East Lothian Council

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Additional information:

To be considered alongside Treasury Strategy report at the Council meeting being held on 18 February 2025

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East Lothian Council

Treasury Management Strategy Statement

and Annual Investment Strategy

2025-26 to 2029-30

1 INTRODUCTION

CIPFA published revised Treasury Management and Prudential Codes in December 2021. Formal adoption was required from the 2024-25 financial year. This Council has incorporated the updated requirements of these codes of practice when preparing the Treasury Management Strategy Statement and Annual Investment Strategy, and also in related reports during the financial year.

The revised codes included:

- the requirement to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- the requirement to set a proportionate approach to commercial and service capital investment;
- the implementation of a policy to review any commercial property investment, with a view to divest where appropriate;
- new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- the need to ensure any long term treasury investment is supported by a business model;
- the requirement to effectively manage liquidity and longer term cash flow requirements;
- an amendment to TMP1 to address ESG policy within the treasury management risk framework;
- an amendment to the knowledge and skills register for individuals involved in the treasury management function
- the requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must now be attributed to one of the following three purposes: -

- **Treasury management**
  Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use.

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

- **Commercial return**
  Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity –

i.e., that ‘plausible losses’ could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

1.1 Background

The Council is required to operate a balanced budget, meaning that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Short term surplus monies are invested in low risk counterparties or instruments commensurate with the Council’s low risk appetite, providing adequate liquidity initially before considering investment return.

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

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

Whilst any loans to third parties, commercial investment initiatives or other non-financial investments will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

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

1.2 Reporting requirements

1.2.1 Capital Strategy

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

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

The aim of the capital strategy is to ensure that all elected members fully understand the overall longer-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

The Capital Strategy and the Financial Strategy were approved by Council on 10 December 2024.

1.2.2 Treasury Management reporting – TMP 6

The Code requires the Council to receive and approve, three main treasury reports each year and from 2023-24 a quarterly update, with all reports incorporating a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) which covers:
    - the capital plans, (including prudential indicators);
    - a policy for the statutory repayment of debt, (how residual capital expenditure is charged to revenue over time);
    - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
    - a permitted investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is a progress report provided to Audit and Governance Committee and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This report is presented to Audit and Governance Committee and is a backward-looking review to update members with a number of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy, and whether any policies require revision.

d. **Quarterly reports** – In addition to the three major reports detailed above, from 2023-24 quarterly reporting was also required. This has been incorporated into the quarterly financial update reporting. The reports include updated Treasury and Prudential Indicators.

Scrutiny

Scrutiny will be provided by the Audit & Governance Committee.

In addition, a Treasury update and Appendix showing key prudential indicators is included in the quarterly financial update reports to Council.

1.3 Treasury Management Strategy for 2025-26 to 2029-30

The strategy covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the loans fund repayment policy.

Treasury management issues

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

These elements cover the requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and Scottish Government loans fund repayment regulations and investment regulations as contained within Finance Circulars 5/2010 and 7/2016.

1.4 Training – TMP 10

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training for Members was last provided on 6 February 2025 with further training in future arranged as required.

The training needs of treasury management officers are periodically reviewed.

A formal record of training received by officers who are central to the Treasury function will be held by the Head of Finance. Similarly, a formal record of treasury management / capital finance training received by members will be maintained by the Head of Finance.

1.5 Treasury management consultants – TMP 11

The Council is currently engaged with MUFG Corporate Markets Treasury Limited, part of MUFG Pension & Market Services as its external treasury management advisors.

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 the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

1.6 Introduction of Reporting Standard IFRS16

International Financial Reporting Standard 16 – Leases came into operation from 1 April 2024. This includes assets which are leased by the Council and also contracts where the Council has Right of Use over assets it does not own.

This standard has implications on treasury prudential indicators, particularly the Capital Financing Requirement (CFR) as well as the Operational Boundary and Authorised Limit in relation to Other Long-Term Liabilities

The report has been prepared using an initial assessment of the impact of this standard. As with other capital assets and liabilities any implications will be incorporated into future reporting.

1.7 Scottish Government Financial Flexibilities

During 2022-23 Scottish Government announced a package of financial flexibilities to support on-going mitigation of the Covid-19 response and support future recovery activity. These flexibilities cover a range of areas including; the application of capital receipts to finance COVID-19 revenue expenditure; flexibility to review the accounting treatment for debt relating to credit arrangement charges; and a loans fund principal repayment holiday.

This Council implemented the application of a loans fund repayment holiday in 2022-23 as reported to Council at the 27 June 2023 meeting. This was part of a range of mitigation measures to address revenue budget pressures in that financial year. It must be noted that repayment of this is then profiled over the following 20 financial years, starting in 2023-24.

In 2023-24 the review of the accounting treatment for debt relating to credit arrangement charges was carried out and the changes as permitted within the flexibility were agreed by Council at a meeting on 28 February 2023.

2 THE CAPITAL PRUDENTIAL INDICATORS 2025-26 – 2029-30

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle as outlined in Table 1 below.

Table 1 – Capital Expenditure

Capital Expenditure £'000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	5 Year Total Estimate
General Services	51,589	112,810	57,517	31,235	27,595	41,111	53,645	211,104
HRA	42,849	28,533	43,820	39,442	40,517	29,954	25,061	178,793
Total	**94,438**	**141,343**	**101,337**	**70,677**	**68,112**	**71,065**	**78,706**	**389,897**

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as PPP and leasing arrangements that already include borrowing instruments.

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

Table 2 – Financing of Capital Expenditure

Financing of capital expenditure £'000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	5 Year Total Estimate
General Services								
Capital grants	-17,938	-52,932	-4,805	-7,851	-15,122	-28,020	-41,460	-97,257
Capital receipts	-11,158	-9,804	-5,054	-2,002	-1,113	-753	-2,924	-11,846
CFCR	-166	0	0	0	0		0	0
General Services Total	**-29,262**	**-62,736**	**-9,859**	**-9,853**	**-16,236**	**-28,773**	**-44,383**	**-109,104**

HRA								
Capital grants	-10,340	-1,897	-6,236	-479	-1,716	-1,716	-196	-10,343
Capital receipts	-154	0	0	0	0	0	0	0
CFCR	-1,293	-2,200	-3,400	-3,200	-4,200	-5,100	-6,100	-22,000
HRA Total	**-11,788**	**-4,097**	**-9,636**	**-3,679**	**-5,916**	**-6,816**	**-6,296**	**-32,343**
Net financing need for the year	**53,389**	**74,510**	**81,842**	**57,145**	**45,961**	**35,476**	**28,027**	**248,451**

2.2 The Council's borrowing need (the Capital Financing Requirement)

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

The CFR does not increase indefinitely, as prudent annual repayments from revenue need to be made which reflect the useful life of capital assets financed by borrowing.

