Business Operations and Partnerships Department

Director of Business Operations & Partnerships: Louise Pringle
Council Headquarters, Eastwood Park, Giffnock, East Renfrewshire, G46 6UG
Phone: 0141 577 3000
website: www.eastrenfrewshire.gov.uk

Date: 11 February 2022
When calling please ask for: Linda Hutchison (Tel. No 0141 577 8388)
e-mail: linda.hutchison@eastrenfrewshire.gov.uk

TO: Councillors Stewart Miller (Chair), Barbara Grant (Vice-Chair), Angela Convery, Charlie Gilbert, Annette Ireland, Jim McLean and Jim Swift.

AUDIT AND SCRUTINY COMMITTEE

A meeting of the Audit and Scrutiny Committee will be held on **Thursday, 17 February 2022 at 2.00pm**.

The agenda of business is as listed below.

Please note this is a virtual meeting.

Yours faithfully

Louise Pringle

L PRINGLE
DIRECTOR OF BUSINESS OPERATIONS & PARTNERSHIPS

AGENDA

1. **Report apologies for absence.**

2. **Declarations of interest.**

3. **Chair's Report.**

4. **Treasury Management Strategy Report for 2022/23 – Report by Head of Accountancy (Chief Financial Officer)(copy attached, pages 3 - 62).**

5. **Withdrawal from European Union – Update – Joint Report by Director of Business Operations and Partnerships and Director of Environment (copy attached, pages 63 - 68).**

6. **Internal Audit Plan 2021/22 – Implementation Progress – October to December 2021 – Report by Chief Auditor (copy attached, pages 69 - 80).**

For information on how to access the virtual meeting please email:- linda.hutchison@eastrenfrewshire.gov.uk

A recording of the meeting will also be available following the meeting on the Council's YouTube Channel https://www.youtube.com/user/eastrenfrewshire/videos

This document can be explained to you in other languages and can be provided in alternative formats such as large print and Braille. For further information, please contact Customer First on 0141 577 3001 or email customerservices@eastrenfrewshire.gov.uk

AGENDA ITEM No. 4

EAST RENFREWSHIRE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

17 February 2022

Report by Head of Accountancy (Chief Financial Officer)

Treasury Management Strategy Report for 2022/23

PURPOSE OF REPORT

1. To advise the Audit and Scrutiny Committee on the treasury management strategy for the financial year 2022/23.

RECOMMENDATIONS

2. It is recommended that Members:-

   (a) Consider the content of the Treasury Management Strategy Report for 2022/23;

   (b) Recommend to the Council that the Treasury Management Strategy for 2022/23 be approved, including the Prudential and Treasury Indicators and the amended list of organisations for investment of surplus funds (Annex F)

   (c) Recommend to the Council that they approve the policy on the repayment of loans fund advances, see section 3.4, and

   (d) Recommend to Council the forms of investment Instruments for use as permitted investments (Annex D)

BACKGROUND

3. In line with the CIPFA Treasury Management Code of Practice 2017, the Audit and Scrutiny Committee is responsible for ensuring effective scrutiny of the treasury management strategy and policies.

4. The attached Treasury Management Strategy Report for the financial year 2022/23 is submitted in accordance with this requirement.

TREASURY MANAGEMENT STRATEGY FOR 2022/23 (TMS)

5. The TMS for 2022/23 is attached (see Appendix 1).

EQUALITY IMPACT

6. A screening exercise has revealed that the Treasury Management Strategy has no direct relevance to the Council's equality duties

Report Author

Head of Accountancy (Chief Financial Officer):	Margaret McCrossan
Chief Accountant:	Barbara Clark
Telephone Number:	0141 577 3068
E-mail:	barbara.clark@eastrenfrewshire.gov.uk
Report Date:	February 2022

APPENDIX 1

EAST RENFREWSHIRE COUNCIL

TREASURY MANAGEMENT STRATEGY 2022/23

CONTENTS

1 Background

The Council is required to operate a balanced budget, which broadly means that cash received during the year will meet cash expenditure. A major aspect of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, ensuring adequate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, being essentially 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 occasion, 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.

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."

2 Reporting Requirements

2.1 The Council is required to receive and approve, as a minimum, three main reports on treasury activity each year, which incorporate a variety of policies as well as estimated and actual figures. These reports are as follows:-

a) **Treasury Management Strategy 2022/23** (this report).

This report is the most important of the three reports and covers:

- The capital plans of the Council (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 organised) including treasury indicators, and
- A permitted investment strategy (the parameters on how investments are to be managed).

b) **Mid-Year Treasury Management Report** – This is primarily a progress report and will update members on the debt position and current performance against the approved Prudential Indicators. It will also seek approval to amend prudential indicators and policies where necessary

c) **Annual Treasury Report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimate within the strategy.

2.2 Scrutiny

These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit and Scrutiny Committee.

2.3 Capital Investment Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital investment strategy report, which will provide the following:

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

The aim of this capital investment strategy is to ensure that all elected members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. An update to the Council's current Capital Investment Strategy will be presented to Council on 3 March 2022 for approval.

2.4 Treasury Management Strategy for 2022/23

The treasury management issues covered by this report are:

Capital Issues

- The capital expenditure plans and associated prudential indicators
- The loans fund repayment policy

Treasury management issues

- The current treasury position
- Treasury indicators which will 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 and
- Credit Worthiness Policy

These elements cover the requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code (the Prudential Code), the CIPFA Treasury Management Code and Scottish Government Investment Regulations.

2.5 Treasury Management Consultants

The Council uses the Link Group, Treasury Solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that it does not rely solely upon information and advice from its treasury advisors.

It also recognises however that there is value in employing external providers of treasury management services in order to gain 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.

2.6 Council and Subsidiary Organisations

The Treasury Management Strategy covers the treasury management activities for the Council (including any subsidiary organisations i.e. East Renfrewshire Culture & Leisure Trust).

3 The Capital Prudential Indicators 2022/23 – 2026/27

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 to overview and confirm them.

A summary of the indicators can be found in Annex A

3.1 Capital Expenditure (Prudential Indicator PI-1)

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. The indicator also includes expenditure financed by PFI and leasing type arrangements which, for the purposes of financial planning and reporting, must be treated as capital expenditure.

The following capital expenditure forecasts are in line with the housing capital plan 2022/23- 2031/32 and the general fund capital plan 2022/23 – 2031/32 both of which will be submitted to Council on 3 March 2022.

Capital Expenditure (PI-1) £'000	**2020/21 Actual**	**2021/22 Probable**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
General Fund – Capital Programme – Other Relevant Expenditure	27,848	34,094	68,711	76,434	30,998	11,371	8,680
General Fund Subtotal	**27,848**	**34,094**	**68,711**	**76,434**	**30,998**	**11,371**	**8,680**
Housing	**5,731**	**15,538**	**14,491**	**23,968**	**12,482**	**5,699**	**3,736**
Total	**33,579**	**49,632**	**83,202**	**100,402**	**43,480**	**17,070**	**12,416**

3.2 Capital Financing Assumptions

The table below summarises the capital expenditure plans for the general fund and how these plans are being financed. Any shortfall of resources results in a funding borrowing need.

General Fund £'000	2020/21 Actual	2021/22 Probable	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital Expenditure Other Relevant Expenditure	27,848	34,094	68,711	76,434	30,998	11,371	8,680
Total	**27,848**	**34,094**	**68,711**	**76,434**	**30,998**	**11,371**	**8,680**
Financed by:							
Capital Receipts	159	20	140	0	0	0	0
Capital Reserve	0	0	0	0	0	0	0
Developer Contributions	2,714	704	708	426	426	426	424
Govt. General Capital Grant	8,539	5,336	5,351	5,351	5,351	5,351	5,351
Govt. Specific Capital Grants Other Grants &	5,904	3,169	7,091	5,348	2,017	848	75
Contributions Repairs &	0	0	0	0	0	0	0
Renewals Fund/CFCR	528	0	0	0	0	0	0
Net Borrowing Requirement for the year	10,004	24,865	55,421	65,309	23,204	4,746	2,830

As part of the long term capital planning process, the 2021/22 probable capital outturn has been reduced by £8,342,000 below the level reported to Cabinet on 25 November 2021. In addition the level and timing of capital income has reduced by £2,729,000, this therefore has impacted on the amount of borrowing required which has reduced by £5,613,000. These revisions will be incorporated within the 2021/22 monitoring report to be submitted to Cabinet during March 2022.

The table below summarises the capital expenditure plans for housing and how these plans are being financed. Any shortfall of resources results in a borrowing requirement.

Housing £'000	2020/21 Actual	2021/22 Probable	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital Expenditure	**5,731**	**15,538**	**14,491**	**23,968**	**12,482**	**5,699**	**3,736**
Financed by:							
Capital Receipts – Right to Buy	0	0	0	0	0	0	0
Capital Receipts – Land Disposal	0	0	500	500	500	500	500
Recharges to Owners	0	0	100	100	100	100	100

Govt. Specific Capital Grants	1,882	5,622	165	11,307	1,969	140	140
Commuted Sums	0	0	0	0	0	0	0
CFCR	0	0	0	0	0	0	0
Net Borrowing Requirement for the year	**3,849**	**9,916**	**13,726**	**12,061**	**9,913**	**4,959**	**2,996**

The table below summarises the borrowing requirement resulting from both the general fund (including PFI and leasing type arrangements) and housing capital plans.

