Inverclyde council

AGENDA ITEM NO: 7

Report To:	**Policy & Resources Committee**	**Date:**	**25 March 2025**
Report By:	**Chief Financial Officer**	**Report No:**	**FIN/20/25/AP**
Contact Officer:	**Alan Puckrin**	**Contact No:**	**01475 712223**
Subject:	**Capital Strategy 2025-2035 and Treasury Management Strategy Statement & Annual Investment Strategy 2025/26-2027/28**		

1.0 PURPOSE AND SUMMARY

1.1 ☒For Decision ☐For Information/Noting

1.2 The purpose of this report is to request that the Committee remits to the Inverclyde Council, for the approval, the 2025-35 Capital Strategy and the Treasury Management and Annual Investment Strategy 2025/26- 2027/28 and specifically the following:

a) Prudential Indicators and Treasury Management Indicators, Authorised Limits for 2025/28 and Treasury Policy Limits (Section 2 of Appendix 2)
b) Policy on Environmental, Social & Governance issues for investments (paragraphs 3.12 and 3.13 of Appendix 2)
c) List of Permitted Investments (including those for the Common Good Fund) (paragraph 3.17 and Appendix A of Appendix 2)
d) Policy on repayment of Loans Fund advances (Section 4 of Appendix 2).

1.3 In line with previous years, the Capital Strategy highlights the significant challenges the Council faces to continue to fund the maintenance of the existing asset base whilst meeting targets in relation to Net Zero, especially after taking into account the projected capital resources available to the Scottish Government in the medium term. The Strategy clearly identifies that robust action is needed in the short term to address this to ensure limited resources are directed to the areas of highest policy priority and any dis-investment is managed sensitively.

1.4 The Treasury Management Strategy covers a shorter period and is based on decisions already incorporated into the medium-term Financial Strategy. Longer term levels of Loans Fund debt are likely to be understated and are expected to increase once the Council takes decisions in future years based on the updated Asset Management Plans.

2.0 RECOMMENDATIONS

2.1 It is recommended that the Committee review the Capital Strategy 2025-35 in Appendix 1, note the significant financial challenges the Council faces in maintaining the existing asset base and thereafter remits the Capital Strategy to the Full Council for approval.

2.2 It is recommended that the Committee considers the contents of the report, the Treasury Management and Investment Strategy set out in the Appendix 2 and remits the report and Treasury Management and Investment Strategy to the Full Council for approval.

Alan Puckrin
Chief Financial Officer

3.0 BACKGROUND AND CONTEXT

3.1 **Capital Strategy**

The production of a Capital Strategy which is reviewed annually is 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.

3.2 Over the last 15 years the Council has undertaken a significant amount of work on Asset Management Planning (AMP) and has used a combination of internal expertise and external peer review in the development of these AMPs. Once created, the AMPs are embedded within the Council's Committee Development Improvement Plans (CDIPs) and ensure the Capital Programme formulation process has a strong alignment with the Council Plan priorities.

3.3 The Capital Strategy emphasises the need for the Council to take a strategic approach when arriving at 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 all ensure that the Elected Members take Capital investment decisions in the knowledge of these long-term implications.

3.4 On 31 March 2024 the Council owned property plant and equipment assets valued at £480 million net of accumulated depreciation. Once PPP Assets and Managed Properties are included then the value of this Asset Base increased to £574 million. The maintenance of such a large asset base in the context of core Capital Grant from the Scottish Government of £6.5million is not sustainable and this has been flagged during recent budget processes.

3.5 Whilst officers will continue to access capital support/grants from the Scottish Government and partner agencies, these are often unable to fund core asset maintenance. Therefore, Elected Members face a choice of either significantly increasing the level of revenue resources to fund increased prudential borrowing against the backdrop of the considerable revenue budget pressures, or reducing the asset base.

3.6 Officers have advised on several occasions of the unsustainability of the status quo and this plus the requirements of the Net Zero agenda needs to act as a catalyst for a fundamental review of the Council's asset base. The £400,000 net Savings Workstream target phased over 2025/28 has set an initial target and work needs to continue over 2025/26 to ensure this sum is realised, if not exceeded.

3.7 **Treasury Management & Investment Strategy**

CIPFA revised the CIPFA Prudential Code and the CIPFA Code of Practice on Treasury Management in December 2021. Inverclyde Council have adopted the Code of Practice on Treasury Management and comply with the Prudential Code.

The revised codes had an immediate requirement that Councils must not borrow to invest primarily for financial return with the following main changes implemented from financial year 2023/24:

a. All investments are to be attributed to either Treasury Management, Service Purposes or Commercial Purposes.
b. The risks associated with investments for Service or Commercial Purposes should be proportionate to the Council's financial capacity.
c. Councils must not borrow to invest for the primary Commercial purpose of financial return. Where financial returns arise from a project, they should be incidental to its primary purpose.
d. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt (Inverclyde Council has no commercial investments).
e. A new prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream.
f. A new treasury indicator known as the Liability Benchmark is required.

g. The monitoring and reporting of all forward-looking prudential indicators is required at least quarterly, and any significant deviations must be highlighted (this will be done as part of the regular Finance Service reporting to the Policy & Resources Committee)
h. The knowledge and skills required by Officers and by Elected Members is to be proportionate to the size and complexity of the treasury management conducted by the Council.
i. The Council must create new Investment Management Practices (IMP) to manage risks associated with non-treasury investments (similar to the current Treasury Management Practices - TMPs).
j. Environmental, social and governance (ESG) issues are to be addressed within the Council's treasury management policies and practices (including in TMP1).

3.8 The Local Government in Scotland Act 2003 and supporting regulations (the Act) require the Council to 'have regard to' the CIPFA Prudential Code (the Prudential Code) and the CIPFA Code of Practice on Treasury Management (the Code) to set Prudential and Treasury Indicators for at least the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3.9 The Act and supporting regulations require the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.10 It is a statutory requirement for the Council to produce a balanced budget. A local authority must calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue are affordable within the projected income of the Council for the foreseeable future. The projected revenue impact of the 2025/28 Capital Programme was built into the approved 2025/26 Revenue Budget.

4.0 PROPOSALS

4.1 **Capital Strategy**

It is proposed that the Committee review the contents of the Capital Strategy 2025-2035 as contained in Appendix 1 and thereafter remit the Strategy to the Full Council for approval.

4.2 **Treasury Management Strategy and Annual Investment Strategy**

The proposed Treasury Management Strategy and Annual Investment Strategy is attached as Appendix 2 and includes:
a. Prudential Indicators and Treasury Management Indicators, Authorised Limits for 2025/28, and Treasury Policy Limits (paragraphs 2.1 to 2.15)
b. Policy on ESG issues for investments (paragraph 3.12 & 3.13)
c. List of Permitted Investments (including those for the Common Good Fund) (paragraph 3.17 and Appendix A).

The Council will be requested to approve the Treasury Management Strategy and Annual Investment Strategy including indicators, policies, limits, and permitted investments.

5.0 IMPLICATIONS

5.1 The table below shows whether risks and implications apply if the recommendations are agreed:

SUBJECT	YES	NO
Financial		X
Legal/Risk	X	
Human Resources		X
Strategic (LOIP/Corporate Plan)		X
Equalities & Fairer Scotland Duty		X
Children & Young People's Rights & Wellbeing		X
Environmental & Sustainability		X

Data Protection		X

5.2 **Finance**

Whilst there are no direct financial implications arising from approving the two strategies it is clear how the Council maintains and funds the current asset base will be a prime consideration as part of future budget rounds.

The Council utilises Treasury Management as part of the overall Financial Strategy. Officers will continue to investigate borrowing and investment opportunities to bring financial benefits to the Council, all within the Treasury Management Policy.

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

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

5.3 **Legal/Risk**

Any borrowing or lending is done under the Council's legal powers.

The monitoring and management of risks on treasury activities (including borrowing, investments, and cash flow) is undertaken on a daily and ongoing basis in line with the Treasury Management Policy Statement approved by the Full Council and with Treasury Management Practices (TMPs) and Investment Management Practices (IMPs) produced and kept under review.

The Council has a Creditworthiness Policy (in Appendix 2) that is used to determine the types of permitted treasury investments and the criteria for investments and periods. The policy sets out the risks from each investment type (credit/counterparty risk, liquidity risk, market risk, interest rate risk, and legal and regulatory risk) and is submitted for Elected Member approval each year as part of the Treasury Strategy and Investments Strategy report.

5.4 **Human Resources**
None.

5.5 **Strategic**
None.

6.0 CONSULTATION

6.1 This Treasury Strategy in appendix 2 includes the latest advice from the Council's treasury consultants (MUFG Corporate Markets).

