Inverclyde council

AGENDA ITEM NO: 3

Report To:	**Policy & Resources Committee**	**Date:**	**23 March 2021**
Report By:	**Chief Financial Officer**	**Report No:**	**FIN/17/21/AP/LA**
Contact Officer:	**Alan Puckrin**	**Contact No:**	**01475 712223**
Subject:	**Finance Update including Capital Strategy 2021/31 and Treasury Strategy 2021/25**		

1.0 PURPOSE

1.1 The purpose of this report is to update the Committee on a range of financial matters and seek decisions as appropriate. Specifically the report provides an update of the Council's Capital and Treasury Strategies that require to be considered by the Full Council.

2.0 SUMMARY

2.1 The following report provides a summarised update on all the relevant aspects of the Policy & Resources Committee financial governance remit in line with the decision of the 7 January Policy & Resources Committee.

2.2 The Committee's own Budget is projecting a £663,000 underspend in 2020/21 largely arising from unused contingencies. This has already been adjusted for in the 2021/23 Budget decisions.

2.3 The 2020/21 General Fund Budget is projecting a surplus of £1,396,000 (0.7%) as at 31 January which is an increase in underspend of £660,000 since 30 November.

2.4 The latest summarised position of the 2020/23 Capital Programme is that the overall 3 year programme remains within acceptable limits and that there is advancement of £4.034million (31.7%) reported for 2020/21. It is recognised that there remains a considerable level of spend to be achieved by 31 March. Officers are keeping this and any potential impact of Covid/Brexit under review.

2.5 Appendix 6 shows the latest position of the Council costs associated with Covid and the various funding sources including Scottish Government Grants, use of Reserves and offsetting savings. It can be seen that after factoring in the latest information including the extra funding from the Scottish Government there is a £0.951million unallocated contingency to meet the unbudgeted costs associated with Covid in 2021/22.

2.6 All relevant appendices have been prepared on the basis that the proposals from the Members' Budget Working Group to the 18 March Council in respect of the 2021/23 Revenue and 2021/24 Capital Budget are approved.

2.7 Officers have been engaging with a party regarding purchasing an empty premises, the details of which are included in Appendix 7 in the private papers. It is proposed to fund from the Community Fund within the Anti Poverty Budget.

2.8 Appendices 8 and 9 contain the Capital Strategy 2021/31 and the key figures for the Treasury Strategy 2021/25. The documents map the medium and longer term financial implications based on current plans. In line with Statutory Guidance, both require approval by the Full Council.

2.9 Within the Treasury Strategy the Council requires to set out its policy for repayments of Loans Fund advances. The proposal is to retain the Annuity repayment method which is covered in more detail with paragraph 8.5 and Appendix 9.

2.10 In January the Accounts Commission issued the annual Financial Overview. This contained the usual commentary on the performance of and challenges faced by Local Government finances in Scotland. This year's report repeats many of the previous issues around budget pressures, size of reserves and the need for Councils to continue to innovate to close budget gaps but the report also provides some early commentary on the financial challenges brought about by Covid.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Committee notes the projected underspends in the Policy & Resources Committee budget and 2020/21 General Fund Budget as at 31 January, 2021.

3.2 It is recommended that the Committee notes the current position of the 2020/23 Capital Programme

3.3 It is recommended that the Committee notes the current estimated unallocated contingency of £951,000 within the Covid Fund and agrees that this should be retained until the situation regarding further costs and funding from Covid is clearer.

3.4 It is recommended that the Committee approves the purchase of the property as per Appendix 7 in the private papers and remit it to the Head of Legal Services in consultation with the Chief Financial Officer and the Head of Property Services to conclude the purchase.

3.5 It is recommended that the Committee remits to the Inverclyde Council, for their approval, the following:

a. Capital Strategy for 2021/31
b. Treasury Management Strategy and Annual Investment Strategy
c. Authorised Limits for 2021/25
d. Treasury Management Policy Statement set out in paragraph 8.6
e. Policy on repayment of Loans Fund advances set out in paragraph 8.5
f. Treasury Policy Limits
g. Prudential Indicators and Treasury Management Indicators

List of Permitted Investments (including those for the Common Good Fund).

3.6 It is recommended that the Committee notes the publication of the Local Government in Scotland, Financial Overview by the Accounts Commission.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

4.1 On 7 January, the Policy & Resources Committee approved the Committee arrangements during the continuing and extended Covid lockdown. One decision was that whilst the Committees would continue, reports would focus on urgent business and be smaller in number.

4.2 The following report provides a summarised update on all the relevant aspects of the Policy & Resources Committee financial governance remit.

5.0 2020/21 BUDGET UPDATE

5.1 The Committee's own 2020/21 Budget position at 31 January is as follows:

- Net of Covid costs there is a projected £663,000 underspend, an increase of £135,000 since 30 November. Underspends in the pay and non-pay inflation contingencies make up £650,000 of the underspend,
- The Common Good Budget is projecting a £80,530 surplus and now has a £97,880 projected balance at 31 March, 2021,
- The 2020/23 Capital Programme is within Budget with slippage of £40,000 being reported. At 31 January spend represented 48% of projected 2020/21 spend.

5.2 The General Fund is projecting a surplus of £1,396,000 (0.7%) as at 31 January which is an increase in underspend of £660,000 since 30 November. Appendix 4 provides the summary position. The Health & Social Care Committee is reporting an overspend of £690,000 which will be met from the IJB Reserves at 31 March, 2021.

5.3 Appendix 5 reflects the position of the General Fund Reserves on the basis that the recommendations to the 18 March 2021 special Council meeting to consider the 2021/23 Budget are approved. From this it can be seen that the unallocated Reserves match the 2% recommended level of £3.8million.

5.4 Earmarked Reserves are reporting slippage of 27% against planned spend in 2020/21. As at 31 January spend is £3,196,000 and projected spend to 31 March 2021 is £ 10,833,000. A large proportion of the remaining spend relates to Covid expenditure within HSCP which is currently not being reported against the Covid earmarked reserve.

5.5 The consolidated 2020/23 capital budget is £86.705m. The restated budget for 2020/21 is £12.712m, with spend to 31 January of £9.774m equating to 58.4% of projected spend for the year. Committees are projecting to outturn on budget. In the current year net advancement of £4.034m (31.73%) is currently being reported. This is due to advancement within the Environment & Regeneration Committee (£1.240m) and Education & Communities Committee (£2.866m) offset by slippage within Policy & Resources Committee (£0.051m) and Health & Social Care (£0.021m).

5.6 Over the 2020/23 period the Capital Programme is reporting a £3.106m deficit. This is within an acceptable level of up to 5% over provision. The position in respect of individual Committees, including the detail of individual projects, has been reported to the relevant Service Committees.

5.7 Appendix 6 shows the latest position of the Council costs associated with Covid and the various funding sources including Scottish Government Grants, use of Reserves and offsetting savings. It can be seen that gross expenditure, including HSCP is projected to be £33.4million. This figure excludes the significant number of Business Grants administered by the Council on behalf of the Scottish Government which will exceed £17million in 2020/21.

5.8 Within the figures in Appendix 6 is £4.0million proposed to be allocated to the 4 Covid Recovery Plans (Organisational, Humanitarian, Economic and Education, Culture & Leisure). This was subject to consideration by the Council on 18 March. The intention would be to bring back proposals for Members consideration by the summer of 2021.

5.9 This leaves just under £1million unallocated but given the ongoing lockdown, uncertainty over the levels of UK/ Scottish Government support for Covid costs in 2021/22 and the continued uncertainty over the timescales for the Council returning to “normal” service delivery, it is recommended that the Committee keeps this contingency under review over coming months.

6.0 2021/23 BUDGET UPDATE

6.1 The MBWG is recommending that the Council approve the proposed 2021/22 Revenue Budget on 18 March which included the use of £1.049million of Reserves. In addition the Council has allocated up to £4.0million from Reserves to balance the 2022/23 Revenue Budget leaving an estimated £0.481 million minimum funding gap to be addressed over the next 12 months. Members will receive regular reports on progress towards minimising the Budget gap throughout 2021/22.

6.2 The Council will also have approved the 2021/24 Capital Programme on the 18 March and future Committee reports will reflect the decisions taken.

7.0 ANTI- POVERTY BUDGET UPDATE

7.1 The Council and IJB have allocated £1.0million on a recurring basis to tackle poverty and deprivation and have agreed to consider the proposals for 2021/22 at the May meeting of the Committee. The Committee has also agreed that any underspend in the Anti-Poverty monies in 2020/21 be added to the existing Anti-Poverty Earmarked Reserve for future allocation by the Committee.

7.2 The Scottish Government has allocated a number of inter-related grants as part of the response to the Covid pandemic including funding to tackle Food Insecurity, Financial Hardship, Fuel Poverty and general Humanitarian Aid. Any unspent sums at 31 March will be carried forward as an earmarked reserve into 2021/22.

8.0 TREASURY STRATEGY 2021/25 & CAPITAL STRATEGY 2021/31

8.1 The Capital Strategy 2021/31 presents a longer-term view of the asset management, financial and other issues affecting capital expenditure requirements and delivery. The Strategy is a requirement of the Prudential Code and is in addition to the existing plans and updates presented through the year to Committee and to the Council such as the Financial Strategy.

8.2 The key purpose of the Capital Strategy is to explain how different facets of the Council’s Treasury Strategy and Capital Programme interact and to allow Members to consider the affordability and sustainability of Capital investment decisions in the longer term. The Strategy is attached at Appendix 8.

8.3 Appendix 9 sets out the Council’s proposed performance measures for the Treasury Management Strategy and Annual Investment Strategy for 2021/25, Treasury Policy Limits, and Prudential and Treasury Management Indicators for the next 4 years including the proposed Authorised Limits.

8.4 The Treasury Management Strategy, Annual Investment Strategy, Treasury Policy Limits, Prudential Indicators, and Treasury Management Indicators have been set based on the Council’s current and projected financial position (including the proposed 2021/24 Capital Programme) and the latest estimated interest rate levels.

8.5 The Council is required to set out its policy for the repayment of loans fund advances from options set by the Scottish Government:

a. For loans fund advances made before 1 April 2016 the policy will be to maintain the practice of previous years and use the Statutory Method with annual principal repayments being calculated using the annuity method.

b. The annuity method is also being used for loans fund advances made after 1 April 2016 for the 5 year transitional period to the end of 2020/21. In applying the annuity method to new advances in any year, the interest rate used in the annuity calculation will be the Council's loans fund pool rate for the year (including expenses) as rounded up to the nearest 0.01%.

c. Of the options available for new capital expenditure from 1 April 2021 onwards, it was previously proposed to use the equal instalment method (where repayments start higher than under the annuity method but do not change during the write-off period) but it is now proposed to use the annuity method with the interest rate used being as in b. above.

   The proposed change in the repayment method follows work done by the Council's treasury advisers for the CIPFA Directors of Finance on debt financing which is likely to lead to most Scottish local authorities using the annuity method. The review concluded that after accounting for interest payments, annuity better reflected the benefit over the life of the asset and addressed the issues around affordability in the early years of projects.

8.6 The Council has a formal Treasury Management Policy Statement as follows that is required to be approved by the Full Council:

1. This organisation defines its treasury management activities as: "The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".
2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

8.7 In line with the Council's Financial Regulations, the proposals in this report require to be approved by the Full Council.

9.0 2019/20 ANNUAL FINANCIAL OVERVIEW REPORT

9.1 In January the Accounts Commission issued the annual Financial Overview. This contained the usual commentary on the performance of and challenges faced by Local Government in Scotland.

9.2 This year's report repeats many of the previous issues around budget pressures, size of reserves and the need for Councils to continue to innovate to close budget gaps but the report also provides some early commentary on the financial challenges brought about by Covid. The document can be accessed via the following link. **Here**

10.0 IMPLICATIONS

10.1 Finance

Financial Implications:

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

10.2 **Legal**
There are no other legal issues arising other than those highlighted in the body of this report.

10.3 **Human Resources**
There are no HR issues arising from this report.

10.4 **Equalities**

Equalities

(a) Has an Equality Impact Assessment been carried out?

	YES (see attached appendix)
x	NO – This report does not introduce a new policy, function or strategy or recommend a substantive change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required

(b) Fairer Scotland Duty

If this report affects or proposes any major strategic decision:-

Has there been active consideration of how this report's recommendations reduce inequalities of outcome?

	YES – A written statement showing how this report's recommendations reduce inequalities of outcome caused by socio-economic disadvantage has been completed.
x	NO

(c) Data Protection

Has a Data Protection Impact Assessment been carried out?

	YES – This report involves data processing which may result in a high risk to the rights and freedoms of individuals.
x	NO

10.5 **Repopulation**
There are no repopulation issues arising from this report.

11.0 CONSULTATIONS

11.1 None

12.0 BACKGROUND PAPERS

12.1 Local Government in Scotland – Financial Overview 2019/20, Accounts Commission

Appendix 1

POLICY & RESOURCES

REVENUE BUDGET MONITORING REPORT

CURRENT POSITION

PERIOD 10: 1st April 2020- 31st January 2021

2019/20 Actual £000	SUBJECTIVE ANALYSIS	Approved Budget 2020/21 £000	Revised Budget 2020/21 £000	Projected Out-turn 2021/21 £000	Projected Over/(Under) Spend £000	Percentage Over/(Under)
9,099	Employee Costs	8,746	8,783	8,826	43	0.5%
534	Property Costs	522	521	521	0	-
671	Supplies & Services	971	973	1,085	112	11.5%
2	Transport & Plant	4	4	4	0	-
1,311	Administration Costs	1,317	1,317	1,084	(233)	(17.7%)
30,192	Payments to Other Bodies	33,845	34,037	33,659	(377)	(1.1%)
(28,362)	Income	(29,000)	(29,075)	(28,690)	384	(1.3%)
13,448	**TOTAL NET EXPENDITURE**	**16,404**	**16,560**	**16,489**	**(71)**	(0.4%)
	Earmarked reserves		(380)	(380)	0	
	Additional Funding Covid-19			(592)	(592)	
13,448	**Total Net Expenditure excluding Earmarked Reserves**	**16,404**	**16,180**	**15,517**	**(663)**	

2019/20 Actual £000	OBJECTIVE ANALYSIS	Approved Budget 2020/21 £000	Revised Budget 2020/21 £000	Projected Out-turn 2021/21 £000	Projected Over/(Under) Spend £000	Percentage Over/(Under)
7,568	Finance	8,016	8,025	8,539	514	6.4%
1,754	Legal Services	1,845	1,862	1,926	65	3.5%
9,322	**Total Net Expenditure Environment, Regeneration & Resources**	**9,861**	**9,887**	**10,465**	**579**	5.9%
1,996	Organisational Development, Policy & Communications	2,087	2,086	2,113	27	1.3%
1,996	**Total Net Expenditure Education, Communities & Organisational Development**	**2,087**	**2,086**	**2,113**	**27**	1.3%
323	Chief Executive	321	321	332	11	3.4%
1,807	Miscellaneous	4,135	4,266	3,578	(688)	(16.1%)
13,448	**TOTAL NET EXPENDITURE**	**16,404**	**16,560**	**16,489**	**(71)**	(0.4%)
	Earmarked reserves		(380)	(380)	0	
	Additional Funding Covid-19			(592)	(592)	
13,448	**Total Net Expenditure excluding Earmarked Reserves**	**16,404**	**16,180**	**15,517**	**(663)**	