The CFR includes any other long-term liabilities (e.g. PPP schemes, finance leases and Right Of Use assets). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £45.92 million of such schemes within the CFR for 2023-24. This rises considerably in 2024-25 due to the introduction of IFRS 16 and the inclusion of operationally leased and right of use assets not owned by the Council. Current projections are included in the table below.

Table 3 – CFR Projections

£'000	**2023/24 Actual**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**	**2029/30 Estimate**
Capital Financing Requirement (including PPP & Finance Leases)							
CFR - General Services	359,295	408,580	440,363	450,811	450,442	457,366	453,868
CFR – HRA	265,745	284,350	312,242	341,078	368,206	383,388	393,907
Total CFR	**625,041**	**692,930**	**752,605**	**791,890**	**818,648**	**840,754**	**847,775**
Movement in CFR	**57,384**	**67,889**	**59,675**	**39,285**	**26,758**	**22,106**	**7,021**
Movement in CFR represented by							

Net financing need for the year	67,986	83,311	82,241	57,933	46,919	43,378	28,046
GS -Less loan fund repayments and other financing movements	-5,221	-9,591	-16,274	-11,722	-12,688	-13,315	-12,780
HRA - Less loan fund repayments and other financing movements	-5,382	-5,831	-6,293	-6,926	-7,473	-7,956	-8,246
Movement in CFR	**56,428**	**67,889**	**59,675**	**39,285**	**26,758**	**22,107**	**7,021**

2.3 Liability Benchmark

The Liability Benchmark is a third prudential indicator introduced from 2023-24. The Council is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years (minimum). It is recommended to show 10 years, however to show the full impact of capital plans and debt profile, the graph below shows the full debt maturity of the Council based on a 10 year budget horizon.

There are four compents to the Liability Benchmark>

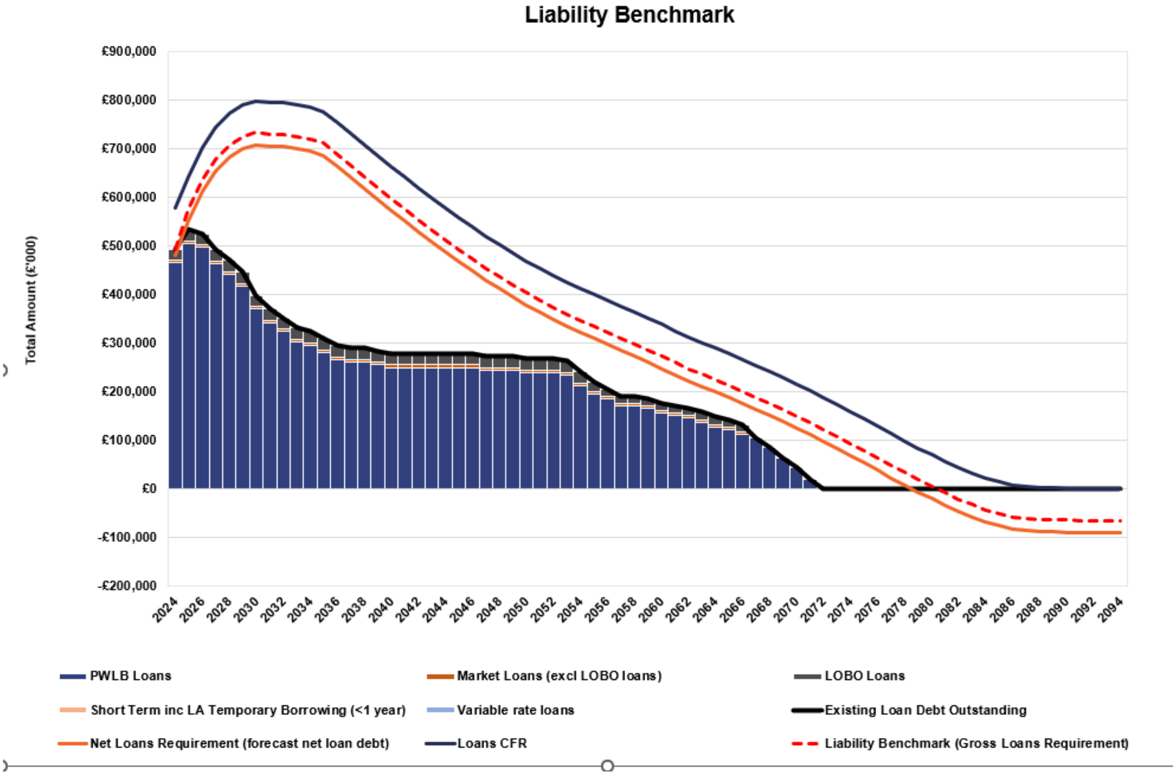
- **Existing loan debt outstanding:** the Council's existing loans that are still outstanding in future years

- **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Loans Fund advances & principle reapayments.

- **Net loans requirement:** this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on the approved prudential borrowing, planned Loans Fund principle repayments and any other major cash flows forecast.

- **Liability benchmark:** (or gross loans requirement) this equals net loans requirement plus short-term liquidity allowance.

The years where actual loans are less than the benchmark indicate a possible future borrowing requirement and any years where actual loans are outstanding exceed the benchmark show an overborrowed position giving excess cash which will require investment.



2.4 Statutory repayment of loans fund advances

The Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

The operation of the loans fund is regulated by statute, with updated regulations: (The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (the 2016 Regulations)) being in force from 1 April 2016.

- The Council applies the following strategy for loans fund advances:

    - Any income/receipts applied in year are where possible aligned to shorter life assets, however, if appropriate they may be used to reduce loans fund advances or where it is thought to be prudent applied to the capital fund for later use. Any loans fund advances in year are matched to assets with longer economic lives.

