Item: 8

Policy and Resources Committee: 17 February 2026.

Treasury Management Strategy Statement.

Report by Head of Finance.

ORKNEY ISLANDS COUNCIL

1. Overview

1.1. Section 21 of the Council's Financial Regulations confirms that the Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Treasury Management in the Public Sector (the Code).

1.2. The Code defines treasury management to include investment activities.

1.3. The Council's investment priorities can be summarised as maintaining:

- The security of capital.
- The liquidity of its investments.

1.4. The Council aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the Council is relatively low to give priority to security of its investments. This is in keeping with the nature of the Strategic Reserve Fund, which is to provide for the benefit of Orkney and its inhabitants, whilst having regard to the Fund's long-term commitments in terms of the terminal decline and decommissioning of the Flotta Oil Terminal in the future.

1.5. By contrast, however it is notable that an increasing focus within the investment strategy for the Strategic Reserve Fund is given towards being able to generate sufficient income from investment activities to be able to meet the short-term funding commitments of the Fund, while at the same time maintaining the value of the Fund in real terms. It is considered that while this approach aims to ensure the affordability of the Fund going forward, an additional investment risk is actively being taken by the Council, partly to take advantage of opportunities as they arise in the financial markets, but also to compensate for the volatility of investment returns.

1.6. The Council’s existing capital programme includes approved capital project expenditure of £30.272m over the 3-year period 2026 to 2029, and the Strategic Reserve Fund is estimated to incur capital expenditure of £48.100m in respect of Quanterness Windfarm over the same period. After allowing for £20.058m in respect of use of reserves, capital receipts, capital grants and revenue contributions, there is a net capital financing borrowing requirement of £58.314m.

1.7. The Council’s net capital financing requirement is forecast to increase from £84.740m to £118.543m over the 3-year period from 2026 to 2029, being a net increase of £33.803m after allowing for the repayment of principal.

1.8. In terms of core funds and expected investment balances, the Council’s resources and anticipated cash flow balances are forecast to decrease by £6.157m, from £302.927m to £296.770m, over the 3-year period 2026 to 2029.

2. Recommendations

2.1. It is recommended that members of the Policy and Resources Committee:

i. Approve the Treasury Management Strategy Statement and Annual Investment Strategy for 2026/27, attached as Appendix 1 to this report.

3. Background

3.1. The Local Government in Scotland Act 2003 and supporting regulations require the Council to “have regard to” the following:

i. The ‘Prudential Code for Capital Finance in Local Authorities’, published by CIPFA in 2009, and updated in 2017, which requires the Council to set Prudential and Treasury Indicators for the next three years as a minimum to ensure that the Council’s capital investment plans are affordable, prudent and sustainable. The Prudential Code 2017 introduced a new requirement for authorities to produce an annual capital strategy.

ii. The ‘Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes’, published by CIPFA in 2009, which requires the Council to set out its treasury management strategy for borrowing and investment and how it will give priority to security and liquidity in managing its investments.

3.2. A principle focus of the codes of practice referred to above is an expanded definition of treasury management to include investment activities, together with a requirement to assess the creditworthiness of counterparties with a view to minimising the risk to councils when considering investment decisions.

3.3. The Local Government Investment (Scotland) Regulations 2010 permits local authorities to make investments subject to them gaining the consent of Scottish Ministers. Finance circular 5/2010 sets out the terms of that consent and requires local authorities to again "have regard to" the codes of practice referred to above when managing their investments.

i. This regulation not only provides greater autonomy to local authorities to manage their own investment activities but also requires local authorities to consider the totality of their investment activity. As such, this regulation covers a much wider remit than the traditional view of treasury management.
ii. The consent applies to a range of investments and covers for example the investment of temporary surplus funds with banks and similar institutions, shareholdings in companies or joint ventures and loans to group undertakings and third parties. It also covers the Council's Strategic Reserve Fund, including investment properties.

4. Benchmark Liability

4.1. The liability benchmark is a Prudential Indicator that provides a measure of how well the existing loans portfolio matches planned borrowing needs. It is a projection of the amount of loan debt outstanding, that the Council needs each year into the future to fund its existing liabilities, planned prudential borrowings and other cash flows.

4.2. The liability benchmark advocates a net book approach to treasury management, where borrowings and investments are netted down while maintaining appropriate investments for liquidity purposes, thereby reducing the treasury risks associated with running debt and investment portfolios at the same time.

4.3. Appendix 2 to this report shows that the Council's liabilities are sitting in line with the benchmark.

For Further Information please contact:
Shonagh Merriman, Service Manager (Corporate Finance), extension 2105, Email
Shonagh.merriman@orkney.gov.uk

Implications of Report

1. **Financial:** A requirement exists for the Council to adopt a Treasury Management Policy and thereafter approve a Treasury Management Strategy and Annual Investment Strategy each year.
2. **Legal:** Treasury Management arrangements help the Council comply with its statutory duty to secure best value.
3. **Corporate Governance:** Not applicable.
4. **Human Resources:** Not applicable.
5. **Equalities:** An Equality Impact Assessment has been undertaken and is attached as Appendix 3 to this report.
6. **Island Communities Impact:** An Island Communities Impact Assessment has been undertaken and is attached as Appendix 4 to this report.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:

   ☐ Growing our economy.

   ☐ Strengthening our communities.

   ☒ Developing our Infrastructure.

   ☐ Transforming our Council.
8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:

   ☐Cost of Living.

   ☐Sustainable Development.

   ☐Local Equality.

   ☐Improving Population Health.
9. **Environmental and Climate Risk:** Environmental, Social and Governance factors are recognised as having the potential to impact the Council's investments.
10. **Risk:** Approving the treasury management strategy ensures processes are being adhered to and provides assurance that associated risks are being managed effectively.
11. **Procurement:** Not applicable.
12. **Health and Safety:** Not applicable.
13. **Property and Assets:** Not applicable.
14. **Information Technology:** Not applicable.
15. **Cost of Living:** Not applicable.

List of Background Papers:

None

Appendices

Appendix 1 – Treasury Management Strategy Statement and Annual Investment Strategy for 2026/27.
Appendix 2 – TMSS 2026/27 – Liability Benchmark Calculation.
Appendix 3 – Equality Impact Assessment.
Appendix 4 – Island Communities Impact Assessment.

Treasury Management Strategy Statement

Policy on the Statutory Repayment of Loans Fund Advances and Annual Investment Strategy

Orkney Islands Council

2026/2027

Contents

Key considerations

2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework

CIPFA published the revised Codes on 20th December 2021 and stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Authority, therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised Treasury Management Code required all investments and investment income to be attributed to one of the following three purposes:

Treasury Management

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

Service Delivery

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

Commercial Return

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

The revised Treasury Management Code requires an authority to implement the following:

a. **Adopt a liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.

b. **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case.

c. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year.

d. Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority.

e. **Reporting to members is to be done quarterly**. Specifically, the Head of Finance (HoF) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The HoF is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital and balance sheet monitoring.

f. **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices (TMP1).

The main requirements of the Prudential Code relating to service and commercial investments are:

a. The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.

b. An authority must not borrow to invest for the primary purpose of commercial return.

c. It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

d. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.

e. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream.

f. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

An authority's Capital Strategy or Annual Investment Strategy should include:

a. The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence.

b. An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e., whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).

c. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed.

d. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments).

e. Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy).

f. State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

1. Introduction

1.1. Background

The Authority is required to operate a balanced revenue budget, which broadly means that cash raised during the year will meet cash expenditure. Part 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 Authority’s low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Authority’s capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that it 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 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.”

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, arising mainly from investing activities of the Strategic Reserve Fund, and are separate from the day-to-day treasury management activities.

1.2. Reporting Requirements

1.1.1. Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital 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.
- the implications for future financial sustainability.

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

1.1.2. Treasury Management Reporting

The Authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
    - the capital plans, (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 to be organised), including treasury indicators; and
    - an Annual Investment Strategy, (the parameters on how investments are to be managed.)

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.

c. **An 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 estimates within the strategy.

Scrutiny

The annual Treasury Management Strategy Statement is adequately scrutinised by Policy and Resources Committee, with a recommendation to Council for approval. The mid-year, quarterly and annual treasury reports are for scrutiny purposes only and this task is undertaken by the Investments Sub-committee.

1.3. Treasury Management Strategy for 2026/27

The strategy for 2026/27 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators.
- the policy for statutory repayment of loans fund advances.

Treasury management issues

- the current treasury position.
- treasury indicators which limit the treasury risk and activities of the Authority.
- prospects for interest rates.
- the borrowing strategy.
- policy on borrowing in advance of need.
- debt rescheduling.
- the investment strategy.
- creditworthiness policy, and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and Scottish Government loans fund repayment regulations and investment regulations particularly Finance Circulars 5/2010 and 7/2024.

1.4. Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

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.

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 board/council members.

- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

The members have undertaken training during 2025/2026 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function will be maintained by the Authority. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained.

1.5. Treasury Management Consultants

The Authority uses MUFG Corporate Markets as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority 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. The Capital Prudential Indicators 2026/27–2028/29

The Authority'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' overview and confirm capital expenditure plans are prudent, affordable and sustainable.