	Approved Reserves £000	Revised Reserves £000	20/21 Budget £000	Projected Spend £000	Projected Carry Forward £000
Earmarked Reserves	2,430	2,222	634	623	1,599
Policy & Resources Overall Expenditure	**2,430**	**2,222**	**634**	**623**	**1,599**

Appendix 2

EARMARKED RESERVES POSITION STATEMENT

COMMITTEE: Policy & Resources

Category	Project	Lead Officer/ Responsible Manager	Total Funding 2020/21 £000	Phased Budget To Period 10 2020/21 £000	Actual To Period 10 2020/21 £000	Projected Spend 2020/21 £000	Amount to be Earmarked for 2021/22 & Beyond £000	Lead Officer Update
C	Equal Pay	Steven McNab	200	0	0	0	200	Balance for equal pay relates to janitors tied houses and other employee Equal Pay costs and is under review on an annual basis. £621k to be written back to reserves for additional COVID funding.
C	Voluntary Severance Reserve - HR Support	Steven McNab	65	53	49	65	0	Additional support for HR to support Trawls and associated work. Part time HR advisor & Full Time support from 04/11/19 to 31/03/21.
C	Digital Strategy	Alan Puckrin	338	66	144	160	178	KANA upgrade being progressed. Future spend to be linked to increased home/flexible working and development of on line services.
C	Welfare Reform - Operational	Alan Puckrin	266	72	63	79	187	Used for temp enhanced resources in the CSC. £41k uncommitted.
C	Revenue Contingency	Alan Puckrin	63	25	20	22	41	Subject to reports to P&R Committee. £23k remains uncomitted within future years.
C	Anti-Poverty Fund	Alan Puckrin	1,090	369	160	227	863	Approximately £600k uncommitted and being considered as part of future anti poverty proposals.
C	Resiliance & Insurance Claims - Training	Steven McNab	25	0	5	5	20	Majority of training to take place in 2020/21 due to COVID 19 restrictions this year. Mental Health training.
C	GDPR	Anne Sinclair	60	35	10	20	40	Information governance system contract awarded (2yr+1yr+1yr). Spend committed - £10k per yr. System on target to go live on 7 April 2021. Corporate training is being organised.
C	Promotion and Tourism (ERR)	George Barbour	50	0	0	20	30	Additional resource in PR team, additional marketing, support for events etc. 2021 planned spend for an event as part of 'Scotland's Year of Food and Drink' and the creation of a regional food group to support the hospitality sector.
C	Peter Stanton Trust	Alan Puckrin	25	0	25	25	0	Sums paid to the Peter Stanton Trust.
C	COVID 19 - Remembrance Programme	Stuart Jamieson	40	0	0	0	40	A tender was issued for the memorial benches , two bids were received which did not meet the criteria . A further tender will be issued and a report on additional benches will be prepared. Development of Covid-19 memorial ideas continues and community engagement is expected before final plans are announced. The memorial sub group therefore expect the remaining £25k to be spent in financial year 2021/22.
	Total Category C to E		**2,222**	**620**	**476**	**623**	**1,599**	

COMMITTEE: POLICY & RESOURCES

Project Name	1	2	3	4	5	6	7	8
	Est Total Cost	Actual to 31/3/20	Approved Budget 2020/21	Revised Est 2020/21	Actual to 31/1/21	Est 2021/22	Est 2022/23	Future Years
	£000	£000	£000	£000	£000	£000	£000	
Environment, Regeneration & Resources								
ICT								
Storage/Backup Devices/Minor Works and Projects	50		20	25	25	25	0	
Rolling Replacement of PC's	355		40	90	15	265	0	
Whiteboard/Projector Refresh	30		0	15	0	15	0	
Server & Switch Replacement Programme	234		123	84	25	150	0	
Annual Allocation	521	-	71	0		98	423	
Covid - Extra 355 Laptops (300 Corporate, 55 Schools)	140		160	140	138			
Covid - Homeworking ICT Equipment	120		100	120	28			
ICT Total	**1,450**	**0**	**514**	**474**	**231**	**553**	**423**	**0**
Finance								
Modernisation Fund	123	112	11	11		0	0	
Finance Total	**123**	**112**	**11**	**11**	**0**	**0**	**0**	**0**
TOTAL	**1,573**	**112**	**525**	**485**	**231**	**553**	**423**	**0**

Appendix 4

Policy & Resources Committee

Revenue Budget Monitoring Report

Position as at 31st January 2021

Committee	Approved Budget 2020/2021	Revised Budget 2020/2021	Projected Out-turn 2020/2021	Projected Over/(Under) Spend	Percentage Variance
	£,000's	£,000's	£,000's	£,000's	
Policy & Resources	16,406	16,180	15,517	(663)	(4.10%)
Environment & Regeneration	23,546	23,233	23,052	(181)	(0.78%)
Education & Communities **(Note 1)**	95,311	91,186	90,634	(552)	(0.61%)
Health & Social Care	52,289	52,352	53,042	690	1.32%
Committee Sub-Total	**187,552**	**182,951**	**182,245**	**(706)**	**(0.39%)**
Loan Charges (Including SEMP) **(Note 2)**	11,236	15,444	15,444	0	0.00%
Saving Approved yet to be allocated **(Note 3)**	(90)	(90)	(90)	0	0.00%
Unbudgeted Covid Expenditure **(Note 4)**	0	0	18,921	18,921	100.00%
Earmarked Reserves	0	1,000	1,000	0	0.00%
Total Expenditure	**198,698**	**199,305**	**217,520**	**18,215**	**9.14%**
Financed By:					
General Revenue Grant/Non Domestic Rates	(166,076)	(166,683)	(185,293)	(18,610)	11.16%
Contribution from General Reserves to Covid	0	0	(1,054)	(1,054)	100.00%
Council Tax **(Note 5)**	(32,622)	(32,622)	(31,879)	743	(2.28%)
Integration Joint Board - Contribution to Reserves	0	0	(690)	(690)	100.00%
Net Expenditure	**0**	**0**	**(1,396)**	**(1,396)**	

Note 1 - Reduction reflects loans charges and earmarked reserves.

Note 2 - Loan Charges account reduced by £400,000 to reflect reduction in Interest rates, off-set by £400,000 reduction in Internal Interest within P&R budget.

Note 3 - Corporate insurance saving yet to be allocated to Service budgets.

Note 4 - Additional COVID unbudgeted expenditure, excludes HSCP and is net of Specific Grant Support;

1. Policy & Resources	1,448
2. Environment & Regeneration	3,263
3. Education & Communities	7,393
4. Contingency	6,817
5. Unallocated	
	18,921

Note 5 - Council Tax reflects the estimated impact in collection rates due to COVID and £293,000 increase in CTR.

Appendix 5

GENERAL FUND RESERVE POSITION
Position as at 31/01/21

	£000	£000
Balance 31/03/20		5305
Projected Surplus/(Deficit) 2020/21	1396	
Contribution to/(from) General Fund Reserves **Note 1**	0	
		1396
Earmarked Reserves Write Back - Approved P&R August 2020		3285
Earmarked Reserves Write Back - Approved Full Council Dec 2020		5392
Planned Reduction in Capital Programme		3239
Planned Use of Reserves		
2021/23 Budget Funding Gap		(5050)
Excess Covid Costs 2020/21		(1440)
2021/24 Capital Programme Shortfall		(1668)
One Off Budget Pressures		(700)
Inverclyde Jobs Recovery Plan		(5600)
Available Reserves to be allocated 18.3.21		(359)
Projected Unallocated Balance 31/03/21		**3800**

Minimum Reserve required is £3.8 million

Note 1 No contribution from reserves was required when setting 2020/21 Revenue Budget.

Appendix 6

COVID 19 - Main Area Of Expenditure/Income loss- Update March P&R

Proposal	Total Estimated Cost £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Comments
Health & Social Care Partnership - IJB Return					
Fitzgerald Centre - Suspend Day Service. Loss of income	162	162			Loss of income due to suspension of all day services
Hillend Respite Service- Income Loss	57	57			6 months
Homecare Commissioned Services	400	400			Paying providers on planned hours for 7 months.
Homeless Centre Inverclyde Centre	261	261			12 months loss of rent from 26 flats due to increased voids. Hopefully offset some costs via a Rent Review
43 TFA's	159	159			One off cost of additional 43 flats.
Bed & Breakfast Support	268	268			Based on actual figures.
Care Homes- Extra beds and sustainability payments	284	284			Purchase of 32 extra beds for 12 weeks
Care Homes - Sustainability Payments	1,933	1,933			SG Sustainability Scheme including phased reduction to November but then increased back to 100%
PPE Cots - Council	500	500			As at P10
Providers	925	925			As at P10
Additional Staffing Costs across Directorate	900	539	361		
3.3% Living Wage uplift on Care at Home Provision	135	135			£135k is additional cost of 1.1% above what was built into budget.
Chidrens Residential Placement Costs	986	586	400		Cost of 5 residential placements part year based on new placements and £400k allowance not in IJB return in 2021/22 based on Budget Pressure funding agreement.
Equipment for working from home	75	75			
Temporary Childrens Unit	183	183			Costs now projected to 31st March 2021
Young Persons Mental Health Well Being	152	152			Funded by SG Grant. Underspend can be carried forward to 21/22
Vulnerable Children & Young People	387	308	79		Share of £22million SG Grant
Other Expenditure Areas	25	25			Unrealised saving
Gross Expenditure before Government Grants	**7,792**	**6,952**	**840**	**0**	
Government Grants - LMP	(4,990)	(4,990)			£785k (1st £50m), £393k (Share of £25m from 2nd £50m), £200k (Share of £8m), £98k Living Wage 3.3% uplift, £3.021m from GGCH
- Vulnerable Children & Young People	(387)	(387)			Share of £22 million Scottish Hardship Grant Fund
- Mental Health & Well Being	(152)	(152)			Share of £11.25million Grant
Offsetting Underspends - Care Home Beds	(900)	(900)			Underspend in 20/21 Social Care Budget.
Net Expenditure - Integrated Joint Board	**1,363**	**523**	**840**	**0**	**Assumed to be funded by Health Directorate and IJB**
Education, Communities & ODHR					
Inverclyde Leisure	3,234	1,177	1,211	846	Based on net income loss of £1.19million to 31.3.21 icluding £20k to open Gourock Pool to end of October and £51k for the opening of PG Baths from 6.10.20. Further estimated requirements of £243k (20/21), £1.211m(21/22) and £846k(22/23)
Extra Food Purchases to support deliveries/boxes etc	255	255			Provisions funded from Food Grant- £206 + £39 + £10
Payment of School Meal Grant - £25 per fortnight.	1,042	1,042			£25/fortnight FSM payment to 28.2.21
Pilot Food Pantry -Food Fund	60	60			Approved 11.8.20 P&R
Other Food Fund Projects	129	129			Belville Gardens Food Bags (£40k), Foodbank(£40k), HSCP Elderly Meals (£33k), Fairshare(£16k).
School Holiday -Food Insecurity	256	256			Reflects grant for Christmas (£161k)and Easter (£95k).
Financial Hardship Grant	852	426	426		Share of £40million Grants - £140k iHeat, £27k Christmas Vouchers, £15k Starter Packs, £26k Connectivity, £62k £100 payment wider eligibility, Balance use TBC

Inverclyde council

Appendix 6

COVID 19 - Main Area Of Expenditure/Income loss- Update March P&R

Proposal	Total Estimated Cost £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Comments
Level 4 Restrictions Grant	449	224	225		£0.50 increase in FSM payments from 26.12.20 (£69k), Your Voice (£15k) , HAC(£124k)
£100 Christmas Payment to FSM Recipients	255	255			Fully funded by grant and based on actual eligible payments made
£100 Easter Payment to FSM/ELC eligible Recipients	297	297			Estimate Funded from £16.8million Grant or Hardship Grant
Schools Digital Inclusion- Connectivity/WiFi and devices	414	414			£514k approved by Committee with £414k funded from PEF/Attainment Fund . £100k balance no longer needed due to Digital Inclusion Grant
Schools Digital Exclusion - Devices	435	435			Share of £25million specific grant. Use approved , September E&C Committee
Loss of Lets income	67	67			Based on on going reduction for 20/21
Saving in Waivers due to reduced lets	(25)	(25)			Based on full year figures
Loss of School Meal Income	796	646	150		Figures to 30 June 2021.
Lower provision of School Meals	(500)	(400)	(100)		Figures to 30 June 2021.
Loss of Wrapround income	160	130	30		Figures to 30 June 2021. Fund from 20/21 ELC Underspend
Loss of Breakfast Club Income	57	48	9		Estimated income loss to 31.3.21.
Refunds to parents of cancelled School Trips.	5	5			Net of insurance payouts to date
Additional School Cleaning costs	394	277	117		Covers period to 30.6.21 .Extra £220k agreed 3.12.20 for 21/22 Council to be split between School cleaning, Office cleaning and PPE
Additional ELC Cleaning costs	50	35	15		Fund from 20/21 1140 hrs ELC underspend
Allowance for Handsanitiser/PPE - Council Wide	347	247	100		Includes allowance for 21/22
Loss of library income	80	60	20		Basis of phased reduction in income losses
Supply Teachers additional costs	333	303	30		Costs to end of June 2021 & includes holiday pay.
Public Conveniences	5	5			Extra cleaning/Supervision Costs based on 6 months from August . Reviewed based on actuals
Increased media resources to 30.9.20	11	11			
Partner nurseries and childminders	110	110			Funded from ELC underspend in 2019/20
Term Time staff working over the summer	4	4			Funded from ELC underspend in 2019/20
ELC Foodbags/£25/fortnight payments	85	85			Funded from ELC underspend in 2019/20
Extra teachers-20/21	1,697	864	833		Funded by SG Grant for period to 30.6.22
Schools Recovery	300	150	150		Costs linked to School Return 20/21- Funded by SG £70million Grant - To be Confirmed
Support for Remote Learning	717	389	328		Funded by SG £45million Grant
Transport Safety Costs	17	17			Funded by SG Grant
Net School Transport saving	(14)	(14)			Based on P7 projections
Homeworking equipment	80	20	60		Costs of desks/chairs etc. £18k to ICT for headsets, £3k furniture to date
Increased support for Health & Wellbeing of employees	50	15	35		Increased staffing and Occupational Health costs

Environment, Regeneration & Resources					
Building Services:					
Reduction in costs due to income reduction	(23)	(23)			
Reduction in Rev/ Capital income	199	199			Based on P9 review
Recovery Plans - Office Works	135	135			Minor works, hand sanitising units, furniture removal and £40k Property fees
Loss of Property Services Fee Income	260	260			Figure net of fees earned from recovery plans.
Increased Cleaning- Non School/ELC Buildings	95	57	38		Includes £38k allowance from extra £220k agreed 3.12.20 Council
Planning income - reduction in demand	504	354	150		Based on P9 review and an allowance for 2021/22