Borrowing Requirement £'000	2020/21 Actual	2021/22 Probable	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	10,004	24,865	55,421	65,309	23,204	4,746	2,830
Housing	3,849	9,916	13,726	12,061	9,913	4,959	2,996
Net Borrowing Requirement for the year	**13,853**	**34,781**	**69,147**	**77,370**	**33,117**	**9,705**	**5,826**

The table below shows a split of the estimated internal and external borrowing

Borrowing Requirement £'000	2020/21 Actual	2021/22 Probable	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Internal	13,853	19,781	14,147	17,370	33,147	9,705	5,826
External	0	15,000	55,000	60,000	0	0	0
Net Borrowing Requirement for the year	**13,853**	**34,781**	**69,147**	**77,370**	**33,117**	**9,705**	**5,826**

3.3 The Council's Borrowing Requirement (The Capital Financing Requirement – Prudential Indicator PI-2)

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 identified above, which has not immediately been paid for (e.g. via grants), will increase the CFR.

The CFR does not increase indefinitely, as prudent annual repayments from revenue need to be made which reflect the useful life of capital assets financed by borrowing. From 1 April 2016 authorities may choose whether to use scheduled debt amortisation (loans pool charges) or another suitable method of calculation in order to repay borrowing.

The CFR includes any other long term liabilities (e.g. PPP schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council has liabilities of £83.795m relating to such schemes as at 31 March 2021.

The Council is asked to approve the CFR projections below:

Capital Financing Requirement (PI-2) £'000	2020/21 Actual	2021/22 Probable	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	168,359	183,291	228,922	282,576	293,963	286,138	276,437
Housing	35,083	42,165	52,801	61,336	67,238	67,877	68,591
Total CFR (PI-2)*	**203,442**	**225,456**	**281,723**	**343,912**	**361,201**	**354,015**	**345,028**

Net borrowing requirement for the year (above)	**13,853**	**34,781**	**69,147**	**77,370**	**33,117**	**9,705**	**5,826**
Less scheduled debt amortisation and other financing movements	**(13,465)**	**(12,767)**	**(12,880)**	**(15,181)**	**(15,828)**	**(16,891)**	**(14,813)**
Movement in CFR	**388**	**22,014**	**56,267**	**62,189**	**17,289**	**(7,186)**	**(8,987)**

**The CFR for this calculation includes capital expenditure to 31 March of each financial year.*

3.4 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.

A variety of options are provided to Councils so long as a prudent provision is made each year. The Council is recommended to approve the following policy on the repayment of loans fund advances:-

- For loans fund advances made before 1 April 2016, the policy will be to maintain the practice of previous years and apply the Statutory Method (in line with Schedule 3 of the Local Government (Scotland) Act 1975), with all loans fund advances being repaid by the annuity method in line with the repayment profile determined in previous years.

- Loans fund advances relating to City Deal projects which will be supported in later years by Government funding will be repaid in accordance with the funding/income profile method. This links the repayments to the project income stream.

- For loans fund advances made between 1 April 2016 and 31 March 2021, excluding the above, the Council will continue to calculate loan charge repayments in line with Schedule 3 of the Local Government (Scotland) Act 1975, using an annuity rate of 4%. The Council is permitted to use this option for new borrowing taken out over this transitional period.

- For loans fund advances from 1 April 2021, these will be repaid with reference to the life of an asset using the equal instalments method.

Additionally, the Scottish Government granted various flexibilities in 2020/21 to help address the current Covid-19 pressures which will impact on loan fund payments charged in 2020/21 and beyond. These fiscal flexibilities, which have been reviewed by the Scottish Government as part of the 2022/23 Scottish Budget, relate to:-

- Capital Receipts. Capital receipts received between 2020/21 and 2022/23 can be used to fund Covid-19 related revenue expenditure incurred before 31 March 2023
- Loans Fund Principal Repayment Holiday. Councils can defer loans fund principal repayments due in 2021/22 and carry that saving to the General Fund reserve and earmark it to be used to fund the revenue financial impact of covid. At the time of writing COSLA were in discussions with the Scottish Government to the option of taking a loan charge holiday in 2022/23 instead.
- Credit Arrangements. Council payments for service concessions, such as PFI type deals, include an element of debt repayment. This debt is paid over the life of the contract but discussions are also ongoing to account for this debt over the life of the asset instead, which would be a longer period and is in line with the treatment of the Council's loan charges.

The table below shows what the future General Fund loans fund balances are expected to be, with year 1 being 2021/22:

£'000	Year 1	Years 2-5	Years 5-10	Years 10-15	Years 15-20	Years 20+
opening balance	84,580	104,596	231,414	214,382	189,090	164,652
advances	24,865	143,934	16,792	4,795	-	-
repayments	(4,849)	(17,116)	(33,824)	(30,087)	(24,438)	(164,652)
closing balance	104,596	231,414	214,382	189,090	164,652	-

The table below shows what the future HRA loans fund balances are expected to be, with year 1 being 2021/22:

£'000	Year 1	Years 2-5	Years 5-10	Years 10-15	Years 15-20	Years 20+
opening balance	35,083	42,165	67,238	69,552	64,530	45,798
advances	9,916	35,700	16,554	12,779	-	-
repayments	(2,834)	(10,627)	(14,240)	(17,801)	(18,732)	(45,798)
closing balance	42,165	67,238	69,552	64,530	45,798	-

4 Borrowing

Section 3 provides a summary of the capital expenditure plans. 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 service activity and the Council's Capital Investment 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.

4.1 Current Portfolio Position

The Council's actual and projected debt portfolio is summarised below. The table compares the actual and projected external debt against the Council's estimated borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

£'000 as at 31 March	2020/21 Actual	2021/22 Probable	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Borrowing	114,227	128,843	183,015	242,638	242,623	242,607	237,590
Other Long Term Liabilities	83,795	78,711	73,500	68,132	62,565	56,743	51,887
Total Gross Debt (Prudential Indicator PI-3)	**198,022**	**207,554**	**256,515**	**310,770**	**305,188**	**299,350**	**289,477**
CFR – the borrowing need	**203,442**	**225,456**	**281,723**	**343,912**	**361,201**	**354,015**	**345,028**
(Under) / Over Borrowing (Prudential Indicator PI-6)	**(5,420)**	**(17,902)**	**(25,208)**	**(33,142)**	**(56,013)**	**(54,665)**	**(55,551)**

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 (PI-3) is that the Council needs to ensure that its gross debt figure (shown above) does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded by external loan debt as the cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains both prudent and cost effective as investment returns are low and counterparty risk is relatively high.

4.2 Treasury Indicators: Limits to Borrowing Activity

a) The Operational Boundary (Prudential Indicator PI-4)

This indicator takes account of capital expenditure and financing requirements and projects the expected level of external debt for operational purposes. Temporary breaches of the operational boundary may occur as a result of unexpected cash movements. The Head of Accountancy (Chief Financial Officer) has delegated authority to manage the movement between borrowing and other long term liabilities such as finance leases in accordance with option appraisal and value for money considerations if it is considered appropriate. Any such movement will be reported to Council following the change.

Operational boundary for external debt (PI-4) £'000	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Borrowing	208,277	275,394	297,900	296,549	297,431
Other Long Term Liabilities	78,711	73,500	68,132	62,565	56,743
Total	**286,988**	**348,894**	**366,032**	**359,114**	**354,174**

b) The Authorised Limit for External Debt (Prudential indicator PI-5)

This is a key prudential indicator and represents a control on the maximum level of borrowing. It is similar to the operational boundary but includes further headroom to accommodate adverse cash flow movements and opportunities for advance borrowing. It represents a legal limit which external debt is prohibited to exceed and reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. In circumstances where a breach takes place the reasons shall be reported to the next meeting of the Council and the limit revised if appropriate.

The authorised limits for external debt for the current year and two subsequent years are the legislation limits determined under Regulation 6(1) of the Local Authority (Capital Finance and Accountancy) (Scotland) Regulation 2016.

The proposed Authorised Limit for the Council is as follows:

Authorised limit for external debt (PI-5) £'000	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Borrowing	239,518	316,703	342,585	341,032	342,046
Other Long Term Liabilities	78,711	73,500	68,132	62,565	56,743
Total	**318,229**	**390,203**	**410,717**	**403,597**	**398,789**

c) Leasing – International Financial Reporting Standard (IFRS) 16

From 1 April 2022, leases which were previously off balance sheet will now be included. As leases form part of the other long term liability figures which make up the Prudential Indicators above, it is possible that the Indicators currently suggested will be exceeded. Once the detailed data gathering has been substantially completed, later in the 2022/23 financial year, an updated report may be required to inform the members of the detailed impact of IFRS 16 with amended Prudential Indicators for approval.