7.0 BACKGROUND PAPERS

7.1 None

Appendix 1

Inverclyde council

Capital Strategy

2025 – 2035

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1.0 INTRODUCTION

1.1 The production of a Capital Strategy which is reviewed annually is 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 from 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 2024 the Council owned property plant and equipment assets valued at £479.7million net of accumulated depreciation. Once PPP Assets and Managed Properties are included then the value of this Asset Base increased to £575.4million. Much of the investment in this Asset Base has been funded by borrowing over preceding decades. The Council's external borrowing as at 28th February 2025 was:-

PWLB Debt	£106.4 million
LOBO Debt	£ 24.5 million
Market Debt	£ 40.4 million
	£171.3 million

The bulk of this debt is due to be repaid at the point that the loan matures with some £61.4 million of the PWLB Debt due to be repaid by 31st March 2035 after refinancing of short-term borrowing undertaken in 2023/24 and 2024/25.

1.4 Allied to this the Council maintains a Loan Charges record which is an internal record of investment and 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 45 years (extended from 40 years per approval at Inverclyde Council, 29th February 2024) whereas a roads resurfacing contract will be written off over 25 years. As at the 31st March 2025 the expected value of the Council's internal loan debt is £216.2 million. The repayment costs in 2024/25 are projected to be £17.8 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 10-15 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 Committee Delivery Improvement Plans (CDIPs) with delivery reported throughout the year as part of the cyclical Capital Programme updates.

1.6 Asset Management Plans take into account the number, type and condition of the assets to which the plan relates and thereafter looks ahead to future investment needs with associated financial implications to be factored into future years Capital Programmes. Delivery of an Asset Management Plan may require decisions from Members regarding a whole estate investment approach which will potentially identify assets which the Council should no longer retain. This will 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 over the last 15 years with the sums saved from buildings no longer in existence reinvested in the remaining buildings and resulted in an improved estate.

1.7 In view of the further reduction in the Council's asset base as well as more efficient use of existing assets, an ongoing revenue saving has been assumed for budgeting purposes in the form of an Asset Management workstream with an initial target of £0.4m in recurring savings. The proposed reduction in the Clyde Square Campus resulting from the Levelling Up Fund project will contribute initially to this with further proposals identified as Asset Management Plans are refreshed.

1.8 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.

1.9 The Council is coming to the end of a period of ambitious investment. This has seen a significant increase in the Council's Loan Fund Debt over the last 15 years and projections indicate that the Loan Fund Debt will peak at approximately £224.8 million in 2026/27. On the basis of limited prudential borrowing in future years the Loan Fund debt could reduce to around £164 million by 2034/35. If this level of reduction occurs, there needs to be a correlation between the reduction in the Council's internal loan debt and the repayment of the Council's external borrowing to the PWLB. This is covered in more detail in the Treasury Strategy.

1.10 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.

1.11 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 main indicators in the Treasury Strategy cover a three year period and the Capital Strategy will 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 Treasury Strategy is currently to borrow on a short term basis due to the projected reduction in borrowing rates in the medium term. The latest possible maturity date for the market loans varies from 2066-2071 although, dependent on macroeconomic changes there is always the possibility that lenders may wish to trigger repayment of their loans with the Council or allow the Council to repay early allowing refinancing at lower interest rates, as happened once in 2023 and once in 2024.

1.12 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 three times 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.

1.13 The Capital Strategy pulls all these aspects together and aims to provide a valuable contribution 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 2021.

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.

Changes are being made to these Regulations from 1 April 2024 under which the maximum write-off period for these annual charges for individual projects will normally be 50 years and any changes to write-off periods for individual projects will no longer be able to be applied to prior years.

Other changes to the Regulations were proposed by the Scottish Government in November 2023 and included the removal or restriction of use of the annuity method for calculating these annual charges. These proposals have now been deferred for further discussion with changes now being proposed from 1 April 2027 at the earliest.

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.

e) Scottish Government Local Government Finance Circular 10/2022
This Guidance replaces a Finance Circular issued in 2010 that was issued to address accounting arrangements for PFI and similar arrangements. It allows a change to the accounting treatment whereby the cost of the PFI arrangement can be accounted for over the anticipated useful life of the asset rather than the contract life.

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 Strategic Committees.

2.5 For Treasury Management, officers prepare a 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 thereafter remitted 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 Finance 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 February 2023.

Risk

2.9 Given the long timescales involved in capital investment and treasury decisions, risk is a fundamental consideration for consideration. Within the Capital Strategy, Appendix A summarises the main risks identified by officers whilst a separate analysis of Treasury Management & Investment risks is included in that document.

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 15 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 CDIPs and Capital Programme formulation process to ensure that there is a strong alignment between the Council's overarching Priorities and capital investment decisions. Work is ongoing to refresh Asset Management Strategies to optimise the efficient and effective use of Council assets monitored via the Environment & Regeneration Committee Delivery and Improvement Plan and due for completion during 2026.

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 **Net Zero**

In alignment with National targets, the Council approved the Net Zero Strategy 2021-2045 in 2021 which sets out Inverclyde Council's route map to achieving net zero greenhouse gas emissions by 2045. The Net Zero Action Plan 2022-2027 was approved in 2022 and this sought to capture and collate current activities that are funded from existing budgets and to also identify new actions which will require additional funding and/or resources. An allocation of £3.3m for 2023/26 was approved as part of the 2023/24 budget setting process to allow a focus on the following areas of activity:

- Reducing energy use in buildings through improved data collection, controls and targeted energy audits;
- Reducing energy demand in buildings through increased building based renewable generation;
- Introduction of low/zero carbon heating within smaller scale assets e.g. Early Years Establishments;
- Offsetting (insetting) via local peatland restoration projects;
- Fleet decarbonisation through car and light commercial vehicle transition to ULEV including expansion of charge point provision.

The Council has been successful in securing external funding support for a number of Net Zero related projects including £0.873m for two peatland restoration projects, work at Dowries farm has recently been completed with phase 2 of the 3 year Hardridge Farm project nearing completion. Funding support has also been secured from Museums Galleries Scotland and the Scottish Football Association for LED lighting projects at the Watt Institute and for floodlighting upgrades across pitches in Inverclyde.

In terms of the impact on existing assets, it is recognised that the 2045 targets for Net Zero will involve circa 80% of the buildings currently in use. Retrofitting the existing building stock is a colossal challenge in transitioning the built environment to net zero. The sheer scale of the task has been expressed in UK wide studies which indicate that it would require one building being retrofitted every 35 seconds between 2020 and 2050 in the UK.

The current Net Zero Action Plan noted that actions towards the end of the initial five-year period include low / zero carbon heating for larger facilities such as primary schools with the current market and available technology limiting the options for heat decarbonisation. It also noted that any heat decarbonisation projects require to be considered in tandem with the action plan item dealing with feasibility studies on deep retrofit which will address the core building fabric performance and associated heat demand beyond the basic decarbonisation of the heating systems. Costs associated with retrofit and fabric upgrades are currently not included in the action plan and will be subject to further detailed feasibility studies and reports. To date there have been retrofit studies undertaken on three primary school buildings, one secondary school building, two office buildings and four leisure/community estate assets with work in this area also being undertaken through a Net Zero Collaboration Group in partnership with hub West Scotland and Built Environment Smarter Transformation (BE-ST) to maximise knowledge sharing and pooling of resources in the retrofit challenge workstream.

The Council published its Local Heat and Energy Efficiency Strategy and associated Delivery Plan following public consultation in March 2024. The evolving legislation in the area of Net Zero including the Scottish Government proposed Heat in Buildings Bill will affect the approach to achieving minimum energy efficiency standards and way we heat our homes, workplaces and other buildings.

There are significant technical, financial and operational considerations / barriers involved in the transition to net zero emissions for each and every retained building / asset. The significant investment the Council has made across the vast majority of the estate over the last 15 years means that the performance gap is likely to be less when assessing what may be required in terms of retrofit, particularly for recently constructed / comprehensively refurbished assets. However, it is also recognised that the 'in use' performance of assets compared to the designed performance has been an industry wide issue with a current renewed focus on construction quality initiatives and development of Net Zero Public Building Standard guidance including a move towards passivhaus construction. Heat networks are also likely to play a significant part in the overall approach to Net Zero however it remains to be seen how these can be progressed at the scale and pace required to align with National targets.

3.6 School Estate Management Plan & Expansion of Early Learning & Childcare

The Council has invested in excess of £270m on its school estate over the life of the School Estate Management Plan. The rationalisation of the estate was completed by the end of 2013. Over the period of the programme there has 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 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 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 with completion of the final project at Gourock Primary School in December 2022The demolition of the last remaining decant facility, the former Sacred Heart Primary School, was completed in June 2022.

Additional expenditure was 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 were completed with the final project to refurbish Hillend Children's Centre operational as of October 2021.

The increase in entitlement to early learning and childcare from 600 hours to 1140 hours required substantial levels of investment in workforce and infrastructure to support the expansion. All core 1140 hours expansion projects were completed and operational as of November 2021.

The Scottish Government has previously confirmed capital funding allocations to support the phased expansion of free school meals to primary school children to be used to support initial investment in school infrastructure, including school catering and dining. The Education & Communities Committee approved the early adoption of Universal Free School Meals in Primary Schools across Inverclyde from August 2023. A programme of works across fourteen primary schools was delivered during June 2023 and over the summer holiday period to support the implementation.