2.1. Capital Expenditure and Financing

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Non-HRA	14.541	15.965	9.874	14.149	5.075
HRA	2.995	5.794	1.158	0.016	0.000
SRF - Windfarms	0.000	2.300	14.100	26.000	8.000
Finance Leases	0.537	0.501	0.465	0.428	0.403
Total	**18.073**	**24.560**	**25.597**	**40.593**	**13.478**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Capital receipts	0.244	0.235	0.235	0.235	0.235
Capital grants	9.795	13.973	7.710	5.018	4.640
Capital reserves	1.739	0.841	0.278	0.000	0.000
Finance Leases	0.537	0.501	0.465	0.428	0.403
Revenue	0.629	1.854	0.569	0.569	0.569
Net financing need for the year	**5.129**	**7.156**	**16.340**	**34.343**	**7.631**

2.2. The Authority's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Authority'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 Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, 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 1.4.16, authorities may choose whether to use scheduled debt amortisation, (loans pool charges), or another suitable method of calculation in order to repay borrowing.

The CFR includes any other long-term liabilities (e.g., PFI schemes, leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has no such schemes within the CFR.

The Authority is asked to approve the CFR projections below:

£m	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Capital Financing Requirement					
CFR – Non-HRA	58.093	58.157	57.927	64.038	61.191
CFR – HRA	8.318	10.617	10.528	10.231	10.007
SRF - Windfarms	0.000	2.300	16.285	41.465	47.345
Total CFR	**66.411**	**71.074**	**84.740**	**115.734**	**118.543**
Movement in CFR	**1.821**	**4.663**	**13.666**	**30.994**	**2.809**

Movement in CFR represented by					
Net financing need for the year (above)	5.129	7.156	16.340	34.343	7.631
Less loan fund repayments and other financing movements	(3.308)	(2.493)	(2.674)	(3.349)	(4.822)
Movement in CFR	**1.821**	**4.663**	**13.666**	**30.994**	**2.809**

2.3. Liability Benchmark

The Authority is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the Liability Benchmark:

1. **Existing loan debt outstanding:** the Authority'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 advances/Loans Fund principal repayments.
3. **Net loans requirement:** this will show the Authority'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.

2.4. Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £m	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Strategic Reserve Fund	206.544	211.263	211.399	208.925	203.451
Other Fund balances / reserves	22.834	20.000	20.000	20.000	20.000
Capital receipts	2.283	2.100	2.100	2.100	2.100
Provisions	41.341	42.416	43.688	44.78	45.676
Other	9.844	9.800	9.800	9.800	9.800
Total core funds	**282.846**	**285.579**	**286.987**	**285.605**	**281.027**
Working capital*	(5.479)	(2.400)	(2.400)	(2.400)	(2.400)
Under/(Over) borrowing	16.411	18.774	18.34	18.334	18.143
Expected investments	**293.778**	**301.953**	**302.927**	**301.539**	**296.770**

*Working capital balances shown are estimated year-end; these may be higher mid-year

2.5. Statutory Repayment of Loans Fund Advances

The Authority 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 Authority 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 authorities so long as a prudent provision is made each year. The Authority has previously adopted the following policy on the repayment of loans fund advances, which remains unchanged:

For loans fund advances, the policy will be to maintain the practice of previous years and apply the Asset Life Method, with all loans fund advances being repaid in equal instalments of principal with reference to the life of an asset.

3. Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's Capital 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.

3.1. Current Portfolio Position

The overall treasury management portfolio as at 31 March 2025 and for the position as at 31 December 2025 are shown below for both borrowing and investments, including the Strategic Reserve Fund investments managed in-house and externally.

TREASURY PORTFOLIO				
	Actual	**Actual**	**Current**	**Current**
	31.3.25	**31.3.25**	**31.12.25**	**31.12.25**
Treasury investments	**£000**	**%**	**£000**	**%**
Banks	979	0%	1,076	0%
Building Societies - Unrated	0	0%	0	0%
Building Societies - Rated	0	0%	0	0%
Local Authorities	0	0%	5,000	2%
DMADF (H.M.Treasury)	500	0%	0	0%
Money Market Funds	10,200	4%	12,200	4%
Certificates of Deposit	0	0%	4,000	1%
Total managed in house	**11,679**	**4%**	**22,276**	**7%**
Property Investments	23,008	8%	24,690	8%
Local Investments	5,581	2%	7,155	2%
Strategic Reserve Fund Managed In House	**28,589**	**10%**	**31,845**	**10%**
Bond Funds	41,608	14%	44,885	14%
Diversified Growth Fund	21,859	8%	20,057	6%
Equity Fund	101,714	35%	122,678	37%
Credit Strategies Fund	25,068	9%	26,348	8%
Property Funds	24,111	8%	24,823	8%
Global Private Debt Fund	6,604	2%	5,210	2%
Strategic Reserve Fund Managed Externally	**250,875**	**86%**	**273,996**	**84%**
Total Treasury Investments	**291,143**	**100%**	**328,117**	**100%**
Treasury External Borrowing				
Local Authorities	0	0%	0	0%
PWLB	50,000	100%	50,000	100%
Other	0	0%	0	0%
LOBOs	0	0%	0	0%
Total External Borrowing	**50,000**	**100%**	**50,000**	**100%**
Net Treasury Investments / (Borrowing)	**241,143**		**278,117**	

The Authority's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
External Debt					
Debt at 1 April	45.029	50.000	52.300	66.400	97.400
Expected change in Debt	4.971	2.300	14.100	31.000	3.000
Other long-term liabilities (OLTL)	0.000	0.000	0.000	0.000	0.000
Expected change in OLTL	0.000	0.000	0.000	0.000	0.000
Actual gross debt at 31 March	**50.000**	**52.300**	**66.400**	**97.400**	**100.400**
The Capital Financing Requirement	66.411	71.074	84.740	115.734	118.543
Under / (over) borrowing	**16.411**	**18.774**	**18.340**	**18.334**	**18.143**

Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2026/27 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 Head of Finance reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans, and the proposals in this budget report.

3.2. Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary £m	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt	70.000	75.000	85.000	120.000
Other long-term liabilities	5.000	5.000	5.000	5.000
Total	**75.000**	**80.000**	**90.000**	**125.000**

The Authorised Limit for External Debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- This is the statutory limit determined 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 authority, although this power has not yet been exercised.
- The Authority is asked to approve the following Authorised Limit:

Authorised Limit £m	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt	80.000	85.000	95.000	130.000
Other long-term liabilities	5.000	5.000	5.000	5.000
Total	**85.000**	**90.000**	**100.000**	**135.000**

3.3. Prospects for Interest Rates

The Authority has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. MUFG Corporate Markets provided the following forecasts on 22 December 2025. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80bps:

MUFG Corporate Markets Interest Rate View 22.12.25													
	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

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

Our last interest rate forecast update was undertaken on 11 August. Since then, a combination of tepid growth (0.2% q/q GDP for Q2 and 0.1% q/q GDP for Q3), falling inflation (currently CPI is 3.2%), and a November Budget that will place more pressure on the majority of households' income, has provided an opportunity for the Bank of England's Monetary Policy Committee to further reduce Bank Rate from 4% to 3.75% on 18 December.

Surprisingly, to most market commentators, the recent steep fall in CPI inflation in one month from 3.6% to 3.2% did not persuade most "dissenters" from the November vote (Lombardelli, Greene, Mann and Pill) to switch to the rate-cutting side of the Committee. Instead, it was left to Bank Governor, Andrew Bailey, to use his deciding vote to force a rate cut through by the slimmest of margins, 5-4.

Given the wafer-thin majority for a rate cut it was not unexpected to hear that although rates would continue on a "gradual downward path", suggesting a further rate cut or cuts in the offing, MPC members want to assess incoming evidence on labour market activity and wage growth. Indeed, with annual wage growth still over 4.5%, the MPC reiterated that the case for further rate cuts would be "a closer call", and Governor Bailey observed there is "limited space as Bank Rate approaches a neutral level".

Accordingly, the MUFG Corporate Markets forecast has been revised to price in a rate cut in Q2 2026 to 3.5%, likely to take place in the wake of a significant fall in the CPI inflation reading from 3% in March to 2% in April (as forecast by Capital Economics), followed by a short lull through the summer whilst more data is garnered, and then a further rate cut to 3.25% in Q4.

As in August, nonetheless, threats to that central scenario abound. What if wage increases remain stubbornly high? There are, after all, several sectors of the domestic economy, including social care provision and the building/construction industries, where staff shortages remain severe. Moreover, by May 2026, following the local elections, we will have a better handle on whether or not the Starmer/Reeves team is going to see out the current Parliament or whether they face a Leadership challenge from within their own party If so, how will gilt markets react to these variables…and will there be additional geo-political factors to also bake in, particularly the Fed's monetary policy decisions in 2026 and the ongoing battle to lower rates whilst inflation remains close to 3%.

Accordingly, our updated central forecast is made with several hefty caveats. We are confident, as we have been for some time, that our forecast for Bank Rate and the 5-year PWLB Certainty Rate is robust, and we have marginally brought forward the timing of the next rate cut(s). But for the 10-, 25- and 50-years part of the curve, the level of gilt issuance, and the timing of its placement, will be integral to achieving a benign trading environment. That is not a "given", and additionally, the inflation outlook and political factors domestically and, crucially, in the US, are also likely to hold sway. Matters should be clearer by June in the UK, but the US mid-term elections are scheduled for November.

