South Ayrshire Council

Report by Head of Finance, ICT and Procurement to Cabinet of 16 January 2024

Subject: Treasury Management and Investment Strategy Mid-Year Report 2023/24

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1. Purpose

1.1 The purpose of this report is to provide Members with a mid-year treasury management update for the financial year 2023/24.

2. Recommendation

2.1 It is recommended that the Cabinet approves the contents of this report.

3. Background

3.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned to meet expenditure commitments but also to invest surplus monies in low-risk counterparties (organisations with which the Council has a financial relationship in terms of borrowings or investments), providing adequate liquidity initially before considering optimising investment return.

3.2 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, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash will involve arranging long or short-term loans or using longer term cash flow surpluses. In addition, in certain interest rate environments debt previously drawn may be restructured to meet Council risk or cost objectives.

3.3 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

3.4 The Audit and Governance Panel of 6 December 2023 considered the mid-year treasury management update and agreed that it be remitted to the Cabinet for approval.

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4. Proposals

4.1 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and provides an update on activity in Appendix 1 and Appendix 2 on the following:

4.1.1 *Appendix 1* – *Economic Update and Interest rates*

Section	Description
1	Economics and Interest Rates
2	Interest Rates Forecast

4.1.2 *Appendix 2* – *Treasury Activity*

Section	Description
1.1 to 1.2	The Council's Capital Expenditure plans and Capital Financing Requirement (CFR);
2.1 to 2.2	Borrowing Strategy for 2023/24
3.1 to 3.2	Review of Investment Strategy and Performance
4.1	Review of compliance with Treasury and Prudential Limits for 2023/24
5.1	Borrowing in advance; and
6.1	Debt Re-scheduling.
7.1	Other

4.2 The Cabinet is requested to approve the contents of this report in accordance with the requirements of the CIPFA Code.

5. Legal and Procurement Implications

5.1 There are no legal implications arising from this report.

5.2 There are no procurement implications arising from this report.

6. Financial Implications

6.1 *General Services*

6.1.1 **Interest on Revenue Balances** - the Council budgeted for investment income of £0.965m in 2023/24, based on an estimate of the average revenue balances held during the year. Budgeted at achieving an assumed interest rate return of 2.50% on these balances.

At September 2023 (Qtr2) the full year budgeted income is projected at £1.656m, a surplus of £0.691m.

6.1.2 **Capital Financing Costs** - the budget for loan charges in 2023/24 is £14.826m, comprising £6.271m for loan principal, £8.371m for interest costs and £0.184m for loans fund expenses.

The current projection for loans charges to the General Fund is an over-spend of £1.440m in interest and expenses. This is offset by the projected surplus of income of £0.691m bringing an overall overspend of £0.749m.

This overspend is currently being reviewed in conjunction with the capital programme and will be monitored closely.

6.2 ***Housing Revenue Account (HRA)***

6.2.1 **Interest on Revenue Balances** - the HRA budgeted for investment income of £0.200m in 2023/24, based on an estimate of the average revenue balances held during the year. Budgeted at achieving an assumed interest rate return of 2.50% on these balances.

At September 2023 (Qtr2) the full year estimate for investment income earned is £0.397m resulting in a surplus of £0.197m.

6.2.2 **Capital Financing Costs** - the budget for HRA loan charges in 2023/24 is £4.463m, comprising £1.674m for loan principal, £2.729m for interest costs and £0.060m for loans fund expenses.

The current projection for HRA loan charges is an overspend of £0.270m in interest and expenses. This is offset by the projected surplus of income of £0.197m bringing an overall overspend of £0.073m.

As with the General Fund this will also be monitored closely.

7. Human Resources Implications

7.1 Not applicable.

8. Risk

8.1 ***Risk Implications of Adopting the Recommendations***

8.1.1 There are no risks associated with adopting the recommendations.

8.2 ***Risk Implications of Rejecting the Recommendations***

8.2.1 Should the recommendations be rejected, then the Council will not be in compliance with the CIPFA Code of Practice on Treasury Management.

9. Equalities

9.1 The proposals in this report have been assessed through the Equality Impact Assessment Scoping process. There are no significant potential positive or negative equality impacts of agreeing the recommendations and therefore an Equalities Impact Assessment is not required. A copy of the Equalities Scoping Assessment is attached as Appendix 3.

10. Sustainable Development Implications

10.1 ***Considering Strategic Environmental Assessment (SEA)*** **-** This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

11. Options Appraisal

11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

12. Link to Council Plan

The matters referred to in this report contribute to Priority 4 of the Council Plan: Efficient and effective enabling services.