    General Services

    - All capital expenditure incurred from 2001 has been reflected within the loans fund on an individual asset basis, rather than an overall pooled approach.
    - All capital expenditure incurred between 2001 and 2016 has been aligned to the asset life which was given at the time capital expenditure had been incurred (i.e. in line with depreciation

charged through the Council's statutory accounts). These have been aligned to the asset lives provided for the rolling valuation programme as required by the Council's statutory accounting process.

- From 2016, in line with the statutory guidance, all asset lives have been reviewed and aligned to the estimated economic life of the asset.

HRA

- All capital expenditure incurred from 2001 is reflected within the loans fund and has been categorised as new council housing, modernisation expenditure on existing properties and open market acquisitions.
- All capital expenditure incurred between 2001 and 2012-13 has been aligned to the asset life which was given at the time capital expenditure has been incurred (i.e. in line with depreciation charged through the Council's statutory accounts).
- From 2013-14, there was a change to the approach required to value Council dwellings through the statutory accounts. As a result, all Council dwellings have been depreciated using a pooled approach and given the same life, regardless of each asset's age.
- It is not considered prudent and commensurate with the economic benefit of the asset life to match loans fund advances in such a way. As such, from 2013-14 all asset lives have been reviewed, and all HRA loans fund advances are now aligned to the estimated economic life of the asset.

The annuity rate applied to the loans fund repayments was based on historic interest rates and is currently 4%. However, under regulation 14 (2) of SSI 2016 No 123, the Council has reviewed and re-assessed the historic annuity rate to ensure that it is a prudent application. The result of this review is that a revised annuity rate of 4% is a fair and prudent approach and provides principal repayments more closely associated with the use of the assets.

When deemed appropriate and prudent loans fund advances may be repaid by reference to an associated income stream.

For illustrative purposes, assuming projected expenditure in line with approved plans and further extended to a 10 year period, the General Services and HRA expected loans fund balances are shown below in the tables below.

Table 4 – General Services Loans Fund Balances

General Services £'000	Opening Balance	Advances	Repayments	Closing Balance
Year 1	356,642	47,659	13,478	390,823
Year 2-5	390,823	54,342	40,884	404,280

Year 6-10	404,280	28,463	60,467	372,277
Year 11-15	372,277	0	62,716	309,561
Year 15-20	309,561	0	58,603	250,958
Year 21-30	250,958	0	74,704	176,255
Year 31-40	176,255	0	46,364	129,890
Year 41-50	129,890	0	58,590	71,301
Year 51-60	71,301	0	67,167	4,133
Year 61-70	4,133	0	4,133	0

Table 5 - HRA

HRA £'000	Opening Balance	Advances	Repayments	Closing Balance
Year 1	284,351	34,184	6,293	312,242
Year 2-5	312,242	112,266	30,601	393,907
Year 6-10	393,907	56,107	45,929	404,085
Year 11-15	404,085	0	50,436	353,649
Year 16-20	353,649	0	46,323	307,326
Year 21-30	307,326	0	83,848	223,478
Year 31-40	223,478	0	74,926	148,552
Year 41-50	148,552	0	76,070	72,483
Year 51-60	72,483	0	62,250	10,233
Year 61-70	10,233	0	10,233	0

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2024 and forward projections are shown in Table 6 below. The table shows the actual external debt (the treasury management operations) against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 6 – Treasury Position

£'000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
External Debt							
Debt at 1 April	441,503	493,789	564,755	637,466	658,702	679,493	686,437
Expected change in Debt	52,286	70,965	72,711	21,236	20,791	6,944	-1,919
Other long-term liabilities (OLTL)	32,214	30,688	35,633	32,041	28,685	25,732	29,484
Expected change in OLTL	-1,526	4,945	-3,591	-3,356	-2,953	3,752	-2,850
Actual gross debt at 31 March	**524,477**	**600,387**	**669,507**	**687,387**	**705,225**	**715,921**	**711,153**
The Capital Financing Requirement	**625,040**	**692,930**	**752,604**	**791,889**	**818,648**	**840,754**	**847,775**
Under / (over) borrowing	**100,563**	**92,542**	**83,097**	**104,502**	**113,422**	**124,833**	**136,623**

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year (2023-24) plus the estimates of any additional CFR in the current (2024-25) and the following two financial years (2025-26 and 2026-27). This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Executive Director for Council Resources reports that the Council is complying with this prudential indicator in the current year and does not envisage difficulties within this strategy horizon. This view takes into account the current commitments, existing plans, and the proposals in the 2025-26 budget proposals.

3.2 Treasury Indicators: limits to borrowing activity

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

Table 7 – Operational Boundary

Operational boundary £'000	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Debt	657,296	720,562	763,203	792,915	811,269	821,140
Other long term liabilities	35,633	32,041	28,685	25,732	29,484	26,635
Total	**692,929**	**752,604**	**791,889**	**818,647**	**840,754**	**847,774**

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

This is the statutory limit (Affordable Capital Expenditure Limit) determined under Regulation 6(1) of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Table 8 – Authorised Limit