The Education Capital programme includes a lifecycle fund designed to address maintaining the condition and suitability of the revitalised estate. The fund allocation is currently £3m per annum. 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 and are due for renewal. These surveys and Property Services assessment inform the allocation of future lifecycle funding across the estate and this is becoming increasingly important, particularly for the properties that were included early in the original programme.

The Council also has a Public Private Partnership contract covering four schools (2 secondary and 2 primary) which is operated through a Special Purpose Vehicle (SPV) and Facilities Management Provider. The regular maintenance and lifecycle requirement of those assets are addressed through the contract which extends to 2040 when the assets will be handed back to the Council.

A wider Learning Estate Review and strategy is now required as part of the Corporate Asset Management Strategy workstream 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 strategy will require to consider the Condition of the estate from external surveys and Property Services reviews. A full review of all suitability surveys was completed in conjunction with Education Services and Heads of each establishment and this information was reflected in the 2021 Core Facts return. The strategy will also consider the 2021/28 Education Services Digital Learning Strategy. Energy efficiency and the implications of the Inverclyde Net Zero Strategy and associated 2022/27 Action Plan including the continued focus on adoption of a Net Zero Public Sector Buildings Standard and imminent legislation such as the Heat in Buildings Bill, will all have to be considered as far as practicable in future asset strategies.

The Council has undertaken a comprehensive assessment of its estate to identify the presence of Reinforced Aerated Autoclaved Concrete (RAAC). It has been confirmed that one school (St Michael's Primary School in Port Glasgow) has RAAC present and in line with industry guidance, a management strategy has been implemented. Options for permanent remediation are currently being investigated and will represent a funding pressure in the context of the available limited capital funding resources available for estate lifecycle investment.

3.7 **Office AMP**

The Council's Office rationalisation proposals included 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 included 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 with the final projects within the Offices AMP completed in Autumn/Winter 2017. The Office Rationalisation programme resulted in a reduction of circa 40% of occupied floor space and circa 28% in terms of desk numbers 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, the James Watt Building and Hector McNeil House. Property Services had undertaken studies across the Campus at the end of 2019, 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 necessitated a shift to different agile working delivery models including increased flexible, mobile and homeworking arrangements. As part of the COVID-19 Organisational Recovery Plan the Council reviewed its agile working and other key policies resulting in the development of a Hybrid Working Strategy which has now been embedded within a new Flexible Working Policy following the completion of a 12 month pilot. As part of the Council's Delivering Differently Programme, a New Ways of Working project was also established to examine the changes to the ways offices are being used within and out with the Campus including changes in the use of technology and the potential for increased use of Electronic Document Management processes. The previously completed space studies are being revisited as part of this work stream to assess the potential property / ICT investment implications connected with new ways of working. This workstream also involved the mothballing of the James Watt building from early 2023/24 facilitated through minor works undertaken across various assets to enable the relocation of staff. The successful Levelling-up Funding bid and project will result in the demolition of the Hector McNeil House building with the staff to be relocated across the James Watt building and the Greenock Municipal buildings campus in conjunction with other minor works and staff relocations.

The future maintenance and lifecycle requirements of this element of the Council's estate strategy are contained / addressed within the Operational Properties portfolio and the allowances for statutory and planned maintenance / lifecycle works funded from the annual £2.4m General Property Service capital allocation monitored through the Environment & Regeneration Committee.

3.8 **Depot AMP**

The Council's Depot rationalisation has involved the centralisation of Grounds, Waste and Transport at Pottery Street in Greenock with a Gourock Civic Amenity site and the Building Service Unit (BSU) workshop at Devol in Port Glasgow. The original Depot Asset Management Plan budget of £13m was reduced by £2.8m through a review of phasing and scope with the development of the masterplan and a refinement of the strategy / proposals. The majority of projects were completed by mid-2019 incorporating the phased works at Pottery Street 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 final element of the Depot AMP involving the Gourock Civic Amenity facility has been partially completed with the existing Kirn Drive Civic Amenity facility closed at the end of January 2022 and temporarily relocated to Craigmuschat Quarry. The demolition of the existing Kirn Drive Depot building and removal of fuel tanks was completed in June 2022. The future provision in Gourock has been considered as part of recent budget setting processes and has not been taken forward as a saving to date, there remains a requirement to review the temporary provision at Craigmuschat and seek direction on the position regarding future provision.

3.9 **Leisure AMP**

The Council undertook a review of its key Leisure Sites prior to 2009 which included reports covering a review of strategic sites and a pitches strategy, with a view to modernisation and reconfiguration of leisure provision within Inverclyde. Consultation was also undertaken with Sportscotland who allocated £1m in facilities grants, part funding specific projects at Parklea and Ravenscraig. A planned investment profile was presented to Committee in September 2009 with an initial implementation timescale of August 2012. Following the implementation of the original Leisure Strategy above, a number of further projects were taken forward (Ravenscraig Activity Centre / Inverclyde Indoor Bowling / Lady Octavia Sports Centre / Boglestone Community Centre) through joint Council / Inverclyde Leisure funded projects.

In 2018 the Council agreed to allocate £0.12m 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 with the majority of assets now either having had a full carpet replacement or rejuvenation. The artificial pitch asset management plan requires to be reviewed as part of the various strands of the Corporate Asset Management Strategy which will confirm the position with the current Repairs and Renewals Fund balance and budget pressures.

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 £2.4m 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.

As part of the Council's Delivering Differently Programme, the Council and Inverclyde Leisure completed a strategic review of all indoor, outdoor and community leisure facilities in Inverclyde. This activity was aligned with the 2023/25 Budget recognising the Inverclyde Leisure business model pressures such as shortfalls in income, increases in utilities, and other inflationary pressures such as pay. A report was submitted to the November 2022 Education and Communities Committee outlining proposals to reduce the funding pressure addressing a potential major reduction in the Inverclyde Leisure managed estate. The proposals were subject to public consultation and were considered as part of the previous budget setting process, however, no decisions in respect of a reduction in Leisure estate assets were taken. The Corporate Asset Strategy workstream will also revisit the strategic review of Leisure facilities.

3.10 **Roads AMP**

The Roads Asset Management Plan sets out the Council's strategy for maintaining the road network and its associated assets. Asset Management uses lifecycle planning to make best use of the available resources for the long term-term benefit of the asset. The Asset Management approach ensures an appropriate prioritisation of works in line with available budgets.

Investment is allocated to prioritise the delivery of corporate objectives and to provide best value to Inverclyde Council and its customers. Asset Management provides a framework for this process by identifying and prioritising needs across the network. Lifecycle planning is used to minimise whole life costs to ensure efficient and effective use of resources.

Through the identified asset management plan, Inverclyde Council will make best use of available resources in maintaining its road network and associated infrastructure.

The Council approved a comprehensive Roads Asset Management Strategy (RAMS) which was then utilised to develop the Roads Asset Management Plan (RAMP) and funding model in August 2012. A total of £29m was allocated over the period April 2013 to March 2018 to improve the 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. The latest RAMS 2024 - 2029 has been completed with the final issue subject to review ahead of formally reporting to Committee. The current programme is being progressed on the basis of an annual budget allocation of £2.86 million to continue with the prioritised capital network programme.

The RAMP has resulted in a reduction in the number of Inverclyde's roads, footways, streetlights, and road structures which require costly ongoing defect repair treatments while providing increased future lifespan. The continued pressure on budgets and inflationary impact of rising material and labour costs means that the current annual allocation is unlikely to result in a steady state and this is reflected in the most recent Road Condition Indicator survey data for 2022/24 which shows and increase for the first time since 2012/14.

3.11 **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 industry standard best practice and a cyclical programmed replacement of fleet assets over a 7 year cycle taking advantage of public sector collaborative procurement frameworks. A review of the replacement policy was undertaken to reflect the budgetary position taking cognisance of the increased costs of vehicles, and requirement to move towards Ultra Low Emission Vehicles (ULEVs).

In addition, it led to the introduction of a dedicated Fleet Management System and Fleet Tracking System. The system provides accurate and real time data on vehicle costs, utilisation and telemetrics, management information is provided to service users and can be tailored to their requirements. Without a fleet asset management plan the Council would be at risk of undertaking the works in an inefficient manner, increasing fleet downtime, incurring costs to ''spot' hire vehicles, increased workshop staff levels and an increase in both material and sub-contractor costs. The service have recently adapted the telemetrics and can now provide detailed reports for Refuse Collection through Webfleets 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.

The Council have previously taken advantage of bridge funding from Transport Scotland and technological advances allowing greater battery range has allowed a significant increase in the number of ULEVs on the Council fleet. In terms of cars and vans, the Council will be compliant by the end of 2025 meeting the Scottish Governments 1st phase transition plans. The Council will require to identify funding for replacement ULEVs to continue to comply with the Scottish Government target of ending the sale of new petrol or diesel cars and light vans in Scotland by 2032. This will be considered as part of the Council's Net Zero Strategy.