Inverclyde council

Appendix 6

COVID 19 - Main Area Of Expenditure/Income loss- Update March P&R

Proposal	Total Estimated Cost £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Comments
Commercial Rent- Increase in Bad Debt Provision	50	50			Based on Mid - Year assessment
2 x Temporary Business Development Officers	120	0	120		18 month contracts funded from existing Earmarked Reserve .Phasing??
Humanitarian Aid Centres					
Software Costs	10	10			£5k/month software costs
Overtime	22	22			
Suspension of Parking Enforcement:					
- Parking Charges	304	186	118		No income until October 2021
- Parking income saving	(65)	(47)	(18)		No admin, cash handling maintenance
- Penalty Notices	236	166	70		Issuing PCNs commenced mid-September but at a reduced level
Suspension of normal Waste Collection procedures - all waste to be collected via Residual Waste.					
- Additional Cost of Landfill	459	459			Based on P5 projection
- Dry Recyclates contract costs	94	94			Extra costs of retendered service. Assumes 21/22 costs are built into the Budget
- Loss of external income	261	261			Based on P8 projection
- Extra manning, reopening of CA Sites	20	20			
- Social Distancing -Extra Vehicles	23	23			To 31.3.21
- Social Distancing - Agency Drivers	73	73			To 31.3.21
- Social Distancing Employee costs 2021	136	18	118		Waste Uplift
- Reduced cost of landfill from reduced external income	(138)	(138)			Based on 3 month impact
Roads Client:					
Reduction in income - Sales Fees and Charges	130	130			Inability to earn full Capital fees and sales income
Roads Ops Unit:					
Reduction in costs due to loss of income	(754)	(754)			Materials, vehicles and overtime
Agency Drivers	40	40			Covering additional absences, mostly winter maintenance
Reduction in Rev/ Capital and NCI income	1,192	1,192			Capital only, largely resurfacing work
Vehicle Charges	(82)	(82)			Reduction in Fuel and Non routine Maintenance offset by reduced MOT income
Increased Burial/Cremation Income	(56)	(56)			Reflects increased number of deaths since March
Grounds Services Income loss etc	22	22			Loss of events income plus Bedding contract payment
Payment to Care & Repair contractor	14	14			60% of request . Approved 17.11.20 P&R Committee
Extra EHO/Trading Standards Resources	46	0	46		Funded from £2.9m SG Grant
Retain HoS post to co-ordinate Covid response	111	111			Based on 12 months to 31.3.21.
Community Testing Facility					To be recharged to Health Board
ICT: Additional licences and equipment to support mobile working, staff overtime	260	260			£48k Aventail licences plus £40k 12 month Web-ex licence for 200 hosts. Allowance for overtime over the public holidays and £160k corporate laptops. Dropped £40k for school devices as no longer needed
ICT: Equipment for Homeworking	100	100			Docking stations,screens, keyboards , headsets etc
Extra technicians to support School Digital Inclusion	111	26	68	17	2 posts to 30.6.22. Funded from pressures thereafter
Statutory Additions	28	28			Based on P8 monitoring
Prior Years Council Tax	0	0			Per Q3 analysis.
Scottish Welfare Fund					
- Crisis Grants	447	297	150		Funded by increased Scottish Government Grant.
Discretionary Housing Payments	136	136			Increased funding to support Private tenancies. Funded by SG grant
One off saving in Central Repairs during lockdown	(50)	(50)			Allowance based on buildings being closed and contractors unavailable
Reduction in Registrars Income	20	20			Based on P6 monitoring

Inverclyde council

Appendix 6

COVID 19 - Main Area Of Expenditure/Income loss- Update March P&R

Proposal	Total Estimated Cost £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Comments
Other minor Expenditure areas	35	35			Admin costs for Business Grants/ Overtime / Temporary Mortuary prep & extra EP costs
Corporate Expenditure					
Council Tax, Loss of Income due to reduced collection levels	660	410	250		Based on a 2.5% reduction in in-year collection in 2020/21 leading to a 1.25% increase in Bad Debt and 1.5% reduction in 21/22 leading to a 0.75% increase in Bad Debt
Savings in Loans Charges due to reduction in interest rates	(400)	(400)			Offsets cost below
Reduction in Internal Resources Income due to low interest rates	400	400			Reduction due to low interest rates .
Council Tax Reduction	586	293	293		Projected increase in CTR funded by the Government Grant in 20/21. Assumed no specific funding in 2021/22
Council Tax - Long Term Empty Income Reduction	40	40			Based on policy relaxation to 31.8.20
Flu Jab for all employees	25	25			Approved CMT 3.9.20, includes allowance for wider support
Recovery Plans- Short Term Actions	180	180			£80k Events, £40k Remembrance, £60k Economic Study
Recovery Plans -Medium/Longer Term Actions	4,000	0	1,500	2,500	Proposals to come to Members -Summer 2021
Unallocated Contingency	951	0	951		Balancing figure based on proposals to 18.3.21 Council
Capital - cost of inflation due to delays to Contracts, increases in tendering returns and contract delivery costs .	2,144	2,144			Based on restricted working practices, increased length of contract and after allowing for additional fees plus £90k increased ICT inflation costs. Figure exclude £600k initially allocated to the RAMP
Gross Expenditure -	**25,615**	**14,759**	**7,493**	**3,363**	
Government Grant - Food Insecurity Ph1	(565)	(565)			Costs to 30.6.20 .Projected spend is £631,000 - GRG
Government Grant - Food Insecurity Ph2	(558)	(558)			Use of balance to be approved August P&R - Specific Grant
Government Grant - Scottish Welfare Fund	(447)	(447)			Use of balance to be approved August P&R - GRG
Government Grants- DHP	(136)	(136)			Share of £5million & £3 million Grants - GRG
Government Grant -Financial Insecurity	(852)	(852)			Share of 2 x £20million -Specific Grant/GRG
Government Grant - Level 4 Restrictions Support	(449)	(449)			Share of 2 x£15million Grant- GRG
Government Grant- FSM over Christmas & Easter Holidays	(267)	(267)			Share of £6.95million & £4.29 million Grants
Government Grant - FSM 5.1.21-29.1.21	(173)	(173)			Share of £7.057million Grant - GRG
Government Grant -FSM 1.2.21-28.2.21	(143)	(143)			Share of £5.841 million Grant
Government Grant- Self Isolation Grant Administration	(22)	(22)			Share of £906.5k Grant
Government Grant- £100 Christmas Grant- Administration	(10)	(10)			Share of £400k - GRG
Government Grant - £100 Christmas Payment	(255)	(255)			Share of £15.6million Grant - GRG
Government Grant - £100 Easter Payment-Administration	(10)	(10)			Share of £400k - GRG
Government Grant- £100 Easter Grant	(297)	(297)			Share of £16.8million Grant-GRG
Government Grant- Hardship Fund	(749)	(749)			Share of £50million Grant- GRG
Government Grant - Consequentials £155m	(2,321)	(2,321)			Share of £155million Grant - GRG
Government Grant - Consequentials £49m	(734)	(734)			Share of £49million Grant - GRG
Government Grant- Income Recovery Scheme	(2,026)	(2,026)			Share of £90 million & £110million Grant-GRG
Government Grant- Registrars Overtime	(9)	(9)			Share of £0.6million Grant - GRG
Government Grant- Council Tax Reduction	(290)	(290)			Share of £25million funding -GRG
Government Grant - EHO/Trading Standards	(46)	(19)	(27)		Share of £2.9million Funding
Government Grant- Test & Protect to 11.1.21	(49)	(49)			Share of £2.872million -GRG

Inverclyde council

Appendix 6

COVID 19 - Main Area Of Expenditure/Income loss- Update March P&R

Proposal	Total Estimated Cost £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Comments
Government Grant- Test & Protect 12.1.21- 31.3.21	(34)	(34)			Share of £1.995million -GRG
Government Grant- Business Grants Administration	(115)	(115)			Share of £12million Grant -GRG
Government Grant- School Transport	(17)	(17)			Share of £1.5million Grant - Capital Grant
Government Grant- Schools Return- Staffing	(1,296)	(1,296)			Share of £80 million Grant to 30.6.21 - GRG
Government Grant - Schools Staffing Ph2	(401)	(401)			Share of £25million Grant announced 2.2.21
Government Grant- Schools Return- Operational	(263)	(263)			Share of £20million Grant - GRG
Government Grant- Schools Recovery Fund	(922)	(922)			Share of £70million- GRG
Government Grant- Schools Digital Exclusion	(435)	(435)			Share of £21.4m Capital, £3.6m Revenue - Specific Grant
Government Grant- Support for Remote Learning	(717)	(717)			Share of £45million Grant- £717k in GRG 20/21
Government Grant- General Covid support 28.1.21	(3,875)	(3,875)			Share of £259 million Grant TBC
Government Grant - General Covid Support 16.2.21	(3,631)	(3,631)			Share of £275 million Grant to meet Covid costs/Income loss TBC
Gross Income	**(22,114)**	**(22,087)**	**(27)**	**0**	
Net Expenditure	**3,501**	**(7,328)**	**7,466**	**3,363**	
Other Funding					
Early Years Grant Underspend 19/20	(199)	(199)			2019/20 Underspend - Approved P&R Exec 16/6.
Early Years Grant Underspend 20/21	(210)	(165)	(45)		£160k Wraparound Income, £50k extra cleaning
Education Flexibilities (PEF/SAC)	(414)	(414)			Schools Digital Inclusion - Approved P&R Exec 16/6
Directorate Resources:					
Schools Budget to fund School Trips	(5)	(5)			Approved Emergency Powers July 2020.
Summer Playschemes Budget to fund Food Insecurity	(66)	(66)			Approved P&R Exec June 2020
Use of EMR to fund Business Development Posts	(120)	(120)			2 Posts for 18 months funded from Bus. Dev EMR
T&S Budget reduction to pay for Web-ex licences	(40)	(40)			CMT agreed August, 2020
Corporate Resources					
Capital Programme contribution	(1,007)	(1,007)			Approved by 11.8.20 P&R Cttee, costs contained in existing allocations
Reserves Approved 18.3.21	(1,440)	(1,440)			Approved use of Council Reserves to meet 21/22 costs and Recovery costs
	(3,501)	(3,456)	(45)	0	
Balance to be Funded	0	(10,784)	7,421	3,363	

Appendix 8

Inverclyde
council

Capital Strategy

2021 – 2031

Index

1.0 INTRODUCTION

1.1 The production of a Capital Strategy which is reviewed annually is now a requirement of the CIPFA Prudential Code. The document requires to be considered along with the Treasury Strategy and thereafter approved by the Inverclyde Council. It is viewed as being one of the key strategic financial documents along with the Council's Financial Strategy which help govern the strategic direction for the Council's financial planning.

1.2 The traditional focus of Local Government budgeting tends to be on the Revenue Budget with the annual cycle of Grant settlements from the Scottish Government, the identification of savings and investment plans and the approval of the budget along with Council Tax in February/March. As part of this the Council will generally approve a three year Capital Programme. In recent years the capital budget has been a less contentious issue for Elected Members with the Council approving significant amounts of prudential borrowing as well as contributions form Revenue Reserves in order to deliver an ambitious Capital Programme

1.3 Details of the Council's asset base, borrowing and debt are included within the audited financial accounts considered by Members and attracts far less attention than the Revenue Budget and Reserve position. At the 31st March 2020 the Council owned property plant and equipment assets valued at £394million net of accumulated depreciation. Once PPP Assets and Managed Properties are included then the value of this Asset Base increased to £496million. Much of the investment in this Asset Base has been funded by borrowing over preceding decades. The Council's external borrowing as at 17th February 2021 was:-

PWLB Debt	£109.1 million
Market Debt	£ 99.7 million
	£208.8 million

The bulk of this debt is due to be repaid at the point that the loan matures with some £46.5 million of the PWLB Debt due to be repaid by 31st March 2030

1.4 Allied to this the Council maintains a Loan Charges record which is an internal record of investment and which is currently written down on annuity basis using the expected life span of the asset created/work carried out. For example a new school will generally be written off over 40 years whereas a roads resurfacing contract will be written off over 25 years. As at the 31st March 2021 the expected value of the Council's internal loan debt is £233.3 million. The repayment costs in 2020/21 are projected to be £20.7 million and these repayments include both Capital and Interest and are referred to as Loan Charges. It is Loan Charges which are funded by the Council's Revenue Budget.

1.5 Over the last ten years the Council has undertaken a significant amount of work on Asset Management Planning. The first Asset Management Plan related to the School Estate (the SEMP) which resulted in an ambitious and comprehensive new build and upgrade programme for the full School Estate. Thereafter asset plans were created in respect of the main leisure facilities, the roads assets, office and depot assets, ICT assets and most recently, open spaces. All Asset Management Plans are linked to the Corporate Directorate Improvement Plans (CDIPs) with delivery reported throughout the year both as part of the CDIPs but also via cyclical Capital Programme updates.

1.6 The purpose of Asset Management Plans are to not only document and quantify all the assets held and their assessed condition but also create a sustainable investment plan which can then be factored into future years Capital Programmes. The creation of the Asset Management Plan will require in many cases decisions from Members regarding a whole estate investment approach which will potentially identify assets which the Council should no longer retain. This can lead to investment in fewer assets but to a higher quality. This has certainly been the case in respect of schools, offices and depots where the Council's property footprint has reduced considerably with the sums saved from buildings no longer in existence reinvested in the remaining buildings and resulted in a greatly improved estate.

1.7 A significant benefit of having long term Asset Management Plans is that it allows longer term Capital Planning and the Capital Strategy includes Investment Plans for the next 10 years. This allows the Council to identify whether it's longer term Capital Investment Plans are affordable and sustainable and provides time for corrective action to be taken.

1.8 The Council is coming to the end of a period of ambitious investment. This has seen a significant increase in the Council's Loan Debt over the last ten years and projections indicate that the Loan Debt will peak at approximately £241.5 million in 2022/23 but on the basis of limited prudential borrowing in future years the loan debt will reduce to around £185 million by 2030/31. Therefore it can be seen that there is a correlation between the reduction in the Council's internal loan debt and the repayment of the Council's external borrowing to the PWLB over the next 10-15 years.

1.9 One issue which the Capital Strategy and Treasury Strategy require to demonstrate is the affordability and sustainability of the Council's Asset Management Plans, to enable Members to see the longer term financial implications of policy and investment decisions.

1.10 Much of the affordability assessment depends on the Council's Treasury Strategy and this is also presented to the Policy & Resources Committee annually prior to the 31st March each year. The period of the Treasury Strategy is currently four years and one product of the creation of a Capital Strategy will be to better align the timescales for the Treasury Strategy, Investment Strategy and Capital Programme. Based on the projected trajectory of the Council's loans fund and external borrowing then the overall Treasury Strategy is currently to borrow on a short to medium term basis. This approach is largely influenced by the significant value of market debt held by the Council much of which was borrowed at the time of the transfer of the housing stock in 2007. The latest possible maturity date for the market loans varies from 2066-2077 although, dependent on macroeconomic changes there is always the possibility that lenders may wish to trigger repayment of their loans with the Council.

1.11 The Chief Financial Officer is supported in monitoring the Council's Capital, Treasury and Investment position by both internal officers and also the Council's Treasury Advisor with whom he meets twice per year. This external support is a vital check and balance in ensuring the Council is receiving the best possible advice and support in managing the Council's considerable asset base, borrowings and future investment plans. This enables the Chief Financial Officer to provide regular reports to the Policy & Resources Committee and the Inverclyde Council on the Council's Treasury Strategy, Treasury Annual Report and Mid-Year Report as well as frequent updates on the Capital Programme.

1.12 The Capital Strategy pulls all these aspects together and aims to provide a valuable addition to Elected Members overall understanding of the Council's finances and the wider impacts on policy choices in coming years.