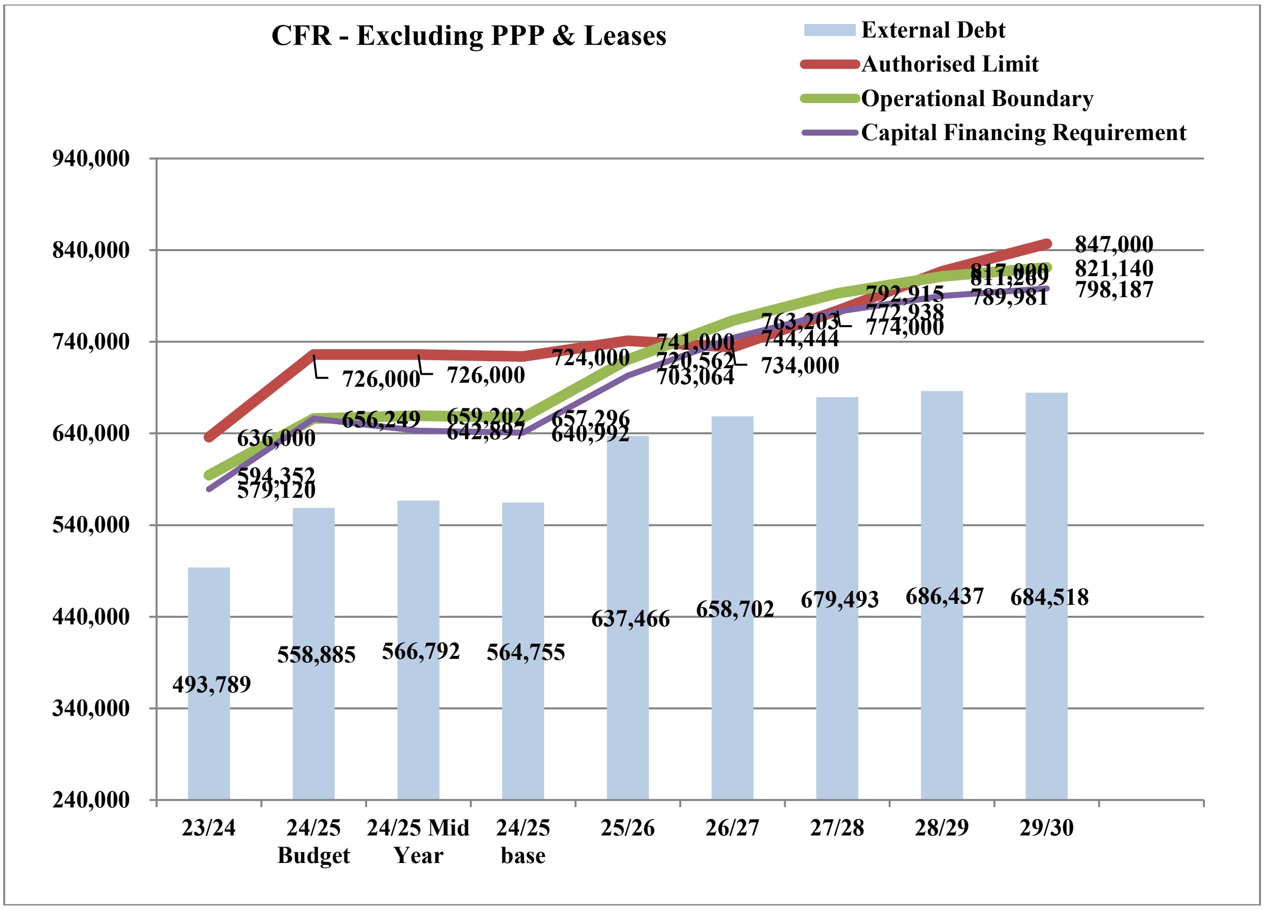
Authorised limit £'000	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Debt	724,000	741,000	777,000	816,000	847,000	872,000
Other long term liabilities	36,000	30,000	28,000	26,000	24,000	22,000
Total	**760,000**	**771,000**	**805,000**	**842,000**	**871,000**	**894,000**

These authorised limits are consistent with the Council's current commitments, and approved budget for capital expenditure and financing. The limits are based on the estimate of the most likely, prudent but not worst-case scenario with, and includes sufficient headroom over and above this to allow for the operational management of unusual cash flows, such as debt restructuring, or timing issues with expected capital income.

The graph below shows the actual debt and CFR excluding PPP and leases with reference to the tables above.

Table 9 - External Debt, CFR, Operational Boundary and Authorised Limit

£'000	2023/24	2024/25 Budget	2024/25 Midyear	2024/25 Outturn	2025/26	2026/27	2027/28	2028/29	2029/30
Authorised Limit	636,000	726,000	726,000	724,000	741,000	734,000	774,000	817,000	847,000
Operational Boundary	594,352	656,249	659,202	657,296	720,562	763,203	792,915	811,269	821,140
Capital Financing Requirement	579,120	656,249	642,897	640,992	703,064	744,444	772,938	789,981	798,187
External Debt	493,789	558,885	566,792	564,755	637,466	658,702	679,493	686,437	684,518



3.3 Prospects for interest rates

The Council has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. MUFG Corporate Markets provided the following forecasts on 11 November 2024. These are forecasts for certainty rates (gilt yields plus 80 bps).

The projections in the table below reflect the view that there are increased concerns about the future path of inflation. Reductions in Bank Base Rate are forecast to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy reports (February, may, August and November). Projections only reflect slight incremental reductions and will be reviewed from analysis of economic data, and any movement below 4% by the Bank in the second half of 2025 will be dependent on this data.

Table 10 – Interest Rate Projections

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

PWLB rates.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be a gradual reduction in the interest rate over the next three years. The current market conditions currently predict that shorter term borrowing has more favourable rates than long term, this will be monitored and rates available at time of borrowing need will be reviewed for the most affordable option.

Investment and borrowing rates

Investment returns have been falling through 2024-25 as the MPC decreased and Bank Rate. In line with Interest Rate projections, returns on investments are projected to decrease in the coming years.

A prohibition was introduced in November 2020 to deny access to borrowing from the PWLB for any local authority that purchase assets for yield in its capital programme. The current margins over gilt yields are as follows:

- **PWLB Standard Rate** - gilt rate plus 100 basis points
- **PWLB Certainty Rate** - gilt rate plus 80 basis points
- **PWLB HRA Standard Rate** - gilt rate plus 100 basis points
- **PWLB HRA Certainty Rate** - gilt rate plus 40bps
- **Local Infrastructure Rate** - gilt rate plus 60bps

The Council will assess its risk appetite for borrowing in conjunction with budgetary pressures to reduce total interest costs. While the Council is not able to avoid borrowing to finance new capital expenditure or replace maturing debt, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Although short-term interest rates are currently cheapest, longer-term borrowing would also be undertaken for the purpose of certainty, where that is deemed the most appropriate measure or for flattening the maturity profile.

Our Treasury advisors long-term (beyond 10 years) forecast for Bank Rate is 3.25%. As all PWLB certainty rates are currently above this level, the Council's borrowing strategy will be closely monitored. Currently, better value can be obtained at the shorter end of loan maturity rates. Temporary borrowing rates are likely, however, to be near Bank Rate and may also prove attractive as part of a balanced debt portfolio, while giving the flexibility to be able to move to longer term debt when inflation and rates drop, although this is dependent on availability.

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to remain at around current levels as Bank rate is expected to remain elevated in 2025 albeit gradually falling.

There are risks within the economic forecast, particularly relating to interest rate fluctuations and these will be closely monitored. Should any change be necessary, the Executive Director of Council Resources will adopt a pragmatic approach to changing circumstances as set out below:

- If it was felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling borrowing will be considered.

- If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, then the portfolio position will be re-assessed. Any decisions will be reported through the mid year or annual activity reports.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of need purely in order to profit from the investment of the extra sums borrowed.