4.3 Prospects for Interest Rates

The Council has appointed the Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. **Annex B** draws together a number of current city forecasts for short term (Base Rate) and longer fixed interest rates and the following table and commentary below gives the central view of the Link Group on 20th December 2021.

Link Group Interest Rate View 20.12.21														
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

Significant risks to the forecasts

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. 25% of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.
- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.
- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.
- **The Government** acts too quickly to cut expenditure to balance the national budget.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.
- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.

- **Geopolitical risks,** for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy: -

- **The overall balance of risks to economic growth in the UK is now to the downside, including risks from Covid and its variants - both domestically and their potential effects worldwide**.

Forecasts for Bank Rate

It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.
- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.
- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.
- We also recognise there could be further nasty surprises on the Covid front beyond the Omicron mutation.
- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant upward risk exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

US treasury yields. During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend $1trn on infrastructure, (which was eventually passed by both houses later in 2021), and an even larger sum on an American families plan over the next decade; this is still caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme had enabled a rapid opening up of the economy during 2021.
2. The economy was growing strongly during the first half of 2021 although it has weakened overall during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its December meeting with an aggressive response to damp inflation down during 2022 and 2023.

At its 3rd November Fed meeting, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its 15th December meeting it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period and after the taper ends, all other things being equal. The Fed also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

There are also possible downside risk from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising earlier and higher in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the “taper tantrums” in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and Russia, China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

The balance of risks to medium to long term PWLB rates: -

- **There is a balance of upside risks to forecasts for medium to long term PWLB rates**.

A new era – a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- ***For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.***
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

Investment and borrowing rates

- Investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.

- Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme.

- Borrowing for capital expenditure. Our long-term (beyond 10 years), forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate.

4.4 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 investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Head of Accountancy (Chief Financial Officer) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

* if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.

* if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions to borrow externally in excess of the amounts shown in para 3.2 will be reported to Council at the next available opportunity.

4.5 Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs / improve performance. The indicators are:

(i) Upper limits on fixed interest rate exposure (Treasury Indicator TI-1)

This covers a maximum limit for borrowing exposure to fixed interest rates, based on the debt position and is set at 100%.

(ii) Upper limits on variable interest rate exposure (Treasury Indicator TI-2)

This identified a maximum limit for borrowing exposure to variable interest rates based upon the debt position and is set at 30%.

(iii) Maturity structure of borrowing (Treasury Indicator TI-3)

Gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing. The Council has set the limit of debt maturing in any one year to 15% at the time of borrowing.

4.6 Policy on borrowing in advance of need

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

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

The Head of Accountancy (Chief Financial Officer) has the authority to borrow in advance of need under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. The Head of Accountancy (Chief Financial Officer) will adopt a cautious approach to any such borrowing and a business case to support the decision making process must consider:

- The benefits of borrowing in advance,
- The risks created by additional levels of borrowing and investment, and
- How far in advance it is reasonable to borrow considering the risks identified

Any such advance borrowing should be reported through the mid-year or annual Treasury Management reporting mechanism.

4.7 Debt Rescheduling

The reasons for any rescheduling to take place will include:

- The generation of cash savings and/or discounted cash flow savings
- Helping to fulfil the treasury strategy
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

All rescheduling will be reported to Council at the earliest meeting following its action.

5 Investment Strategy

5.1 Investment Objectives and Policy

The Council's investment policy implements the requirements of the following:-

- Local Government Investments (Scotland) Regulations 2010 (and accompanying Finance Circular 5/2010),
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

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. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

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

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the 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 Annex D. Annex E 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 information gathered (see points 1-3 above)

6. **Transaction limits** are set for each type of investment (see Annex F)

7. This authority has engaged **external consultants**, (see paragraph 2.5), 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.

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 5.6c).

9. The Council has determined that it will only use approved counterparties from within the United Kingdom.

10. As a result of the change in accounting standards for 2022/23 under IFRS 9**,** 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.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 5.7). Regular monitoring of investment performance will be carried out during the year.

5.2 Creditworthiness Policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security as set out in the investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Head of Accountancy (Chief Financial Officer) will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary (see **Annex F**). These criteria provide an overall pool of classes of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Group our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list, with the exception of the Council's own banker. Any rating changes, rating watches (notification of a likely change), rating Outlooks (notification of a longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applied to a counterparty that is already at the minimum Council criteria will be suspended from use, with all other counterparties being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties are:

- Banks 1 - good credit quality **–** the Council will only use UK banks which have, as a minimum, the following Fitch (or equivalent) ratings (where rated):
  - i. Short Term – *F1*
  - ii. Long Term – *A-*
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations*. This bank can be included if it continues to be part nationalised or it meets the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies - The Council will use societies which meet the ratings for banks outlined above;
- Money Market Funds
- Ultra-Short Dated Bond Funds
- UK Government (including gilts, Treasury Bills and the DMADF)

- Local authorities, including Police, Fire and the Council's subsidiary

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

Hub Schemes. The Council also invests in hub projects, which are based on robust business cases and a cashflow from public sector organisations (i.e. low risk). As additional assurance we restrict such investments to hub schemes where the Council is a significant participant.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as stated in **Annex F**.

UK banks – *ring fencing
Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and Small and Medium Enterprises deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

5.3 Country and Council's Banker

a) **Country Limits –**

The Council has determined that it will only use approved counterparties from within the United Kingdom. This policy may be reviewed if the sovereign rating for the UK is downgraded to below Fitch AA -, or equivalent.

b) Council's Own Banker

The Council's own banker (currently The Clydesdale bank) will be maintained on the Council's counterparty list in situations where rating changes mean this is below the above criteria. This is to allow the Council to continue to operate normal current account banking facilities overnight and short-term investment facilities.

5.4 The Monitoring of Investment Counterparties

All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of the creditworthiness service of Link Asset Services.

- 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.
- Additional market information (for example Credit Swaps and negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

If the Council has funds invested in an institution which is downgraded to below the acceptable rating criteria, the Council will enter discussions with the counterparty to establish if the funds can be returned early. This however will be subject to an appropriate cost versus risk assessment of the specific situation.

The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Under exceptional market conditions, the Head of Accountancy (Chief Financial Officer) may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out in this Strategy. These restrictions will remain in place until the Head of Accountancy (Chief Financial Officer) is of an opinion that the banking system has returned to 'normal'. Similarly a restriction may be placed on the duration of investments.

5.5 Types of Investments

For institutions on the approved counterparty list, investments will be restricted to safer instruments (as listed in **Annex E**). Currently this involves the use of money market funds, the Debt Management Agency Deposit Facility (DMADF) and institutions with higher credit ratings than the minimum permissible rating outlines in the investment strategy, as well as the Council's own bank.

Where appropriate, investments will be made through approved brokers. The current list of approved brokers comprises:

- Sterling International Brokers Limited
- Tradition (UK) Limited
- Martins Brokers
- King and Shaxson Capital Limited
- Tullet Prebon Brokers
- Imperial Treasury Services
- Link Agency Services

5.6 Investment Strategy and bank rate projections

a) In-house funds

Investments will 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).

Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

b) Investment returns expectations

The current forecast shown in paragraph 4.3, includes a forecast for a first increase in Bank Rate in May 2022, though it could come in February.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, (based on a first increase in Bank Rate in quarter 2 of 2022), are as follows.:

Average earnings in each year	
2022/23	0.50%
2023/24	0.75%
2024/25	1.00%
2025/26	1.25%
Long term later years	2.00%

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

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

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

c) Investment Treasury Indicator And Limit (Treasury Indicator TI-4) 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 based on the availability of funds after each year-end.

The treasury indicator and limit proposed is:

Maximum principal sums invested > 365 days (TI-4)			
	2020/21	2021/22	2022/23
Principal sums invested > 365 days	5%	5%	5%

5.7 Risk Benchmarking

These benchmarks are simple guides to minimise risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmarks is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or annual report.

a) Security –

The Council's **maximum** security risk benchmark for the current portfolio, when compared to historic default tables, is:

0.06% historic risk of default when compared to the whole portfolio for 1 year.

b) Liquidity

In respect of this area the Council seeks to maintain:

- Bank Overdraft: £100,000 East Renfrewshire Council
  £25,000 East Renfrewshire Culture & Leisure Trust

c) Yield

Local Measures of yield benchmarks are:

Investments – Internal returns above the 7 day SONIA (Sterling Over Night Indexed Average) rate

5.8 End of year investment report

At the end of the financial year, the Head of Accountancy (Chief Financial Officer) will report on its investment activity as part of the annual treasury report.

6 Performance Indicators

6.1 The CIPFA Code requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

6.2 Debt Performance Indicators

(i) Average "Pool Rate" charged by the Loans Fund compared to Scottish Local Authority average Pool Rate:
Target is to be at or below the Scottish Average for 2021/22

(ii) Average borrowing rate movement year on year:
Target is to maintain or reduce the average borrowing rate for the Council versus 2021/22.