13. Results of Consultation

13.1 There has been no public consultation on the contents of this report.

13.2 Consultation has taken place with Councillor Ian Davis, Portfolio Holder for Finance, Human Resources and ICT, and the contents of this report reflect any feedback provided.

14. Next Steps for Decision Tracking

14.1 If the recommendations above are approved by Members, the Head of Finance and ICT will ensure that all necessary steps are taken to ensure full implementation of the decision within the following timescales, with the completion status reported to the Cabinet in the 'Council and Cabinet Decision Log' at each of its meetings until such time as the decision is fully implemented:

Implementation	Due date	Managed by
No further action required	Not applicable	Not applicable

Background Papers **CIPFA Code of Practice for Treasury Management in the Public Services**

Report to South Ayrshire Council of 3 March 2023 – Treasury Management and Investment Strategy 2022/23

Report to Audit and Governance Panel of 6 December 2023 - Treasury Management and Investment Strategy Mid-Year Report 2023/24

Person to Contact **Tim Baulk, Head of Finance, ICT and Procurement**
County Buildings, Wellington Square, Ayr, KA7 1DR
Phone 01292 612620
E-mail tim.baulk@south-ayrshire.gov.uk

Date: 4 January 2024

Economic Update and Interest Rates

1. Economics and Interest Rates

- The first half of 2023/24 saw:
  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
  - Short, medium and long-dated gilts remain elevated as inflation remained higher than expected.
  - A 0.5% m/m decline in real Gross Domestic Product in July, mainly due to more strikes.
  - Consumer Price Index inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
  - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).
- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- The higher interest rates are now starting to take effect and the economy is being affected. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. CPI inflation has peaked and is expected to decline further and the economy has got through the cost-of- living crisis without recession. Real household disposable incomes are still affected by the higher interest rates and the phasing out of financial support packages provided by the government during the energy. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in

inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.

- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.

- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps increase.

- Like the US Federal Reserve, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank continued with the existing guidance that rates will remain at a higher level for a reasonable time period, for them to take effect.

- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.

- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).

- The pound weakened from its cycle high of $1.30 in the middle of July to $1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.

- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

2. Interest Rates Forecast

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 25th September sets out a view that both short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to reduce the inflation within the economy.

Link Group's PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

Treasury Activity

1.1 The Council's Capital Expenditure plans and Capital Financing Requirement (CFR)

(1) The following section provides the information relating to the 2023/24 capital position and prudential indicators.

- The Council's capital expenditure plans.
- How these plans are being financed.
- The impact of the capital expenditure plans on the prudential indicators and the underlying need to borrow.
- Compliance with the limits in place for borrowing activity.

(2) The tables below draw together the main movement in terms of the capital expenditure plans compared to the original plan, highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements for capital expenditure. The borrowing element of Table 1 for both General Services and HRA below revises the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR).

Table 1

	2023/24 Original Estimate £'000	***2023/24 Latest Estimate £'000***
Prudential Indicator – General Services		
Capital Expenditure	**99,145**	**73,303**
General Services - Financed By		
General and Specific Grant	20,407	14,746
Capital Receipts/Other	24,331	8,590
Borrowing	54,407	49,966
	99,145	**73,303**
Prudential Indicator – HRA		
Capital Expenditure	**75,740**	**71,632**
HRA - Financed By		
Borrowing	53,671	46,650
CFCR, Draw on surplus	7,510	8,460
Other Receipts/ Grants	14,559	16,522
	75,740	**71,632**