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

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

3.6 Debt rescheduling

Rescheduling of current borrowing in the Council's debt portfolio is unlikely to occur while premature redemption rates and new borrowing rates remain elevated and would only be undertaken if surplus cash was available to facilitate repayment or a rebalancing of the portfolio was considered appropriate.

Any rescheduling undertaken will be reported through the quarterly, mid-year or annual activity reports.

3.7 New financial institutions as a source of borrowing and / or types of borrowing

The Council may also consider, subject to treasury advisor advice and creditworthiness checks, borrowing from new financial institutions where these are considered to meet Environmental, Social and Governance (ESG) criteria where the terms and rates offered are competitive.

The PWLB Certainty Rate is currently set at gilts + 80 basis points for non-HRA borrowing and +40 basis points for HRA borrowing (currently until June 2025). However, consideration may still need to be given to sourcing funding from the following sources:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks)
- Municipal Bonds Agency
- UK Infrastructure Bank

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

3.8 Approved Sources of Long and Short-term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●

Insurance Companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock Issues	●	●
Local Temporary	●	●
Local Bonds	●	
Local Authority Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance Leases	●	●

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Council's investment policy implements the requirements of the Local Government Investments (Scotland) Regulations 2010, (and accompanying Finance Circular 5/2010), the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021, ("the CIPFA TM Code") and the CIPFA Treasury Management Guidance Notes 2021.

The above regulations and guidance place a high priority on the management of risk. The Council's investment priorities will be security first, liquidity second and then return. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

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

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

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

4. This authority has defined the list of **types of investment instruments** that are permitted investments authorised for use in Appendix 5.2. Appendix 5.3 expands on the risks involved in each type of investment and the mitigating controls.

5. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix in Table 11 in paragraph 4.2.

6. **Transaction limits** are set for each type of investment in appendix 5.3.

7. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

9. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

10. All investments will be denominated in **sterling**.

11. In compliance with accounting standard **IFRS 9** (Financial Instruments), this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

12. This authority will also consider investments where the investment, subject to Item 9 above is also considered to be a socially responsible investment by meeting Environmental, Social and Governance (ESG) criteria.

    ESG has a wider scope than climate change but ESG investments complement the authority's declaration of a Climate Emergency in 2019, it's Climate Change Strategy and also with the principles of the East Lothian Way.

13. Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness policy

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

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

This modelling approach combines credit ratings, credit watches and credit outlooks in a 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 used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

• Yellow	5 years *
• Dark pink	5 years for Ultra short dated bond funds with a credit score of 1.25
• Light pink	5 years for Ultra short dated bond funds with a credit score of 1.5

•	Purple	2 years
•	Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
•	Orange	1 year
•	Red	6 months
•	Green	100 days
•	No colour	not to be used

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

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

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of our 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 daily basis via its Passport website, provided exclusively to it by MUFG Corporate Markets. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

Table 11 – Counterparty Investment Rating and Limits

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

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks * (UK Government collateral)	yellow	£5m	5yrs
Banks	purple	£5m	2 yrs
Banks	orange	£5m	1 yr
Banks – part nationalised	blue	£5m	1 yr

Banks	red	£5m	6 mths
Banks	green	£5m	100 days
Banks	No colour	Not to be used	
Limit 3 category – Council's banker	Lloyds Bank	Unlimited	1 day #
DMADF	UK sovereign rating	unlimited	6 months
Local authorities	n/a	£5m	3yrs
	Fund rating	Money and/or % Limit	Time Limit
Money Market Funds LVNAV	AAA	£5m	liquid
Money Market Funds VNAV	AAA	£5m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark pink / AAA	£5m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light pink / AAA	£5m	liquid

Balances held overnight with the Councils bank are reviewed on a daily basis

4.3 Country and sector limits

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

The Council will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.4. This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

4.4 Investment strategy

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

Investment returns expectations

The Bank Rate is currently forecast to fall to a low of 3.5% in December 2026 (Table 10). The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long term forecast is for periods over 10 years in the future):

Average earnings in each year	Rate
2024/25 (residual)	4.60%

2025/26	4.10%
2026/27	3.70%
2027/28	3.50%
2028/29	3.50%
Years 6 to 10	3.50%
Years 10+	3.50%

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

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

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

Table 12 – Upper limit for Investments >365 days

Upper limit for principal sums invested for longer than 365 days			
£m	**2025/26**	**2026/27**	**2027/28**
Principal sums invested for longer than 365 days	£10m	£10m	£10m

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

4.5 End of year investment report

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

4.6 Common Good & Charitable Trusts Investments

The East Lothian Common Good funds and Charitable Trust funds are managed in two separate portfolios by an external investment management company – Investec Wealth & Investments Ltd. At 31 December 2024, the East Lothian Charitable Trust portfolio was valued at £3.957 million while the Common Good portfolio was valued at £4.002 million. The Council has set the objective for these funds to achieve growth in income and capital over the long term.

Both of the investment portfolios are classified as medium/high risk and are structured as follows:

- **Quality**: the aim is to hold at least 25% of the UK equity content in a combination of individual stocks within the FTSE100 Index and of 'generalist' collective funds
- **Concentration**: no individual stock should account for more than 10% of the equity content of the portfolio. No individual bond should account for more than 10% of the total portfolio.
- **Diversification**: any holdings valued at over 5% of the portfolio may not, in aggregate represent more than 40% of the portfolio. There is no restriction on the percentage of the overseas equity content in generalist collective funds. Portfolios of a value of less than £100,000 should be substantially invested in collective funds.

Reporting

- Investec Wealth & Investments Ltd produce performance reports on a quarterly basis comparing performance to set investment benchmarks. These reports are reviewed by the Head of Finance.

- A summary report will be submitted to the full Council at least once a year on the performance of the portfolio.

- Ad hoc reports will be submitted to the Council should any significant events occur which in the opinion of the Head of Finance might affect the performance of the portfolio or the security of the investments.

- Reports will be submitted to individual Common Good committees or Trust boards as requested.