6.3 Loan Charges

Loan Charges for 2022/23 are expected to be at or below the Revenue Budget estimate contained in the Council's Financial Plans to be approved in March 2022, which are estimated as follows:

£m	2022/23 Estimate	2023/24 Estimate
Capital Repayments Interest on Borrowing Expenses	4.579 4.183 0.204	6.287 5.492 0.219
Total Loan Charges*	**8.966**	**11.998**

**The Loan Charges exclude the capital element of PPP repayments*

6.4 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.

(i) 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.

%	**2020/21 Actual**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Non-HRA	7.60%	7.4%	7.2%	8.3%	8.3%
HRA	32.1%	29.8%	34.0%	37.3%	39.9%

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

(ii) HRA ratios

£	**2020/21 Actual**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
HRA debt £m	**35.083**	**42.165**	**52.800**	**61.335**	**67.237**
HRA revenues £m	**13.211**	**14.074**	**13.879**	**14.233**	**14.596**
Ratio of debt to revenues %	**265.6**	**299.6**	**380.4**	**430.9**	**460.65**

£	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
HRA debt £m	**35.083**	**42.165**	**52.800**	**61.335**	**67.237**
Number of HRA dwellings	**2,994**	**3,017**	**3,076**	**3,076**	**3,258**
Debt per dwelling £	**11,718**	**13,975**	**17,165**	**19,940**	**20,637**

7 Monitoring and Reporting

In line with the CIPFA Code the following formal reporting arrangements will be adopted:

Requirement	Purpose	Responsible Body	Frequency
Scrutiny of Treasury Management Strategy	Detailed scrutiny prior to annual approval by Council	Audit & Scrutiny Committee	Annually
Treasury Management Strategy	Reporting on Annual Strategy	Council	Annually prior to start of new financial year
Scrutiny of Treasury Management Mid-Year Report	Detailed scrutiny prior to approval by Council	Audit & Scrutiny Committee	Annually in October/November of the current year
Treasury Management Mid-Year Report	Mid-Year Performance Report	Council	Annually after reported to the Audit & Scrutiny Committee
Scrutiny of Treasury Management Annual Report	Detailed scrutiny prior to approval by Council	Audit & Scrutiny Committee	Annually in September/ October of the financial year
Treasury Management Annual Report	Annual Performance report for previous financial year	Council	Annually after reported to the Audit & Scrutiny Committee
Treasury Management Practices		Council	As appropriate
Treasury Management Policy Statement	Reviews and Revisions	Council	As required

8 Member and Officer Training

The CIPFA Code requires the Head of Accountancy (Chief Financial Officer) to ensure that both members and officers with responsibility for treasury management receive adequate training in this area. This Council will address this important issue by:

a) Elected Members

- Working with members to identify their training needs
- Working with the Link Group to identify appropriate training provision for elected members

b) Officers dealing with treasury management matters will have the option of various levels of training including:

- Treasury courses run by the Council's advisers
- Attendance at CIPFA treasury management training events
- Attendance at the CIPFA Scottish Treasury Management Forum and information exchanged via the Treasury Management Forum network
- Training identified as part of the Council's Performance Review & Development system in line with the approved Treasury Management Practices (TMPs).

BLANK PAGE

ANNEXES

ANNEX A
SUMMARY OF PRUDENTIAL AND TREASURY INDICATORS

Indicator Reference	Indicator	Page Ref.	2022/23	2023/24	2024/25	2025/26	2026/27
PRUDENTIAL INDICATORS							
Capital Expenditure Indicator							
PI-1	Capital Expenditure Limits General Fund Housing Total	Page 7	£'000 68,711 14,491 **83,202**	£'000 76,434 23,968 **100,402**	£'000 30,998 12,482 **43,480**	£'000 11,371 5,699 **17,070**	£'000 8,680 3,736 **12,416**
PI-2	Capital Financing Requirement General Fund Housing Total	Page 9	£'000 228,922 52,801 **281,723**	£'000 282,576 61,336 **343,912**	£'000 293,963 67,238 **361,201**	£'000 286,138 67,877 **354,015**	£'000 276,437 68,591 **345,028**
Affordability Indicator							
External Debt Indicators							
PI-3	Gross Debt Borrowing Other Long Term Liabilities Total	Page 12	£'000 183,015 73,500 **256,515**	£'000 242,638 68,132 **310,770**	£'000 242,623 62,565 **305,188**	£'000 242,607 56,743 **299,350**	£'000 237,590 51,887 **289,477**
PI-4	Operational Boundary for External Debt Borrowing Other Long Term Liabilities Total	Page 13	£'000 208,277 78,711 **286,988**	£'000 275,394 73,500 **348,894**	£'000 297,900 68,132 **366,032**	£'000 296,549 62,565 **359,114**	£'000 297,431 56,743 **354,174**
PI-5	Authorised Limit for External Debt Borrowing Other Long Term Liabilities Total	Page 13	£'000 239,518 78,711 **318,229**	£'000 316,703 73,500 **390,203**	£'000 342,585 68,132 **410,717**	£'000 341,032 62,565 **403,597**	£'000 342,046 56,743 **398,789**
	Ratio of Financing costs to net revenue Stream – Non -HRA	Page 27	**7.2%**	**8.3%**	**8.3%**	**8.5%**	**8.3%**
	Ratio of Financing costs to net revenue Stream - HRA	Page 27	**34.0%**	**37.3%**	**39.9%**	**40.9%**	**26.7%**
Indicators of Prudence							
PI-6	(Under)/Over Gross Borrowing against the CFR	Page 12	£'000 **(25,208)**	£'000 **(33,142)**	£'000 **(56,013)**	£'000 **(54,665)**	£'000 **(55,551)**
TREASURY INDICATORS							
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt	Page 19	100% of debt position				
TI-2	Upper Limit to Variable Interest Rates based on Net Debt	Page 19	30% of debt position				

TI-3	Maturity Structure of Fixed Interest Rate Borrowing	Page 20	15% maturing in any one year at the time of borrowing				
TI-4	Maximum Principal Sum invested greater than 365 days	Page 25	5%	5%	5%	5%	5%

ANNEX B: INTEREST RATE FORECASTS 2021 – 2025 **PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012**

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Bank Rate														
Link	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.25	0.25	0.50	0.75	0.75	0.75	0.75	1.00	1.00	-	-	-	-	-
5yr PWLB Rate														
Link	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
Capital Economics	1.40	1.40	1.50	1.50	1.60	1.70	1.70	1.80	1.90	-	-	-	-	-
10yr PWLB Rate														
Link	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
Capital Economics	1.60	1.60	1.70	1.70	1.80	1.80	1.90	2.00	2.00	-	-	-	-	-
25yr PWLB Rate														
Link	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
Capital Economics	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	-	-	-	-	-
50yr PWLB Rate														
Link	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Capital Economics	1.40	1.50	1.60	1.70	1.80	1.90	2.00	2.20	2.30	-	-	-	-	-

ANNEX C - LINK Group Economic Background (as at December 2021) –

COVID-19 vaccines.

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes being implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.

- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we are likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16H DECEMBER 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

- On 10th December we learnt of the disappointing 0.1% m/m rise in GDP in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

- On 14th December, the labour market statistics for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that Labour Force Survey (LFS) employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- On 15th December we had the CPI inflation figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- Other elements of inflation are also transitory e.g. prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some fiscal support for the economy, the huge cost of such support to date is likely to pose a barrier to incurring further major expenditure unless it was very limited and targeted on narrow sectors like hospitality. The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a surprise increase in Bank Rate from 0.10% to 0.25%. What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

- On the other hand, it did also comment that "the Omicron variant is likely to weigh on near-term activity". But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references this month to inflation being expected to be below the 2% target in two years' time, which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only a “modest tightening” in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. “Modest” seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed transitory, and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November’s statement that Bank Rate would be raised “in the coming months”. That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

- The MPC’s forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
  Raising Bank Rate as “the active instrument in most circumstances”.

  Raising Bank Rate to 0.50% before starting on reducing its holdings.

  Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.

  Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **US**. Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, CPI inflation hit a near 40-year record level of 6.8% but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g. in rent which has hit a decades high.
- Shortages of labour have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed’s 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the Fed’s meeting of 15th December would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022

as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

- **EU**. The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.
- November's inflation figures breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.
- ECB tapering. The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.
- The ECB will now also need to consider the impact of Omicron on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered into a period of political uncertainty where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

- **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of 2020; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.
- However, the pace of economic growth has now fallen back in 2021 after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 million per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time.
- The People's Bank of China made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

- **JAPAN.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.
- The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

- **WORLD GROWTH**. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

- **SUPPLY SHORTAGES.** The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

BLANK PAGE

ANNEX D

Treasury risks

All the investment instruments 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 organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.

2. **Liquidity risk:** this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment e.g. gilts, CDs, corporate bonds can usually be sold immediately if the need arises, there are two caveats: - a. cash may not be available until a settlement date up to three days after the sale. b. there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer.

