR figures approved in reports 40/25 and 66/25. Members are assured however that the indicators in Table 1 are identical in total terms to those already approved.

The presentation in Table 1 below differs in that the CFR figure is split between the borrowing and other long term liability elements for the General Fund and Housing Revenue Account (HRA) combined, whereas report 66/25 details just the total General Fund element of the CFR and report 40/25 only the HRA element. This alternative presentation informs the borrowing against CFR comparison in Section 2 above. In addition, the CFR figures in the table in Section 2 have been advanced by one financial year from the CFR figures detailed in the table below to allow for the rolling 12 month forward looking basis.

Table 1 – Prudential Indicators

	2023/24 Actual £million	**2024/25 Outturn £million**	**2025/26 Estimate £million**	**2026/27 Estimate £million**	**2027/28 Estimate £million**
Gross capital expenditure					
General Fund	34.226	62.638	59.478	29.399	13.935
HRA	12.991	10.436	20.900	27.098	22.983
Total	**47.217**	**73.074**	**80.378**	**56.497**	**36.918**
Ratio of financing costs to net revenue stream					
General Fund	9.43%	8.52%	7.87%	8.88%	8.29%
HRA	11.01%	6.60%	7.30%	9.21%	10.44%
Capital Financing Requirement as at 31 March					
Borrowing	154.045	181.806	222.462	241.490	248.851
Other Long Term Liabilities	168.213	164.670	161.067	157.399	153.820
Total	**322.258**	**346.476**	**383.529**	**398.889**	**402.671**
<u>Treasury Indicators</u>					
Authorised limit for external debt					
Borrowing	255.000	255.000	255.000	255.000	255.000
Other long term liabilities	165.000	161.000	158.000	154.000	150.000
Total	**420.000**	**416.000**	**413.000**	**409.000**	**405.000**
Operational boundary for external debt					
Borrowing	240.000	240.000	240.000	240.000	240.000
Other long term liabilities	165.000	161.000	158.000	154.000	150.000
Total	**405.000**	**401.000**	**398.000**	**394.000**	**390.000**

The indicators relating to treasury management (shown in Tables 2 and 3 below) require to be set as part of the Treasury Management Strategy Statement and are a requirement of the Chartered Institute Public Finance and Accountancy Treasury Management Code of Practice 2021 edition.

Members are therefore asked to approve the investment treasury indicators for 2025/26, 2026/27 and 2027/28 contained in Table 2 below and the upper and lower limits in Table 3 below in compliance with the Treasury Management in the Public Services Code of Practice. A brief description of each Treasury Indicator and its purpose is provided.

Table 2 – Upper Limit for Total Principal Sums Invested Over a Year

2023/24 Actual	2024/25 Outturn	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Unlimited	**Unlimited**	**Unlimited**	**Unlimited**	**Unlimited**

The purpose of this treasury indicator is for the council to contain its exposure to the possibility of loss that may arise as a result of having to seek early repayment or redemption of any longer term investments which have been made. In this context longer term means for periods of more than one year.

Table 3 – Maturity Structure of Borrowing During 2025/26

	Fixed Rate		Variable Rate	
	Upper Limit	Lower Limit	Upper Limit	Lower Limit
Under 12 months	**25%**	**0%**	**5%**	**0%**
12 months and within 24 months	**25%**	**0%**	**5%**	**0%**
24 months and within 5 years	**50%**	**0%**	**5%**	**0%**
5 years and 10 years	**50%**	**0%**	**5%**	**0%**
10 years and above	**100%**	**50%**	**0%**	**0%**

This indicator, which requires the council to set upper and lower limits for the maturity structure of its fixed and variable rate borrowing, is designed to be a control over having large concentrations of debt requiring to be replaced at the same time. By ensuring the maturity structure of borrowing is managed effectively the council can avoid having to replace large values of maturing loans during periods of volatile or high interest rates.

The indicator reflects the amount of projected fixed and variable rate borrowing maturing in each period expressed as a percentage of total projected fixed or variable rate borrowing and would be applicable to the three financial years 2024/25, 2025/26 and 2026/27.

The limits in Table 3 would mean, for example, that the council would never have any more than 25% of its fixed rate debt maturing in less than 1 year and would never have any less than 50% of its fixed rate debt due to mature in more than 10 years. Similarly, it would never have any more than 5% of its variable rate debt maturing in less than 1 year and would never have any of its variable rate debt due to mature in more than 10 years.

It is important to note that the upper limits represent the maximum level of debt that could mature within the time periods listed and cannot therefore be added together to give a potential profile of the council's debt maturity.