5 APPENDICES

1. Prudential and treasury indicators
2. Treasury management practice TMP1 – permitted investments
3. Treasury management practice TMP1 – credit and counterparty risk management
4. Approved countries for investments
5. Treasury management scheme of delegation
6. The treasury management role of the Section 95 officer

5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2024-25 – 2029-30

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

5.1.1 Capital expenditure

Capital Expenditure £'000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	5 Year Total Estimate
General Services	51,589	112,810	57,517	31,235	27,595	41,111	53,645	211,104
HRA	42,849	28,533	43,820	39,442	40,517	29,954	25,061	178,793
Total	**94,438**	**141,343**	**101,337**	**70,677**	**68,112**	**71,065**	**78,706**	**389,897**

5.1.2 Affordability prudential indicators

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

a. Ratio of financing costs to net revenue stream

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

£'000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
GS Revenue Stream	304,916	321,422	354,626	360,276	365,926	371,879	378,152
GS Financing Costs	13,000	16,857	25,874	22,464	23,682	24,147	25,370
General Services	4.26%	5.24%	7.30%	6.24%	6.47%	6.49%	6.71%
HRA Revenue Stream	37,789	40,854	44,149	46,994	49,940	52,818	55,601
HRA Financing Costs	12,521	14,308	16,322	18,335	19,676	20,802	21,628
HRA	33.13%	35.02%	36.97%	39.02%	39.40%	39.38%	38.90%

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

b. General Services ratios

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
General Services Debt £'000	313,376	356,643	390,824	403,367	404,733	406,593	404,280
Band D Equivalents	61,228	61,456	63,235	63,957	64,577	65,167	65,798
Debt per Band D Equivalent £	£5,118	£5,803	£6,180	£6,307	£6,267	£6,239	£6,144

c. HRA ratios

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
HRA debt £'000	265,745	284,350	312,242	341,078	368,206	383,388	393,907
Number of HRA dwellings	9,361	9,431	9,525	9,642	9,732	9,779	9,796
Debt per dwelling £	£26,254	£28,852	£32,781	£35,374	£37,835	£39,205	£40,211

5.1.3 Maturity structure of borrowing

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

Maturity structure of fixed interest rate borrowing 2025-26		
	Lower	**Upper**
Under 12 months	0%	20%
12 months to 2 years	0%	30%
2 years to 5 years	0%	40%
5 years to 10 years	0%	40%
10 years to 20 years	0%	75%
20 years to 30 years	0%	75%
30 years to 40 years	0%	75%
Over 40 years	0%	75%
Maturity structure of variable interest rate borrowing 2025-26		
	Lower	**Upper**

Under 12 months	0%	100%
12 months to 2 years	0%	50%
2 years to 5 years	0%	30%
5 years to 10 years	0%	20%
10 years to 20 years	0%	20%
20 years to 30 years	0%	20%
30 years to 40 years	0%	20%
Over 40 years	0%	20%

5.1.4. Control of interest rate exposure

Sections 3.3, 3.4 and 4.2 above give details on the prospects for interest rates, the associated borrowing strategy and the Council's creditworthiness policy.

The table below shows the interest rate exposure upper limits in percentage terms.

%	2025/26	2026/27	2027/28	2028/29	2029/30
Interest rate exposures					
	Upper	**Upper**	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%	40%	40%

5.2 TREASURY MANAGEMENT PRACTICE (TMP1): PERMITTED INVESTMENTS

This Council approves the following forms of investment instrument for use as permitted investments as set out in the following tables:

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Cash type instruments

- Deposits with the Debt Management Account Deposit Facility (UK Government);
- Deposits with other local authorities or public bodies;
- Money Market Funds – LVNAV & VNAV
- Call account deposit accounts with financial institutions (banks and building societies);
- Term deposits with financial institutions (banks and building societies);
- UK Government Gilts and Treasury Bills;
- Supranational Bonds (e.g. World Bank)
- Certificates of deposits with financial institutions (banks and building societies)
- Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.);
- Corporate bonds;
- Bond funds;
- Ultra short dated bond funds
- Gilt funds
- Property funds;

Other investments

- Investment properties;
- Loans to third parties, including soft loans and loans made for service policy reasons
- Loans to a local authority company including loans made for service policy reasons
- Shareholdings in a local authority company;
- Non-local authority shareholdings.
- House Purchase Loans – Under Tenant Rights, etc (Scotland) Act 1980 & section 214 of the Housing (Scotland) Act 1987

Treasury risks

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

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

2. **Liquidity risk:** 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. While some forms of investment, e.g. gilts, certificate of deposit (CDs), corporate bonds can usually be sold immediately if the need arises, there are two caveats – (a) cash may not be available until a settlement date up to three days after the sale and (b) that there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer. The column in tables 1.1 – 1.5 headed as 'liquidity risk' will show each investment instrument as being instant access, sale T+3 = transaction date plus 3 business days before you get cash, or term i.e. money is locked in until an agreed maturity date.

3. **Market risk:** the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, some cash rich local authorities may positively want exposure to market risk e.g. those investing in investment instruments with a view to obtaining a long term increase in value.

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

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

Controls on treasury risks

1. **Credit and counter-party risk:** this authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes. See paragraphs 4.2 and 4.3.

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

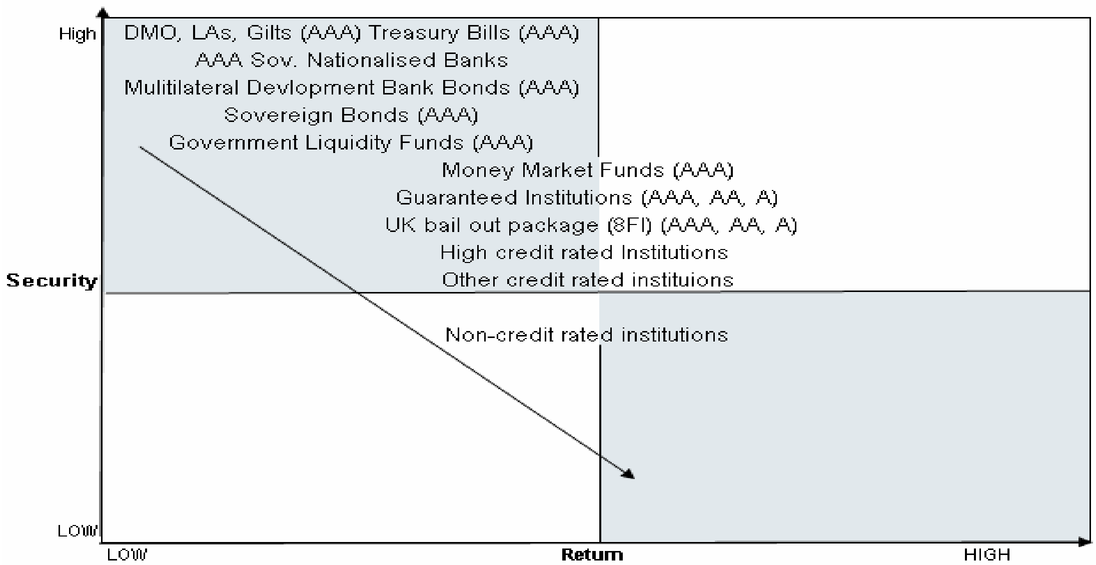
3. **Market risk:** this authority purchases/invests in money market funds, Gilts, treasury bills, CDs, bonds etc. as they offer a higher rate of return than depositing in the DMADF. They are usually held until maturity but in exceptional circumstances, they can be quickly sold at the current market value, (which may vary from the purchase cost), if the need arises for extra cash at short notice. Their value does not usually vary much during their short life.