The technology to further introduce ULEVs into the medium and heavy commercial fleet continues to evolve and the continued funding of the Vehicle AMP will allow the Council to take advantage of these new technologies when established. 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. This is included within the Councils overall Service Delivery Plan.

3.12 **Open Spaces AMP**

The Council has also developed an initial Open Space AMP which incorporates Burial Grounds and the Crematorium. The wide range and nature of the assets covered and legacy works required in some areas makes the preparation of a systematic and cyclical detailed AMP challenging. Focus has been on the maintenance of existing infrastructure.

In 2023/24 funding from the Nature Restoration Fund (NRF) has allowed the development of future "shovel ready" projects . Unfortunately funding from NRF was withdrawn in 2024/24 as part of the annual pay negotiation, although it has been reinstated in 2025/26. Much of this funding was replaced through Shared Prosperity and Placed Based Investment funding albeit much more focussed on priority projects.

Maintaining a focus on naturalisation, tree growing and biodiverse rich projects will support the Council's Net Zero ambitions. Additional ongoing maintenance however will become an issue in later years with revenue pressures on facilities as they age. The development of a Tree Strategy will inform much of the policy around future planting schemes and plans which remain largely reliant on external funding.

Based on the information to date an annual capital sum of £200,000 is allocated for general lifecycle maintenance.

Works on expanding the Burial Grounds provision at Knocknaisrshill and replacing the Council's cremators in 23/24 will ensure some capacity within our Burial Grounds and Crematorium. The expansion of Knocknairshill is currently at the draft design stage with drawings having previously been produced and now being refined. This will require to be built into future Capital projects pressures taking into account 24 to 36 months to develop and expand the cemetery.

3.13 ICT Asset Plan

The ICT Asset Management Programme intends to provide 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 £0.534m, a reduction from £0.594k due to budget savings.

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

The Council has adopted a policy of deploying laptops as the default device for officers and students unless there is a technological or configuration requirement that would require a desktop. This has resulted in over 700 fewer desktops now being deployed in the school estate with a comparable increase in laptops.

The 2024/25 Corporate refresh programme replaced the first phase of laptops procured following the pandemic and shortly after. The programme replaced 660 devices. Of these, 300 of the original laptops have been redeployed into Schools to replace the oldest desktop devices that were remaining in the estate. A further small tranche of 60 devices will be deployed into the schools before the end of the April 2025. A number of Android Smartphones have been identified as no longer in support for security and functionality updates – as a result a refresh programme has been implemented to upgrade and review usage as required.

A consequence of the move from desktop to laptop devices in the schools has identified a requirement for Laptop Trolly and Caddy charging solutions to allow easy management and administration of the devices. Consideration is being given to allocating Capital funding in 2025/26 to a procurement project for this purpose on a one-off basis. This will impact on the refresh programme in the schools.

The total number of devices in the programme is 6969.

	Desktop PCs	Notebook PCs	Tablet PCs	Total
Schools	1234	4043	23	5300
Corporate	172	1487	10	1669
Total	1406	5530	33	6969

The programme also includes provision for replacement of core ICT equipment such as network storage, servers and infrastructure and the procurement and implementation of other services to support Hybrid working such as videoconferencing equipment.

3.14 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 Scheme of Assistance also funds 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 also 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	19	1582
19/20	169	1620
20/21	133	582
21/22	162	1818
22/23	128	1204
23/24	147	704
24/25*	139	895

* Projected

The average cost of adaptations has been significantly higher since the pandemic resulting in overall pressure on the Scheme of Assistance budget. The service is demand led however and any rationing approach would be likely to lead to excessive costs elsewhere if people were unable to remain in their own homes.

It should be noted that the Scheme of Assistance budget was increased to £0..806m from 2023/24 to address inflationary pressure, the final outturn for 24/25 is likely to be in the region of £0.895m.

3.15 HSCP Asset Management

A number of shared service offices were addressed as part of the Offices Asset Management plan and consolidation within the Hector McNeil House building completed in 2014. The ongoing work associated with The Greenock Town Centre Levelling Up Fund will involve the relocation of HSCP staff and the demolition of the Hector McNeil House building. Two further major HSCP projects were delivered with Scottish Government funding support, the Adult and Older People Complex Care Beds facility (Orchard View) opened in summer 2017, and the Greenock Health and Care Centre became operational in March 2021.

Further asset areas were addressed via the phased re-provisioning of Inverclyde's Children's Residential Services with one unit (Kylemore) completed in March 2013, a further unit (Cardross – 'the View') completed in January 2018, and the final unit (Crosshill) completed in October 2022 following delays experienced through a combination of the insolvency of the original main contractor and COVID-19.

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 were decommissioned and flats at Lynedoch Street and Hope Street vacated and released back to the relevant Registered Social Landlords. 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 Inverclyde Community Hub with business case approved in February 2020. The progression of the project has been delayed through COVID and has also involved the approval of additional funding and a fundamental review of the design proposals to address the overall affordability of the project including the adoption of a low carbon design approach with the support of external grant funding through the Low Carbon Fund / Vacant and Derelict Land Investment Programme (VDLIP). The project achieved financial close and commenced on site in December 2024 with completion expected in April 2026.

The homelessness service has implemented a change programme to drive forward a full-service redesign in response to recommendations made by The Homelessness and Rough Sleeping Action Group which includes the development of a Rapid Rehousing Transition Plan (RRTP). The rebranding of the service as a Housing Options and Homelessness Advice Service was a major milestone with the cross-sector partnership and early intervention involved in this approach fundamental to reducing the need for temporary accommodation by preventing homelessness. A review of the estate and accommodation requirements are an integral part of the ongoing change programme / service redesign with recent confirmation that the Inverclyde Centre will be decommissioned.

Other specific property issues remain for Health & Social Care around the future of the Centre for Independent Living store, the continued lease of the Unpaid Work Unit at Kingston Industrial Estate and there is a need to review provision at the Wellpark Centre and the Hillend Centre.

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 Units, funding came from a combination of prudential borrowing funded by service savings, reserves and core capital grant. The new Inverclyde Community Hub will also be funded largely by prudential borrowing.

In addition to the internal review of HSCP properties to identify opportunities for reconfiguration of services that support co-location, work has been undertaken across the NHS Greater Glasgow & Clyde area to develop a Primary Care Property Strategy which seeks to better understand the current utilisation of property and its suitability for existing and future service provision which will inform future board infrastructure investment decisions.

3.16 **Coastal Assets**

Provision was made in the 2020/21 budget to address the progression of surveys and mapping of Council coastal assets i.e. sea walls and other coastal defence installations/structures to establish condition and any current/future capital project works required. A number of surveys have been undertaken through external specialist consultants with priority marine side remedial works at the

Greenock Waterfront area taken forward. Surveys of the Newark to Kelburn walkway were undertaken in first quarter 2023 with a condition report completed which identified a need for periodic reinspection, and that significant remedial works are likely to be required in the medium term to ensure the existing coastal walkway protection measures remain effective. A survey of the sea wall and defences at Gourock Outdoor Pool was completed in October 2023 with condition report received and recommendations which include short term and medium term considerations for protection of the asset. The work in this area will continue as part of the wider Corporate Asset Management strategy and activity and will be aligned with Coastal Change Adaptation workstream. of available internal resources which are being prioritised on delivery of the wider capital programme. Coastal assets condition and effectiveness represent a funding pressure in the context of the available limited capital funding resources available for asset lifecycle investment.

3.17 **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 total Capital cost of £33.7million, £22million of which is funded through the City Deal investment and Council contribution with the balance funded by external partners. The past year has seen the Greenock Ocean Terminal continue with its success in operation with 75 cruise ships coming to Greenock. Inchgreen reached its completion and Inverkip FBC was approved in November with works staring in March. In addition to the original City Deal projects, the Council is progressing with Commercial Space project which is being funded through re-programming funding from the Glasgow City Deal, and could result in further significant investment within Inverclyde.

The Scottish and UK Government investment is due to be paid over a 20 year period ending in 2035. Due to the timing difference between the Council incurring expenditure by 2025 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.

3.18 **Levelling Up Fund**

Again, whilst not a specific Asset Management Plan the Council has recently received confirmation of £19.39m Levelling Up Fund grant towards a £21.6m project to redevelop Greenock Town Centre. The project will see the transformation of the town centre with demolition of the elevated A78 dual-carraigeway along with Hector McNeill House and 40% of the existing Oak Mall retail centre resulting in easier access to the area for residents and visitors, with the resultant additional space having the potential for a new college campus, town centre housing and new cultural opportunities. The last year has seen the appointment of project management consultants and the entering into a pre-construction services agreement with the contractor which has progressed the design to stage 3, and the submission of market tested prices. In addition, the planning application and building warrant stage 2 have been approved for Oak Mall façade and demolition. At present officers are working with the Council's project management team to analyse price and programme information to determine next steps for the project and the design process continues towards construction design in 25/26.