Our revised PWLB rate forecasts 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) and is set to prevail until at least the end of March 2026. Hopefully, there will be a further extension to this discounted rate announced in January.

Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

Gilt yields and PWLB rates

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 generally 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 22.12.25 p.m.	Target borrowing rate now (end of Q4 2027)	Target borrowing rate previous (end of Q4 2027)
5 Years	4.81%	4.10%	4.20%
10 Years	5.39%	4.70%	4.70%
25 Years	6.01%	5.30%	5.30%
50 Years	5.78%	5.10%	5.10%

Borrowing advice: Our long-term (beyond 10 years) forecast for the neutral level of Bank Rate remains at 3.5%. As all PWLB certainty rates are still 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 (<5 years PWLB maturity/<10 years PWLB EIP) 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
2025/26 (residual)	3.80%	3.90%
2026/27	3.40%	3.60%
2027/28	3.30%	3.30%
2028/29	3.30%	3.50%
2029/30	3.50%	3.50%
Years 6 to 10	3.50%	3.50%
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.

3.4. Borrowing Strategy

The Authority 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 Authority'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 2026/27 even if some rate cuts arise.

Against this background and the risks within the economic forecast, caution will be adopted with the 2026/27 treasury operations. The Head of Finance 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.
- *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 will be reported to the appropriate decision-making body at the next available opportunity.

3.5. Policy on Borrowing in Advance of Need

The Authority 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 Authority can ensure the security of such funds.

Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three-year planning period; and
- The authority would not look to borrow more than 24 months in advance of need.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6. Rescheduling

Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated and there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio, in order to provide more certainty. Additionally, rescheduling will be considered on an on-going basis where the outcome would be economically advantageous to the Authority.

If rescheduling is to be undertaken, it will be reported to the Council, at the earliest meeting following its action.

3.7. New Financial Institutions as a Source of Borrowing and/or Types of Borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.8. Approved Sources of Long and Short-term Borrowing

In conjunction with advice received from its treasury management advisor the Council will keep under review the following fixed or variable rate long-term and short-term (in lieu of long-term) borrowing options as sources of finance for the approved capital programme:

- Borrowing against internal resources held by the Council (including usable reserves and working capital) in lieu of external borrowing.
- Public Works Loan Board (PWLB) and any successor body.
- Borrowing from the HM Treasury's National Wealth Fund.
- Borrowing from other UK local authorities.
- Finance Leases.

4. Annual Investment Strategy

4.1. Investment Policy – Management of Risk

The Authority's investment policy has regard to the following: -

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")
- CIPFA Treasury Management Guidance Notes 2021

The Authority's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Authority's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider ''laddering'' investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the Scottish Government and CIPFA places a high priority on the management of risk. This Authority 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 Authority will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.
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 Authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix 5.4 under the categories of 'specified' and 'non-specified' investments.
5. **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally,

they were classified as being non-specified investments solely due to the maturity period exceeding one year.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
7. **Transaction limits** are set for each type of investment in 4.2.
8. This Authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
10. This Authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. Externally managed fund investments are managed by externally appointed fund managers operating within individual mandates as part of an agreed investment strategy which sets both the permitted asset class limit and range. The appointed fund managers are authorised to manage risk within these mandates.

However, this Authority 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 4.5). Regular monitoring of investment performance will be carried out during the year.

4.2. Creditworthiness policy

This Authority applies the creditworthiness service provided by the MUFG Corporate Markets. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- ''watches'' and ''outlooks'' from credit rating agencies;
- CDS spreads that may give early warning of changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will therefore, use counterparties within the following durational bands:

- Yellow	5 years *
- 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

The MUFG Corporate Markets creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Authority uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

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

- if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by MUFG Corporate Markets. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Authority will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

* Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt –see appendix 5.4.

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 Authority will not set a minimum rating for the UK.

CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. MUFG Corporate Markets monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its MUFG Corporate Markets-provided Passport portal.

4.3. Limits

The council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.6. The list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4. Investment Strategy

In-house funds. Investments will be made with reference to the core balance and cashflow 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 rates can be expected to fall throughout 2026, but only if the CPI measure of inflation maintains a downwards trend towards the Bank of England's 2% target. Rates may be cut quicker than expected if the economy stagnates.

Accordingly, while most cash balances are required in order to manage the ups and downs of cashflow, 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.

Investment returns expectations.

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to fall to a low of 3.25% in 2026.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year were updated on 22 December 2025 and are as follows:

Average earnings in each year	Now	Previously
2025/26 (residual)	3.80%	3.90%
2026/27	3.40%	3.60%
2027/28	3.30%	3.30%
2028/29	3.30%	3.50%
2029/30	3.50%	3.50%
Years 6 to 10	3.50%	3.50%
Years 10+	3.50%	3.50%

Caution must be exercised in respect of all interest rate forecasts.

Against this view the Treasury officers expect for its cashflow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, Money Market Funds, Ultra-Short Dated Bond Funds and short-dated deposits (overnight to 100 days), and long-dated deposits (up to 365 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 Authority'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 Authority is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	**2026/27**	**2027/28**	**2028/29**
Principal sums invested for longer than 365 days	£m 110	£m 120	£m 125
Current investments as at 31 December 25 in excess of 1 year maturing in each year	Nil	Nil	Nil

The budgeted investment earnings rates for returns on the Council's strategic reserve fund investments is derived from the approved investment strategy for the portfolio of investments that are managed by appointed external fund managers.

The Investment Strategy was last reviewed in September 2024, testing the appropriateness of the current strategy and the effectiveness of potential alternative strategies against the agreed objectives.

The agreed revisions were to remove the Diversified Growth Fund allocation, reduce the long-term targets for the Secure Income and Property mandates in order to improve overall liquidity of the Fund, while increasing the allocation to high quality investment Corporate Bonds as liquid assets and a potential income source. It was also agreed that the long-term targets in Multi-Asset Credit and Private Debt be maintained.

The Listed Equity position was reviewed in May 2025, with an agreement made to invest in a Multi-Factor Equity fund.

These changes in strategy resulted in a forecast return of 7.7% per annum, with volatility on the returns being +/-10% in any one year.

4.5. Investment Performance / Risk Benchmarking

This Authority will use an investment benchmark to assess the investment performance of its investment portfolio for both in-house and external investments:

Investment Portfolio	Benchmark	Target Mandate
In-house cash balances	30-day (backward looking) Sterling Overnight Index Average	Outperform benchmark
Bonds	UK Corporate Bonds – Market Iboxx Sterling Non-Gilts ex BBB	Benchmark over a rolling 3-year period
Equities	MSCI All Country World Index	Benchmark over a rolling 3-year period +1.5% p.a.
Equities – Global Alpha	MSCI All County World Index	Benchmark over a rolling 3-year period +2.0%
UK Property Fund	MSCI All Balanced Property Fund Index Weighted Average	Outperform benchmark over a rolling 3-year period
Diversified Growth Fund	3-month SONIA	Benchmark over a rolling 3-year period +3.0% p.a.
High Yield Debt Strategies	3-month SONIA	Benchmark over a rolling 3-year period +5.0% p.a.
Secured Income Fund	10 Year Gilts	Benchmark over a rolling 3-year period +2.3% p.a.
Global Private Debt Fund	USD	Benchmark over a rolling 3-year period +7.5-8.5% p.a.

4.6. End of Year Investment Report

At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

4.7. External Fund Managers

As at 31 March 2026, it is estimated that £265.0m of the Authority's funds will be externally managed on a discretionary basis by externally appointed fund managers.

In the near term (next 3 years) there are plans to draw a higher level of reserves from the Strategic Reserve Fund than has been the case in the past. A review of the Investment Strategy was undertaken by the Investment Sub-Committee in September 2024, which focused on models that could accommodate these higher levels of disbursements while at the same time preserving the value of the Fund in real terms. At that time, the indicative future drawdowns from the Strategic Reserve Fund were £18M, £15M and £11M in financial years 2025/26, 2026/27 and 2027/28 respectively.

The Head of Finance, in consultation with Hymans Robertson, developed an action plan to progress the implementation of the revised strategy in order to reach the long-term revised targets of the Investment Strategy, whilst also addressing the requirement to draw down capital from the Strategic Reserve Fund in the current financial year and the next three financial years to support revenue budgets.

The actual budgeted drawdowns over the periods 2025/26, 2026/27 and 2027/28 are likely to exceed the amounts included in the Investment Strategy 2024.

The Diversified Growth Fund allocation is being removed over time due to concerns over the outlook for this mandate and continues to be the main source of funding for the capital outflows going into financial year 2026/27. Any remaining capital requirement will be funded from equity mandates.

The planned increase in the allocation to high-quality investment-grade Corporate Bonds, used both for liquidity and as a potential income source, will be implemented gradually as Strategic Reserve Fund assets reduce through capital withdrawals. To ensure diversification and avoid reliance on a single mandate, a climate- and responsible-investment-focused alternative was selected. As part of this, the Net Zero Buy and Maintain fund has been onboarded, with the corporate bond allocation now split 50/50 between this fund and the previous mandate.

The Authority's external fund manager(s) will comply with the Annual Investment Strategy. The agreement(s) between the Authority and the fund manager(s) additionally stipulate guidelines on duration and other limits in order to contain and control risk.