2.0 GOVERNANCE AND REGULATORY FRAMEWORK

Legal and Regulatory Framework

2.1 The legal framework under which treasury management operates mainly involves:

- the Local Government (Scotland) Act 1973
- the Local Government (Scotland) Act 1975
- the Local Government etc. (Scotland) Act 1994
- the Local Government in Scotland Act 2003

and

- Regulations and statutory guidance issued under powers in the above Acts.

2.2 In addition, CIPFA issued the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, both of which were last revised in December 2017.

The Prudential Code requires Councils to ensure that capital expenditure and investment plans are affordable, that borrowing and other long-term liabilities are prudent and at sustainable levels, and that treasury management and investment decisions are taken in accordance with professional good practice. The Code requires the production and monitoring of Prudential Indicators.

The Treasury Management Code includes requirements for Councils to consider the objectives of their treasury management activities and the effective risk management of those activities. The Code requires the production of a Treasury Management Practices document which sets out how the Council will seek to achieve its treasury management policies and objectives and how it will manage and control its treasury management activities. The Code also requires that, as a minimum, the following reports be submitted to the Council each year: a treasury management strategy, a mid-year review, and an annual report after the year-end.

2.3 The main regulations and statutory guidance that apply are:

a) Local Government Capital Expenditure Limits (Scotland) Regulations 2004
These require that Councils "have regard" to the Prudential Code when determining "the maximum amount which a local authority can afford to allocate to capital expenditure".

b) Local Government Investments (Scotland) Regulations 2010
Scottish Government Finance Circular 5/2010 was issued under these Regulations and requires the approval of annual Investment Strategies and Permitted Investments by Members as well as an Annual Report on Investments to Members within 6 months of the financial year-end.

c) The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016
Scottish Government Local Government Finance Circular 7/2016 was issued under these Regulations and replaced provisions for local authority borrowing, lending and loans funds that were in the Local Government (Scotland) Act 1975. The Circular includes requirements in relation to the prudent annual charging against the Revenue Budget for the cost of capital projects (Loan Charges) and permitted methods of calculating those charges.

d) Scottish Government Local Government Finance Circular 7/2018
This Guidance replaces a Finance Circular issued in 2007 that was issued under powers in the Local Government in Scotland Act 2003. The Guidance permits accounting adjustments for some types of treasury management activities, including where Councils have incurred premiums or received discounts when refinancing PWLB loans taken out by the Council.

Governance

2.4 The Capital Expenditure budget is approved by the Council and monitored by the Policy & Resources Committee with oversight of individual projects by the Service Committees.

2.5 For Treasury Management, officers prepare an Annual Treasury Management and Investment Strategy for each year (including Permitted Investments for the year, the Authorised Limit for External Debt, and the Treasury Management Policy Statement), a Mid-Year Report, and an Annual Report. These reports are submitted to the Policy & Resources Committee for review and for remission to the Full Council for formal approval, in line with the regulatory requirements above. Where the Council undertakes debt rescheduling, this is reported to the Policy & Resources Committee and the Full Council in line with agreed policy.

2.6 The cost of Treasury Management activity is included in the Revenue Budget and Budget reports to Committee as Loan Charges. Loan Charges are comprised of the annual charges for the write-off of the cost of capital projects over an appropriate period along with the interest and expenses costs from borrowing and the treasury management activities.

2.7 The Chief Financial Officer has delegated authority to make the necessary arrangements for authorised borrowing, the temporary investment of funds, and specified changes to the Treasury Management Practices. This authority is also delegated to each of the 3 Finance Managers where the Chief Financial Officer is absent (as approved by the Council on 30 November 2017). Treasury Management requirements are also included in the Council's Financial Regulations.

2.8 The Treasury Management Practices ("TMPs") is an operational document that is updated at least every 3 years and that set-out the main principles under the Treasury Management Code and how the Council will comply with those principles. The TMPs were last updated in March 2018.

3.0 ASSET MANAGEMENT PLANS

3.1 A number of years ago the Council identified the need to align capital investment against the policy priorities of the Council. This resulted in the creation of a number of comprehensive Asset Management Plans (AMPs). The first Asset Management Plan related to the School Estate (the SEMP) which resulted in an ambitious and comprehensive new build and upgrade programme for the full School Estate. Thereafter asset plans were created in respect of the main leisure facilities, the roads assets, office and depot assets, ICT assets and most recently, open spaces.

3.2 Over the last ten years the Council has undertaken a significant amount of work on Asset Management Planning and has used a combination of internal expertise and external peer review in their development. Once created the AMPs are embedded within the Council's Corporate Directorate Improvement Plans and Capital Programme formulation process to ensure that there is a strong alignment between the Council's overarching Priorities and capital investment decisions.

3.3 The Asset Management Plans not only document and quantify all the assets held and their assessed condition but also create a sustainable investment plan which can then be factored into future years Capital Programmes. In addition the creation of the Asset Management Plan will lead to Members considering a whole estate investment approach which will potentially identify assets which the Council should no longer retain.

3.4 A significant benefit of having long term Asset Management Plans is that it allows longer term Capital Investment Plans for a minimum of the next five years but the capability to project this forward for a further period of time. This allows the Council to identify whether it's longer term Capital Investment Plans are affordable and sustainable and provides time for corrective action to be taken. The next part of this section provides an overview of the current position of the Asset Management Plans being progressed by the Council.

3.5 **School Estate Management Plan**

The Council has invested in excess of £270m on its school estate over the last 16 years. The rationalisation of the estate was completed by the end of 2013. Over the period of the programme to date there have been a net reduction of 12 primary schools (from 32 to 20) and a net reduction of 2 secondary schools (from 8 to 6) with 2 of the remaining 6 secondary schools co-located within a shared community campus.

Significant progress has been made since 2004, particularly in addressing the number of Condition category C (Poor) and D (Bad) rated schools from 7 Secondary Schools and 21 Primary Schools at the start of the programme to all schools across all sectors rated A (Good) or B (Satisfactory) by 2016. In terms of Suitability there has also been significant progress made in ratings through the programme of comprehensive refurbishment and new build.

The School Estate funding model is reviewed and reported annually to the Education & Communities Committee. The plan prior to the COVID-19 lockdown would have seen all major projects completed in 2020 reflecting the approval of the acceleration of the School Estate Management Plan agreed as part of the budget setting process in March 2016. The St Mary's Primary School project was completed in October 2020 however completion of the final project at Gourock Primary School has been impacted by COVID-19 and the insolvency of the main contractor with that project now projected to complete by the end of 2021. The demolition of the last remaining decant facility, the former Sacred Heart Primary School, is also projected to be complete by the end of 2021 following completion of the new Larkfield Children's Centre.

Additional expenditure was also approved in March 2016 to address works required to improve asset condition and suitability across the stand-alone facilities within the Early Years estate. The Council funded elements of the Early Years estate plan have progressed to an advanced stage with all but one project complete and with that final project due to commence in March and complete in November 2020. A number of projects were also taken forward and completed in 2014/15 to facilitate the Scottish Government commitment to the provision of 600 hours of Early Learning and Childcare.

The Scottish Government plan to further increase the entitlement of early learning and childcare from 600 hours to 1140 hours requires substantial levels of investment in workforce and infrastructure to support the expansion. Inverclyde Council submitted its initial expansion plan to the Scottish Government in September 2017 on how it intended to deliver this expansion and this was reported to the October 2017 Education & Communities Committee. A full re-working of the plan was undertaken with submission of a revised financial template in March 2018 and the revised plan was reported to the special Education & Communities Committee in June 2018. The Scottish Government confirmed a total Capital grant of £5.98m to Inverclyde Council as part of the overall 1140 hours funding for the infrastructure and capital funded elements of the expansion plan to be delivered between 2017/21. The original plan was phased from 2017/18 onwards to ensure that the required expanded capacity would be in place by 2020 however as a result of the impact of COVID-19, in April 2020 an order revoked the change to the 2014 Children and Young People's Act that requires education authorities to secure 1140 hours of ELC provision for all eligible children from August 2020. This meant that there will be no statutory duty for Authorities to provide 1140 hours of early learning and childcare (ELC) from August 2020. Given the progress already made within Inverclyde in the implementation of 1140 hours, it has been possible to develop contingency plans to ensure that 1140 hours could still be implemented across Inverclyde as of August 2020. As at 1st Quarter 2021 eleven of the fifteen 1140 hours expansion projects have been completed with the remaining projects at various stages of construction and programmed to complete by August 2021.

The School Estate funding model also includes a lifecycle fund designed to address maintaining the condition and suitability of the revitalised estate. The fund allocations are profiled such that the initial allocation of circa £400K in 2014/15 increases to just below £2m in 20/21 with further projected increases over time (subject to capital funding constraints and budget setting process). The lifecycle works address the on-going requirement for investment in the estate to maintain the overall condition of the assets at a good/satisfactory level. The allocation of this funding is based on annual review of the externally procured condition surveys and physical inspection of the various properties by the Council's Property Service. The most recent external condition surveys were undertaken via Aecom during 4th Quarter 2019. These surveys and Property Services assessment will inform the allocation of future lifecycle funding across the estate and this will become increasingly important in the coming years, particularly for the properties that were included early in the original programme.

A wider Learning Estate Review and strategy is now required to address the next 10 years and future of the Learning Estate. Work has commenced on this in respect of roll projection analysis and assessment of the possible impacts of the new Local Development Plan and potential new housing provision. The new strategy will also include a full review of the Condition of the estate from the most recent external surveys. A full review of all suitability surveys is also being progressed in conjunction with Education Services and Heads of each establishment. The review will also afford an opportunity to assess elements such as ICT and energy efficiency including the implications of the developing policies around net zero carbon standards for public buildings.

3.6 Office AMP

The Council's Office rationalisation proposals were originally presented and approved in September 2010. Linked with this was the prior approval in March 2010 for the development of a Customer Service Centre within Greenock Municipal Buildings designed to transform the way the Council communicates with its customers. The programme was part of a wider programme to modernise the Council's operations and working practices which includes initiatives such as mobile and flexible working, electronic document management (EDRMS) and greater use of technology. The Offices Asset Management Plan (AMP) was taken forward on the premise that fewer desks than Employees would be provided. At September 2010 the Council had 1,014 occupied desks. It was proposed that by the end of the process of rationalisation 725 desks would be required with a notional 730 desks approved. The final projects within the Offices AMP were completed in Autumn/Winter 2017. To date the Office Rationalisation programme has resulted in a reduction of circa 40% of occupied floor space with an increased potential desk space ratio through more efficient use of space across the same number of retained properties.

With the completion of the Office rationalisation programme, the majority of the Council's Operational Office space is now contained within the Greenock Municipal Buildings Campus. This is comprised of the main Municipal Buildings (including the refurbished/renovated former District Court offices), the Wallace Place Building and the James Watt Building. Property Services have undertaken studies across the Campus, both internally and through external specialist space planning consultants, with a view to identifying where possibilities exist for more efficient use of space and to address improvements where existing space is less suitable for current use and/or in poorer condition. The challenges posed by COVID-19 have necessitated a shift to different agile working delivery models including increased flexible, mobile and homeworking arrangements. The previously completed space studies now require to be revisited to assess any potential property / ICT strategy implications connected with different ways of working.

The future maintenance and lifecycle requirements of this element of the Council's estate strategy will now be contained / addressed within the Operational Properties portfolio and the allowances for statutory and planned maintenance / lifecycle works funded from the annual £2m General Property Service capital allocation monitored through the Environment & Regeneration Committee.

3.7 **Depot AMP**

The Council's Depot rationalisation has involved the centralisation of Grounds, Waste and Transport at Pottery Street with a Gourock Civic Amenity site and the Building Service Unit (BSU) currently remaining at Devol Depot. The plan has been progressed to an advanced stage with projects completed by 2nd Quarter 2019 including the salt barn, civic amenity site, vehicle maintenance facility / offices, fuel and vehicle wash facilities, and the refurbishment of the corner depot building / offices. The original Depot Asset Management Plan budget was £13m however the development of the masterplan led to refinement of the strategy / proposals with reviews of phasing and scope realising a £2.8m saving (current outturn cost for the Depot AMP projected at £10.2m). The final element of the Depot AMP involving the Gourock Civic Amenity facility has been reviewed with a revised proposal to relocate from Kirn Drive and provide a recycling centre only for domestic/household waste at Craigmuschat Quarry. Subject to statutory approvals it is anticipated that this final element will be completed in 2021.

3.8 **Leisure AMP**

The Council undertook a review of its key Leisure Sites prior to 2009 and brought reports forward covering a review of strategic sites and a pitches strategy, with a view to modernisation and reconfiguration of leisure provision within Inverclyde. A planned investment profile was presented to Committee in September 2009 with an initial implementation timescale of August 2012. Consultation was also undertaken with Sportscotland who allocated £1m in facilities grants, part funding specific projects at Parklea and Ravenscraig. The Leisure Strategy has now been fully implemented.

The Leisure Strategy has now been fully implemented with a number of further projects completed (Ravenscraig Activity Centre / Inverclyde Indoor Bowling / Lady Octavia Sports Centre / Boglestone Community Centre) through joint Council / Inverclyde Leisure funded projects. Plans for an indoor tennis facility at Rankin Park are also being explored through Inverclyde Leisure with a Council capital funding contribution committed and potential funding from the Transforming Scottish Indoor Tennis fund.

The major maintenance and lifecycle replacement requirements of the buildings for the Leisure Estate remains with the Council and this element of the Council's estate strategy is addressed within the Operational Properties portfolio and the allowances for statutory and planned maintenance / lifecycle works funded from the annual £2m General Property Service capital allocation monitored through the Environment & Regeneration Committee. Minor day to day maintenance and 'consumables' are the responsibility of Inverclyde Leisure in accordance with the Service Level Agreement which regulates access, standards of maintenance and division of responsibilities. The allocations through this fund will be vital in the coming years to address significant elemental renewal of ageing assets. The Council and Inverclyde Leisure are also currently working together on a review of the leisure estate to inform future asset management planning.

In 2018 the Council agreed to allocate £120,000 annually to supplement the funding in the Leisure Repairs and Renewals Fund to meet the life cycle costs associated with the large 3G Pitch estate. The on-going requirements for major maintenance and lifecycle replacement of sports pitches across the Leisure Estate are addressed through the Leisure Pitches Strategy Asset Management Plan and capital allocations monitored through the Education & Communities Committee. Condition surveys were undertaken via external specialists in late 2019 across the Leisure and School Estate pitches to inform a review of the Asset Management Plans and lifecycle replacement allowances. This information together with data on individual pitches hours of use from Inverclyde Leisure formed the basis of a revised asset plan which was approved by the September 2020 Education & Communities Committee. A programme of rejuvenation and carpet replacement works commenced in 4th Quarter 2020 and is currently on-going.

3.9 **Roads AMP**

The Council approved a comprehensive Roads Asset Management Plan (RAMP) and funding model in August 2012. A total of £29m was proposed for the period April 2013 to March 2018 to improve our roads infrastructure – carriageways, footways, lighting columns and structures, this included road and pavement resurfacing works, an extensive road patching and pothole repairs programme, street lighting replacement works and improvements to bridges and roads structures.

Further to this investment, a second phase of RAMP funding was allocated to the value of £15m for the period April 2018 to March 2023.

Over 95% of the Council's streetlights have now been upgraded to low energy LED types which has halved electrical power consumption, reduced energy and maintenance costs to the Council and has reduced the carbon footprint.

Roads structural projects and programmes have delivered numerous bridge upgrades and improvements including a prioritised programme of inspection and repair.