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

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

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

Controls on treasury risks

1. **Credit and 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 5.2 and 5.3.

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 Certificate of Deposits, Corporate Bonds, Treasury Bills and Ultra-Short Bonds 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 be below 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 5.6.

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.

Objectives of each type of Permitted Investment instrument

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

b) **Term deposits with high credit worthiness banks and building societies.** 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 an approved maximum 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. In view of the fluidity of this area, this is a generic title for all structured deposits and provides greater flexibility to adopt new instruments as and when they are brought to the market. Approval will be sought before making deposits using instruments under this generic title.

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 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). There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. Approval will be sought before making deposits using instruments under this generic title

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 Constant Net Asset Value (CNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile. These funds can have WAM's and Weighted Average Life (WAL's) of 90 – 365 days or even longer. Their primary objective is yield and capital preservation is second. They therefore are a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.

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

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

4. SECURITIES ISSUED OR GUARANTEED BY GOVERNMENTS

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

a) **Treasury bills.** These are short term bills (up to 18 months, but usually 9 months or less) issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a term 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 term 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.

5. SECURITIES ISSUED BY CORPORATE ORGANISATIONS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it is sold. The annual earnings on a security is called a yield i.e. is the interest paid by the issuer divided by the price you paid to purchase the security. These are similar to the previous category but corporate organisations can have a wide variety of credit worthiness so it is essential for local authorities to only select the organisations with the highest levels of credit worthiness. Corporate securities are generally a higher risk than government debt issuance and so earn higher yields.

a) **Certificates of deposit (CDs).** These are shorter term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so can be sold ahead of maturity and also purchased after they have been issued. However, that liquidity can come at a price, where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.

b) **Commercial paper**. This is similar to CDs but is issued by commercial organisations or other entities. Maturity periods are up to 365 days but commonly 90 days

c) **Corporate bonds.** These are (long term) bonds (usually bearing a fixed rate of interest) issued by a financial institution, company or other non-government issuer in order to raise capital for the institution as an alternative to issuing shares or borrowing from banks. They are generally seen to be of a lower creditworthiness than government issued debt and so usually offer higher rates of yield.

d) **Floating rate notes.** These are bonds on which the rate of interest is established periodically with reference to short-term interest rates.

6. OTHER

a) **Property fund.** This is a collective investment fund specialising in property. Rather than owning a single property with all the risk exposure attached 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.

b) **Loans to 3rd parties.** These are loans provided to third parties at either market rates of interest or below market rates. Each application is supported by the service rationale behind the loan and requires member approval. These loans are highly illiquid and may exhibit credit risk.

c) **Loans to a Local Authority Company/ Partnership or Charity**. These loans have to be supported by the service rationale /business case and requires member approval. In general these loans will involve some form of security or clear cash flow that is available to service the debt. These loans are highly illiquid and may exhibit credit risk.

d) **Shares in Hub schemes**. These are shares in projects that have both Council and the Scottish Government as participants. As such the Council are well placed to influence and ensure the successful completion of the projects, which are based on robust business cases with a cash flow from the public sector organisations. These investments are highly illiquid with a low credit risk.

ANNEX E

Credit and Counterparty Risk Management

Permitted Investments, Associated Controls and Limits for East Renfrewshire Council and East Renfrewshire Culture & Leisure Trust

Type of Investment	Treasury Risks	Mitigating Controls	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 high.	£30m 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 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	£5m (per body), maximum 6 months
c. Money Market Funds (MMFs) Low Volatility Net Asset Value (LVNAV) **(Low to very low risk**)	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs has a “AAA” rated status from either Fitch, Moody’s or Standard & Poors.	£10m per fund/£60m overall
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.	£10m overall, part of category c.
e. Call account deposit accounts with financial institutions	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. These type of investments have no risk to	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured	As shown in the counterparty

(banks and building societies) (**Low risk depending on credit rating**)	value, liquidity is high and investment can be returned at short notice	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.	listing (Annex F)
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 Poors. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty listing (Annex F)
g. UK 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.	£5m, maximum 6 months
h. Certificates of Deposit with Financial Institutions (Banks & Building Societies) **(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.	Dependent on institution as listed in counterparty listing in annex F
i. Gilt fund deposit facilities with banks & building societies	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured	Dependent on institution as listed in

	(escalating rates, de-escalating rates etc.). **(Low to medium risk depending on period & credit rating)**	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).	primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with these criteria will be further strengthened by the use of additional market intelligence	counterparty listing in annex F
j.	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.	Dependent on institution as listed in counterparty listing in annex F
k.	Corporate Bonds **(Medium to high risk depending on period and 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.	Dependent on institution as listed in counterparty listing in annex F
l.	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.	No limit

m. 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.	£0.5m
n. Loans to a local authority company/ partnership or charity	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 rationale/business case behind the loan and the likelihood of partial or full default.	£1m
o. Shares in Hub Schemes	These are investments that are exposed to the success or failure of individual projects and are highly illiquid.	The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. As such they are well placed to influence and ensure the successful completion of the project's term. These projects are based on robust business cases with a cash flow from public sector organisations (i.e. low credit risk)	Investment limited to HUB schemes where the Council is a major participant

The Monitoring of Investment Counterparties

The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Link Asset Services, including when ratings change, and counterparties are checked promptly. On occasion rating 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 (with the exception of the Council's Bank) and if required new counterparties which meet the criteria will be added to the list with written permission of the Head of Accountancy (Chief Financial Officer).

Annex F **EAST RENFREWSHIRE COUNCIL**

ORGANISATIONS APPROVED FOR THE INVESTMENT OF SURPLUS FUNDS

Banking Group	Individual Counterparty	Limits Deposit	Transaction
Bank of England	Debt Management Office	£30m	£30m
	UK Treasury Bills	£5m	£5m
Barclays Banking Group	Barclays Bank	£5m	£5m
Goldman Sachs International Bank		£10m	£10m
HSBC		£5m	£5m
Lloyds Banking Group:	Bank of Scotland	£12.5m	£10m
Royal Bank of Scotland Group:	Royal Bank of Scotland National Westminster Bank }	£5m	£5m
Santander Group	Santander UK PLC	£10m	£10m
Standard Chartered Bank		£10m	£10m
Clydesdale Bank		£0	£0
Building Societies			
Nationwide		£10m	£10m
Local Authorities			
All Local Authorities including Police & Fire (per fund)		£5m	£5m
Money Market Funds and Ultra-Short Dated Bond Funds Maximum limit of £10m per fund,		£60m	£10m

Credit Ratings

	Fitch		Moodys		S&P	
	LT	ST	LT	ST	LT	ST
Minimum Criteria	A-	F1	A3	P-1/P-2	A	A-1/A-2

(Unless Government backed)
(Please note credit ratings are not the sole method of selecting counterparty)

Limit

Investment of surplus funds is permitted in each of the above organisations, with the limits set on an individual basis by the Head of Accountancy (Chief Financial Officer).

The limit may only be exceeded or another organisation approved with the written permission of the Head of Accountancy (Chief Financial Officer).

Deposit Periods

The maximum period for any deposit is currently set at 6 months, based on the Link Assets Services suggested Duration Matrix, with the exception of the Bank of Scotland which is set at 365 days. These limits can only be exceeded with the written permission of the Head of Accountancy (Chief Financial Officer).

Hub scheme deposit periods are dependent on the lifetime of the associated scheme.

GLOSSARY OF TERMS

CIPFA	Chartered Institute of Public Finance and Accountancy
CIPFA Code	Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes
CFR	Capital Financing Requirement is the estimated level of borrowing or financing needed to fund capital expenditure.
Consent to Borrow	Para 1 (1) of Schedule 3 of the Local Government (Scotland) Act 1975 (the 1975 Act) effectively restricts local authorities to borrowing only for capital expenditure. Under the legislation Scottish Ministers may provide consent for local authorities to borrow for expenditure not covered by this paragraph, where they are satisfied that the expenditure should be met by borrowing.
Gilts	A gilt is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock Exchange. The term “gilt” or “gilt-edged security” is a reference to the primary characteristic of gilts as an investment: their security. This is a reflection of the fact that the British Government has never failed to make interest or principal payments on gilts as they fall due.
LIBID	London Interbank Bid Rate The rate at which banks bid on Eurocurrency Deposits, being the rate at which a bank is willing to borrow from other banks. This will cease at the close of 2021
SONIA	Sterling Overnight Interest Average: this is a risk-free rate for sterling markets administered by the Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.
MPC	Monetary Policy Committee
NHT	National Housing Trust initiative undertaken in partnership with the Scottish Futures Trust (SFT)
Other Long Term Liabilities	Balance sheet items such as Public Private Partnership (PPP), and leasing arrangements which already include borrowing instruments.
PPP	Public-Private Partnership.
Prudential Indicators	The Prudential Code sets out a basket of indicators (the Prudential Indicators) that must be prepared and used in order to demonstrate that local authorities have fulfilled the objectives of the Prudential Code.
QE	Quantitative Easing
Treasury Indicators	These consist of a number of Treasury Management Indicators that local authorities are expected to ‘have regard’ to, to demonstrate compliance with the Treasury Management Code of Practice.