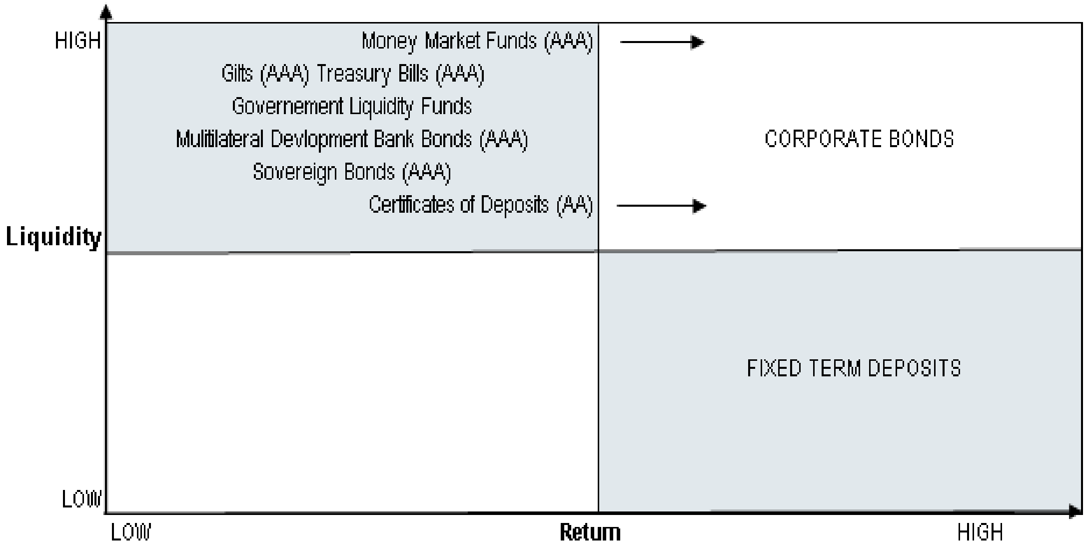
4. **Interest rate risk**: this authority manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing. See paragraph 4.4.

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

The graph below summarises the risk exposure of various types of investment instrument. It shows that as you move from top to bottom, so the level of credit risk increases. However, moving from top to bottom also results in moving towards the right i.e. returns increase. The overall message is -

- low risk = low rate of return
- higher risk = higher rate of return





Unlimited investments

Regulation 24 states that an investment can be shown 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 sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts.

   High credit worthiness banks and building societies. See paragraph 4.2 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 ensure diversification of its portfolio ensuring that no more than £5m can be placed with any one institution or group at any one time. The Council's own banker (Lloyds Banking Group) may have sums greater than this held overnight.

Objectives of each type of investment instrument

Regulation 25 requires an explanation of the objectives of every type of investment instrument which the authority approves as being ‘permitted’.

1. DEPOSITS

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

a) **Debt Management Agency Deposit Facility (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 sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. However, it is very useful for authorities whose overriding priority is the avoidance of risk. The longest period for a term deposit with the DMADF is 6 months.

b) **Term deposits with high credit worthiness banks and building societies.** See paragraph 4.2 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 authority will ensure diversification of its portfolio of deposits ensuring that no more than £5m can be placed with any one institution or group. In addition, longer term deposits offer an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and higher earnings than the DMADF. Where it is restricted is that once a longer term investment is made, that cash is locked in until the maturity date.

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

d) **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. These tend to be medium to low risk investments, but will exhibit higher risks than categories a), b) and c) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).

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

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

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

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

b. **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. These tend to be medium to low risk investments, but will exhibit higher risks than categories a) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).

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

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

b. **Money Market Funds (MMFs).** By definition, MMFs are AAA rated and are widely diversified, using many forms of money market securities including types which this authority does not currently have the expertise or capabilities to hold directly. However, due to the high level of expertise of the fund managers and the huge amounts of money invested in MMFs, and the fact that the Weighted Average Maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as their 60 day WAM means they have locked in investments earning higher rates of interest than are currently available in the market. MMFs also help an authority to diversify its own portfolio as e.g. a £2m investment placed directly with HSBC is a 100% risk exposure to HSBC whereas £2m invested in a MMF may end up with say £10,000 being invested with HSBC through the MMF. For authorities particularly concerned with risk exposure to banks, MMFs offer an effective way of minimising risk exposure while still getting much better rates of return than available through the DMADF.

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

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

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

4. SECURITIES ISSUED OR GUARANTEED BY GOVERNMENTS

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

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

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

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

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

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

5. OTHER

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

a. **Investment Properties.** These are non-service properties which are being held pending disposal or for a longer term rental income stream.

b. **Loans to third parties, including soft loans**. These are service investments either at market rates of interest or below market rates (soft loans).

c. **Loans to a local authority company.** These are service investments either at market rates of interest or below market rates (soft loans).

d. Shareholdings in a local authority company. These are service investments.

e. Non-local authority shareholdings. These are non-service investments.

f. **House Purchase Loans.** These are loans that were made with regard to Tenant Rights, etc (Scotland) Act 1980 & section 214 of the Housing (Scotland) Act 1987 before the Acts were repealed.