The RAMP (plan) has resulted in a reduction in the number of Inverclyde's roads, footways, street lights and road structures which require ongoing maintenance treatment while providing an increased future lifespan.

From the implementation of the RAMP in 2013 to present, the Road Condition Indicator (RCI) has continually reduced which demonstrates that the planned investment is resulting in a significant improvement to the condition of Inverclyde's road network. Since 2013 around 62% of carriageways have been treated which confirms the continued reduction in the Road Condition Indictor (RCI) for carriageways as follows:

	SRMCS Survey Results			
Year	**Red**	**Amber**	**Green**	**RCI**
2011/13	13.55	35.42	51.0	**49.0**
2012/14	12.69	36.55	50.8	**49.2**
2013/15	10.80	35.47	53.7	**46.3**
2014/16	10.11	33.18	56.7	**43.1**
2015/17	8.57	31.96	59.5	**40.5**
2016/18	7.09	30.80	62.1	**37.9**
2017/19	7.44	30.02	62.5	**37.5**
2018/20	7.41	29.88	62.7	**37.3**
2019/21	5.73	29.57	64.7	**35.3**

During this time Inverclyde Council has received awards from The Association for Public Service Excellence (APSE) for the most improved performer in 2016 for Roads, Highways and Winter Maintenance and for Street Lighting in 2017 and again in 2019.

3.10 **Vehicle AMP**

The purpose of the Vehicle AMP is to provide the Council with an efficient, flexible method of procuring and operating fleet items that reflects good fleet management practice plus a cyclical replacement of fleet assets over a 5 or 7 year cycle dependant on fleet category taking advantage of public sector collaborative procurement frameworks.

In addition it led to the introduction of a dedicated Fleet Management System and Fleet Tracking System. Without a fleet asset management plan the Council would experience a return to inefficient practices including increased fleet downtime, an increase in expensive 'spot' hire vehicles, a requirement to increase workshop staff levels and an increase in both material and sub-contractor costs.

Looking to the future the Vehicle AMP will continue taking advantage of the latest technological advances both in terms of vehicle and management/telematics systems driving forward efficiencies within the fleet asset management plan.

Taking advantage of bridge funding from Transport Scotland and technological advances allowing greater battery range has allowed a significant increase in the number of Ultra Low Emission Vehicles (ULEVs) on the Council fleet. The vehicle categories consisting cars, people carriers and vans up to 2500kg Gross Vehicle Mass (GVM) accounts for 50 vehicles. In 2017/18 there were 4 pure electric ULEVs accounting for 8% of fleet vehicles within these categories. Within the same categories in 2020/21 the Council now has 38 pure electric ULEVs accounting for 76%. It is anticipated based on current technologies that this figure will rise to 41 by 2021/22 accounting for 82% of the Councils fleet of light commercial vehicles. The Council is well placed to provide service users with a continuity of service whilst meeting the Scottish Government target of ending the sale of new petrol or diesel cars and light vans in Scotland by 2032.

The technology to further introduce ULEVs into the medium and heavy commercial fleet is developing quickly and the continued funding of the Vehicle AMP will allow the Council to take advantage of these new technologies. In conjunction with this, consideration will require to be given to significant infrastructure requirements given the power requirements to charge large commercial vehicles, particularly when being charged at the same time in one central hub such as the Pottery Street depot.

3.11 **Open Spaces AMP**

The Council has also developed an initial Open Space AMP which incorporates Burial Grounds and the Crematorium. Given the wide range and nature of the assets covered and the piecemeal nature of some of the investment, the preparation of a detailed AMP has proven to be challenging. Based on the information to date an annual capital sum of £200,000 is allocated for general lifecycle maintenance. In addition the Council will explore opportunities to attract external funding where possible.

In addition the Council has allocated over £3.0 million over the next 2 years to expand Burial Grounds provision and replace the Council's cremators. The identification of appropriate ground for burials will present challenges for the Council in the medium/longer term.

3.12 **ICT Asset Plan**

The ICT Asset Management Programme delivers a modern ICT infrastructure providing the most appropriate level of equipment, at best value to the Council across all of Inverclyde Council's Offices and Schools. It aims to allow staff to undertake their roles and responsibilities in as efficient and flexible a manner as possible and provide teachers and pupils with modern and sustainable learning technologies. The ICT AMP has an annual budget of £0.363m.
In line with the best practices for ICT Asset Management, the physical lifecycle of an ICT Asset has two distinct phases:

- Planning & Procurement
- Lifecycle & Disposal

In response to the COVID 19 Emergency, many staff were required to work from home. ICT Services deployed several hundred laptops for home use along with a range of other necessary items such as webcams and headsets.

This has resulted in a shift in device profile across the ICT estate from desktops to laptop and tablets and a reduction in the number of physical telephone handsets.

A lesson learned from the COVID Emergency is the benefit of having a flexible and connected workforce. The Council has now adopted a policy of deploying laptops as the default device for officers, unless there is a technological or configuration requirement that would require a desktop.

However this policy creates an added pressure due the comparative increase in costs for a laptop replacing a desktop device

Comparative Price	Desktop	Laptop	Increase
Desktop v Laptop	£319.00	£395.79	24%

Currently ICT implements a six year desktop and laptop refresh strategy, however it is accepted that due to the shorter support lifecycle of a laptop device that this will need to be reviewed. Initial plans is to implement a four year refresh policy. The 2021/22 refresh programme is replacing 820 laptop devices and 105 desktops.

The total number of devices in the programme is 5729

	Desktop PCs	Notebook PCs	Tablet PCs	Total
Schools	2893	1131	42	4066
Corporate	936	610	117	1663
Total	3829	1741	159	5729

The programme also includes provision for replacement of core ICT equipment such as network storage, servers and infrastructure.

3.13 Scheme of Assistance

Section 72 of the Housing (Scotland) Act 2006 requires Local Authorities to prepare and make publicly available a statement which sets out the Council's approach to providing householders with advice and/or assistance on how to repair, improve, maintain or adapt their home.
The 2006 Act paves the way for applications for assistance with adaptations to be treated separately from applications for assistance with repairs and includes a general duty to provide financial assistance to make a house suitable for a disabled person.
All eligible adaptation works will receive a minimum of 80% grant assistance or, at the discretion of the Council, 100% grant can be awarded.

The provision of a Care and Repair/Small Repairs Service who assist eligible applicants with the grant process and progression of adaptation works. Care and Repair operate a small repairs service for plumbing, electrical, joinery and general household jobs. The services are available to homeowners and tenants in the private sector who are either disabled or are over 60 years of age.

Year	Number of Homes Adapted	Small Repairs Provided
15/16	174	1705
16/17	181	1587
17/18	171	1701
18/19	195	1582
19/20	169	1620

3.14 HSCP Asset Management

A review of HSCP properties including opportunities for reconfiguration of services to support co-location is currently underway as part of the formulation of a HSCP Property Asset Management Plan. A number of shared service offices have been addressed as part of the Offices Assets Management plan and consolidation within the Hector McNeil House building completed in 2014

Significant further asset areas are already being addressed via proposals agreed in respect of the phased re-provisioning of Inverclyde's Children's Residential Services with one new unit (Kylemore) completed in March 2013 and a further unit (Cardross – 'the View') completed in January 2018. The progression of the final unit (Crosshill) has been impacted by COVID-19 and the insolvency of the main contractor with that project now projected to complete in 2021.

Two further significant HSCP projects secured Scottish Government funding support with a new Adult and Older People Complex Care Beds facility (Orchard View) completed in summer 2017 and the new Greenock Health and Care Centre currently under construction and nearing completion. The completion of the new Health and Care Centre will facilitate further shared service / joint working with the business case predicated on the basis that the existing NHS owned Greenock Health Centre, Boglestone Clinic, Larkfield Child & Family Centre (CAMHS) Building, and Cathcart Centre, which are not fit for purpose, will be disposed of once the new facility becomes operational.

The Strategic Review of Services for Adults with Learning Disabilities in Inverclyde was signed off by the Integration Joint Board in December 2016. As part of the Service redesign, a number of properties historically used by the service have been decommissioned with flats at Lynedoch Street and Hope Street vacated and released back to the relevant RSL's. Golf Road was vacated in June 2018 and the McPherson Centre decommissioned in September 2018 with full integration into the Fitzgerald Centre following work within the Fitzgerald Centre to upgrade personal care facilities, storage and sensory areas undertaken over summer 2018. The longer term plan remains for a new build Day & Social Community Hub with business case approved in February 2020 and outline proposals currently being developed.

Two other specific property issues remain for Health & Social Care around the future of the Centre for Independent Living store and the continued lease of the Unpaid Work Unit at Kingston Industrial Estate.

Day to day investment in the HSCP buildings is funded from the general Property AMP but the funding for transformational change in service delivery requires to be funded elsewhere. For the Children's Houses, funding came from a combination of prudential borrowing funded by service savings, reserves and core capital grant. The new Day & Social Community Hub will also be funded by prudential borrowing.

3.15 City Deal

Although not a specific Asset Management Plan the Council does have major investment plans in relation to the Glasgow Region City Deal which has a £1.13 billion Capital Infrastructure investment programme covering the 8 Local Authorities in the Glasgow City region. Inverclyde Council currently has 3 projects in various stages of development with an estimated Capital cost of £22.4 million.

It is currently anticipated that over £20million million of this investment will be funded by grant from the Scottish and UK Governments which is due to be paid over a 20 year period ending in 2035. Due to the timing difference between the Council incurring expenditure by 2023 and the receipt of grant, the Council will require to finance the cashflow implications as well as loan charges in relation to the Council's projected £1.3 million contribution.

The funding for this has been allowed for in the Council's recurring Revenue Budget and forms a specific appendix within the Financial Strategy.

4.0 THE CAPITAL PROGRAMME

4.1 The Council traditionally approves a rolling three year Capital Programme each budget cycle. The March 2021 budget cycle brings the current Capital Programme up to 2023/24.

4.2 Annual capital budget allocations are provided for investment in the core assets identified via the Asset Management Plans with these allocations intended to maintain the existing assets to acceptable standards. The allowances do not generally allow for expansion or replacement of existing assets which would normally be addressed through specific investment proposals.

4.3 Current annual allocations amount to £9.243m (see table below) This amount includes the increased allocation to Roads to deliver the RAMP as well as an ongoing Life Cycle Maintenance allowance for School Estate.

Recurring annual Grant Allocations:

ICT	£0.363m
Roads (RAMP)	£3.000m
Zero Waste Fund	£0.060m
Parks & Open Spaces	£0.200m
Property	£2.000m
Scheme of Assistance	£0.500m
Leisure Pitches	£0.120m
School Estate	£3.000m
Total Annual allocations	£9.243m

General Capital Grant in 2021/22 £6.405m

The recent Scottish Government spending review has confirmed the General Capital Grant will remain at the current level until at least 2025/26. The General Capital Grant is approximately £2.8 million short of the ongoing Asset Maintenance requirement. The current Financial Strategy assumes that the Council will prudentially fund £1.4 million of capital investment annually from 2023/24 which will partially address this. This shortfall will require to be funded from either capital receipts, revenue reserves and prudential borrowing or investment requires to be reduced.

4.4 Other investment includes the Vehicle Replacement Programme however this is funded via the specific funding models and is not reliant on the General Capital Grant. In addition specific investment proposals are considered either as part of the budget setting process or via reports to Service Committees. Any such proposals would require to be funded by way of prudential borrowing and/or one off allocations from reserves.

4.5 Specific capital grant awards are also included in the programme, currently there is significant time limited Specific Grant funded investment in Early Learning & Child Care. In addition, grants are received on an annual basis from Strathclyde Partnership for Transport, Sustrans and Cycling, Walking & Safer Streets.

4.6 In recognition of potential increase in resources or cost reductions the Council will overprovide by up to 5% against available resources. It needs to be borne in mind that if extra resources or cost reductions do not occur then savings will be required.

4.7 A summary of the proposed 2021/24 Capital Programme is shown below. This was approved by the Council in March 2021.

Proposed Capital Programme 2021/2024

Expenditure/Projects by Committee	2021/22 £m	2022/23 £m	2023/24 £m	Totals £m
Policy & Resources	0.553	0.434	0.363	1.350
Environment & Regeneration	10.706	16.865	7.152	34.723
School Estate	5.174	4.366	3.500	13.040
Education & Communities	1.374	0.917	0.370	2.661
HSCP	1.285	7.144	0.635	9.064
	19.092	29.726	12.020	60.838
Financed By				
Government Grant	6.405	6.400	6.400	19.205
Sales/Contributions	0.343	0.275	0.296	0.914
Other Income	1.480	0	0	1.480
Revenue	9.361	1.129	0.483	10.973
Prudential Borrowing	1.099	8.092	2.964	12.155
Resources Carried Forward	13.325	0	0	13.325
	32.013	15.896	10.143	58.052
Shortfall in Resources				2.786
Recommended maximum overcommitment (5% of Resources)				2.818
Flexibility				-0.032

5.0 DEBT AND FIXED ASSETS

5.1 One objective of the Capital Strategy is to demonstrate the sustainability and affordability of its capital expenditure and investment plans. Much of the affordability assessment depends on the Council's Treasury Strategy. The period of the Treasury Strategy is currently four years and one positive development arising from the creation of a Capital Strategy will be to align the timescales for the Treasury Strategy, Investment Strategy and Capital Programme.

5.2 A key requirement of the Treasury Strategy is to set the Prudential Indicators which will determine limits around borrowing, investment and affordability and thereafter feeds directly into the Revenue Budget process. The Treasury Strategy is considered by the Policy & Resources Committee in March and thereafter the Council.

5.3 There are 3 distinct areas where it is important that the inter relationships are highlighted as these are at the heart of understanding the Council's overall approach to capital investment and long term financial planning.

Loan Charges/Loan Fund Debt – Loan Charges records are the Council's internal record of capital investment. Sums incurred are currently written down on annuity basis using the expected life span of the asset created/work carried out. The Loan Charges records allocate the capital incurred against the asset created/improved.

Loan Charges are an internal calculation and no money leaves the Council but it is Loan Charges which form the charge to the Revenue Budget as a proxy for depreciation.

External Debt- To fund capital works the Council will in many cases have to borrow funds. The traditional route for local government remains to borrow from the Public Works Loan Board (PWLB) but a significant amount of borrowing has also been carried out from other lenders and this is referred to as Market Debt. Interest is paid on these loans throughout the year and these costs form the basis of the calculation of the loan charges interest rate.

Balance Sheet Fixed Assets - As part of the statutory Annual Accounts the Council prepares a Balance Sheet and the largest sum within this is the value of assets held by the Council. Assets are revalued on a rolling basis every 5 years although adjustments can be made in the interim in the event of a material impact on the assets value. Depreciation is applied to the assets prior to inclusion on the Balance Sheet. Depreciation does not form part of the revenue budget and is reversed out of the accounts when calculating the Council's available Usable Reserves.

The financial position of these three areas is explained further in the following paragraphs.

5.4 Loan Fund Debt

The Council is coming to the end of a significant period of ambitious investment in the School Estate, Leisure Estate and the Office and Depot Estate. This has seen a significant increase in the Council's Loan Debt over the last ten years and projections indicate that the Loan debt will peak at approximately £241 million in 2022/23 but on the basis of limited prudential borrowing in future years the loan debt will reduce to around £185 million by 2030/31. Thereafter the debt gradually reduces and by 2041 there is only £109 million of the current debt outstanding. Given the current shortfall between Government Grant and annual capital requirements shown in 4.3, it is likely that Prudential Borrowing and hence debt will need to increase over this period.