3.19 **Greenock Towns Fund**

In September 2023, the UK Government Department for Levelling Up, Housing and Communities announced that Greenock was one of 7 areas in Scotland to be allocated funding for the UK government's Long Term Plan for Towns. Greenock will receive a 10-year endowment-style fund with £19.5million of funding split between Revenue (RDEL) of £4.6m and Capital (CDEL) of £14.9m support released over a 10 year period from 2024/25 to 2033/24, with a light touch assurance from DLUHC. The Town Board was set up by the 1st of April and since then 5 board meetings have taken place. With the general election the previous deadlines and guidance for submission of the investment plan were to be revised. Government commitment to the long-term plan for Towns was continued with the November budget however they have not yet set a date for submission of the investment plan. The government has stated that further guidance will be published in early 2025. Information engagement took place in July and survey consultation took place at the end of November with an online survey or in-person surveys at key location throughout the town. The revised Towns Fund prospectus has just been issued with initial suggestions that investment plans will be required by November 2025. The new prospectus is being considered by officers and will reported to the Town Fund Board in due course.

4.0 THE CAPITAL PROGRAMME

4.1 The Council traditionally approves a rolling three year Capital Programme each budget cycle. The March 2025 budget saw the approval of a 3 year Capital Programme covering 2025/28 which takes the programme to the end of the current Council.

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 The UK exit from the EU, the impact of COVID, increased global demand for materials and most recently the impact of the conflict in Ukraine had a significant impact on the delivery of the capital programme. These issues have inevitably led to both cost pressures and project delays. As a result a £4 million cost pressure allowance was included in the 2023/26 budget to help address these pressures. In addition a further £4.4million was allocated from Reserves to ensure the 2024/28 Capital Programme stayed within funding parameters.

4.4 Current annual allocations amount to £10.998m (see table below) This amount includes the reductions applied to ICT and Zero Waste as part of the 2024/28 Budget.

Recurring annual Grant Allocations:

ICT	£0.534m
Roads (RAMP)	£2.750m
Zero Waste Fund	£0.045m
Parks & Open Spaces	£0.200m
Property	£2.400m
Scheme of Assistance****	£0.573m
Leisure Pitches	£0.120m
School Estate	£3.000m
Nature Restoration Fund*	£0.157m
Coastal Change Management*	£0.077m
Climate Emergency***	£0.487m
Cycling, Walking, Safer Routes*	£0.341m
Play Areas**	£0.314m
Total Annual allocations	£10.998m
General Capital Grant in 2025/26	£7.680m

* Specific elements of General Capital Grant which can vary year on year, while these are not strictly Ring-Fenced the Scottish government do require some assurance regarding relevant expenditure

** 2025/26 is the final year of 5 year Scottish Government Play Area investment

*** Specific funding for Climate Emergency, it is unclear whether this funding will be ongoing

**** Further £0.233m funding from Revenue bringing total SOA allocation to £0.806m

Officers have assumed a continuation of the current level of Capital Grant £6.65m, ie after removing Climate Emergency and Play Area funding to 2027/28. The General Capital Grant in 2025/26 then is approximately £3.3million short of the current allocations which in turn have been frozen at 2023/24 levels resulting in real terms funding reductions. The current Financial Strategy assumes that the Council will prudentially fund £1.5 million of capital investment annually to 2030/31 which will partially address this pressure for the next 6 years. The remaining shortfall of approximately £1.8m per year will require to be funded from either capital receipts, revenue reserves and prudential borrowing or reductions in the asset base.

4.5 Other investment includes the Vehicle Replacement Programme however this is funded via ongoing prudential borrowing 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 Strategic Committees. Any such proposals would require to be funded by way of prudential borrowing and/or one-off allocations from reserves.

4.6 In addition to the core capital grant the Council receives Specific Capital Grant awards from the Scottish Government although these are increasingly included in the core grant plus can apply for grants from other bodies such as Strathclyde Passenger Transport and Sustrans.

4.7 The Council has undertaken a comprehensive assessment of its estate to identify the presence of Reinforced Aerated Autoclaved Concrete (RAAC). It has been confirmed that one school (St Michael's Primary School, Port Glasgow) and one office (Princess Street House, Port Glasgow) have RAAC present and in line with industry guidance, a management strategy has been implemented. Options for the permanent remediation are currently being investigated and will represent a funding pressure in the context of the limited capital resources available for estate lifecycle investment. The Council continues to work in close partnership with the Scottish Government on this matter and to follow their guidance and that of other authoritative bodies.

4.8 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.

4.9 A summary of the proposed 2025/28 Capital Programme is shown below. This was approved by the Council in March 2025 The longer term affordability of the capital investment requirements are covered in more detail in section 6 of the Strategy.

Proposed Capital Programme 2024/2028

Expenditure/Projects by Committee	2025/26 £m	2026/27 £m	2027/28 £m	Totals £m
Policy & Resources	1.475	3.645	2.534	7.654
Environment & Regeneration	12.830	15.877	8.365	46.350
School Estate	2.200	4.667	5.000	11.867
Education & Communities	0.305	0.401	0.120	0.826
HSCP	6.452	1.700	0	8.152
	23.262	26.290	16.019	65.571
Financed By				
Government Grant	7.680	6.650	6.650	20.980
Sales/Contributions	0.315	0.315	0.315	1.260
Revenue	4.531	4.864	4.433	13.828
Prudential Borrowing	7.796	4.174	2.714	14.684
Resources Carried Forward	12.244	0	0	12.244
	32.566	16.003	14.112	62.681
Shortfall in Resources				2.890
Recommended maximum overcommitment (5% of Resources)				3.134
Flexibility				0.244

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 three 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 has recently concluded a significant period of ambitious investment in the School Estate, Leisure Estate, Roads Assets plus the rationalisation of 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 £225 million in 2026/27 but on the basis of limited prudential borrowing in future years the loan debt could reduce to around £173 million by 2033/34. Thereafter the debt gradually reduces and by 2043 there is only £99 million of the current debt outstanding. Given the current shortfall between Government Grant and annual capital requirements highlighted in section 4, it is likely that Prudential Borrowing and hence debt will need to substantially increase over this period with the resultant increase in pressure on the Council's Revenue Budget.

5.5 **External Debt**

The Council's external borrowing as at 28th February 2025 was:-

PWLB Debt	£106.4 million
LOBO Debt	£ 24.5 million
Market Debt	£ 40.4 million
	£171.3 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 £61.4 million of the PWLB Debt due to be repaid by 31st March 2035 after refinancing of short-term borrowing in 2023/24. Thereafter however there is a 20 year period where only £7 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 2039, on the basis of the Capital Expenditure plans outlined in this Strategy, the External Debt will exceed Loans Fund Debt. By 2044 the amount of External Debt would exceed Loan Charges Debt by £33 million if nothing else changes. However, given the significant gap between Scottish Government Capital Grant and basic investment requirements, officers do not believe that the above scenario will occur due to the Council's requirement to increase the level of prudential borrowing significantly over the medium/longer term. .

5.6 **Balance Sheet Fixed Assets**

At the 31st March 2024 the Council owned property plant and equipment assets valued at £479.7million net of accumulated depreciation. Once PPP Assets and Managed Properties are included then the value of this Asset Base increased to £575.4million.

The average Asset Life Outstanding as at 31st March 2024 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 21.0 years.

	Average	
	Asset Life	Asset Life Outstanding
AUC	58.46	53.15
Community Assets	36.88	26.99
Infrastructure	30.79	16.69
OLB	28.68	19.24
PPP	34.93	25.43
VPE	5.76	1.06

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 On 16th February 2023 the Council approved the use of the flexibility offered under Finance Circular 10/2022 with regards the accounting treatment of Service Concession Arrangements, ie the Council's Schools PPP contract, from 2023/24. This in effect extends the PPP debt from 30 years to 45 years, ie to 2053/54 with the asset life being amended accordingly. It should be noted that while this is reflected in the Asset Life above some components of the asset, such as Plant & Equipment, have a shorter life, resulting in a weighted average life for the PPP assets of 34.93 years, less than the 45 years noted.

5.8 In summary therefore, 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. This will require future borrowing whilst ensuring that the Council achieves a closer correlation between Loans Fund Debt and External Debt in the longer term. This will be achieved by ensuring that the majority of new borrowing from 2025 will be carried out for short to medium term periods i.e. up to 10-25 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 £1.5 million of capital investment annually to 2030/31. Any prudential borrowing will need to be funded from savings delivered by the investment or revenue savings. 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 The Government Capital Grant allocation for 2025/26 includes an allowance for Climate Emergency of £0.487m however other than this funding there has been no allowance for the transition to Net Zero. A allocation of £3.3m from Council reserves was approved for 2023/26 to allow a focus on reducing energy use in existing buildings, decarbonisation of the Council fleet and offsetting and the Council has been successful in attracting grants to assist with peatland restoration however there is no allowance for retrofitting the existing building stock. Such retrofitting will be technically and operationally challenging and will involve significant additional capital investment in the period to 2045, funding will require to be identified to address this.