5. Appendices

5.1. Prudential and treasury indicators.

5.2. Interest rate forecasts.

5.3. Economic background.

5.4. Treasury management practice TMP1 – credit and counterparty risk management.

5.6. Approved countries for investments.

5.7. Treasury management scheme of delegation.

5.8. The treasury management role of the section 95 officer.

5.1. The Capital Prudential and Treasury Indicators 2026/27 – 2028/29

The Authority'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' overview and confirm capital expenditure plans.

5.1.1. Capital Expenditure

Capital expenditure £m	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Social Care	3.804	1.684	0.000	0.000	0.000
Roads and Transportation	3.305	6.456	2.918	1.530	0.950
Education and Leisure	2.194	1.154	1.502	0.603	0.585
Marine Services	1.809	1.854	0.769	8.016	0.569
Other Services	3.429	4.817	4.685	4.000	2.971
SRF-Windfarm	0.000	2.300	14.100	26.000	8.000
Finance Leases	0.537	0.501	0.465	0.428	0.403
Non-HRA	**15.078**	**18.766**	**24.439**	**40.577**	**13.478**
HRA	**2.995**	**5.794**	**1.158**	**0.016**	**0.000**
Total	**18.073**	**24.560**	**25.597**	**40.593**	**13.478**

5.1.2. 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 Authority's overall finances. The Authority is asked to approve the following indicators:

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) against the net revenue stream.

%	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
General Fund	1.2%	1.4%	1.1%	1.1%	1.1%
Scapa Flow Oil Port	19.8%	16.8%	16.8%	16.5%	16.1%
Miscellaneous Piers	6.0%	12.9%	7.9%	9.0%	11.6%
Housing Revenue Account	15.9%	15.3%	15.4%	13.1%	10.8%

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

The above ratio for the Housing Revenue Account shows the amount of rent income being committed to servicing the long-term debt associated with the Authority's house building strategy and as such, 35% should be regarded as the upper limit for the cost of capital relative to net revenue on the Housing Revenue Account, for the term of the current 5-year capital programme.

HRA Ratios

£	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
HRA debt £m	8.318	10.617	10.528	10.231	10.007
HRA revenues £m	4.652	4.923	5.148	5.356	5.572
Ratio of debt to revenues %	**55.9%**	**46.4%**	**48.9%**	**52.4%**	**55.7%**

£	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
HRA debt £m	8.318	10.617	10.528	10.231	10.007
Number of HRA dwellings £m	1024	1037	1050	1063	1076
Debt per dwelling £	**8.123**	**10.238**	**10.027**	**9.625**	**9.300**

5.1.3. Maturity Structure of Borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large, fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Authority is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2025/26			
	Actuals	Lower	Upper
Under 12 months	£20,000,000 40.0%	0%	40%
12 months to 2 years	- -	0%	30%
2 years to 5 years	- -	0%	30%
5 years to 10 years	- -	0%	30%
10 years to 20 years	- -	0%	50%
20 years and above	£30,000,000 60.0%	30%	100%

5.1.4. Control of Interest Rate Exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2. Interest Rate Forecasts 2025-2028

MUFG Corporate Markets Interest Rate View 22.12.25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

PWLB forecasts are based on PWLB certainty rates.

5.3. Economic Background

The first half of 2025/26 saw:

- A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth, but picked up to 0.1% m/m in August before falling back by 0.1% m/m in September.
- The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.6% in September.
- CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.5%.
- The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August (and subsequently to 3.75% in December).
- The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70% (before falling back to 4.43% in early November).

From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q (subsequently revised down to 0.2% q/q). Nonetheless, the 0.0% m/m change in real GDP in July, followed by a 0.1% m/m increase in August and a 0.1% decrease in September will have caused some concern. GDP growth for 2025 and 2028 is currently forecast by the Office for Budget Responsibility to be in the region of 1.5%.

Sticking with future economic sentiment, the composite Purchasing Manager Index (PMI) for the UK increased to 52.2 in October. The manufacturing PMI output balance improved to just below 50 but it is the services sector (52.2) that continues to drive the economy forward. Nonetheless, the PMIs suggest tepid growth is the best that can be expected in the second half of 2025 and the start of 2026. Indeed, on 13 November we heard that GDP for July to September was only 0.1% q/q.

Turning to retail sales volumes, and the 1.5% year-on-year rise in September, accelerating from a 0.7% increase in August, marked the highest gain since April. On a monthly basis, retail sales volumes rose 0.5%, defying forecasts of a 0.2% fall, following an upwardly revised 0.6% gain in August. Household spending remains surprisingly resilient, but headwinds are gathering.

Prior to the November Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the OBR. For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.

Following the 26 November Budget, the Office for Budget Responsibility (OBR) calculated the net tightening in fiscal policy as £11.7bn (0.3% of GDP) in 2029/30, smaller than the consensus forecast of £25bn. It did downgrade productivity growth by 0.3%, from 1.3% to 1.0%, but a lot of that influence was offset by upgrades to its near-term wage and inflation forecasts. Accordingly, the OBR judged the Chancellor was going to achieve her objectives with £4.2bn to spare. The Chancellor then chose to expand that headroom to £21.7bn, up from £9.9bn previously.

Moreover, the Chancellor also chose to raise spending by a net £11.3bn in 2029/30. To pay for that and the increase in her headroom, she raised taxes by £26.1bn in 2029/30. The biggest revenue-raisers were the freeze in income tax thresholds from 2028/29 (+£7.8bn) and the rise in NICs on salary-sacrifice pension contributions (+£4.8bn). The increase in council tax for properties worth more than £2.0m will generate £0.4bn.

The weakening in the jobs market looked clear in the spring. May’s 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April’s 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nearly all the months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October 2024 Budget. The number of job vacancies in the three months to November 2025 stood at 729,000 (the peak was 1.3 million in spring 2022). All this suggests the labour market continues to loosen, albeit at a slow pace.

A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.6% in September (still at that level in November). The rate for the private sector has slipped just below 4% as the year end approaches.

CPI inflation remained at 3.8% in September but dropped to 3.2% by November. Core inflation also fell to 3.2% by November while services inflation fell to 4.4%.

Nonetheless, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.

An ever-present issue throughout recent months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the “Liberation Day” tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended June at 4.50%.

More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves’ future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK’s fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England kept yields elevated over 4.70% although by late December yields had fallen back again to a little over 4.50%.

The FTSE 100 fell sharply following the “Liberation Day” tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 ended June at 8,761, around 2% higher than its value at the end of March and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed September at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors’ global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings. In early November, the FTSE100 climbed to a record high just above 9,900. By late December, the index had clung on to most of those gains standing at 9,870 on 23 December.

MPC meetings: 8 May, 19 June, 7 August, 18 September, 6 November, 18 December 2025

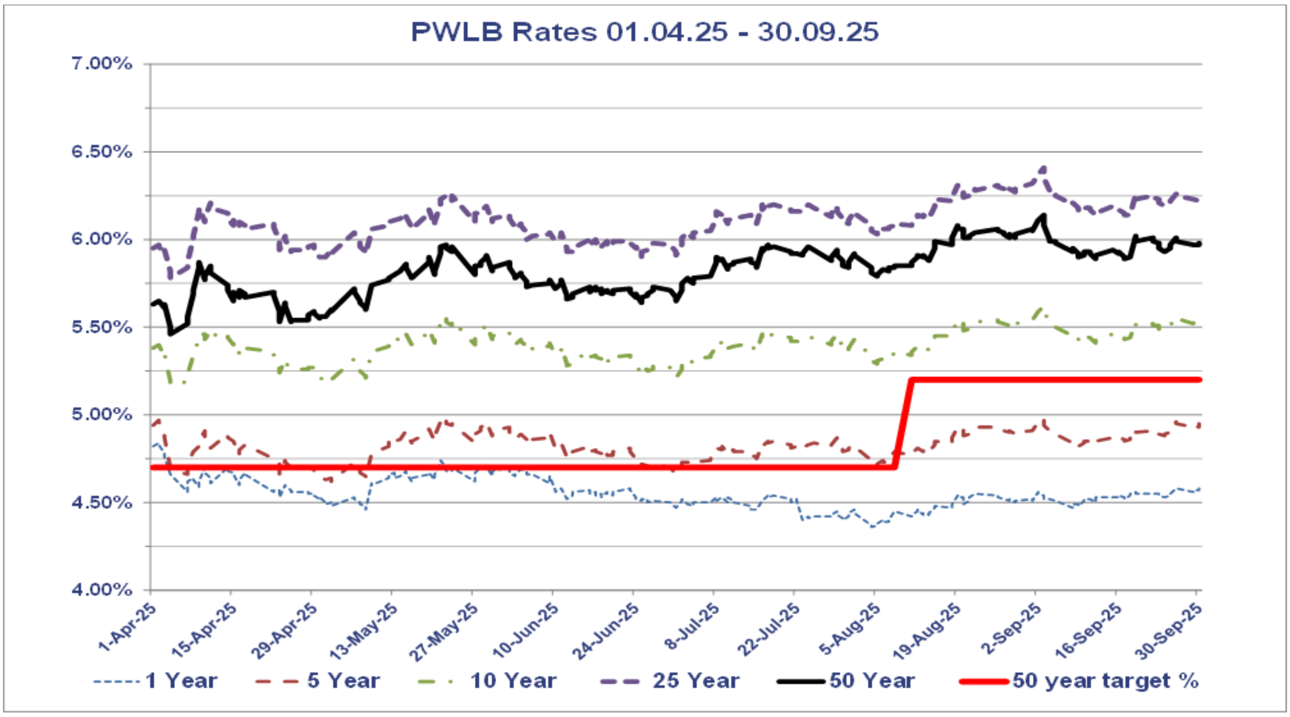
There were six Monetary Policy Committee (MPC) meetings held between April and December. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for "signs of weak demand", "supply-side constraints" and higher "inflation expectations", mainly from rising food prices. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates would be reduced further.