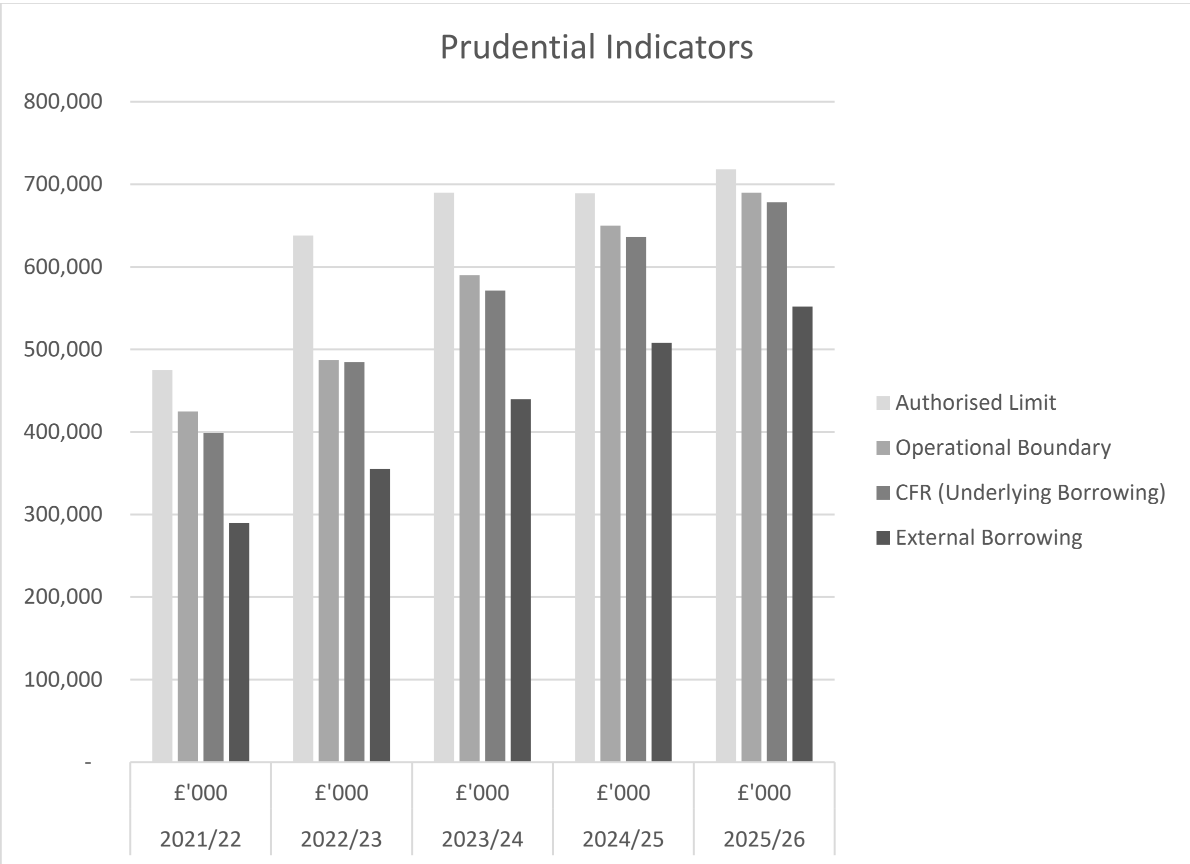
1.2 *Capital Financing Requirement, Debt Position and Operational Boundary Indicators*

(1) Table 2 shows the CFR, which is the underlying need to incur borrowing for a capital purpose.

Table 2

Prudential Indicator – CFR	***2023/24 Original Estimate £'000***	***2023/24 Updated Estimate £'000***
Capital Financing Requirement – GS	455,043	449,178
Capital Financing Requirement – HRA	129,426	122,253
Total Capital Financing Requirement	**584,469**	**571,430**

(2) **Prudential Indicators Chart**



The chart shown at (2) above shows estimated key prudential indicators in graph format:

1. **External Borrowing –** shows significant increase in the next two years as the Council utilises borrowing to fund capital investment

2. **Capital Financing Requirement –** shows increases in CFR in line with external debt. The Council ended 2022/23 in an under borrowed position (CFR compared with external debt) of £32,272m. The current strategy will be to reflect an under-borrowed position in the short/medium term as reflected in the graph.

3. **Operational Boundary –** this indicator is higher than external debt and CFR as it includes provision for other long term financing liabilities such as PPP and Finance leases, and short term cash flow variations.

4. **Authorised Limit –** the limit which cannot be exceeded in terms of the Council's debt position. This indicatior is higher than the operational limit as provision is made for other cash flow variation and potential borrowing in advance.

Table 3

Prudential Indicators – Debt	***2023/24 Original £'000***	***2023/24 Updated £'000***
Authorised Limit	641,000	641,000
Operational Limit	590,000	590,000
External Debt	435,660	439,660

2.1 Borrowing Strategy 2023/24 (Update)

(1) The Council's capital financing requirement (CFR) estimate for 2023/24 has been revised to £571,430 based on the revised capital spend projections, as shown at 1.2, Appendix (2) Table 1. The CFR denotes the Council's underlying need to borrow for capital purposes. To fund the CFR the Council may borrow from the PWLB or the market (external borrowing) or fund from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions and availability of internal cash resources.

(2) The original borrowing requirement for 2023/24 was set at £108.08m but has been revised to £96.61m. This drop is attributed to shortage of supplies which has led to a delay in some of the capital programme. This has resulted in movement in the current year of the capital programme.