6.3 It should be noted that this level of investment takes no account of inflation or 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.

6.4 All the above indicates the unprecedented pressures on the Council's capital investment resources. These pressures are being contained at present via the use of one-off reserves and maintenance requirements being suppressed by the high levels of capital investment over the last 15 years. As assets created/refurbished at that time get older and investment requirements increase then the current asset base/ funding approach is simply unsustainable.

6.5 To begin to address this the Council has approved the creation of an Asset Management savings workstream which began to be progressed during 2024/25. Whilst this has a £400,000 net revenue savings target a secondary and potentially larger saving will be in future capital investment requirements. To achieve recurring savings of this order will require clear prioritisation and a longer term view from Elected Members informed by the Asset Management Plans developed to support this Strategy.

6.6 Appendices B and C show the impact of the level of currently planned capital investment on the Loan Charges earmarked reserve, loan charges and loan debt over the long term. From Appendix C it can be seen that projected Loan Charges would drop by £1 million between 2025/26 and 2034/35 whilst over the same period the Loan Debt will drop by £55.1 million. All of this however would require a major reduction in current investment levels and this in turn would require a significant reduction in the number of assets owned and operated by the Council.

6.7 Despite the ongoing need for prudential borrowing the Council will see a reduction in the proportion of its Revenue Stream which is spent on servicing loan charges and also a significant reduction in the ratio of loan debt to Revenue Stream. From Appendix C it can be seen that the Loan Debt as a percentage of Revenue Stream drops by 22.2% over the 2025/35 period, whilst the % of the Revenue Stream spent on Loan Charges drops by 0.54% to 5.88%.

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 delivery with major investment in all aspects of its asset estate over the last 15 years or more and has commenced the refresh of a number of these plans.
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.

It should be noted however that, as can be seen in section 4, the current capital allocations are anticipated to be approximately £3.3m in excess of the annual capital grant going forward, while this has been addressed in the 3 year budget to 2027/28 in the longer term the shortfall will require to be funded from either capital receipts, revenue reserves and prudential borrowing or reductions in the asset base.

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 Council does not have adequate funding to fully address the Net Zero Strategy**

The Net Zero Action Plan 2022-2027 collates existing activities and seeks to identify actions which will require additional funding/resources required to fully address the Net Zero Strategy 2021-2045. While funding has been allocated as part of the 2023/24 budget process to address the Action Plan no further funding is currently available to implement the Strategy. This will involve a significant level of investment over the period to 2045, funding for which will require to be in addition to current capital allocations and is currently not identified.

3/ **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 Committee Development 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.

4/ **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.

5/ **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. To support this process an Asset Management saving workstream has been approved to take place over 2025/28

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.

6/ **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.

Inverclyde council

Appendix b

Finance Strategy
Loan Charges

		2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000	2031/32 £'000	2032/33 £'000	2033/34 £'000	2034/35 £'000
Balance B/fwd		821	595	786	1,136	1,180	28	(660)	(742)	(591)	123	869
Projected Loan Charges	a	17,816	16,990	16,931	17,137	17,433	17,069	16,563	16,330	15,767	15,735	15,934
Available Budget	b	16,590	16,181	16,281	16,381	16,281	16,381	16,481	16,481	16,481	16,481	16,481
Loan Charge Surplus/(Deficit)		(1,226)	(809)	(650)	(756)	(1,152)	(688)	(82)	151	714	746	547
Other Adjustments:												
Transfer from Reserves	c	1,000	1,000	1,000	0	0	0	0	0	0	0	0
Contribution from Capital Fund	d	0	0	0	800	0	0	0	0	0	0	0
		1,000	1,000	1,000	800	0	0	0	0	0	0	0
Balance at Year End		**595**	**786**	**1,136**	**1,180**	**28**	**(660)**	**(742)**	**(591)**	**123**	**869**	**1,416**
Interest Rate (Assumed):		4.62%	4.19%	4.02%	3.87%	3.91%	3.90%	3.78%	3.77%	3.72%	3.84%	3.95%

Notes

Revised projections as at February 2025 and excludes Loan Charges relating to City Deal and Birkmyre Trust.
General capital grant is applied to core allocations only and not to individually funded models.

a Includes loan charges for new LD Centre based on spend between 2021/22 to 2025/26.
£100k annual cost increase from 2023/24 to reflect prudential borrowing of £1.5m to 2030/31 (June 2023 Finance Strategy).
Projected principal repayments on new projects are calculated on annuity basis.

b Adjustments to Available Budget:
<u>For 2025/26</u>
Budget reduced by £500k from 2025/26 onwards (December 2023 Council).
Budget reduced by £9k for 2025/26 onwards for school transport saving.

<u>For 2028/29</u>
Budget reduced by £200k from 2028/29 onwards in light of reduced interest rates.

c £3m agreed December 2023, allocated £1m each year 2024/25 to 2026/27.

d Proposed contribution from Capital Fund in 2027/28.

Finance Services
February 2025.

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		
2025/26	219,236	17,004	4.19%	264,926	82.75%	6.42%
2026/27	224,848	16,933	4.02%	264,926	84.87%	6.39%
2027/28	221,123	17,137	3.87%	264,926	83.47%	6.47%
2028/29	213,866	17,433	3.91%	264,926	80.73%	6.58%
2029/30	206,666	17,069	3.90%	265,926	77.72%	6.42%
2030/31	199,444	16,563	3.78%	266,926	74.72%	6.21%
2031/32	190,633	16,330	3.77%	267,926	71.15%	6.09%
2032/33	181,958	15,767	3.72%	268,926	67.66%	5.86%
2033/34	173,210	15,735	3.84%	269,926	64.17%	5.83%
2034/35	164,119	15,934	3.95%	270,926	60.58%	5.88%
2035/36	155,235	16,009	4.11%	271,926	57.09%	5.89%
2036/37	147,144	14,642	4.22%	272,926	53.91%	5.36%
2037/38	139,342	14,026	4.23%	273,926	50.87%	5.12%
2038/39	131,502	13,707	4.21%	274,926	47.83%	4.99%
2039/40	123,556	13,732	4.40%	275,926	44.78%	4.98%
2040/41	115,364	13,875	4.60%	276,926	41.66%	5.01%
2041/42	107,058	13,959	4.90%	277,926	38.52%	5.02%
2042/43	98,650	13,826	5.06%	278,926	35.37%	4.96%
2043/44	90,315	13,711	5.45%	279,926	32.26%	4.90%
2044/45	82,330	13,359	5.95%	280,926	29.31%	4.76%

Notes:
1. The Revenue Stream is an estimate of GRG/NDRI plus Council Tax.
2. The Total Loan Charges excludes cash flow interest charged for City Deal projects.
3. 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.

Inverclyde council

Treasury Management Strategy and Annual Investment Strategy

2025/26 – 2027/28

Index

1.0 INTRODUCTION

1.1 CIPFA revised the CIPFA Prudential Code and the CIPFA Code of Practice on Treasury Management in December 2021. Inverclyde Council have adopted the Code of Practice on Treasury Management and comply with the Prudential Code.

1.2 The Local Government in Scotland Act 2003 and supporting regulations (the Act) require the Council to 'have regard to' the CIPFA Prudential Code (the Prudential Code) and the CIPFA Code of Practice on Treasury Management (the Code) to set Prudential and Treasury Indicators for at least the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.3 The Act and supporting regulations require the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act) which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.4 It is a statutory requirement for the Council to produce a balanced budget. In particular, a local authority must calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue are affordable within the projected income of the Council for the foreseeable future. The projected revenue impact of the 2025/28 Capital Programme was built into the approved 2025/26 Revenue Budget.

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

Current Treasury Management Position

2.1 The Council's treasury management position at 19 February 2025 comprised:

		Principal		Average Rate
		£000	£000	
DEBT				
Fixed Rate funding	PWLB	106,378		
	LOBO	16,000		
	Market	40,000	162,378	4.15%
Variable Rate funding	PWLB	0		
	LOBO	8,500		
	Market	333	8,833	4.86%
			171,211	4.19%
Other Long-Term Liabilities (PPP)			51,014	---
TOTAL DEBT			**222,225**	
INVESTMENTS				
Call Accounts			10,641	4.34%
Notice Accounts			55	4.49%
Fixed Term Deposits			0	---
TOTAL INVESTMENTS			**10,696**	4.34%

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

Capital Expenditure and Borrowing

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

	2024/25	2025/26	2026/27	2027/28
	Projected	**Estimate**	**Estimate**	**Estimate**
	£000	£000	£000	£000
Capital Programme (Excluding Levelling-Up Project)	19,107	22,775	25,290	16,019

2.3 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:

	2024/25	2025/26	2026/27	2027/28
	Projected	**Estimate**	**Estimate**	**Estimate**
	£000	£000	£000	£000
New borrowing	10,000	17,000	18,000	10,000
Alternative financing arrangements	0	0	0	0
Replacement borrowing	12,500	25,000	22,000	22,000
TOTAL	22,500	42,000	40,000	32,000

The projected replacement borrowing is to replace borrowing that was required by the Council but that was borrowed for shorter periods than required to allow the Council to refinance in the next few years when rates are expected to be lower.