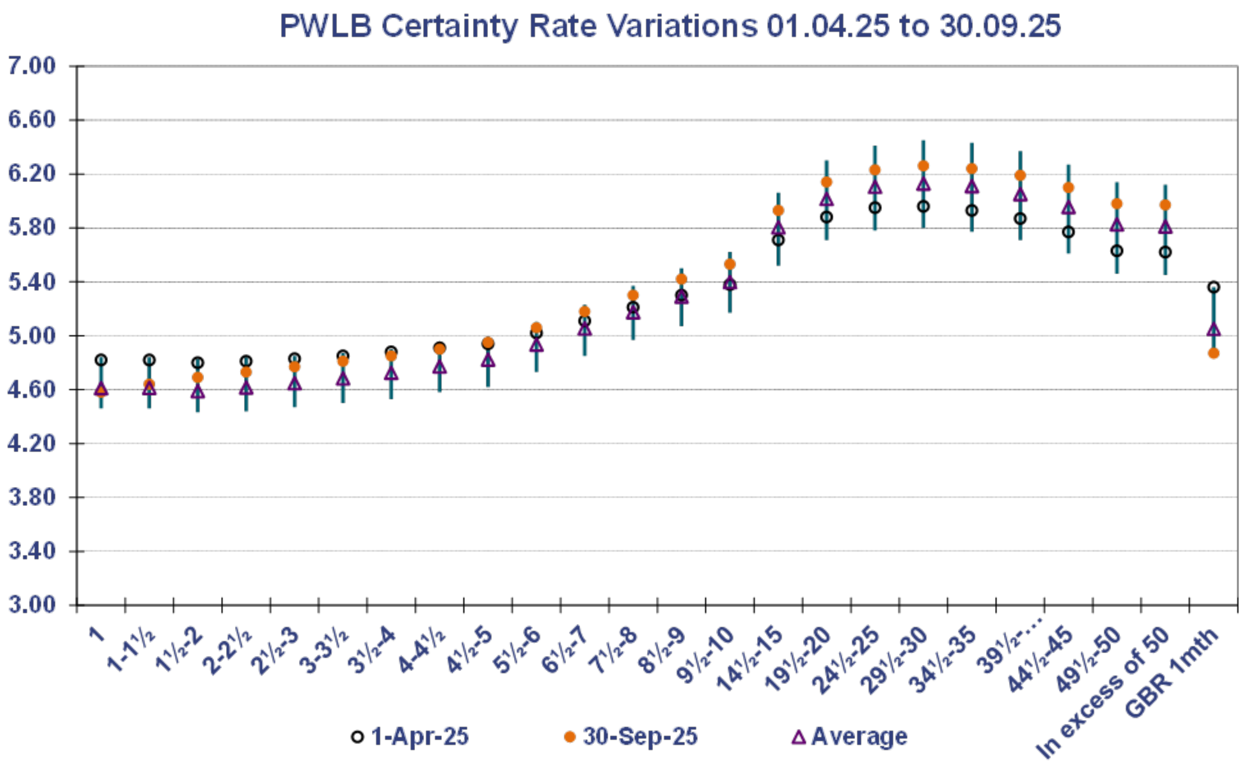
In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC was wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.

With wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction). Moreover, the Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that "a gradual and careful" approach to rate cuts is appropriate suggested the Bank still thought interest rates will fall further.

At the 6 November meeting, Governor Bailey was once again the deciding vote, keeping Bank Rate at 4% but hinting strongly that a further rate cut was imminent if data supported such a move. By 18 December, with November CPI inflation having fallen to 3.2%, and with Q2 GDP revised down from 0.3% q/q to only 0.2% q/q, and Q3 GDP stalling at 0.1%, the MPC voted by 5-4 to cut rates further to 3.75%. However, Governor Bailey made it clear that any further reductions would require strong supporting data, and the pace of any further decreases would be slow compared to recent months. The markets expect Bank Rate to next be cut in April.

PWLB RATES 01.04.25 - 30.09.25





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.

HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.25 – 30.09.25

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2025	4.82%	4.94%	5.38%	5.95%	5.63%
30/09/2025	4.58%	4.95%	5.53%	6.23%	5.98%
Low	4.36%	4.62%	5.17%	5.78%	5.46%
Low date	04/08/2025	02/05/2025	02/05/2025	04/04/2025	04/04/2025
High	4.84%	4.99%	5.62%	6.41%	6.14%
High date	02/04/2025	21/05/2025	03/09/2025	03/09/2025	03/09/2025
Average	4.55%	4.82%	5.40%	6.11%	5.83%
Spread	0.48%	0.37%	0.45%	0.63%	0.68%

5.4. Treasury Management Practice (TMP1): Credit and Counterparty Risk Management.

This Authority approves the following forms of investment instrument for use as permitted investments as set out in table 1 and table 2.

5.4.1. Treasury risks

All the investment instruments in tables 1 and 2 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 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 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 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, 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 tables 1 & 2 headed as 'market risk' will show each investment instrument as being instant access, sale T+3 = transaction date plus 3 business days before you get cash, or term i.e. 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. However, some cash rich local authorities may positively want exposure to market risk e.g., those investing in investment instruments with a view to obtaining a long-term increase in value.
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

Authority has set limits for its fixed and variable rate exposure in its Treasury Indicators in this report. It also manages interest rate risk by maintaining a number of discrete investment portfolios which are managed by external fund managers. The separation of equites, multi-asset and bond investments in this way effectively minimises the Council's exposure to interest rate movements.

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.

5.4.2. Controls on treasury risks

1. **Credit and counterparty risk:** this Authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes. See paragraphs 4.2 and 4.3.
2. **Liquidity risk:** this Authority 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 is a risk that, through adverse market fluctuations in the value of the principle 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. However, as a cash rich local authority the Council carries an active exposure to market risk, e.g. those investing in investment instruments through the Strategic Reserve Fund with a view to obtaining a long-term increase in value.
4. **Interest rate risk:** this Authority 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. See paragraph 4.4.
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. This applies to all types of investment instruments.

5.4.3. Unlimited investments

Regulation 24 states that an investment can be shown in tables 1 & 2 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 Authority has given the following types of investment an unlimited category: -

1. **Debt Management Agency Deposit Facility.** 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 H.M. Treasury i.e. the UK Government's sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts.

2. **High creditworthiness banks and building societies.** See paragraph 4.2 for an explanation of this Authority's definition of high creditworthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with high creditworthiness, the Authority will ensure diversification of its portfolio by ensuring that no more than 25% of the total portfolio can be placed with any one institution or group at any one time.
3. **The Council's Current Provider of Banking Services.** In normal circumstances the authority will ensure diversification of its portfolio ensuring that no more than 25% of the total portfolio can be placed with any one institution or group at any one time. In restricted circumstances, however, to be determined on a case by case basis by the Section 95 Officer to the Council, the Council's banker is further authorised to hold an unlimited amount, or up to 100%, of Council funds either in the form of cash or bonds as part of the transition process or portfolio restructuring exercise, in respect of the Strategic Reserve Fund managed fund investments, for a maximum period of up to 7 working days.

5.4.4. Objectives of each type of investment instrument

Regulation 25 requires an explanation of the objectives of every type of investment instrument which an Authority approves as being 'permitted'.

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.** 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 creditworthiness banks and building societies.** See paragraph 4.2 for an explanation of this Authority's definition of high creditworthiness. 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 Authority will ensure diversification of its portfolio of deposits ensuring that no more than 25% of the total portfolio 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 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.

c) **Call accounts with high creditworthiness 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 Authority has ready access to cash when needed to pay bills.

d) **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line 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 authorities with greater flexibility to adopt new instruments as and when they are brought to the market. However, this does mean that members ought to be informed as to what instruments are presently under this generic title so that they are aware of the current situation, and that they are informed and approve of intended changes in an appropriate manner.

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) would offer another dimension of creditworthiness in terms of Government backing through either partial or full direct ownership. The view of this Authority is that such backing would make these banks attractive institutions with whom to place deposits, and that will remain our view if the UK sovereign rating were to be downgraded in the coming year.

a. **Term deposits with high creditworthiness 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 Authority considers that this indicates a low and acceptable level of residual risk.

b. **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line 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 councils with greater flexibility to adopt new instruments as and when they are brought to the market. However, this does mean that members ought to be informed as to what instruments are presently covered under this generic title so that they are aware of the current situation, and that they are informed and approve of intended changes in an appropriate manner.