5.5 External Debt

The Council's external borrowing as at 17th February 2021 was:-

PWLB Debt	£109.1 million
Market Debt	£ 99.7 million
	£208.8 million

The bulk of these loans are Maturity Loans i.e.: principal is due to be repaid at the point that the loan matures, with some £46.5 million of the PWLB Debt due to be repaid by 31st March 2030. Thereafter however there is a 25 year period where under £23 million is due to mature unless called in by the market lenders or the Council restructures its PWLB debt.

Taking 5.4 and 5.5 together then by 2035, on the basis of the Capital Expenditure plans outlined in this Strategy, the External Debt will exceed Loans Fund Debt. By 2041 the amount of External Debt would exceed Loan Charges Debt by £43 million if nothing else changes and this over borrowing would continue to grow over subsequent years.

5.6 **Balance Sheet Fixed Assets**

At the 31st March 2020 the Council owned property plant and equipment assets valued at £394million net of accumulated depreciation. Once PPP Assets and Managed Properties are included then the value of this Asset Base increased to £496million. This figure is significantly larger than the previous two figures as the Asset Value represents the fair value of the asset with assets revalued on a 5 yearly basis.

The average Asset Life Outstanding as at 31st March 2021 for the different category of assets is shown in the undernoted table. From this it can be seen that for the 3 main non-PPP asset categories, the average remaining life is approximately 22.2 years. At a high level this shows a correlation between the remaining life of the main assets in the balance sheet and the Loans Fund Debt.

	Average	
	Asset Life	Asset Life Outstanding
AUC	58.46	56.08
Community Assets	34.46	23.75
Infrastructure	30.40	18.00
OLB	31.79	24.72
PPP	34.80	29.20
VPE	6.26	2.27

It should be noted that the Asset Life Outstanding is reviewed at each valuation and provided the Council is undertaking appropriate maintenance and investment then the life will be extended thus ensuring that Asset values continue to exceed Long Term Borrowing in the Balance Sheet. In tandem with this the Policy & Resources Committee approved a Loan Charges repayment Policy in 2019 which extended the write off period for some classes of capital work. The net effect has been to spread loan charge payments over a longer period.

5.7 In summary therefore, in order for the Council to maintain its considerable asset base, it will need to undertake capital investment over and above the projected Scottish Government Grant/Capital Receipts. As such the Council will always carry Loans Fund Debt and External Debt. In order to ensure that the Council achieves a closer correlation between Loan Debt and External Debt in the longer term, the majority of new borrowing will be carried out for short to medium term periods i.e. up to 10 years.

6.0 LONGER TERM INVESTMENT PLANS

6.1 It can be seen from Section 4 of the Capital Strategy that it is unlikely that Government Grant and estimated Capital receipts will be sufficient to meet the required investment levels for the Council to maintain its current asset base. The current Financial Strategy assumes that the Council will prudentially fund £1.4 million of capital investment annually from 2023/24. Any prudential borrowing over and above this will need to be funded from savings delivered by the investment or service reduction. This will require the Council takes a conscious decision to disinvest in certain assets, reduce the number of assets it holds or cut day to day services.

6.2 It should be noted that this level of investment takes no account of any one off Capital investment requirements not included in the core life cycle maintenance allocations. Any such investment requirements will be flagged up in the relevant Asset Management Plans and following consideration as part of the normal governance processes would be factored into future Capital Strategy reports.

6.3 Appendices B and C show the impact of this level of capital investment on the Loan Charges earmarked reserve, loan charges and loan debt for the period to 2039/40. From Appendix C it can be seen that projected Loan Charges would increase by almost £1.1 million between 2021/22 and 2030/31 whilst over the same period the Loan Debt will drop by £42.8million.

6.4 Despite the ongoing need for prudential borrowing the Council will see a reduction in the proportion of its Revenue Budget which is spent on servicing loan charges and also a significant reduction in the ratio of loan debt to revenue budget. From Appendix C it can be seen that the Loan Debt as a percentage of Revenue Budget drops by almost 22.7% over the 2021/31 period, whilst the % of the Revenue Budget spent on Loan Charges increases by 0.4% to 8.59%

6.5 Looking beyond 2031 involves a significant amount of uncertainty around both the funding of Local Government, the services which it will be expected to deliver and the nature of those services. However based on past investment and current service delivery then many of the assets built or significantly refurbished since local government re-organisation will become due for replacement/refurbishment. The Council will therefore require to consider how this massive investment would be funded as part of future Capital Strategies.

7.0 CONCLUSIONS

7.1 The Capital Strategy provides an opportunity for a number of related aspects of the Council's overall finances to be pulled together into a summarised document. From this it can be seen that:

a) The Council is well advanced in its Asset Management Plan preparation and delivery with major investment in all aspects of its asset estate over the last 10 years or more.
b) The Council keeps a long term view of its long term borrowing and funding and this informs the current Treasury Strategy.
c) The Council has a robust governance process via the Financial Regulations, Prudential Code, Risk Management and Budget Process to ensure that Asset Management Plans and the Capital Strategy are affordable in the medium to longer term.

The current proposals within the Capital Strategy are affordable and can be met from the current Loan Charges allocation without further cost to the Council Tax payer.

7.2 The Capital Strategy emphasises the need for the Council to take a long term view when taking decisions around Capital investment and specifically to ensure that investment plans are appropriate and financially sustainable in the longer term. The annual production and updating of the Capital Strategy allied to the Treasury Strategy, Capital Programme approval and Financial Strategy will all ensure that the Council are able to take Capital investment decisions in the knowledge of the long term implications.

Appendix A

The area of Treasury and Capital investment requires risks to be continually managed and monitored. Part of this is covered in the Governance Section (Section 2), however the following paragraphs list other risks and how the Council manages these. The risks are shown in bold with the mitigation in normal typeface.

1/ **The Capital Strategy does not reflect the objectives set out in other strategic plans of the Council.**

The Capital Strategy provides a high level overview of the various Asset Management Plans, Financial Strategy and Treasury Strategy all of which closely link to the plans the Council has signed up to. It is acknowledged that there will inevitably be other financial investment requirements over the next 20 years not quantified at this point in time however the Capital Strategy will be updated as further information becomes available regarding these strategic plans.

2/ **The directorate planning process will identify a range of additional budget pressures over and above those currently considered in this Financial Strategy.**

The Directorate Planning Guidance identifies that Corporate Directorate Improvement Plans (CDIP) should reflect the resources allocated – the need for additional resources to achieve a particular priority should be specifically identified via the Council's approved governance processes prior to the preparation of the CDIP.

3/ **Forecasts within the Capital Strategy are not accurately determined or reviewed on a regular basis**.

The Capital Strategy will set out the expected levels of expenditure and income for the future. The forecasts are arrived at through careful consideration of historic trends and current AMP investment levels plus advice on interest rates and borrowing costs from the Council's Treasury Advisors.

Throughout the financial year, the Council regularly monitors its financial performance against its capital and treasury budgets and will revise projections and/or take action where necessary.

4/ **The Council has insufficient capital resources to sustain capital commitments**.

The combination of reduced funding and the economic position mean that the Council has to focus on maintaining key infrastructure whilst utilising prudential borrowing for specific capital projects.

Regular review of existing Asset Management Plans and Policy Priorities ensures that the Council's investment plans remain affordable. The Council is in regular contact with its Treasury Advisors to identify opportunities to reduce Treasury costs within the parameters of the Prudential Indicators.

5/ **Given the major Global Economic uncertainty the Council is exposed to major fluctuations in the financial markets**

The Council' Treasury and Investment Strategy supported by the associated Treasury Management Policies and Prudential Indicators provides a robust framework within which officers operate to ensure that the Council is not materially exposed to short term fluctuations in the financial markets.

Appendix b

Capital Strategy
Loan Charges

		2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000
Balance B/fwd		671	1,467	1,552	1,053	1,041	971	962	1,163	1,235	1,501
Projected Loan Charges	a	9,599	9,610	10,294	9,907	10,065	10,104	9,994	10,223	10,129	9,964
Available Budget	b	10,395	9,695	9,795	9,895	9,995	10,095	10,195	10,295	10,395	10,495
Loan Charge Surplus/(Deficit)		796	85	(499)	(12)	(70)	(9)	201	72	266	531
Other Adjustments:											
None		0	0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0	0
Balance at Year End		**1,467**	**1,552**	**1,053**	**1,041**	**971**	**962**	**1,163**	**1,235**	**1,501**	**2,032**
Interest Rate (Assumed):		3.46%	3.38%	3.35%	3.43%	3.54%	3.62%	3.70%	3.80%	3.94%	4.02%

Notes

Revised projections as at February 2021 and excludes Loan Charges relating to funded models (SEMP, AMP, VRP, City Deal, Birkmyre Trust).
Includes the effect of decisions on SEMP acceleration taken in March 2016 including the £650k annual budget transferred to SEMP from 2021/22.
From 2018/19 onwards, general capital grant is applied to core allocations only and not to individually funded models (e.g. VRP).

a Includes loan charges for new LD Centre based on spend between 2021/22 and 2022/23.
£100k annual cost increase from 2023/24 to reflect increased prudential borrowing of £1,400k.

b Adjustments to Available Budget:
For 2021/22
£650k removed from ongoing budget and transferred to SEMP relating to SEMP acceleration, as agreed in March 2016.
Budget from 2018/19 onwards reduced by £300k annually to 2022/23 to reflect reduction in Scottish Government grant support resulting from repayment of histo
For 2022/23
£400k reduction in budget.
For 2023/24
Budget from 2023/24 onwards increased by £100k annually for annual Prudential Borrowing.

Finance Services
February 2021.

Appendix c

LONG TERM LOANS FUND PROJECTIONS BASED ON CAPITAL STRATEGY

	Loans Fund Debt End of Year	Total Loan Charges	Assumed Interest Rate	Revenue Stream	% of Loans Fund Debt to Revenue Stream	% of Loan Charges to Revenue Stream
	£000	£000	£000	£000		
2021/22	227,810	16,451	3.46%	200,842	113.43%	8.19%
2022/23	241,492	16,351	3.38%	199,842	120.84%	8.18%
2023/24	233,402	17,078	3.35%	198,842	117.38%	8.59%
2024/25	226,980	16,942	3.43%	197,842	114.73%	8.56%
2025/26	221,749	17,198	3.54%	198,842	111.52%	8.65%
2026/27	214,742	17,278	3.62%	199,842	107.46%	8.65%
2027/28	207,193	17,384	3.70%	200,842	103.16%	8.66%
2028/29	199,259	17,642	3.80%	201,742	98.77%	8.74%
2029/30	191,575	17,585	3.94%	202,842	94.45%	8.67%
2030/31	185,048	17,509	4.02%	203,942	90.74%	8.59%
2031/32	177,393	17,600	4.15%	205,142	86.47%	8.58%
2032/33	170,038	17,465	4.28%	206,342	82.41%	8.46%
2033/34	162,235	17,617	4.46%	207,542	78.17%	8.49%
2034/35	154,051	17,982	4.64%	208,842	73.76%	8.61%
2035/36	146,466	18,129	4.81%	210,142	69.70%	8.63%
2036/37	138,625	17,072	5.07%	211,442	65.56%	8.07%
2037/38	131,080	16,832	5.35%	212,842	61.59%	7.91%
2038/39	123,820	16,930	5.65%	214,242	57.79%	7.90%
2039/40	116,379	17,100	5.97%	215,642	53.97%	7.93%
2040/41	108,620	17,398	6.33%	217,042	50.05%	8.02%

Notes:

1. The Revenue Stream is an estimate of GRG/NDRI plus Council Tax.
2. The % of Loan Charges to Revenue Stream above excludes debt charges on PPP assets and so is not comparable with the Ratio of Financing Costs to Net Revenue Stream included in the Treasury Strategy.

Treasury Strategy 2021/25
Detailed Information

1.0 CAPITAL/TREASURY MANAGEMENT POSITION, PRUDENTIAL INDICATORS, TREASURY MANAGEMENT INDICATORS AND POLICY LIMITS

Current Treasury Management Position

1.1 The Council's treasury management position at 17 February 2021 comprised:

		Principal		Average Rate
		£000	£000	
DEBT				
Fixed Rate funding	PWLB	109,065		
	Market	56,000	165,065	3.12%
Variable Rate funding	PWLB	0		
	Market	43,716	43,716	4.91%
			208,781	3.85%
Other Long Term Liabilities (PPP)			60,939	---
TOTAL DEBT			**269,720**	
INVESTMENTS				
Call Accounts			19,347	0.01%
Notice Accounts			14,530	0.40%
Fixed Term Deposits			10,000	0.25%
TOTAL INVESTMENTS			**43,877**	0.19%

The Investments above are for treasury management cash balances only and exclude non-cash balances treated as investments under Investment Regulation 31 (see Appendix 3 for categories).

Capital Expenditure and Borrowing

1.2 The Council's Gross Capital Expenditure is estimated as:

	2020/21	2021/22	2022/23	2023/24	2024/25
	Projected	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	£000	£000	£000	£000
Capital Programme	16,254	18,072	29,754	9,939	9,557

1.3 The Council's borrowing requirement (which takes account of the estimated Capital Expenditure, borrowing maturing and requiring to be refinanced, and estimated future Council investment balances) is as follows:

	2020/21	2021/22	2022/23	2023/24	2024/25
	Projected	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	£000	£000	£000	£000
New borrowing	0	0	12,400	0	10,000
Alternative financing arrangements	0	0	0	0	0
Replacement borrowing	0	7,500	7,600	7,500	0
TOTAL	0	7,500	20,000	7,500	10,000

1.4 The Capital Financing Requirement is the amount of capital expenditure to be funded from borrowing that has not yet been repaid by the Revenue Budget as part of the loan charges.

The Council's Gross External Debt compared to the Capital Financing Requirement as at each year-end (including the effect of the proposed borrowing in paragraph 1.3) is as follows:

	2020/21 Projected	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	£000	£000	£000	£000	£000
Capital Financing Requirement (CFR)	292,893	285,800	297,479	287,175	278,437
External Debt (Including PPP)	259,519	255,357	265,738	263,489	271,172
Under/(Over) Against CFR	33,374	30,443	31,741	23,686	7,265

The above table shows that the Council expects to be under borrowed each year. Under borrowing means that the Council is using cash it already has (e.g. in earmarked reserves and other balances) to cash flow capital expenditure rather than bringing in new funds from borrowing. The projected level of under borrowing is considered reasonable but the position is kept under review in light of Council capital financing and other funding requirements.

Debt Limits

1.5 The Council's Authorised Limit is a control on the maximum level of debt whilst the Operational Boundary is a limit that debt is not normally expected to exceed. It is proposed that the limits are:

	2020/21 Limit	2021/22 Limit	2022/23 Limit	2023/24 Limit	2024/25 Limit
Authorised limit for external debt	£000	£000	£000	£000	£000
Borrowing	241,000	232,000	238,000	240,000	233,000
Other Long Term Liabilities (PPP)	61,000	61,000	60,000	58,000	55,000
TOTAL	302,000	293,000	298,000	298,000	288,000
Operational boundary for external debt	£000	£000	£000	£000	£000
Borrowing	224,000	214,000	222,000	223,000	225,000
Other Long Term Liabilities (PPP)	61,000	61,000	60,000	58,000	55,000
TOTAL	285,000	275,000	282,000	281,000	280,000

Approval is being sought for the Authorised Limits for 2021/22 to 2024/25.