The Prudential Indicator for Liability Benchmark

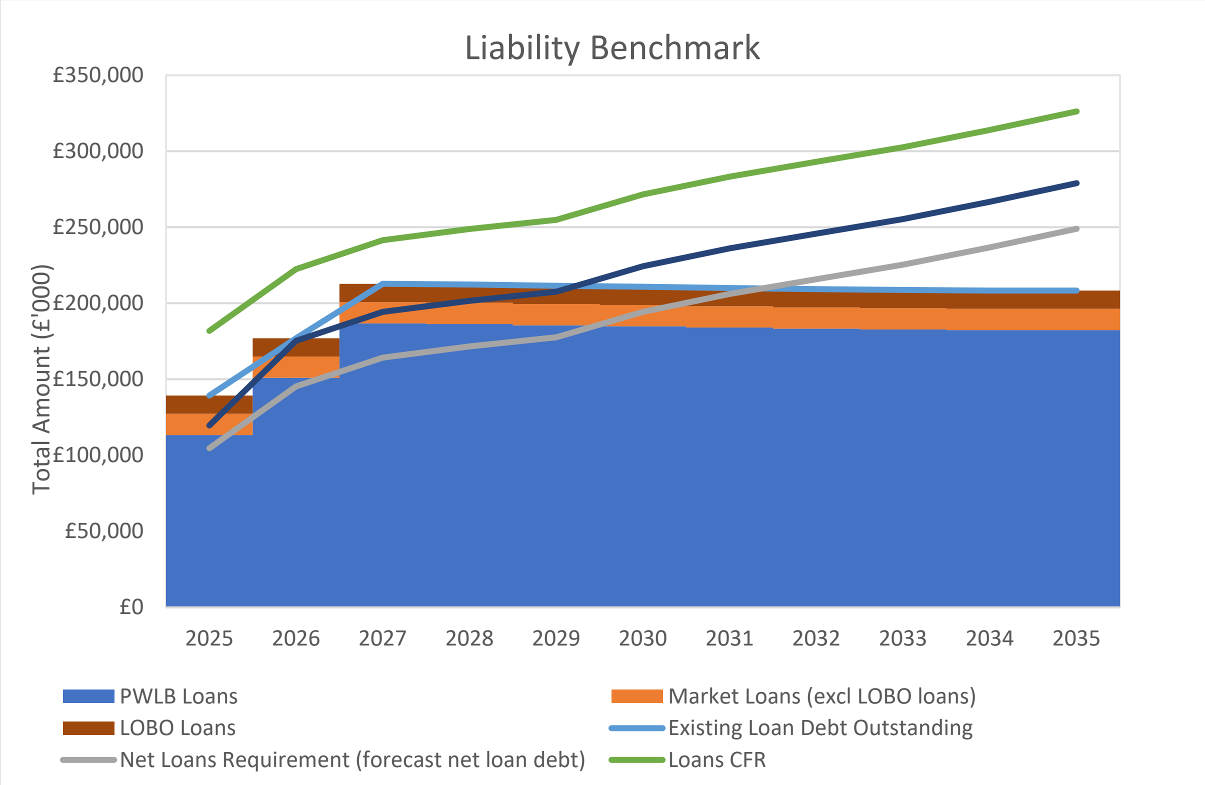
The Council, per the 2021 Treasury management code, is now required to provide a comparison of the existing loan portfolio against the committed borrowing needs. This is to provide evidence that it has a strong grasp of both its existing debt maturity profile and how minimum revenue position (MRP) / loans Fund principal repayments (LFR) and other cash flows affect the future debt requirement.

This indicator should cover a minimum of the forthcoming financial year and the following two years. However, CIPFA strongly recommend that it is produced for at least ten years and should ideally cover the full debt maturity profile.

The presentation is expected to be in the form of a chart (see Table 4) covering the following four areas:

- Existing loan debt – current borrowing portfolio split by loan type as a stacked bar chart
- Loans CFR – this excludes any part of the CFR relating to other long-term liabilities
- Net loans requirement – loan debt less treasury management investments at the last financial year end and projected into the future based on approved prudential borrowing, planned MRP and any other major cash flow forecast
- Liability Benchmark – net loans requirement plus short-term liquidity allowance

Table 4 – Liability Benchmark Chart



CIPFA considers the liability benchmark to be an essential risk management tool and require it to be implemented as a treasury management prudential indicator. The liability benchmark is effectively the net borrowing requirement of the Council plus a liquidity allowance.

The above chart details the 10-year period from 2025/26 to 2034/35. The liability benchmark line (dark blue) shows how much the Council would need to borrow based on the current capital projections. The graph highlights that in the period 2025/26 to 2034/35 there is a steady increase in borrowing required to fund future capital programmes. The liability benchmark line shows a less steep incline over the period 2026/27 to 2028/29 following the completion of the Monifieth Learning Campus project and the capital programme returning to more usual levels. The period 2029/30 to 2034/35 goes beyond the period covered within the 2024/2029 Capital Plan and is based on notional capital spend/borrowing and estimated liquidity allowances. The graph highlights a steady annual increase in potential borrowing which will be necessary to fund future notional capital expenditure. It must be noted that future spending and funding decisions and changes to the Councils treasury management strategy will have an impact on the liability benchmark indicator.

APPENDIX A - ANNEX E

Glossary of Terms

Authorised Limit The authorised limit represents a maximum value beyond which the council's external debt must not exceed.

Borrowing In Advance of Need Borrowing which results in a net external debt in excess of the council's capital financing requirement.

Credit Default Swaps (CDS) CDS are a financial instrument for swapping the risk of debt default. The buyer of a credit default swap pays a premium for effectively insuring against a debt default. If the debt instrument is defaulted the buyer of the CDS receives a lump sum payment. The seller of a credit default swap receives monthly payments from the buyer.

Debt Rescheduling As part of a wider treasury management policy existing debt is repaid and replaced with new debt. The purpose is to take advantage of changes in interest rate levels.

Gilt A gilt is a UK Government liability, issued by HM Treasury, listed and traded on the London Stock Exchange. The term gilt or gilt edged security is a reference to the primary characteristic of gilts as an investment, in other words, their security. This reflects the fact that the British Government has never failed to make interest or principal payments on gilts as they fall due.

Lender Option / Borrower Option Loans A floating rate loan instrument which permits the lender to nominate a revised interest rate at periodic reset dates and lets the borrower decide whether to continue with the loan instrument at the revised interest rate or redeem the loan instrument.

Operational Boundary The operational boundary differs from the authorised limit in that it is based on expectations of the maximum external debt of the council according to probable, as opposed to possible, events and should be in line with the maximum level of external debt projected by estimates.

Weighted Average Maturity The average days remaining to maturity of individual funds.