3. Collective Investment Schemes Structured as Open-Ended Investment Companies (OEICS)

a. **Government liquidity funds.** These are the same as MMFs (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 Authority does not currently have the expertise or capabilities to hold directly. However, due to the high level of expertise of the fund managers and 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 as e.g. a £2m investment placed directly with HSBC is a 100% risk exposure to HSBC whereas £2m invested in a MMF may end up with say £10,000 being invested with HSBC through the MMF. For authorities particularly concerned with risk exposure to banks, MMFs offer an effective way of minimising risk exposure while still getting 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 and capital preservation is second. 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 U.K. 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 and 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, 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 i.e. it is normally the interest paid by the issuer divided by the price you 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 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. 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.

d. **Sovereign bond issues (other than the UK govt) denominated in Sterling.** As for gilts but issued by other nations. Use limited to issues of nations with at least the same sovereign rating as for the UK.

e. **Bonds issued by Multi-Lateral Development Banks (MLDBs).** These are similar to c. and d. above but are issued by MLDBs which are typically guaranteed by a group of sovereign states e.g. European Bank for Reconstruction and Development.

5. Securities Issued by Corporate Organisations

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 is sold. The annual earning on a security is called a yield i.e. is the interest paid by the issuer divided by the price you paid to purchase the security. These are similar to the previous category, but corporate organisations can have a wide variety of creditworthiness, 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

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 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. Typically, the minimum investment time horizon for considering such funds is at least 3-5 years.

Diversified Growth Fund. This is a collective investment fund specialising in a diversified investment approach. Rather than holding individual stocks and shares a collective fund offers the advantage of more diversified investment over a wider portfolio of investments and range of asset classes. This can be attractive for authorities who want exposure to the potential for asset classes including listed equities, private equity, high yield and investment grade bonds, structured finance, emerging market bonds, absolute return, insurance linked, commodities, infrastructure and currency assets to rise in value. By their very nature, some of these asset classes are regarded as being higher risk and as such it is not considered prudent to hold individual stocks as a direct investment. The risk profile of the collective investment fund is managed as a whole to smooth out the volatility in terms of the performance of individual investments and across asset classes.

Enhanced Yield Debt or Multi Asset Credit Fund. This is a collective investment fund specialising in enhanced yield debt focused strategies or multi asset credit investment approach. Rather than holding individual stocks and shares a collective fund offers the advantage of targeting a select group of investments and range of asset classes. This can be attractive for authorities who want exposure to the specialist area of enhanced yield debt strategies or multi asset credit asset classes including for example senior secured corporate debt, high yield, mezzanine corporate debt, property debt, infrastructure debt, asset-backed securities and distressed debt. Some of these asset classes are regarded as being both higher risk and by their nature can be more illiquid, as such it is not considered prudent to hold individual stocks as a direct investment. The risk profile of the collective investment fund is managed as a whole to smooth out the volatility in terms of the performance of individual investments and across asset classes.

Private Debt Fund. This is an investment fund specialising in directly originated senior secured loans to private equity-owned businesses. Private debt provides a spread pick-up versus the syndicated loan markets. The privately negotiated debt deals tend to be structured with strong financial covenants which protect lenders. Lenders in the private credit market can also benefit from origination fees, which benefit banks in the syndicated market.

Strategic Alternative Income Fund. This is a collective investment fund specialising in private market assets. Rather than holding individual stocks and shares a collective fund offers the advantage of targeting a select group of investments and range of asset classes. This can be attractive for authorities who want exposure to the potential for asset classes including infrastructure debt, renewable energy, real estate debt, long lease property and private credit. By their very nature, some of these asset classes are regarded as being higher risk and can be more illiquid, as such it is not considered prudent to hold individual stocks as a direct investment. This type of fund is designed to deliver predictable, long-term cash flows that have explicit and implicit linkage to inflation.

Table 1: Permitted Investments in House – Treasury Management

This table is for use by the in-house treasury management team.

1.1 Deposits

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Debt Management Agency Deposit Facility (DMADF)	--	term	no	100%	6 months
Term Deposits – local authorities	--	term	no	100%	2 years
Call Accounts – banks and building societies	Green	instant	no	100%	2 years
Term Deposits – banks and building societies	Green	term	no	100%	2 years
Fixed Term Deposits with variable rate and variable maturities: - Structured deposits.	Green	term	no	20%	2 years
Collateralised Deposit (see note 2)	UK sovereign rating or note 1	term	no	20%	2 years

1.2 Deposits with counterparties currently in receipt of government support / ownership

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
UK part nationalised banks	See note 1	term	no	100%	2 years
Banks part nationalised by high credit rated (sovereign rating) countries – non-UK	Sovereign rating or note 1	term	no	20%	2 years
Fixed term deposits with variable rate and variable maturities: - Structured deposits	See note 1	term	yes	20%	2 years

1.3 Collective investment schemes structured as Open-Ended Investment Companies (OEICs)

	* Minimum Fund Rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
1a. Money Market Funds (CNAV)	MMF rating	instant	No See app 5.5	20%	60-day weighted average
1b. Money Market Funds (LVNAV)	MMF rating	instant	No See app 5.5	20%	60-day weighted average
1c. Money Market Funds (VNAV)	MMF rating	instant	No See app 5.5	20%	60-day weighted average
2a. Ultra-Short Dated Bond Funds with a credit score of 1.25	Bond fund rating	T+1 to T+5	yes	20%	90-day weighted average
2b. Ultra-Short Dated Bond Funds with a credit score of 1.5	Bond fund rating	T+1 to T+5	yes	20%	90-day weighted average
3. Bond Funds	Bond fund rating (or alternative measure if not rated)	T+2 or longer	yes	20%	10-year weighted average
4. Gilt Funds	UK sovereign rating	T+2 or longer	yes	20%	10-year weighted average

1.4 Securities issued or guaranteed by governments

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	yes	20%	1 year
UK Government Gilts	UK sovereign rating	Sale T+1	yes	20%	30 years
Bond issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	yes	20%	30 years
Sovereign Bond issues (other than the UK govt)	AAA (or state your criteria if different)	Sale T+1	yes	20%	30 years
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	Sale T+1	yes	20%	30 years

1.5 Securities issued by corporate organisations

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of Deposit issued by banks and building societies	Green	Sale T+0	yes	20%	2 year
Commercial Paper other	Short-term F1, A1, P1, Long-term A, Viability C, Support 2	Sale T+0	yes	20%	90 days
Floating rate notes	Short-term F1, A1, P1, Long-term A, Viability C, Support 2	Sale T+0	yes	20%	30 years
Corporate Bonds other	Short-term F1, A1, P1, Long-term A, Viability C, Support 2	Sale T+3	yes	20%	30 years

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Authority To ensure that the Authority 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.

1.6 Other

	*** Minimum Credit Criteria / fund rating**	**Liquidity risk**	**Market risk**	**Max % of total investments**	**Max. maturity period**
Property Funds	--	T+4	yes	20%	30 years
Diversified Growth Funds	-	T+4	Yes	20%	30 years
Enhanced Yield Debt Strategies or Multi Asset Fund	-	T+4	Yes	20%	30 years
Local authority mortgage scheme	Short-term F1, A1, P1, Long-term AA-, Viability B, Support 3			£5M	5 years

Table 2: permitted investments for use by external fund managers – Strategic Reserve Fund and Common Good

2.1 Deposits

	* Minimum Credit Criteria	**Liquidity risk**	**Market risk**	**Max % of total investments**	Max. maturity period
Term Deposits – local authorities	--	term	no	100%	2 years
Call Accounts – banks and building societies	See note 1	instant	no	100%	On call
Term Deposits – banks and building societies	* Short-term F1, A1 P1, Long-term A	term	no	100%	2 years
Collateralised Deposit (see note 2)	UK sovereign rating or note 1	term	no	20%	2 years

2.2 Deposits with counterparties currently in receipt of government support / ownership

	*** Minimum Credit Criteria**	**Liquidity risk**	**Market risk**	**Max % of total investments**	**Max. maturity period**
UK part nationalised banks	UK sovereign rating	Term or instant	no	20%	2 years
Banks part nationalised by high credit rated (sovereign rating) countries – non-UK	UK sovereign rating or AA- long-term rating	Term or instant	no	20%	2 years

2.3 Collective investment schemes structured as Open-Ended Investment Companies (OEICs)

	*** Minimum Fund Rating**	**Liquidity risk**	**Market risk**	**Max % of total investments**	**Max. maturity period**
1a. Money Market Funds (CNAV)	MMF rating	instant	No see app 5.5	20%	60 days weighted average
1b. Money Market Funds (LVNAV)	MMF rating	instant	No see app 5.5	20%	60 days weighted average
1c. Money Market Funds (VNAV)	MMF rating	instant	No see app 5.5	20%	60 days weighted average
2. Ultra-Short Dated Bond funds with a credit score of 1.25	Bond fund rating	T+>1	yes	20%	90 days weighted average
3. Ultra-Short Dated Bond funds with a credit score of 1.5	Bond fund rating	T+>1	yes	20%	10 years weighted average

4. Bond Funds	Bond fund rating (or alternative measure if not rated)	T+>1	yes	20%	10 years weighted average
5. Gilt Funds	Bond fund rating (or alternative measure if not rated)	T+>1	yes	20%	10 years weighted average

2.4 Securities issued or guaranteed by governments

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	yes	20%	1 year
UK Gilts	UK sovereign rating	Sale T+1	yes	20%	100 years
Bond issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	yes	20%	100 years
Sovereign Bond issues (other than the UK govt)	AAA (or state your criteria if different)	Sale T+1	yes	20%	100 years
Bonds issued by Multilateral Development Banks	AAA (or state your criteria if different)	Sale T+1	yes	20%	100 years

2.5 Securities issued by corporate organisations

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of Deposit issued by banks and building	*Short-term F1, A1, P1, Long-term A	Sale T+1	yes	20%	1 year
Commercial Paper other	* Short-term F1, A1, P1, Long-term A	Sale T+1	yes	20%	90 days
Corporate Bonds other	* Short-term F1, A1, P1, Long-term A	Sale T+3	yes	20%	75 years
Floating Rate Notes	* Long-term A	Sale T+1	yes	20%	75 years

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Authority. To ensure that the Authority 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.