1.6 The Council sets limits on the maturity of fixed rate and variable rate borrowing for the coming financial year. The limits proposed for 2021/22 are:

Maturity Structure	Fixed Rate		Variable Rate	
	Upper Limit	Lower Limit	Upper Limit	Lower Limit
Under 12 months	45%	0%	35%	0%
12 months and within 24 months	45%	0%	35%	0%
24 months and within 5 years	45%	0%	35%	0%
5 years and within 10 years	45%	0%	35%	0%
10 years and within 30 years	45%	0%	35%	0%
30 years and within 50 years	45%	0%	35%	0%
50 years and within 70 years	45%	0%	35%	0%

The proposed limits are the same as set in 2020. They reflect the requirement that the Council's Market debt is treated based not on when the debt is due to actually mature but on when the lender could request an increase in the interest rate (when the Council could accept the increase or repay the debt).

1.7 The Council sets limits relating to the management of debt. The limits proposed are:

	2021/22 Limit	2022/23 Limit	2023/24 Limit	2024/25 Limit	2020/21 Projected Outturn at Year-End
Maximum percentage of debt repayable in any year	25%	25%	25%	25%	19.16% (Repayable in 2077/78)
Maximum proportion of debt at variable rates	45%	45%	45%	45%	22.50%
Maximum percentage of debt restructured in any year	30%	30%	30%	30%	0.00%

The proposed limits are the same as set in 2020.

1.8 The Prudential Code requires that the Council states how interest rate exposure is managed and monitored:

All of the Council's PWLB debt is currently at fixed rates. The Market debt contains some debt at fixed rates, some small elements at variable rates and some where the rates can change (subject to the terms of the debt contract). The Council's investments, which are all for less than 1 year, are all variable or regarded as variable under the treasury management rules.

These interest rate exposures are managed and monitored by the Council through management reports on treasury management that are received and reviewed by the Chief Financial Officer.

Affordability

1.9 In relation to affordability, the ratio of financing costs (including for PPP) to the Council's net revenue stream is estimated as:

	2020/21 Projected	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Ratio of financing costs (including PPP) to net revenue stream	13.54%	11.27%	11.50%	12.03%	12.06%

The estimated fall in the ratio between 2020/21 and 2021/22 is largely due to the final charges for former Strathclyde Regional Council debt being made in 2020/21.

1.10 The ratio of net debt to the Council's net revenue stream is estimated as:

	2020/21 Projected	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Ratio of net debt (debt and PPP less investments) to net revenue stream	110.0%	111.5%	121.0%	119.3%	116.3%

Investments

1.11 The Council's estimated investments position (after the proposed borrowing in paragraph 1.3) is shown in Appendix 9b and includes transactions treated as investments under the Investment Regulations. Included in Appendix 9b (as Cash balances managed in house) are the following estimated Bank Deposits:

	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Cash balances managed in house				
1 April	40,000	31,337	23,853	26,345
31 March	31,337	23,853	26,345	41,049
Change in year	(8,663)	(7,484)	2,492	14,704

1.12 The Council sets upper limits for the total investments invested for over 365 days. The proposed limits are as follows:

	2020/21	2021/22	2022/23	2023/24	2024/25
	Limit	Limit	Limit	Limit	Limit
Upper limit for total principal sums invested for over 365 days	£000 10,000	£000 10,000	£000 10,000	£000 10,000	£000 10,000

The Council have not entered into any investments of more than 365 days during 2020/21 to date and does not expect to do so during the remainder of the year.

Accounting Changes – Leases

1.13 As of 31 March 2022 (deferred from 31 March 2021), the accounting treatment of operating leases will change and the value of those leases must be added to the Council's debt and assets. The values for the leases are being determined to comply with the changes to the accounting treatment. Any impact on the indicators and limits will be included in future reports on Treasury Management activities.

2.0 PROPOSED TREASURY STRATEGY AND INVESTMENT STRATEGY

Interest Rate Forecasts

2.1 The Council has appointed Link Treasury Services Limited as treasury advisers with part of their service being to assist the Council to formulate a view on interest rates. Link's latest interest rate forecasts (as at 9 February 2021) are:

As At	Bank Rate	Investment Rates			PWLB Borrowing Rates			
		3 month	6 month	1 year	5 year	10 Year	25 year	50 Year
	%	%	%	%	%	%	%	%
March 2021	0.10	0.10	0.10	0.20	0.90	1.30	1.90	1.70
June 2021	↓	↓	↓	↓	0.90	1.30	1.90	1.70
Sept 2021	↓	↓	↓	↓	0.90	1.30	1.90	1.70
Dec 2021	↓	↓	↓	↓	0.90	1.30	1.90	1.70
March 2022	↓	↓	↓	↓	1.00	1.40	2.00	1.80
June 2022	↓	↓	↓	↓	1.00	1.40	2.00	1.80
Sept 2022	↓	↓	↓	↓	1.10	1.50	2.10	1.90
Dec 2022	↓	↓	↓	↓	1.10	1.50	2.10	1.90
March 2023	↓	↓	↓	↓	1.10	1.50	2.10	1.90
June 2023	↓	↓	↓	↓	1.20	1.60	2.20	2.00
Sept 2023	↓	↓	↓	↓	1.20	1.60	2.20	2.00
Dec 2023	↓	↓	↓	↓	1.20	1.60	2.20	2.00
March 2024	↓	↓	↓	↓	1.20	1.60	2.20	2.00

On 9 October 2019 the PWLB announced an immediate and unexpected 1% increase in interest rates for new borrowing. The 1% increase was removed on 26 November 2020.

2.2 The COVID-19 emergency continues to cause considerable economic uncertainty in the UK and around the world with UK Bank rate cut in emergency meetings in March 2020 to a historic low of 0.10% and, as shown above, forecast to remain at that level until at least March 2024. As a result, investment returns are likely to continue to be close to zero including for fixed term deposits and there continue to be a cost of carry for any new borrowing that would cause an increase in investments (for the difference between borrowing and investment interest rates).

There has also been discussion on the possibility of negative interest rates in the UK. There is currently no indication that negative interest rates will be introduced by the Bank of England but in February 2021 they asked financial institutions to begin preparations to be able to implement negative interest rates if necessary in the future.

Treasury Strategy – Borrowing

2.3 The proposed borrowing is as shown in paragraph 1.3 whilst the proposed authorised limit for 2021/22 is shown in paragraph 1.5.

2.4 Any borrowing will depend on an assessment by the Chief Financial Officer based on the Council's requirements and financial position, adopting a cautious but pragmatic approach and after seeking advice and interest rate/economic forecasts from the Council's treasury advisers.

Any borrowing undertaken will be reported to the Policy & Resources Committee.

2.5 <u>Policy on Borrowing in Advance of Need</u>
The Council does not and will not borrow more than its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

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

- Consider the definition of such borrowing within the Code on the Investment of Money By Scottish Local Authorities
- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and for the budgets have been considered
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- Consider the merits and demerits of alternative forms of funding
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- Consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk and other risks and the level of such risks given the controls in place to minimise them.

The maximum extent to which borrowing in advance would be undertaken by this Council is the borrowing requirement identified in paragraph 1.3 above for 2021/2024.

Treasury Strategy - Debt Rescheduling

2.6 PWLB-to-PWLB debt restructuring, whilst an option and having been done in the past before changes to PWLB rules in 2007 and 2010, would give rise to large premiums that would be incurred by prematurely repaying existing PWLB loans. It remains possible but very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

2.7 As short term borrowing rates are expected to be cheaper than longer term rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of their short term nature and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

2.8 The Council is more likely to look at making savings by running down investment balances as short term rates on investments are expected to continue to be significantly lower than the rates paid on the debt currently held.

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

- The generation of cash savings and/or discounted cash flow savings but at minimum risk;
- Helping to fulfil the strategy outlined above; and
- Enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

2.10 Any debt rescheduling will be reported to the Policy & Resources Committee and the Full Council and will be within the Treasury Policy Limits.

Investments – Policies/Strategy

2.11 Investment Policy
The Council will have regard to the Local Government Investment (Scotland) Regulations 2010 and accompanying finance circular and the revised CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:
(a) The security of capital
and
(b) The liquidity of its investments.

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

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

2.13 Counterparty limits will be as set through the Council's Treasury Management Practices.

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

2.15 Permitted Investment Types
There are a large number of investment instruments that the Council could use, each having different features and risks.

The list of investment instruments proposed for possible use by the Council (including those for the Common Good Fund) and for which Council approval is being sought are listed in Appendix 9a along with details of the risks from each type of investment.

The list of proposed investments reflects a low risk appetite and approach to investments by the Council.

There are no changes to the proposed Permitted Investments from those agreed in 2020.

2.16 Creditworthiness Policy
The Council's proposed Creditworthiness Policy for 2021/22, as follows, is unchanged from that agreed in 2020.

2.17 The Council uses the creditworthiness service provided by Link Treasury Services Limited. This service uses a sophisticated modelling approach using credit ratings from the three main rating agencies - Fitch, Moody's, and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:
- Credit watches and credit outlooks from credit rating agencies (indicating the likelihood of ratings changes for a counterparty or the expected direction of ratings for a counterparty)
- Credit Default Swap ("CDS") spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries.

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

The approach is reviewed by Link as required in light of banking system and regulatory changes e.g. as happened with the reduction in importance of support ratings for individual banks due to the removal of implied government support to banks.

2.19 The Council will use counterparties within the following durational bands and with the following limits per counterparty (bands and limits as set through the Council's Treasury Management Practices):

Colour Category	Maximum Period for Individual Investments	Current Limit for Total Investments with Individual Counterparty
Purple	2 Years	£15m
Blue (Nationalised or Semi-Nationalised UK Banks)	1 Year	£15m
Orange	1 Year	£15m
Red	6 Months	£15m
Green	100 Days	£10m
No Colour	Not To Be Used	£NIL

The maximum period for individual investments with the Council's own bankers will be as in accordance with the above table whilst the limit for total investments with them will be £50m or as agreed by Committee or Full Council. The limit for any other group of counterparties will be £30m or as agreed by Committee or Full Council.

Members should note that these are the maximum periods for which any investment with a counterparty meeting the criteria would take place but subject to the Council's policy on Permitted Investments and instruments.

2.20 The Link creditworthiness service uses a wider array of information than just primary ratings and, by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating 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.

2.21 All credit ratings are monitored on an ongoing basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap spreads against a benchmark (the iTraxx index) and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. The Council also uses (where available) market data and market information, information on government support for banks and the credit ratings of that government support.

2.22 It is proposed that the Council will only use approved counterparties:

a. from the UK

   or

b. from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if not issued by Fitch). Countries currently meeting this criterion (as at 19 February 2021) include Australia, Canada, France, Germany, Sweden, the USA, and the UK.

2.23 <u>Investment Strategy</u>

Appendix 9b includes forecasts of investment balances.

2.24 The Bank Rate was cut to 0.10% in March 2020 and is not forecast to change before March 2024 so the Bank Rate forecasts from Link for financial year ends (March) are as follows:

- 2021/22 0.10%
- 2022/23 0.10%
- 2023/24 0.10%.

2.25 Link advise that, for 2021/22, clients should budget for an investment return of 0.10% on investments placed during the financial year for periods of up to 100 days.

2.26 The Council uses an investment benchmark to assess the performance of its investments. The benchmark currently used is the 3 month LIBID (uncompounded) interest rate. The provision of LIBID rates is expected to cease by the end of 2021 so the Council will take advice from its treasury advisers on a suitable alternative benchmark.

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

Policy on Use of External Service Providers

2.28 The Council uses Link Treasury Services Limited as its external treasury management advisers and uses the services of brokers for investment deals as required.

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

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

Policy on Scrutiny, Monitoring and Change of Investment Policies and Practices

2.31 The Treasury Management Practices (TMPs) of the Council set out the operational policies and procedures in place to implement the treasury management strategy and the principles set out in the treasury management policy statement. They are intended to minimise the risk to the capital sum of investments and for optimising the return on the funds consistent with those risks.

2.32 The TMPs are kept under review, with a full revision every 3 years. The latest full revision took place in 2021.

2.33 A copy of the TMPs may be obtained from Finance Services.

Training for Members

2.34 The last training session on Treasury Management was held for Members on 4 August 2017 and a training session is planned for 2021.

3.0 LOANS FUND ADVANCES

3.1 Where capital expenditure is funded by borrowing (referred to as loans fund advances), the debt financing costs are paid from the Revenue Budget as loan charges comprised of the repayment of debt and interest and expenses costs on the borrowing.

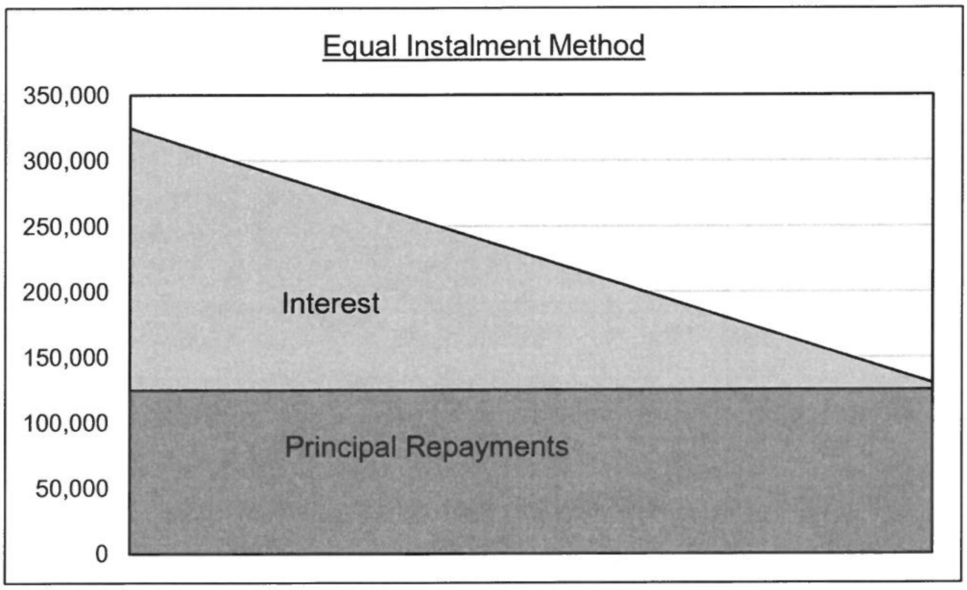
3.2 The Council is required to set out its policy for the repayment of loans fund advances from options set by the Scottish Government:

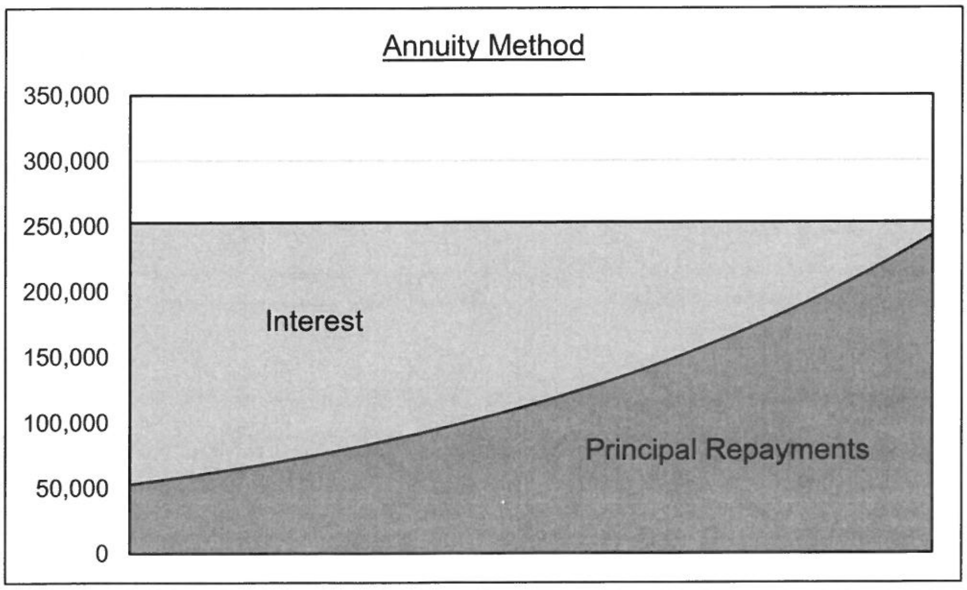
a. For loans fund advances made before 1 April 2016 the policy will be to maintain the practice of previous years and use the Statutory Method with annual principal repayments being calculated using the annuity method.

b. The annuity method is also being used for loans fund advances made after 1 April 2016 for the 5 year transitional period to the end of 2020/21. In applying the annuity method to new advances in any year, the interest rate used in the annuity calculation will be the Council's loans fund pool rate for the year (including expenses) as rounded up to the nearest 0.01%.

c. Of the options available for new capital expenditure from 1 April 2021 onwards, it was previously proposed to use the equal instalment method (where repayments start higher than under the annuity method but do not change during the write-off period) but it is now proposed to use the annuity method with the interest rate used being as in b. above.