(3) This has resulted in revising the external borrowing requirement from the original £147.0m to £95.0m.

(4) The current strategy is to consider medium term external borrowing in Qtr3 of £10.0m and Qtr. 4 of £15.0m of medium to long borrowing, with further PWLB or medium term at the end of Qtr 4. To date in Qtr. 1 and 2 £5.0m long term borrowing has been taken from PWLB securing a lower interest rate being offered. A further £10.0m of medium to long term borrowing was secured in Qtr. 1 from the other local authority market, again taking advantage of lower interest rates being offered.

A pragmatic approach however is being taken in terms of the timing of new long term external borrowing given the current market uncertainties due to a number of factors such as the overall economic climate and interest rate fluctuations along with the pace of the spend in the Council's capital programme.

(5) The table at 2.2.1 below shows the high and low rates available from the PWLB during the period April 23 – Sept 23.

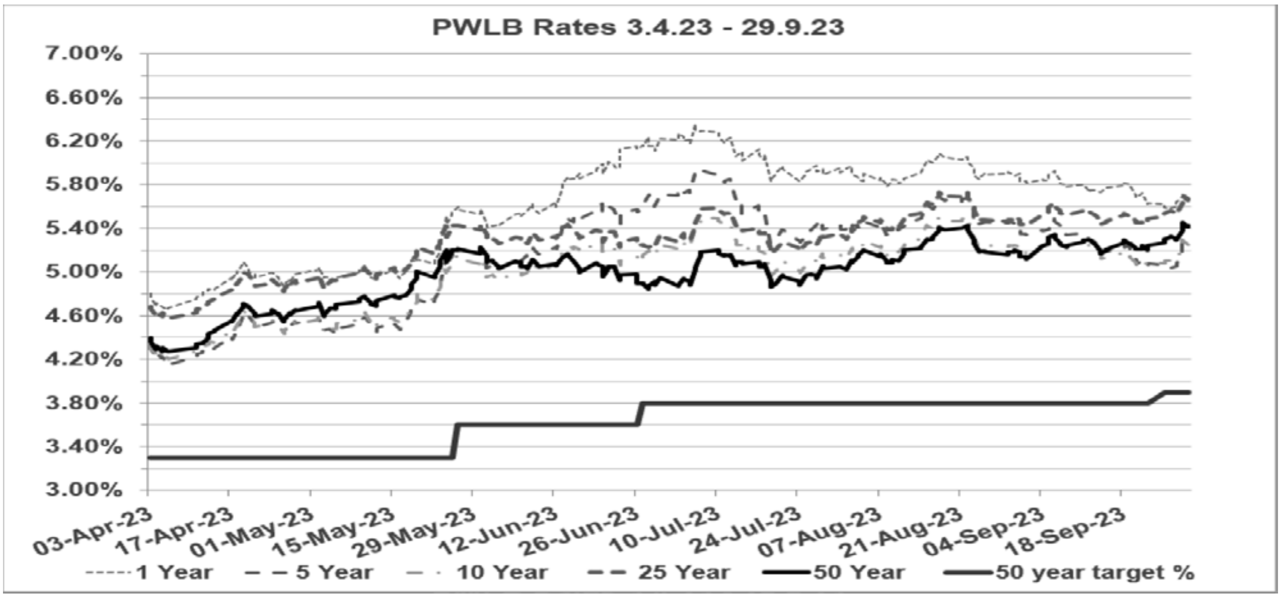
2.2 The current PWLB rates are set as margins over gilt yields as follows:-.

1. **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
2. **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
3. **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

(1) **PWLB certainty rates 1 April 2023 to 30 September 2023**

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

(2) **PWLB Interest Rates – Apr 23 – Sep 23**



3.1 ***Investment Strategy***

(1) The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 1st March 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- security of capital;
- liquidity; and
- yield

(2) The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also

to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness.

3.2 *Investment Performance 2023/24*

(1) The Council's average level of funds available for investment purposes in the first half of the year 2023/24 was **£63.2m.** These funds are available on a temporary basis and are dependent on a number of factors including cash flows, reserve balances, borrowing strategy, etc. As these funds are linked to Council reserves earmarked for specific purposes, they are not available to spend on additional services and represent the current 'cash' position.

(2) LIBOR and LIBID rates ceased from the end of 2021. LIBOR has been replaced with a rate based on SONIA (Sterling Overnight Index Average). On advice received from the Council's consultants, Link Group, the replacement benchmark to be used is the 90-day backward SONIA compounded rate.

Below table shows the rates for the first half of 2023/24.