2.4 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 and PPP.

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 2.3) is as follows:

	2024/25	2025/26	2026/27	2027/28
	Projected	**Estimate**	**Estimate**	**Estimate**
	£000	£000	£000	£000
Capital Financing Requirement (CFR)	295,765	297,871	302,515	297,763
External Debt (Including PPP)	231,972	246,227	258,637	264,986
Under/(Over) Against CFR	63,793	51,644	43,878	32,777

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

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

	2024/25	2025/26	2026/27	2027/28
	Limit	**Limit**	**Limit**	**Limit**
Authorised limit for external debt	£000	£000	£000	£000
Borrowing	243,000	243,000	249,000	257,000
Other Long-Term Liabilities (PPP)	54,000	51,000	49,000	46,000
TOTAL	297,000	294,000	298,000	303,000
Operational boundary for external debt	£000	£000	£000	£000
Borrowing	228,000	228,000	234,000	242,000
Other Long-Term Liabilities (PPP)	54,000	51,000	49,000	46,000
TOTAL	282,000	279,000	283,000	288,000

Approval is being sought for the Authorised Limits for 2025/26 to 2027/28.

2.6 The Council sets limits on the maturity of fixed rate and variable rate borrowing for the coming financial year. The limits proposed for 2025/26 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 2024. They reflect the requirement that the Council's LOBO debt is treated based not on when the debt is due to 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).

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

	2025/26	2026/27	2027/28	2024/25
	Limit	**Limit**	**Limit**	**Projected Outturn at Year-End**
Maximum percentage of debt repayable in any year	25%	25%	25%	22.08% (Repayable in 2077/78)
Maximum proportion of debt at variable rates	45%	45%	45%	4.88%
Maximum percentage of debt restructured in any year	30%	30%	30%	2.76%

The proposed limits are the same as set in 2024.

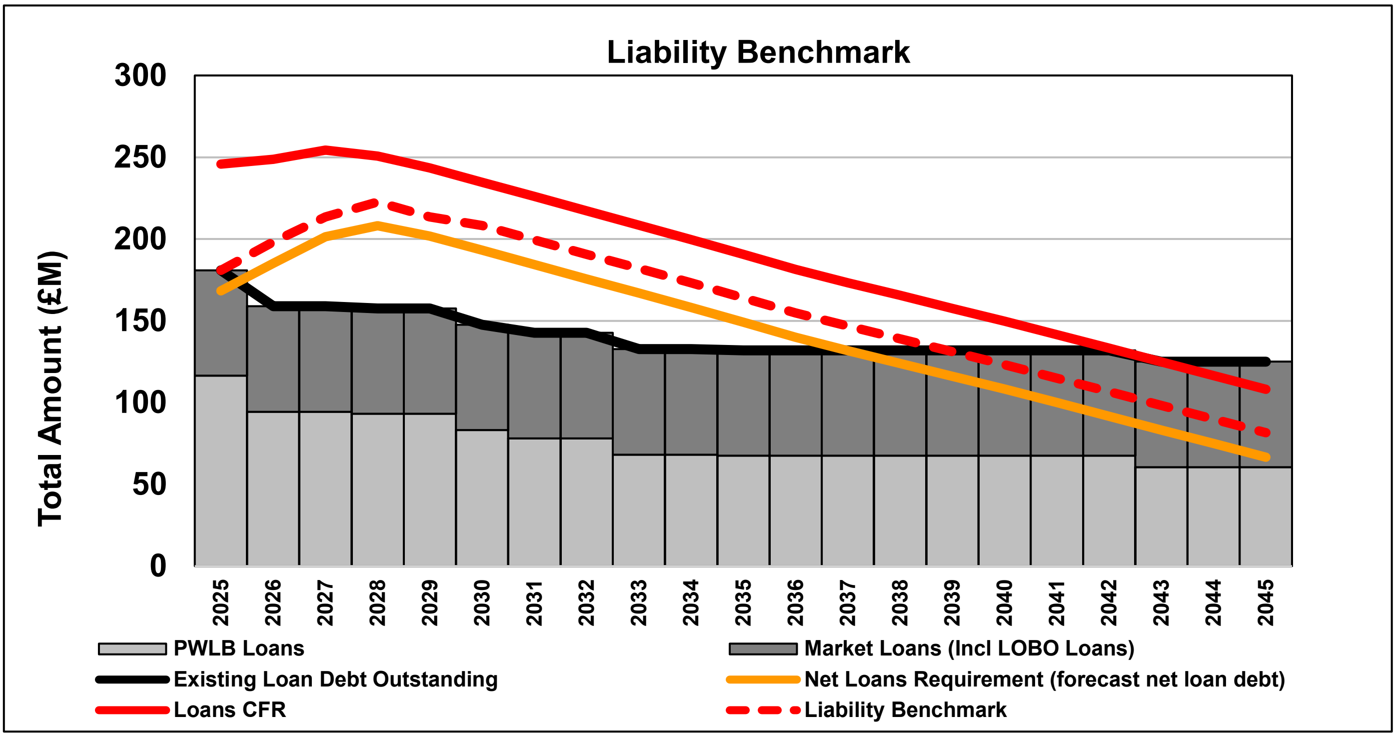
2.8 The Prudential Code requires that the Council states how interest rate exposure is managed and monitored:

All of the Council's PWLB debt is currently at fixed rates. The LOBO and Market debt contains some debt at fixed rates, some small elements at variable rates and some (the LOBOs) 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.

Liability Benchmark

2.9 The Liability Benchmark is a requirement in the revised Treasury Management Code. It is calculated from the Council's treasury management debt less investments plus an amount for cash flow/liquidity requirements and is shown in the graph below (the dashed line) with the existing loan debt (PWLB and Market and LOBO Loans), the Loans CFR (Capital Financing Requirement excluding PPP), and the forecast net loan debt position.



The following points should be noted:

a. The graph shows the current Liability Benchmark for 2024/25 plus 20 years (longer than the minimum recommended by CIPFA) but the Council's treasury management debt runs beyond that period.

b. The graph includes the impact of the current position plus the approved capital programme (including prudential borrowing) which covers the years up to 2027/28. It does not include any projected additional borrowing or requirement beyond that (albeit that borrowing may well be required depending on plans at the time).

c. Where loans outstanding are currently projected to be less than the Liability Benchmark above, this indicates a borrowing requirement where the Council is underborrowed and exposed to interest rate, liquidity and refinancing risks. Where loans outstanding are projected to be greater than the Liability Benchmark, this indicates where the Council is overborrowed and exposed to credit and reinvestment risks and a possible cost of carry due to different debt and investment interest rates.

Affordability

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

	2024/25	2025/26	2026/27	2027/28
	Projected	**Estimate**	**Estimate**	**Estimate**
Ratio of financing costs (including PPP) to net revenue stream	7.82%	7.79%	8.00%	8.19%

The Council's financing costs are affordable and fully funded from the Council's Revenue Budget and reflect the costs of the significant capital programme works and improvements undertaken by the Council on the School Estate and other assets.

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

	2024/25	2025/26	2026/27	2027/28
	Projected	**Estimate**	**Estimate**	**Estimate**
Ratio of net external debt (external debt and PPP less investments) to net revenue stream	86.2%	88.0%	93.0%	94.5%

2.12 The ratio of net income from commercial and service investments to the Council's net revenue stream is estimated as NIL, as follows:

	2024/25	2025/26	2026/27	2027/28
	Projected	**Estimate**	**Estimate**	**Estimate**
Ratio of net income from commercial and service investments to net revenue stream	0.00%	0.00%	0.00%	0.00%

Investments

2.13 The Council's estimated investments position (after the proposed borrowing in paragraph 2.3) is shown in Appendix B and includes transactions treated as investments under the Investment Regulations. Included in Appendix B (as Cash balances managed in house) are the following estimated Bank Deposits:

	2025/26	2026/27	2027/28
	Estimate	**Estimate**	**Estimate**
	£000	£000	£000
Cash balances managed in house			
1 April	12,555	13,052	12,126
31 March	13,052	12,126	14,501
Change in year	497	(926)	2,375

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

	2024/25	2025/26	2026/27	2027/28
	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

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

Accounting Changes – Leases

2.15 As of 31 March 2025, the accounting treatment of operating leases is planned to 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 above will be included in future reports on Treasury Management activities.