The proposed change in the repayment method follows work done by the Council's treasury advisers for the CIPFA Directors of Finance on debt financing which is likely to lead to most Scottish local authorities using the annuity method. This includes the issues around affordability in the early years of projects where, as in the Council's example graphs below for the same loan amount, period and interest rate, the equal instalment method has higher costs in the early years whereas the annuity method has the same annual costs over the life of the loan.





3.3 The outstanding loans fund advances (representing capital expenditure still to be repaid from the Revenue Budget) are:

	2019/20	2020/21	2021/22
	Actual	Projected	Estimated
	£000	£000	£000
Balance As At 1 April	244,190	240,871	233,277
Add: Adjustment to B/F Balance Following Loan Charge Review 2019	1,411	0	0
	245,601	240,871	233,277
Add: Advances For The Year	7,057	4,686	2,858
Less: Repayments For The Year	11,787	12,280	8,325
Balance As At 31 March	240,871	233,277	227,810

3.4 For the projected loans fund advances outstanding as at 31 March 2021, the liability to make future repayments (excluding debt interest and expenses) is as follows:

	£000
Year 1	8,325
Years 2-5	32,014
Years 6-10	40,159
Years 11-15	40,242
Years 16-20	34,700
Years 21-25	34,343
Years 26-30	24,343
Years 31-35	11,265
Years 36-40	3,947
Years 41-45	1,147
Years 46-50	1,010
Years 51-55	1,130
Years 56-60	157
Years 61-65	33
Years 66-70	40
Years 71-75	48
Years 76-80	57
Years 81-85	68
Years 86-90	81
Years 91-95	97
Years 96-100	71
TOTAL	233,277

<u>**Appendix 9a**</u>

PERMITTED INVESTMENTS
AND RISKS/CONTROLS/OBJECTIVES FOR EACH TYPE OF PERMITTED INVESTMENT

The Council approves the following forms of investment instrument for use as Permitted Investments:

	Minimum Credit Criteria	Liquidity Risk	Market Risk	Max % of Total Investments	Max. Maturity Period
Deposits					
Debt Management Agency Deposit Facility (DMADF)	---	Term	No	Unlimited	6 Months
Term Deposits – Local Authorities	---	Term	No	80%	2 Years
Call Accounts – Banks and Building Societies	Link Colour Category GREEN	Instant	No	Unlimited	Call Facility
Notice Accounts – Banks and Building Societies	Link Colour Category GREEN	Notice Period	No	80%	6 Months
Term Deposits – Banks and Building Societies	Link Colour Category GREEN	Term	No	95%	2 Years
Deposits With Counterparties Currently In Receipt of Government Support / Ownership					
Call Accounts – UK Nationalised/ Part-Nationalised Banks	Link Colour Category BLUE	Instant	No	Unlimited	Call Facility
Notice Accounts – UK Nationalised/ Part-Nationalised Banks	Link Colour Category BLUE	Notice Period	No	80%	6 Months
Term Deposits – UK Nationalised/ Part-Nationalised Banks	Link Colour Category BLUE	Term	No	95%	1 Year
Securities					
Certificates of Deposit – Banks and Building Societies	Link Colour Category GREEN	See Note 1 Below	See Note 1 Below	80%	2 Years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)					
Money Market Funds (CNAV or LVNAV)	AAAmmf with Fitch or equivalent with Moody's/ Standard & Poor's	See Note 2 Below	See Note 2 Below	50%	Call Facility

Notes:

1. The Liquidity Risk on a Certificate of Deposit is for the Term of the Deposit (if the Certificate is held to maturity) or the Next Banking Day (if sold prior to maturity). There is no Market Risk if the Certificate is held to maturity, only if the Certificate is sold prior to maturity (with an implied assumption that markets will not freeze up and so there will be a ready buyer).
2. The objective of Money Market Funds is to maintain the value of assets but such Funds hold assets that can vary in value. The credit ratings agencies, however, require the unit values to vary by almost zero. CNAV funds are Public Debt Constant Net Asset Value funds whilst LVNAV funds are Low Volatility Net Asset Value funds. There are also Variable Net Asset Value funds (VNAV) but these are <u>not</u> to be included as Permitted Investments.

Investments will only be made with banks/building societies that do not have a credit rating in their own right where the Council's treasury advisers have confirmed that any obligations of that bank/building society are guaranteed by another bank/building society with suitable ratings.

The Council will only use approved counterparties from the UK or from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). Countries currently meeting this criterion include Australia, Canada, France, Germany, Sweden, the USA, and the UK.

Non-Treasury Investments

In addition to the table of treasury investments above, the definition of "investments" under the Investment Regulations includes the following items:

"(a) All share holding, 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) Loans made by a local authority to another authority or harbour authority using powers contained in Schedule 3, paragraph 10 or 11 of the Local Government (Scotland) Act 1975 are not investments.
(e) Investment property is an investment."

The Council approves items in categories (a), (b), (c), and (e) above as Permitted Investments as set-out below:

	Minimum Credit Criteria	Liquidity Risk	Market Risk	Max % of Total Investments	Max. Maturity Period
Non-Treasury Investments					
(a) Share holding, unit holding and bond holding, including those in a local authority owned company	Assessment would be made of company in which any holding was to be made	Period of holding	Yes	10%	Unlimited
(b) Loans to a local authority company or other entity formed by a local authority to deliver services	Assessment would be made of company or entity to which any loan was to be made	Period of loan	No	20%	Unlimited
(c) Loans made to third parties	Assessment would be made of third party to which any loan was to be made	Period of loan	No	25%	Unlimited
(e) Investment property	Assessment would be made of property to be held as investment property	Period of holding	Yes	10%	Unlimited

In relation to the above, Members should note that the Council is unlikely to become involved with category (a), has a loan under category (b) (to Inverclyde Leisure), will have loans to third parties under category (c) arising from decisions on such loans made by the Council, and may have investment property under category (e) should there be a reclassification, due to accounting rules, of individual properties held by the Council.

Permitted Investments – Common Good

The Common Good Fund's permitted investments are approved as follows:

	Minimum Credit Criteria	Liquidity Risk	Market Risk	Max % of Total Investments	Max. Maturity Period
Funds deposited with Inverclyde Council	---	Instant	No	Unlimited	Unlimited
Share holding, unit holding and bond holding, including those in a local authority owned company	Assessment would be made of company in which any holding was to be made	Period of holding	Yes	10%	Unlimited
Investment property	Assessment would be made of property to be held as investment property	Period of holding	Yes	95%	Unlimited

Treasury Risks Arising From Permitted Instruments

All of the investment instruments in the above tables are subject to the following risks:

1. **Credit and counter-party risk**
This is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the Council particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the Council'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. The column in the above tables headed as 'market risk' show each investment instrument as being instant access, notice period i.e. money is available after the notice period (although it may also be available without notice but with a loss of interest), 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 that the Council 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 Council's finances, against which the Council has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in its Prudential Indicators and Treasury Management Indicators in this report.

5. **Legal and regulatory risk**
This is the risk that the Council, 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 Council suffers losses accordingly.

   The risk exposure of various types of investment instrument can be summarised as:
   - low risk = low rate of return
   - higher risk = higher rate of return.

   For liquidity, the position can be summarised as:
   - high liquidity = low return
   - low liquidity = higher returns.

Controls on Treasury Risks

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

2. **Liquidity risk**
   This Council undertakes cash flow forecasting to enable it to determine how long investments can be made for and how much can be invested.

3. **Market risk**
   The only investment instruments that the Council has agreed as Permitted Investments and that can have market risk are Certificates of Deposit. Although they have a market value that fluctuates, the market risk does not arise if the Certificates are retained until maturity - only if they were traded prior to maturity if the need arose.

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

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

Unlimited Investments

Investment Regulation 24 states that an investment can be shown in the above Permitted Investments tables 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 (DMADF)
   This is considered to be the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury i.e. the UK Government's credit 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 Credit Worthiness Banks and Building Societies
   See paragraphs 2.16 to 2.22 of Appendix 9 for an explanation of this authority's definition of high credit worthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with high credit worthiness, the authority will seek to ensure diversification of its portfolio with the following limits:
   - Limit for any single institution (except Council's bankers): £15m
   - Limit for Council's bankers: £50m (or as approved by the Council or Committee)
   - Limit for any one group of counterparties: £30m (£50m or as approved by the Council or Committee for the group including the Council's bankers).

3. Funds Deposited with Inverclyde Council (for Common Good funds)
   This has been included so that, under the Permitted Investments, all funds belonging to the Common Good can be deposited with Inverclyde Council (and receive interest from the Council) rather than requiring the Common Good funds to be invested under separate Treasury Management arrangements.

Objectives of Each Type of Investment Instrument

Investment 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 until the end of an agreed notice period, or is held at call.

   a) Debt Management Agency Deposit Facility (DMADF)

      This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. It is, however, very useful for authorities whose overriding priority is the avoidance of risk. The longest term deposit that can be made with the DMADF is 6 months.

   b) Term deposits with high credit worthiness banks and building societies

      See paragraphs 2.16 to 2.22 of Appendix 9 for an explanation of this authority's definition of high credit worthiness. This is the most widely used form of investing used by local authorities. It offers a much higher rate of return than the DMADF (dependent on term). The Council will seek to ensure diversification of its portfolio of deposits as practicable and as explained above. 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) Notice accounts with high credit worthiness banks and building societies

      The objectives are as for 1.b) above but there is access to cash after the agreed notice period (and sometimes access without giving notice but with loss of interest). This can mean accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit.

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

      The objectives are as for 1.b) above 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.

2. Deposits With Counterparties Currently In Receipt of Government Support/Ownership

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

   a) Term deposits, notice accounts and call accounts with high credit worthiness banks which are fully or semi nationalised

      As for 1.b), 1.c) and1.d) above but Government ownership implies that the Government stands behind this bank and will be deeply committed to providing whatever support that may be required to ensure the continuity of that bank. This Council considers that this indicates a low and acceptable level of residual risk.

3. Securities

   a) Certificates of Deposit

      These are shorter term negotiable instruments issued by deposit taking institutions (mainly banks) so they can be sold ahead of maturity if the need arises. However, that liquidity (and flexibility) comes at a price so the interest rate on a Certificate of Deposit is less than placing a Term Deposit with the same bank.

4. Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)
   a) 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 risk appetite 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 much better rates of return than available through the DMADF.

5. Non-Treasury Investments
   b) Share holding, unit holding and bond holding, including those in a local authority owned company
   The objectives for the holding of shares, units, or bonds (including those in a local authority owned company) will vary depending on whether the Council wishes to undertake actual investments in the market or has the holding as a result of a previous decision relating to the management or provision of Council services. This Council will not undertake investments in the market in shares, units, or bonds but may, if required, hold shares, units, or bonds arising from any decisions taken by the Council in relation to the management or provision of Council services.

   c) Loans to a local authority company or other entity formed by a local authority to deliver services
   Having established a company or other entity to deliver services, a local authority may wish to provide loan funding to assist the company or entity. Any such loan funding would be provided only after consideration of the reasons for the loan, the repayment period for the loan, and the likelihood that the loan would be able to be repaid by the company or entity. Such loan funding would be provided from Council Revenue Reserves rather than from borrowing.

   d) Loans made to third parties
   Such loans could be provided for a variety of reasons such as economic development or to assist local voluntary groups. Any such loan funding would be provided only after consideration of the reasons for the loan, the repayment period for the loan, and the likelihood that the loan would be able to be repaid by the third party concerned.

   e) Investment property
   An investment in property would give the Council exposure to risks such as market risk (movements in property prices), maintenance costs, tenants not paying their rent, leasing issues, etc. This Council does not currently undertake investments involving property but may have investment property should there be a reclassification, due to accounting rules, of individual properties held by the Council.

FORECASTS OF INVESTMENT BALANCES

Investment Regulation 31 requires the Council to provide forecasts for the level of investments for the next three years, in line with the time frame of the Council's capital investment programme. The following forecasts are for the next four years:

INVESTMENT FORECASTS	2021/22	2022/23	2023/24	2024/25
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Cash balances managed in house				
1 April	40,000	31,337	23,853	26,345
31 March	31,337	23,853	26,345	41,049
Change in year	(8,663)	(7,484)	2,492	14,704
Average daily cash balances	35,669	27,595	25,099	33,697
Holdings of shares, bonds, units (includes authority owned company)				
1 April	2	2	2	2
Purchases	0	0	0	0
Sales	0	0	0	0
31 March	2	2	2	2
Loans to local authority company or other entity to deliver services (Inverclyde Leisure)				
1 April	442	399	578	519
Advances	0	235	0	0
Repayments	43	56	59	61
31 March	399	578	519	458
Loans made to third parties (2021/22 is largely remaining BPRA)				
1 April	1,402	112	91	76
Advances	0	0	0	0
Repayments	1,290	21	15	7
31 March	112	91	76	69
Investment properties				
1 April	0	0	0	0
Purchases	0	0	0	0
Sales	0	0	0	0
31 March	0	0	0	0
TOTAL OF ALL INVESTMENTS				
1 April	41,846	31,850	24,524	26,942
31 March	31,850	24,524	26,942	41,578
Change in year	(9,996)	(7,326)	2,418	14,636

The movements in the forecast investment balances shown above are due largely to ongoing treasury management activity in accordance with the Council's treasury management strategy or, for loans made to third parties, in accordance with Council decisions made in respect of such loans.

All of the Council's cash balances are managed in-house with no funds managed by external fund managers.

The "holdings of shares, bonds, units (includes authority owned company)" relate to the Common Good.