2.6 Other

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Property Funds	-	T+4	Yes	20%	30 years
Diversified Growth Funds	-	T+4	Yes	20%	30 years
Enhanced Yield Debt Strategies or Multi Asset Funds	-	T+4	Yes	20%	30 years
Infrastructure Equity	-	T+4	Yes	20%	50 years
Illiquid or Private Debt Funds	-	T+4	Yes	20%	30 years
Secured Income/Secured Finance		T+4	Yes	20%	30 years

It should be noted that the external fund managers appointed to manage the Council's managed fund portfolios are authorised through agreed investment guidelines to hold permitted investments in the form of non-treasury investments i.e. equity shares, unit trusts and bond holdings.

2.7. Permitted Investments – Non Treasury Investments.

Definition of non-treasury investments

Regulation 9 adds to the normal definition of investments the following categories:-

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

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

- Loans made by a local authority to another authority or harbour authority using powers contained in Regulation 2(1)(e) of The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016.

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

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

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

External fund managers appointed to manage the Council's managed fund portfolios are authorised through agreed investment guidelines to hold permitted investments in the form of non-treasury investments as defined above i.e. equity shares, unit trusts and bond holdings.

Under current investment guidelines fund managers are authorised to hold up to 100% of the managed funds either in the form of bonds, equities, property or unit trusts including collective investment vehicles such as diversified growth and multi asset fund investments.

Each type of permitted investment has been detailed in Table 2 above, as part of the permitted investments for use by external cash and managed fund managers.

The Consent includes as an investment any loan issued to a local authority company or other entity formed by as local authority to deliver services, or a third party, subject to a maximum amount of £25M and a maximum duration of up to 30 years.

The Consent includes as an investment any investment property up to a maximum value of £10M per investment and a maximum duration of up to 30 years.

In such cases, individual requests will be considered by the Investment Sub-Committee as a potential investment opportunity on commercial terms in the first instance, and thereafter be the subject of due diligence exercise, if supported in principle.

Such loans and property investments are often made for service reasons and for which specific statutory provision exists. Where this is the case, the relevant Services Committee will give consideration to such requests, which may include for example loans at an interest rate below the market rate subject to the state aid implications being addressed.

All loans to third parties are classified as investments for the purposes of the Consent. Where the loan is advanced at less than a market interest rate there is an associated loss of investment return which would otherwise have been earned on these monies. Annual strategies and reports will recognise all loans to third parties as investments. In such cases, these loans will be categorised, identifying the service reason together with details of those loans carrying a below market interest rate and the impact these advances have on investment returns in future reports.

5.5. Treasury Management Practice (TMP1): Credit and Counterparty Risk Management

Orkney Islands Council, including Strategic Reserve Fund, Charitable and Common Good Funds Permitted Investments, Associated Controls and Limits

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
Cash type instruments				
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	100%, maximum 6 months.	100%, 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 other non-local authority bodies will be restricted to the overall credit rating criteria.	Little mitigating controls required for local authority deposits, as this is a quasi-UK Government investment. Non- local authority deposits will follow the approved credit rating criteria.	100% and maximum 2 years.	100% and maximum 2 years.
c. Money Market Funds (MMFs) (LVNAV) **(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 a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	20%	20%

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
d. Ultra-short dated bond funds **(low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where they have a "AAA" rated status from either Fitch, Moody's or Standard and Poor's.	20%	20%
e. Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high, and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with these criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.
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 Poor's. Day to day investment dealing with these criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
g. Government Gilts and Treasury Bills **(Very low risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity.	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	20%, maximum 100 years.	20%, maximum 100 years.
h. Certificates of deposits with financial institutions **(Low risk)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low but will exhibit higher risks than categories (a), (b) and (c) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates (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 these criteria will be further strengthened by the use of additional market intelligence.	20% and maximum 75 years.	20% and maximum 75 years.
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 these criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
j. Corporate bonds **(Medium to high risk depending on period & credit rating)**	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Corporate bonds will be restricted to those meeting the base criteria. Day to day investment dealing with these criteria will be further strengthened by the use of additional market intelligence.	20% and maximum 75 years.	20% and maximum 75 years.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
Other types of investments				
a. 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 revalued regularly and reported annually with gross and net rental streams.	£10M and maximum of 30 years	n/a
b. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third-party loan requires Member approval, and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	£5M and maximum 30 years.	n/a
c. Loans to a local authority company	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each loan to a local authority company requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	£25M and maximum 30 years.	n/a
d. Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	100%	n/a

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
e. Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	Specific managed fund investment guidelines	n/a
f. Local Authority Mortgage Scheme (LAMS)	These are service investments at market rates of interest. Under this scheme the Council would be required to place up to £5M on deposit with a participating bank for a period of between 3 to 5 years.	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.	£5M and maximum 5 years.	n/a

The monitoring of investment counterparties - The status of counterparties will be monitored regularly. The Authority 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 by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

Use of External Fund Managers – It is the Authority’s policy to use external fund managers for part of its investment portfolio. The fund managers are contractually committed to keep to the Authority’s investment strategy. The limits for permitted investments have been established in consultation with external fund managers and are consistent with the terms of their appointment. The performance of each manager is reviewed at least quarterly by the Head of Finance and the managers are contractually required to comply with the annual investment strategy.

5.6. Approved Countries for Investments

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

Based on lowest available rating

AAA

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

AA+

- Canada
- U.S.A.

AA

- Abu Dhabi (UAE)
- Finland
- Qatar

AA-

- **U.K.**

A+

- Belgium
- France

5.7. Treasury Management Scheme of Delegation

1. **Full Council**

- Approval of annual strategy, following recommendation from Policy and Resources Committee.

2. Policy and Resources Committee

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Recommending approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- Recommending budget for consideration and approval by the responsible body (the full Council).
- Recommending division of responsibilities;
- Reviewing the treasury management policy and procedures and making recommendations to the responsible body (the full Council).

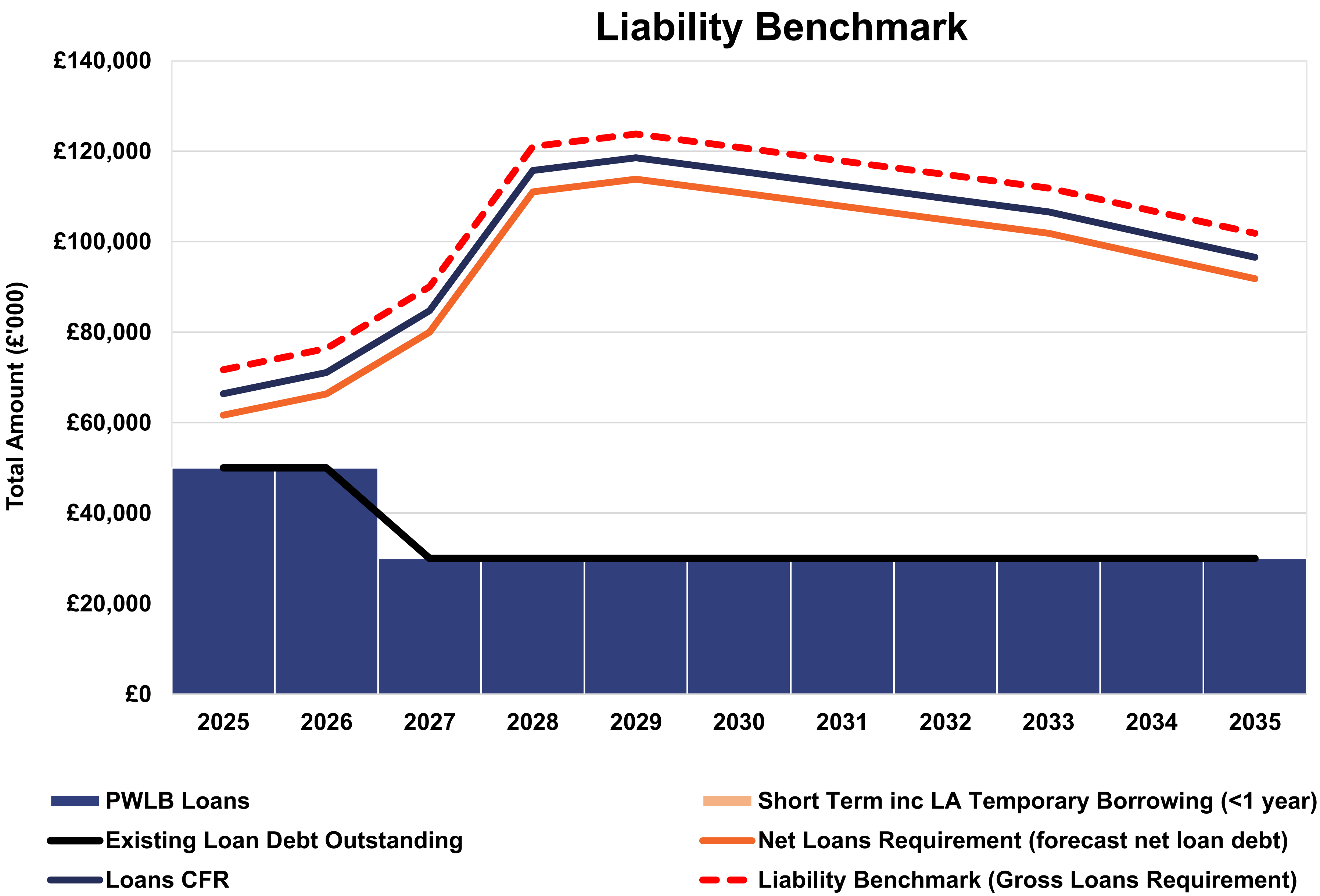
3. Investments Sub-committee

- Receiving and reviewing regular monitoring reports and acting on recommendations.