AGENDA ITEM No. 5

EAST RENFREWSHIRE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

17 FEBRUARY 2022

Report by Directors of Business Operations & Partnerships and Environment

UPDATE ON WITHDRAWAL FROM THE EUROPEAN UNION

PURPOSE OF REPORT

1. This report provides an update on the impacts of the United Kingdom's (UK's) exit from the European Union (EU) and East Renfrewshire Council's work in response to this.

RECOMMENDATION

2. It is recommended that the Audit and Scrutiny Committee:-

(a) note and consider this report; and

(b) determine if any further updates are required.

BACKGROUND

3. A number of pressures continue to be faced, with supply chain and cost of living implications across the economy. The ongoing and wide-ranging impacts of the COVID-19 pandemic means that it remains impossible to identify whether the cause of these pressures is as a result of EU Exit, or if it is caused by another factor (or combination of issues).

4. COVID-19 continues to cause pressure to Council Services, this has only been exacerbated as a result of the Omicron variant and subsequent boom in infections witnessed both locally and nationally. Due to these pressures, many services are stretched and would be unable to effectively respond in the event that any urgent EU Exit matters arose.

5. As of January 2022, the UK is bringing a phased introduction to its border measures for the import of goods from the EU. This approach will see changes come into effect on 1 January 2022, 1 July 2022, 1 September 2022 and 1 November 2022.

6. For any EU nationals seeking to live and work in the UK from 31 December 2020, applications need to meet the criteria of the UK's points based immigration policies. However, EU Nationals living in the UK prior to 31 December 2020 are still eligible to submit late applications under the EU Settlement Scheme.

7. The legal and regulatory landscape has not significantly altered in Scotland or the UK following EU Exit. It is has been announced that the UK Government will be publishing a Brexit Freedoms Bill in early February 2022. At the time of writing, it is unpublished and there has been no signal of which laws will be targeted for change.

BORDER MODEL

8. During 2022, the UK Border model will undergo a number of changes for products being imported from the EU. This will be to meet that the terms of the Trade and Cooperation Agreement for tariffs, duty, etc. and to ensure that products entering the UK are safe for use /

to appropriate standards. Border checks for goods going from the UK to the EU have been in place from January 2021.

9. There remains an exception in relation to border models for goods coming to / from Great Britain from the island of Ireland (both Northern Ireland and the Republic of Ireland). In December 2021, the UK Government extended the continuing temporary controls for movement of goods in this respect. This is to allow discussions between the UK and EU on the Northern Ireland protocol to continue without disrupting businesses.

10. The following are key dates for customs declarations and controls for goods arriving from the EU (with the exception of goods from Ireland), following controls being introduced on 1 January 2022:

- From 1 January 2022, pre-notification is required for Sanitary & Phytosanitary (SPS) goods.
- From 1 July 2022, Safety & Security Declarations, along with certification and physical checks will be introduced for remaining regulated animal by-products; all regulated plant and plant products; all meat and meat products; all remaining high-risk food, not of animal origin.
- From 1 September 2022, certification and physical checks will be introduced for all dairy products.
- From 1 November 2022, certification and physical checks will be introduced for all remaining regulated products of animal origin – this includes composite products and fish products.

11. Sanitary (human and animal) and phytosanitary (plant) are measures that apply to food, supplements and composite products. Measures to assess and control items of these nature in coming to countries are designed to protect humans, animals and plants from diseases, pests or contaminants.

12. Once the UK border fully applies, all goods coming to the country will be subject to an export declaration. Any companies importing goods will be required to have an Economic Operators Registration and Identification number (EORI number). Companies will also be required to make import declarations that outline details and value of any goods imported, as this will impact on the levels of VAT and duty paid. Finally, some goods will require a licence or certificate to accompany their import – for example sanitary and phytosanitary goods – to highlight that they are safe for use in the UK.

PRICE OF GOODS / COST OF LIVING

13. As per previous reports, a number of goods have proven increasingly difficult to acquire or have faced significant cost increases. While it is likely that a number of causes have led to this consequence – there is likely to be a vastly increased cost of living experienced across communities in 2022.

14. The Council's Money Advice and Rights Team (MART) are expecting an increase in contacts due to the economic pressures faced across this year. Increased costs are anticipated through pressures on fuel / energy costs, supply chains and challenges arising from the end of the furlough scheme. MART continue to monitor numbers and will keep this under regular review.

15. Fuel poverty is an issue which has already seen increased demand, which has been assisted by the Humanitarian Funds Grants issued through MART. MART are discussing a Service Level Agreement with The Wise Group, who specialise in fuel arrears. This will allow direct referral, while relieving pressures on MART.

16. The Council's Humanitarian fund has allowed the recruitment of a temporary Fuel Poverty worker within the Environment Department, to start to address some of the most pressing needs of residents in fuel poverty; as well as extra support to Citizens Advice Bureau, with a view to assisting people with utility arrears.

17. Problems are not anticipated for Capital Programme contracts that have been completed or are already underway as a result of the increased costs and challenging supply-chain environment for goods. There is a higher risk where the Council is about to enter into contracts and awaiting tender prices; however, it should be noted that costs of such projects are spread across a number of years through borrowing and repayment.

SHARED PROSPERITY FUND

18. The UK Government is due to launch the Shared Prosperity Fund this year, as a replacement for previously available EU funding, such as Structural Funds. While details on the Fund has not been finalised, it can be confirmed that it will be a competitive process. Councils / projects will therefore be expected to bid for funding against other areas throughout the UK. The UK Government would be the final decision maker on what bids are successful.

19. Much of the information relating to the Shared Prosperity Fund remains unconfirmed, with an anticipated "Levelling Up" white paper from the UK Government having faced repeated delays. This white paper is now expected to be made available by late January / early February 2022.

EU SETTLEMENT SCHEME

20. While the EU Settlement Scheme formally closed for applications on 30 June 2021; there are a number of circumstances in which the Home Office will accept late applications. The Scheme exists to allow EU Nationals resident in the UK prior to 31 December 2020 to apply to protect their rights to live and work in the UK.

21. Home Office statistics show that to the end of September 2021, there have been 1,440 Settlement Scheme applications within East Renfrewshire. This represents an increase of 200 from previous reporting; which covered to the period ending March 2021. Updated National Records Scotland (NRS) data for November 2021 suggests that approximately 1,000 EU Nationals are resident in East Renfrewshire. While this would suggest that all of East Renfrewshire's EU Nationals have applied – it should be noted that the NRS population estimates data rounds to the nearest 1,000.

22. The Council will continue to signpost the EU Settlement Scheme on our website, while applications are being accepted. This will include circumstances for late applications and avenues of support. We will continue to use our social media channels to share alternative language events for potential applicants and our Intranet to provide information and support for Council staff. Additionally, the Resilience Coordinator will continue to work with partners to ensure that our messaging and approach to the Settlement Scheme remains up to date; which will include monitoring and engagement with the Independent Monitoring Authority (IMA). The IMA are an independent body who have been established to protect EU Citizens' rights and uphold the terms of the Withdrawal Agreement.

23. It is worth noting that the IMA launched judicial review proceedings against the Home Office in December 2021 in relation to the EU Settlement Scheme. The Review relates to those with Pre-Settled Status having to apply for Settled Status before their Pre-Settled status expires, or they would automatically lose their rights to live and work in the UK. It is estimated 2.5 million would be affected across the UK by this case. Home Office figures outline that 410 would potentially be impacted in East Renfrewshire; as such any developments arising from

these proceedings will be monitored, with consideration on appropriate means to support those with a Pre-Settled Status.

24. As EU Citizens without Settled Status or those arriving to live or work in the UK are subject to the UK points-based immigration system, there is concern that they will be classified as having No Recourse to Public Funds (NRPF). NRPF is an immigration control attached to a person's immigration status, which restricts their access to social security benefits and social housing. There is currently a grace period, coupled with COVID public health regulations that have allowed Local Authorities to assist people subjected to NRPF. Both of these will not be ongoing measures, creating a risk of destitution and homelessness. While it remains unclear what action will be taken by the Home Office and Department of Work and Pensions, the matter of NRPF individuals will be monitored.

FINANCE AND EFFICIENCY

25. There are currently no finance and efficiency implications arising from this report.

CONSULTATION

26. This report has been produced with input from the Council's Brexit Working Group.

PARTNERSHIP WORKING

27. This report details work of the Council's Brexit Working Group, a cross-discipline group of Council Officers. Each Council Department is represented along with a number of key areas. Additionally, the Council has worked with COSLA, Voluntary Action East Renfrewshire, the Scottish Government, Citizens Advice and the East Renfrewshire Chamber of Commerce as part of our EU Exit preparations.