3.0 PROPOSED TREASURY STRATEGY AND INVESTMENT STRATEGY

Interest Rate Forecasts

3.1 The Council has appointed MUFG Corporate Markets Treasury Limited (previously known as Link Treasury Services Limited) as treasury advisers with part of their service being to assist the Council to formulate a view on interest rates. MUFG's latest interest rate forecasts (as at 10 February 2025) 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 2025	4.50	4.50	4.40	4.40	5.00	5.30	5.80	5.50
June 2025	4.25	4.30	4.20	4.20	4.90	5.20	5.70	5.40
Sept 2025	↓	↓	↓	↓	4.80	5.10	5.60	5.30
Dec 2025	4.00	4.00	3.90	3.90	4.70	5.00	5.50	5.20
March 2026	3.75	3.80	3.70	3.70	4.60	4.90	5.40	5.10
June 2026	↓	↓	↓	↓	4.50	4.80	5.30	5.00
Sept 2026	↓	3.50	3.50	3.50	4.40	4.70	5.20	4.90
Dec 2026	3.50	↓	↓	↓	↓	↓	5.10	4.80
March 2027	↓	↓	↓	↓	4.30	4.60	5.00	4.70
June 2027	↓	↓	↓	↓	4.20	4.50	↓	↓
Sept 2027	↓	↓	↓	↓	↓	↓	4.90	4.60
Dec 2027	↓	↓	↓	↓	4.10	4.40	↓	↓
March 2028	↓	↓	↓	↓	4.00	4.40	4.80	4.50

3.2 The UK Bank rate was cut from 4.75% to 4.50% in February 2025, the third rate cut in 2024/25. As shown above, the forecast is for fall to 4.25% by June 2025, to 4.00% by December 2025, to 3.75% by March 2026 and to 3.50% by December 2026 then remain steady thereafter to March 2028 at least at 3.50%.

Treasury Strategy – Borrowing

3.3 The proposed borrowing is as shown in paragraph 2.3 whilst the proposed authorised limit for 2025/26 is shown in paragraph 2.5.

The projected replacement borrowing is to replace borrowing that was required by the Council but that was borrowed for shorter periods than required to allow the Council to refinance in the next few years when rates are expected to be lower (see the forecasts in paragraph 3.1 above).

3.4 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.

3.5 Policy on Borrowing in Advance of Need

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 2.3 above for 2025/2028.

Treasury Strategy - Debt Rescheduling

3.6 PWLB-to-PWLB debt restructuring would normally give rise to large premiums unless, as has been the case since the autumn of 2022, rates increased to levels at which some loans could be repaid either for low premiums payable by the Council or discounts receivable by the Council.

3.7 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.

3.8 The Council is keeping investment balances low as short-term rates on investments are expected to continue to be around or lower than the rates paid on the debt currently held (albeit that the differential is expected to be lower than for some years).

3.9 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).

3.10 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

3.11 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 (i.e. Council's investment priorities for treasury investments will consider security then liquidity and then yield/return). The risk appetite of this Council is low in order to give priority to the security of its investments.

3.12 The Treasury Management code revised in December 2021 requires that "The organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level."

3.13 The policy agreed in 2023 for ESG considerations is as follows:

"This Council will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments.

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

3.14 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.

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

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

3.17 Permitted Investment Types

There are many 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 A 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 2024.

3.18 Creditworthiness Policy

The Council's proposed Creditworthiness Policy for 2025/26, as follows, is unchanged from that agreed in 2024.

3.19 The Council uses the creditworthiness service provided by MUFG Corporate Markets Treasury 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.

3.20 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 MUFG 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.

3.21 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.

3.22 The MUFG 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.

3.23 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 MUFG 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 the iTraxx European Senior Financials benchmark 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, market information and information on external support for banks.

3.24 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 14 February 2025) include Australia, Canada, France, Germany, Sweden, the USA, and the UK.

3.25 Investment Strategy

Appendix B includes forecasts of investment balances.

3.26 The Bank Rate was cut from 5.25% to 5.00% in August 2024 then to 4.75% in November 2024 and to 4.50% in February 2025. MUFG's forecast is for the rate to fall to 4.25% by June 2025 then 4.00% by December 2025 and to 3.75% by March 2026. A further cut is expected in the fourth quarter of 2026 with the rate to remain steady thereafter at 3.50%. Their Bank Rate forecasts for financial year ends (March) are as follows:

- 2025/26 3.75%
- 2026/27 3.50%
- 2027/28 3.50%.

3.27 MUFG advise that, for 2025/26, clients should budget for an investment return of 4.10% on investments placed during the financial year for periods of up to 100 days.

3.28 The Council uses an investment benchmark to assess the performance of its investments. The benchmark being used is the 3-month SONIA compounded interest rate. This replaced LIBID rates which, for all periods, stopped being produced at the end of 2021.

3.29 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

3.30 The Council uses MUFG Corporate Markets Treasury Limited (previously known as Link Treasury Services Limited) as its external treasury management advisers and uses the services of brokers for investment deals as required.

3.31 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.

3.32 The Council also recognises that there is value in employing external providers of treasury management services 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

3.33 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.

3.34 The TMPs are kept under review, with a full revision every 3 years. The TMPs were updated in February 2023 to include issues required by the revised Code.

3.35 Investment Management Practices (IMPs) were prepared in February 2023 as required by the revised Treasury Management Code.

3.36 A copy of the TMPs and the IMPs may be obtained from Finance Services.

Training for Members

3.37 The last training session on Treasury Management was held for Members on 6 September 2022.

4.0 LOANS FUND ADVANCES

4.1 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.

4.2 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. 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%.

The Scottish Government issued a consultation paper in November 2023 which included a proposal to remove or greatly restrict the use of the annuity method from 1 April 2024. The proposals have been deferred for further discussion with any changes now being proposed from 1 April 2027 at the earliest.

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

	2023/24	2024/25	2025/26
	Actual	Projected	Estimated
	£000	£000	£000
Balance As At 1 April	223,816	220,290	216,219
Add: One-off Change to Write-off Periods	3,387	0	0
Add: Advances For The Year	784	3,514	10,737
Less: Repayments For The Year	7,697	7,585	7,719
Balance As At 31 March	220,290	216,219	219,237

4.4 For the projected loans fund advances outstanding as at 31 March 2025, the liability to make future repayments (excluding debt interest and expenses) is as follows:

	£000
Year 1	7,719
Years 2-5	31,058
Years 6-10	38,428
Years 11-15	34,032
Years 16-20	32,820
Years 21-25	29,535
Years 26-30	23,299
Years 31-35	11,402
Years 36-40	3,954
Years 41-45	1,230
Years 46-50	1,270
Years 51-55	408
Years 56-60	69
Years 61-65	70
Years 66-70	84
Years 71-75	102
Years 76-80	123
Years 81-85	149
Years 86-90	180
Years 91-95	198
Years 96-100	89
TOTAL	216,219

Appendix A

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	MUFG Colour Category GREEN	Instant	No	Unlimited	Call Facility
Notice Accounts – Banks and Building Societies	MUFG Colour Category GREEN	Notice Period	No	80%	6 Months
Term Deposits – Banks and Building Societies	MUFG 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	MUFG Colour Category BLUE	Instant	No	Unlimited	Call Facility
Notice Accounts – UK Nationalised/ Part-Nationalised Banks	MUFG Colour Category BLUE	Notice Period	No	80%	6 Months
Term Deposits – UK Nationalised/ Part-Nationalised Banks	MUFG Colour Category BLUE	Term	No	95%	1 Year
Securities					
Certificates of Deposit – Banks and Building Societies	MUFG 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 not 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 that the Council approves as Permitted Investments:

	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
(d) 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), will have loans 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 (d) should there be a reclassification, due to accounting rules, of individual properties held by the Council.

Independent and expert advice and scrutiny arrangements will be put in place for non-Treasury Investments where required and the powers under which new non-Treasury Investments are proposed will be determined as part of the process for proposing and agreeing such investments.

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 3.18 to 3.24 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 3.18 to 3.24 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
   a) 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.

   b) 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.

c) 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.

d) 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.

Appendix B

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	Purpose Of Investment	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
		£000	£000	£000
Cash balances managed in house	Treasury			
1 April		12,555	13,052	12,126
31 March		13,052	12,126	14,501
Change in year		497	(926)	2,375
Average daily cash balances		12,804	12,589	13,314
Holdings of shares, bonds, units (includes authority owned company)	Service			
1 April		2	2	2
Purchases		0	0	0
Sales		0	0	0
31 March		2	2	2
Loans to local authority company or other entity to deliver services (Inverclyde Leisure)	Service			
1 April		211	161	109
Advances		0	0	0
Repayments		50	52	54
31 March		161	109	55
Loans made to third parties	Service			
1 April		74	53	53
Advances		0	0	0
Repayments		21	3	3
31 March		53	50	50
Investment properties	Commercial			
1 April		0	0	0
Purchases		0	0	0
Sales		0	0	0
31 March		0	0	0
TOTAL OF ALL INVESTMENTS				
1 April		12,842	13,268	12,287
31 March		13,268	12,287	14,608
Change in year		426	(981)	2,321

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)" are unredeemable bonds that have been held by the Common Good Fund for many years. Given their nature, they have been shown as being for Service Purposes rather than for Commercial Purposes.