Counterparty criteria

Surplus money in the Council's General Fund may only be advanced to another UK local authority, government guaranteed institution and third parties and local authority companies as included within the permitted investments. In addition to:

1. Any bank or financial institution that meets the following criteria:-

   (i) It falls into one of the groups of banks or financial institutions and appears in our treasury advisors credit rating matrix as approved, specifically a short term rating F-1 (or better) and a long term rating of A- from Fitch (or equivalent)
   (ii) The Council's own bankers.

2. Any money market fund that meets the following criteria:-

   (i) It is a Sterling denominated fund domiciled within the EU as regulated by the Institutional Money Market Funds Association (IMMFA)
   (ii) It falls into one of the groups of banks, financial institutions or insurance companies and the institution concerned has a rating of AA- from Moody's or a rating of AAAmmf from Fitch or a rating of AAAm with Standard & Poors.

Table 1: permitted investments in house

1.1 Deposits

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Debt Management Agency Deposit Facility	--	term	no	100%	6 mths
Term deposits – local authorities	--	term	no	100%	3 years
Call accounts – banks and building societies **	As counterparty criteria above	instant	no	100%	n/a
Term deposits – banks and building societies **	As counterparty criteria above	term	no	100%	5 years
Fixed term deposits with variable rate and variable maturities: - Structured deposits.	As counterparty criteria above	term	no	20%	12 mths

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

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
UK part nationalised banks	As counterparty criteria above	term	no	100%	12 mths
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	As counterparty criteria above	term	no	20%	3 mths
Fixed term deposits with variable rate and variable maturities: - Structured deposits	As counterparty criteria above	term	yes	20%	3 mths

1.3 Securities issued or guaranteed by governments

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investment s	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	yes	20%	5 yrs
UK Government Gilts	UK sovereign rating	Sale T+1	yes	20%	5 yrs
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	Yes	20%	5 yrs
Sovereign bond issues (other than the UK Government)	AAA	Sale T+1	yes	20%	5 yrs
Bonds issued by multilateral development banks	AAA	Sale T+1	yes	20%	5 yrs

1.4 Securities issued by corporate organisations

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of deposit issued by banks and building societies	As counterparty criteria above	Sale T+0	Yes	**20%**	**5 yrs**
Corporate Bonds other	As counterparty criteria above	Sale T+3	Yes	20%	5 yrs

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

1.5 Other

	* Minimum Credit Criteria / fund rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Property funds	As counterparty criteria above	T+4	Yes	20%	5 yrs

5.3 TREASURY MANAGEMENT PRACTICE (TMP1): CREDIT AND COUNTERPARTY RISK MANAGEMENT

East Lothian Council Permitted Investments, Associated Controls and Limits

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	£unlimited, maximum 6 months.
b. Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. Non- local authority deposits will follow the approved credit rating criteria.	£unlimited and maximum 3 years.
c. Money Market Funds (MMFs) **(Low to very low risk)** LVNAV / VNAV	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs has a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	£5m per fund

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
d. Ultra short dated bond funds **(low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where they have a "AAA" rated status from either Fitch, Moody's or Standard and Poor's.	£5m per fund
e. Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.
f. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
g. Government Gilts and Treasury Bills **(Very low risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity.	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	As shown in the counterparty section criteria above.
h. Certificates of deposits with financial institutions **(Low risk)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a), (b) and (c) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates (no loss if these are held to maturity). Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
i. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) **(Low to medium risk depending on period & credit rating)**	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria above.
j. Corporate bonds **(Medium to high risk depending on period & credit rating)**	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. . Corporate bonds will be restricted to those meeting the base criteria. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
Other types of investments			
a. Investment properties	These are non-service properties which are being held pending disposal or for a longer term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	In larger investment portfolios some small allocation of property based investment may counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.	As shown in the counterparty criteria above.
b. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rationale behind the loan and the likelihood of partial or full default.	As shown in the counterparty criteria above.
c. Loans to a local authority company	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each loan to a local authority company requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	As shown in the counterparty criteria above.
d. Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rationale behind the investment and the likelihood of loss.	As shown in the counterparty criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
a. Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rationale behind the investment and the likelihood of loss.	£ as shown in the counterparty criteria above
b. House Purchase Loans	These are historical service investments which exhibit counterparty risk and are highly illiquid	Each loan to a council tenant required Member approval and each application was supported by the service rationale behind the loan and the likelihood of partial or full default.	£ as shown in the counterparty criteria above

The Monitoring of Investment Counterparties - The status of counterparties will be monitored regularly. The Council receives credit rating and market information from MUFG Corporate Markets, including when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Head of Finance, and if required new counterparties which meet the criteria will be added to the list.

Use of External Fund Managers – It is the Council's current policy to use external fund managers for the Common Good Funds and Charitable Trust funds. The investment policy for these funds is outlined in paragraph 4.6.

5.4 APPROVED COUNTRIES FOR INVESTMENTS

This list is based on countries which have sovereign ratings of AA- or higher.

MUFG Corporate Markets show the lowest rating from Fitch, Moody's and Standard & Poors and also, (except - at the time of writing - for Hong Kong, and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the MUFG Corporate Markets credit worthiness service.

Based on lowest available rating (as at 25 November 2024)

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Qatar

AA-

- Belgium
- France
- **U.K.**

5.5 TREASURY MANAGEMENT SCHEME OF DELEGATION

The following reporting arrangements will apply to Treasury Management activity:

(i) Full council

- approval of Annual Strategy.

(ii) Audit & Governance Committee

- Annual Treasury report

iii) Members Library

- Reports on Treasury Management activity including a mid-year review at the end of quarter 2.

- The Council has delegated authority to the Executive Director of Council Resouces to effect movement between borrowing and long-term liabilities within the total authorised limits and operational boundaries approved. Any such movement would be reported to Cabinet via the Members Library as part of Treasury Management update reports.

5.6 THE TREASURY MANAGEMENT ROLE OF THE SECTION 95 OFFICER

The S95 (responsible) officer

a) recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;

b) submitting regular treasury management policy reports;

c) submitting budgets and budget variations;

d) receiving and reviewing management information reports;

e) reviewing the performance of the treasury management function;

f) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;

g) ensuring the adequacy of internal audit, and liaising with external audit;

h) recommending the appointment of external service providers.

i) preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe.

j) ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money

k) ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority

l) ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing

m) ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources

n) ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities

o) provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees ensuring that members are adequately informed and understand the risk exposures taken on by an authority

p) ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

q) creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code p58): -

    a. Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;

b. Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;

c. Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

d. Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;

e. Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.