5.8. The Treasury Management Role of The Section 95 Officer

The S95 (responsible) officer:

- Selecting external service providers, and agreeing terms of appointment, in consultation with the Investments Sub-committee.
- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.


Liability Benchmark
£140,000
£120,000
£100,000
£80,000
£60,000
£40,000
£20,000
£0
Total Amount (£'000)
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
2035
PWLB Loans
Existing Loan Debt Outstanding
Loans CFR
Short Term inc LA Temporary Borrowing (<1 year)
Net Loans Requirement (forecast net loan debt)
Liability Benchmark (Gross Loans Requirement)

Appendix 3

Equality Impact Assessment

The purpose of an Equality Impact Assessment (EqIA) is to improve the work of Orkney Islands Council by making sure it promotes equality and does not discriminate. This assessment records the likely impact of any changes to a proposal or changes by anticipating the consequences and making sure that any negative impacts are eliminated or minimised and positive impacts are maximised.

Should you have any questions or wish for your draft EqIA to be reviewed by our Equality, Diversity and Inclusion Adviser, please contact OD@orkney.gov.uk.

1. Identification of the Proposal or Change	
Name of proposal or change being assessed.	Treasury Management Strategy Statement and Annual Investment Strategy 2026-2027
Responsible Service and Directorate.	Finance – Enterprise & Resources
Date of assessment.	03/02/2026
Is the proposal or change existing? (Please indicate if the service is to be deleted, reduced or changed significantly).	Update of existing annual strategy document

2. Primary Information	
What are the intended outcomes of the proposal or change?	Approve the Council's treasury strategy, including cash flow management, capital financing and investment activities for financial year 2026-2027
Is the proposal or change strategically important?	Strategic plans include major investment plans, new strategic frameworks or plans such as annual budgets, locality plans or corporate plans. Where a proposal is identified as strategic, evidence relating to socio-economic impacts and inequalities will be required in the relevant section Yes
State who is or may be affected by this proposal or change, and how?	The annual strategy sets out the parameters within which the Council is authorised to operate in managing the Council's short and long term cashflows and including all

	investing and financing activities. It is considered that the efficient operation of the treasury management function, along with use a range of permitted investments and prudent borrowing limits all contribute towards the way Council Services are funded.
How have stakeholders been involved in the development of this proposal or change?	Annual revenue budget setting process, setting 5-year capital programme and review of investment strategy for Strategic Reserve Fund.
Is there any existing data and / or research relating to equalities issues in this policy area? Please summarise. E.g. consultations, national surveys, performance data, complaints, service user feedback, academic / consultants' reports, benchmarking.	No
Is there any existing evidence relating to socio-economic disadvantage and inequalities of outcome in this policy area? Please summarise. E.g. For people living in poverty or for people of low income. See The Fairer Scotland Duty Guidance for Public Bodies for further information.	This section is required for all proposals relating to strategic decisions. No
Could the proposal or change have a differential impact on any of the following equality areas?	Please provide any evidence – positive impacts / benefits, negative impacts and reasons:
1. Race: this includes ethnic or national groups, colour and nationality.	No
2. Sex: a man or a woman.	No
3. Sexual Orientation: whether a person's sexual attraction is towards their own sex, the opposite sex or to both sexes.	No
4. Gender Reassignment: the process of transitioning from one gender to another.	No
5. Pregnancy and maternity.	No

6. Age: people of different ages.	No
7. Religion or beliefs or none (atheists).	No
8. Disability: people with disabilities (whether registered or not).	No
9. Marriage and Civil Partnerships.	No
10. Caring responsibilities	No
11. Socio-economic disadvantage.	No
12. Care experienced	No

3. Impact Assessment	
Does the analysis above identify any differential impacts which need to be addressed?	No
Does the analysis above identify any potential negative impacts?	No
Do you have enough information to make a judgement? If no, what information do you require?	N/A
4. Equality Impact Assessment Action Plan	
Please complete the following action plan where you have identified any differential impacts or potential negative impacts in Section 3 of the Equality Impact Assessment.	

Impact Identified	Action to be taken	Owner	How will it be monitored	Date Action to be completed

5. Sign and Date	
Signature:	[redacted]
Name:	Katie Gibson
Date:	03/02/2026

Island Communities Impact Assessment

Treasury Management Strategy

Preliminary Considerations	Response
Please provide a brief description or summary of the policy, strategy or service under review for the purposes of this assessment.	Treasury Management Strategy – provides the key prudential indicators for the Authority's treasury management activities.
Step 1 – Develop a clear understanding of your objectives	**Response**
What are the objectives of the policy, strategy or service?	To ensure that all the Council's elected members fully understand the overall strategy for capital expenditure and the associated prudential indicators, the policy for statutory repayment of loans fund advances and treasury management issues.
Do you need to consult?	No
How are islands identified for the purpose of the policy, strategy or service?	The Treasury Management Strategy focuses on the financing requirements of the Authority's authorised capital expenditure plans, borrowing requirements and the statutory repayment of loan debt, independent of location.
What are the intended impacts/outcomes and how do these potentially differ in the islands?	To approve the prudential indicators for the Authority's treasury management activities.
Is the policy, strategy or service new?	No
Step 2 – Gather your data and identify your stakeholders	**Response**
What data is available about the current situation in the islands?	N/a – the strategy forms part of the framework for financial planning.
Do you need to consult?	No
How does any existing data differ between islands?	No
Are there any existing design features or mitigations in place?	No

Step 3 – Consultation	Response
Who do you need to consult with?	N/a
How will you carry out your consultation and in what timescales?	N/a
What questions will you ask when considering how to address island realities?	N/a
What information has already been gathered through consultations and what concerns have been raised previously by island communities?	N/a
Is your consultation robust and meaningful and sufficient to comply with the Section 7 duty?	N/a
Step 4 – Assessment	Response
Does your assessment identify any unique impacts on island communities?	No
Does your assessment identify any potential barriers or wider impacts?	No
How will you address these?	N/a

You must now determine whether in your opinion your policy, strategy or service is likely to have an effect on an island community, which is significantly different from its effect on other communities (including other island communities).

If your answer is **No** to the above question, a full ICIA will NOT be required and **you can proceed to Step 6**.
If the answer is **Yes**, an ICIA must be prepared and y**ou should proceed to Step 5**.

To form your opinion, the following questions should be considered:

- Does the evidence show different circumstances or different expectations or needs, or different experiences or outcomes (such as different levels of satisfaction, or different rates of participation)?
- Are these different effects likely?

• Are these effects significantly different? • Could the effect amount to a disadvantage for an island community compared to the Scottish mainland or between island groups?	
Step 5 – Preparing your ICIA	Response
In Step 5, you should describe the likely significantly different effect of the policy, strategy or service:	
Assess the extent to which you consider that the policy, strategy or service can be developed or delivered in such a manner as to improve or mitigate, for island communities, the outcomes resulting from it.	
Consider alternative delivery mechanisms and whether further consultation is required.	
Describe how these alternative delivery mechanisms will improve or mitigate outcomes for island communities.	
Identify resources required to improve or mitigate outcomes for island communities.	
Stage 6 – Making adjustments to your work	Response
Should delivery mechanisms/mitigations vary in different communities?	No
Do you need to consult with island communities in respect of mechanisms or mitigations?	No
Have island circumstances been factored into the evaluation process?	No
Have any island-specific indicators/targets been identified that require monitoring?	No
How will outcomes be measured on the islands?	N/a

How has the policy, strategy or service affected island communities?	N/a
How will lessons learned in this ICIA inform future policy making and service delivery?	N/a
Step 7 – Publishing your ICIA	Response
Have you presented your ICIA in an Easy Read format?	Yes
Does it need to be presented in Gaelic or any other language?	No
Where will you publish your ICIA and will relevant stakeholders be able to easily access it?	OIC Website
Who will signoff your final ICIA and why?	S95 officer for Orkney Islands Council, as per Council policy.

ICIA completed by:	Katie Gibson
Position:	Team Manager, Corporate Finance
Signature:	[redacted]
Date complete:	02/02/2026

ICIA approved by:	Gareth Waterson
Position:	Director of Enterprise and Resources
Signature:	[redacted]
Date complete:	02/02/2026