IMPLICATIONS OF THE PROPOSALS

28. There are currently no staffing, property, legal, IT, State Aid, equalities and sustainability implications arising from this report. However, it is noted that State Aid is a developing area of UK Government Policy. Council officers continue to review developments.

CONCLUSION

29. In providing a broad overview of the status of the UK's exit from the EU, this report seeks to outline the main areas of impact upon East Renfrewshire Council, as well as work undertaken and ongoing. While the ongoing Covid-19 pandemic undoubtedly remains the priority, EU Exit procedures and preparations were well established, having been implemented for previous Brexit deadlines. These will be key mechanisms in responding to impacts from EU Exit that may develop, as the new UK-EU relationship becomes established.

RECOMMENDATION

30. It is recommended that the Audit and Scrutiny Committee:-

(a) note and consider this report; and

(b) determine if any further updates are required.

SOURCES CITED

EU Settlement Scheme Quarterly Statistics, September 2021:
https://www.gov.uk/government/statistics/eu-settlement-scheme-quarterly-statistics-september-2021

Annual Population Survey (APS), Office for National Statistics, National Records of Scotland (updated November 2021) – Tab 1.2 (Population by Nationality)
https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-estimates/population-by-country-of-birth-and-nationality/jul-20-jun-21

Note: Data from the APS is rounded to the nearest 1,000. If a figure is calculated to be under 500, it will be rounded to zero. As the APS is a sample survey, there are large confidence intervals that come with this data and therefore the true value will lie somewhere in this range (not necessarily zero).

31 January 2022
Report author: Resilience Coordinator
E-mail address: Anthony.Jenkins@eastrenfrewshire.gov.uk

AGENDA ITEM No.6

EAST RENFREWSHIRE COUNCIL

AUDIT & SCRUTINY COMMITTEE

17 FEBRUARY 2022

Report by Chief Auditor

INTERNAL AUDIT PLAN PROGRESS REPORT 2021/22 QUARTER 3

PURPOSE OF REPORT

1. To inform members of progress on Internal Audit's annual plan for 2021/22 as approved in September 2021.

BACKGROUND

2. The work performed by Internal Audit is based on a rolling 5-year strategic plan, which is revised annually to take into account changes in circumstances. This report is provided to allow members to monitor the activities of Internal Audit and to oversee actions taken by management in response to audit recommendations.

AUDIT PLAN 2021/22 - PROGRESS REPORT QUARTER 3

3. A copy of the annual audit plan for 2021/22 is shown in appendix 1. Four audits relating to planned 2021/22 audit work were completed in quarter 3 as shown in appendix 2. Appendix 3 gives details of three reports which were carried out as part of the 2021/22 plan where the responses were received since the last progress report. Responses are deemed to be satisfactory if all recommendations are accepted for implementation by management and where any recommendation is not accepted, a satisfactory reason is given. The quarterly performance indicators for the section are shown in appendix 4. Some indicators are not being met due to COVID19 restrictions on audit work that can be carried out during lockdown and delays in departments responding to audit queries.

4. One audit relating to planned 2020/21 audit work is still in progress and it is hoped that this can be issued soon.

5. Due to unforeseen circumstances leading to a reduced number of audit days being available during 2021/22 it is very unlikely that the full Audit Plan, as approved by the Audit and Scrutiny Committee, will be completed. Work is underway to prioritise the audit work required to ensure Year End assurance will be completed. A further update and Audit Plan for 2022/23 will be provided to the Audit and Scrutiny Committee in due course

RECOMMENDATION

6. The Committee is asked to:

(a) note Internal Audit's progress report for quarter 3 of 2021/22 and

(b) confirm whether they wish any of the reports detailed in appendix 3 to be circulated to audit and scrutiny committee members or submitted to a future meeting for more detailed consideration.

Further information is available from Michelle Blair, Chief Auditor, telephone 0141 577 3067.

BLANK PAGE

APPENDIX 1

EAST RENFREWSHIRE COUNCIL
Internal Audit Section
ANNUAL AUDIT PLAN FOR 2021/22 PROGRESS REPORT

Department	Title	Audit Number	Original No. of days	Status
Chief Executives	Corporate Procurement Cards	1	15	In progress
Corporate & Community	Payroll	2	28	In progress
	Creditor interfaces, e-invoicing	3	18	
	Debtors	4	24	In progress
	Housing Benefits/Universal Credit	5	30	
	Clothing grants, free school meals	6	12	In progress
	Council tax – reductions and liability	7	24	In progress
Education	Environmental controls – Education	8	10	
	Schools cluster	9	32	**Complete**
Environment	Clyde Valley Contract Group	10	13	
	Grant certification	11	15	
	Gas Servicing	12	15	**Complete**
	City Deal	13	15	In progress
	Climate Change Report	14	5	**Complete**
	COVID business grants	15	25	In progress
	Energy and Fuel	16	15	
Housing	Housing Repairs	17	20	**Complete**
	New Council Houses	18	24	
HSCP	Care First Finance System	19	20	
	Kinship, fostering and adoption	20	16	In progress
	IJB	21	15	
Trust	Culture and Leisure Limited Trust	22	20	In progress
Various	Contract 1 TBA	23	20	
	Application Audit	24	18	
	Fraud contingency	25	70	In progress
	General Contingency	26	30	In progress
	LG Benchmarking Framework	27	10	**Complete**
	Follow up	28	50	In progress
	Previous year audits **Note1**	29	52	In progress
		Total	**661**	

Note 1 previous year audits were completed with the exception of one which should be issued soon.

BLANK PAGE

APPENDIX 2

INTERNAL AUDIT

REPORTS AND MEMOS ISSUED 2021/22

FILE REF	Audit No.	Report	Department	DATE AUDIT STARTED	DATE REPORT MEMO SENT	DATE REPLY DUE	DATE REPLY REC	COMMENTS	Tot	H	M	L	E	Not accepted
MB/1147/EL	12	Gas Servicing	Environment	01/04/21	21/07/21	27/08/21 Ext to 6/9/21	03/09/21	Satisfactory	11	-	4	7	1	-
MB/1148/EL	27	Creditors PI	Accountancy CE Office	24/05/21	02/08/21	03/09/21	03/08/21 10/08/21	Satisfactory Satisfactory	2	-	-	2	-	-
MB/1149/EL	17	Housing Repairs	Environment	25/05/21	11/11/21	17/12/21	14/12/21	Satisfactory	17	1	6	10	-	-
MB/1150/NS	9	Schools Cluster Audit – Woodfarm High	Education	21/05/21	09/12/21	21/01/22	18/01/22	Satisfactory	15	-	6	9	-	-
MB/1151/FM	2	Payroll	Corp & Comm	20/05/21										
MB/1152/NS	29	Environment Follow Up	Environment Accountancy Legal	27/07/21	20/12/21	21/01/22	20/01/22 20/12/21 20/01/22	Satisfactory Satisfactory Satisfactory	15	-	4	11	-	-
MB/1153/NS	1	Corporate Procurement Cards	CE Office	06/08/21										
MB/1154/NS	20	Kinship, fostering and adoption	HSCP	13/09/21										
MB/1155/EL	15	Covid Grants	Environment	10/12/21										
MB/1156/NS	6	Clothing Grants and Free School Meals	Corp & Comm	08/11/21										
MB/1157/NS	14	Climate Change Report	Environment	16/11/21	01/12/21	NR	NR	No report issued.	-	-	-	-	-	-
MB/1158/FM	4	Debtors	Corp & Comm	10/01/22										
MB/1159/NS	13	City Deal	Environment	05/01/22										

INTERNAL AUDIT **REPORTS AND MEMOS ISSUED 2021/22**														
FILE REF	**Audit No.**	**Report**	**Department**	**DATE AUDIT STARTED**	**DATE REPORT MEMO SENT**	**DATE REPLY DUE**	**DATE REPLY REC**	**COMMENTS**	**Tot**	**H**	**M**	**L**	**E**	**Not accepted**
MB/1160/NS	7	Council Tax (Reduction & Liability)	Corp & Comm	07/01/22										

APPENDIX 3

SUMMARY OF 2021/22 REPORTS ISSUED WHERE RESPONSES WERE RECEIVED SINCE LAST PROGRESS REPORT

1. MB1149EL Housing Repairs

The scope of the audit was agreed with the Head of Environment (Strategic Services) and covered the following areas:

- Written procedures for housing repairs are in place
- Housing repairs are carried out in accordance with legislation and the Councils agreed policy/procedures
- There is documentary evidence to support all housing repairs and maintenance transactions
- Property records are kept up to date
- All relevant records are updated to record repairs carried out
- All repairs and maintenance work is correctly carried out and valued
- All repairs and maintenance work is initiated and recorded promptly and carried out within the specified timescales
- All repairs and maintenance transactions are legitimate and appropriate
- There are mechanisms in place to ensure that repairs are completed to a satisfactory standard
- Appropriate guidance was put in place and implemented to address additional safety measures required due to COVID

With the advent of the covid 19 pandemic and national lockdown many of the points raised in the last audit had not yet been implemented and there were initial difficulties in ensuring services could be provided in the working from home environment which has had an impact on the items raised in this report.

There are some differences between the systems used in terms of the number of properties between OHMS and Apex and the job status between OHMS and Servitor. Also there are recommendations made around the recharging process which is already under review and monitoring of contractor performance which requires immediate action.

Seventeen recommendations were made, one was classified as high risk, six were classified as medium risk with the remaining ones as low risk. All recommendations were accepted by management. The high and medium risk recommendations are reproduced below with the departmental responses

Ref.	Recommendation	Risk Rating	Accepted Yes/No	Comments (if appropriate)	Officer Responsible	Timescale for completion
4.2.1	An annual review of OHMS, Servitor and Apex users should be carried out by asking all departments (if necessary) to confirm that users still require access to the system. Documentary evidence of the exercise should be held as evidence of action taken.	Medium	Yes	The systems team will carry out a systems user audit at financial year end. Housing Services users have access permissions disabled if they leave. However, agreed that we are not informed of leavers in other departments.	Suzanne Conlin	31/3/22

Ref.	Recommendation	Risk Rating	Accepted Yes/No	Comments (if appropriate)	Officer Responsible	Timescale for completion
4.4.1	Regular checks should be carried out using the new report produced by the Systems Development Officer to compare job status and costs between OHMS and Servitor to ensure consistency of information and job costings. • Evidence of these checks should be held • Responsibility should be allocated to an individual or team to carry out these checks • Appropriate training should be provided to ensure sufficient knowledge of the systems to address issues highlighted.	Medium	Yes	Will be carried out monthly by Business Improvement Team. An online checker has been created by the Systems Team and only requires to be refreshed. Errors are infrequent and a monthly check will result in less to be resolved	Suzanne Conlin	31/1/22
4.5.2	Consideration should be given to targeting resource to the jobs with the status ‘billable’ to ensure that the numbers still to be raised are reduced in good time.	Medium	Yes	As above	Suzanne Conlin	31/3/22
4.6.1	Housing Benefit and Council Tax Teams should be notified of all decants in order that they are aware of potential changes and can monitor situations relating to payment of benefit at properties.	Medium	Yes	All will be addressed in the ongoing review of Neighbourhood Housing Officers processes/procedures and development of the new Housing Management software, NEC.	Suzanne Conlin	March 2022
4.7.2	More specific timescales should be given when work is submitted or quoted for and monitoring of this should take place and an audit trail maintained so that targets on individual property and summary basis are available.	High	Yes	Technical Officers have been sent an e-mail reminder by the Repairs Delivery Manager and he will carry out a monthly random sample to ensure compliance.	Jamie Macdonald	Completed
4.7.3	Charges received from all contractors should be checked to SOR’s or quotes received prior to payment and authorisation.	Medium	Yes	Technical Officers have been sent an e-mail reminder by the Repairs Delivery Manager and he will carry out a monthly random sample to ensure compliance.	Suzanne Conlin	Completed
4.7.4	Evidence should be held of all post-repair calls relating to jobs on the system to provide a full audit trail.	Medium	Yes	Telephone calls with be recorded in OHMS and then NEC Housing.	Suzanne Conlin	Completed

2. <u>MB/1150/NS Schools Cluster Audit (Woodfarm HS)</u>

The objectives of the audit were to:

- ensure that school fund/toy funds is operated in accordance with education guidance standard circular 23

- ensure petty cash is operated in accordance with council procedures
- ensure purchases are procured in accordance with council procedures
- ensure that the Home Economics Account (Woodfarm High only) is properly operated
- ensure access to system, virements and budgetary control are operated in accordance with Devolved Schools Management (DSM) procedures
- ensure risk registers are in place and have been updated recently
- ensure that school admission checks are carried out in accordance with Council policy

The records held at the establishments visited were generally found to be up to date and maintained in an appropriate format to allow samples to be easily traced to the supporting records. No recommendations have been made for one of the five establishments visited.

However, it was noted that there is scope for improvement in the management of funds held at four of the five establishments visited. It was noted that the bank accounts are being operated with ~~a~~ less than the minimum number of signatories which could cause difficulty in accessing funds in the event of staff changes or long term absence. It was also noted that the constitutions do not always provide specific detail on the limits that are being applied for authorising expenditure. In relation to income sources to the funds reviewed, there is scope for improving the audit trail available to support the amounts being received.

Fifteen recommendations were made, six were classified as medium risk with the remaining ones as low risk. All recommendations were accepted by management. The medium risk recommendations are reproduced below with the departmental responses.

Ref.	Recommendation	**Risk Rating**	**Accepted Yes/No**	**Comments (if appropriate)**	**Officer Responsible**	**Timescale for completion**
BRAIDBAR PRIMARY						
4.2.1	The number of bank signatories should be reviewed to ensure that the number is sufficient to allow the account to be operated in the event of staff changes or long term absence.	Medium	Yes	The bank account was originally left as is due to the short-term nature of the secondment of the signatory. HT will be advised to add an additional authorised signatory to ensure we adhere to the audit recommendations	Head Teacher (Gillian Friel)	April 2022
GIFFNOCK PRIMARY						
5.1.1	The number of bank signatories should be reviewed to ensure that the number is sufficient to allow the account to be operated in the event of staff changes or long term absence.	Medium	Yes	Bank accounts have been updated in August 2021. Unfortunately, the audit was carried out during the change of staff.	Head Teacher (Rob Lawson)	August 2021
THORNLIEBANK PRIMARY						
6.2.1	The Treasurer should ensure that receipts are obtained for all items of expenditure, especially those of a high value and only use the disbursement form for minor un-receipted items.	Medium	Yes	The payments were donations to charity and were clearly marked as such. High Value payment request form has now been set up to cover such payments in the future.	Head Teacher (Jenni Miller)	December 2021

Ref.	Recommendation	Risk Rating	Accepted Yes/No	Comments (if appropriate)	Officer Responsible	Timescale for completion
6.3.1	The next audit of the nursery and school fund accounts should be carried out by a person independent of the team responsible for the daily management and operation of the funds.	Medium	Yes	The accounts have now been audited by the Treasurer of the Parent Council	Head Teacher (Jenni Miller)	October 2021
6.4.1	The number of bank signatories should be reviewed to ensure that the number is sufficient to allow the account to be operated in the event of staff changes or long term absence.	Medium	Yes	Arrangements will be made to add Jennifer Wilson DHT to the signatories.	Head Teacher (Jenni Miller)	April 2022
WOODFARM HIGH						
7.1.1	The number of bank signatories should be reviewed to ensure that the number is sufficient to allow the account to be operated in the event of staff changes or long term absence.	Medium	Yes	The bank accounts signatories have now been updated. The audit was carried out during the changeover of HT's hence the reason for the recommendation.	Business Support Manager (Cathie Gibson)	November 2021

3. MB/1152/NS Environment Follow Up

A full copy of this report and the responses will be circulated to Audit and Scrutiny Committee Members in the near future.

A total of 15 recommendations were made again in the reports being followed up. The majority of the recommendations followed-up had been fully implemented, although several remain outstanding and are included again in this report. It was noted that the reason for the recommendations remaining outstanding was mainly due to Covid restrictions placing additional pressures on the department which resulted in resources not being available to meet the original timescales set.

All recommendations were accepted by management.

4. MB/1157/NS CLIMATE CHANGE REPORT

There is no report output for this audit as the prime objective is to verify the accuracy and reasonableness of the figures submitted in this return which the Environment Department have to submit to Scottish Government annually. No recommendations were made.

Risk Ratings for Recommendations	
High	• Key controls absent, not being operated as designed or could be improved and could impact on the organisation as a whole. • Corrective action must be taken and should start immediately.
Medium	• There are areas of control weakness which may be individually significant controls but unlikely to affect the organisation as a whole. • Corrective action should be taken within a reasonable timescale.
Low	• Area is generally well controlled or minor control improvements needed. • Lower level controls absent, not being operated as designed or could be improved

APPENDIX 4

EAST RENFREWSHIRE COUNCIL
Internal Audit Section

QUARTERLY PERFORMANCE INDICATORS

<u>Internal Audit Indicators reported Quarterly</u>	Target (where applicable)	Quarter 3 Actual 2021/22	Cumulative Actual 2021/22
2. Audit Coverage.			
2.2 Actual direct audit days as a percentage of total days available	75%	79%	76%
2.3 Number of requests for assistance/queries raised by departments outwith planned audit work.	-	-	2
2.4 Percentage of planned contingency time used.	<100%	28%	71%
(Days available exclude public holidays, annual leave and sickness absence)			
5. Issue of Reports.			
5.1 Number of audit reports issued per quarter.	-	4	6
5.2 Ave. time in weeks from start of fieldwork to issue of report. (Note 1)	12 weeks	17.27	15.52
5.3 Ave. time taken to issue report (working days). (Note 2)	10 working days	14	15.6

<u>Notes</u>

1. Average weeks calculated as working days divided by 5.
2. Working days excludes weekends, public holidays, annual leave and sickness absence.