	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.25	5.19	5.19	5.20	5.12	4.78	4.06
High Date	03/08/2023	29/09/2023	04/09/2023	27/09/2023	29/09/2023	29/09/2023	29/09/2023
Low	4.25	4.18	4.18	4.02	3.81	3.32	2.27
Low Date	03/04/2023	04/04/2023	11/04/2023	03/04/2023	03/04/2023	03/04/2023	03/04/2023
Average	4.81	4.74	4.71	4.64	4.44	4.10	3.16
Spread	1.00	1.01	1.01	1.17	1.31	1.46	1.79

(3) The Council's average performance rate for Quarter ended 30th September 2023 was **3.80%**. This is on a par with the 90 day benchmark return as above. Investments will continue to be monitored in the current climate of changing interest rates.

(4) The Head of Finance and ICT confirms that the approved investment strategy was not breached in the first half of the financial year 2023/24.

(5) The Council continues to lend to other local authorities in order to diversify its investment portfolio and to provide the highest level of security in delivering the objectives of security, liquidity and yield in its investment portfolio. Interest rates in the recent climate are very volatile and after a long period of extremely low rates are rising at a fairly quick pace. This makes borrowing more expensive but on the counter side the council is achieving a greater rate of interest on investments than previously forecast, because of this some forward planning has been undertaken to try and secure the best rates available. Also, to ensure some form of liquidity advantage has been taken of short-term investments (up to 6 months) with other banking authorities such as Bank of Scotland (Treasury) and Standard Chartered Bank.

The following table summarises the Council's investments as of 30 September 2023.

Table 6

Counterparty	Type	Principal £'000	Interest Rate	Maturity	Colour Code (Based on credit information)
Bank of Scotland	Liquidity	11,350	5,20%	N/a	Orange
Money Market Fund - GoldmanSachs International Bank	Liquidity	2,000	5.21%	N/A	
Money Market Fund – Federated (Prime Rate Class3)	Liquidity	10,000	5.35%	N/A	AAA
Money Market Fund - Aberdeen Liquidity Fund - Sterling Fund Class L-1	Liquidity	3,000	5.29%	N/A	
Bank of Scotland (Treasury)	Maturity	5,000	5.36%	01/12/23	
Blackpool Borough Council	Maturity	5,000	4.10%	05/02/24	
Eastleigh Borough Council	Maturity	5,000	4.75%	08/01/24	
Blackpool Borough Council	Maturity	5,000	5.35%	27/11/23	
Leeds City Council	Maturity	5,000	5.30%	05/10/23	
Standard Chartered Bank	Maturity	5,000	5.30%	03/10/23	Red
Standard Chartered Bank	Maturity	5,000	5.35%	05/10/2023	Red
Total Investment		61,350			

4.1 *Review of Compliance with Treasury and Prudential Limits for 2023/24*

(1) The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

Table 7 below shows that the 2023/24 year end projected total debt position of £439,660 is below the projected CFR of £571,430 which indicates that external borrowing is only being used for capital purpose.

Table 7

	2022/23 Actual £'000	***2023/24 Borrowing as @ 30/9/23 £'000***	***2023/24 Projection £'000***
Long Term Borrowing – PWLB	211,184	216,184	284,460
Long Term Borrowing - LOBO	41,200	41,200	38,200
Long Term Borrowing - Market	28,000	33,000	44,000
Short Term Borrowing – Market	75,000	73,000	73,000
External Debt	**355,384**	**363,316**	**433,659**
Other Long-Term Liabilities	91,951	91,951	88023
Total Debt	**447,335**	**455,267**	**527,683**
Capital Financing Requirement (CFR)	484,608	571,430	571,430
(Under) Over borrowed	**(37,273)**	**(116,163)**	**(43,747)**

(2) A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government in Scotland Act 2003.

Table 8 below shows the authorised limit amended from the original 2023/24 indicator.

Table 8

Prudential Indicator – Authorised Limit for External Debt	***2023/24 Original Indicator £'000***	***2023/24 Revised Indicator £'000***
Borrowing	474,000	485,000
Other Long-Term Liabilities	132,000	156,000
Authorised Limit	**606,000**	**641,000**

(3) Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

CIPFA notes on page 13 of the 2021 TM Code: "The liability benchmark should be analysed as part of the annual treasury management strategy, and any substantial mismatches between actual loan debt outstanding and the liability benchmark should be explained. Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment (unless any currently unknown future borrowing plans increase the benchmark loan debt requirement). The treasury strategy should explain how the treasury risks inherent in these mismatched positions will be managed."

There are four components to the LB:-

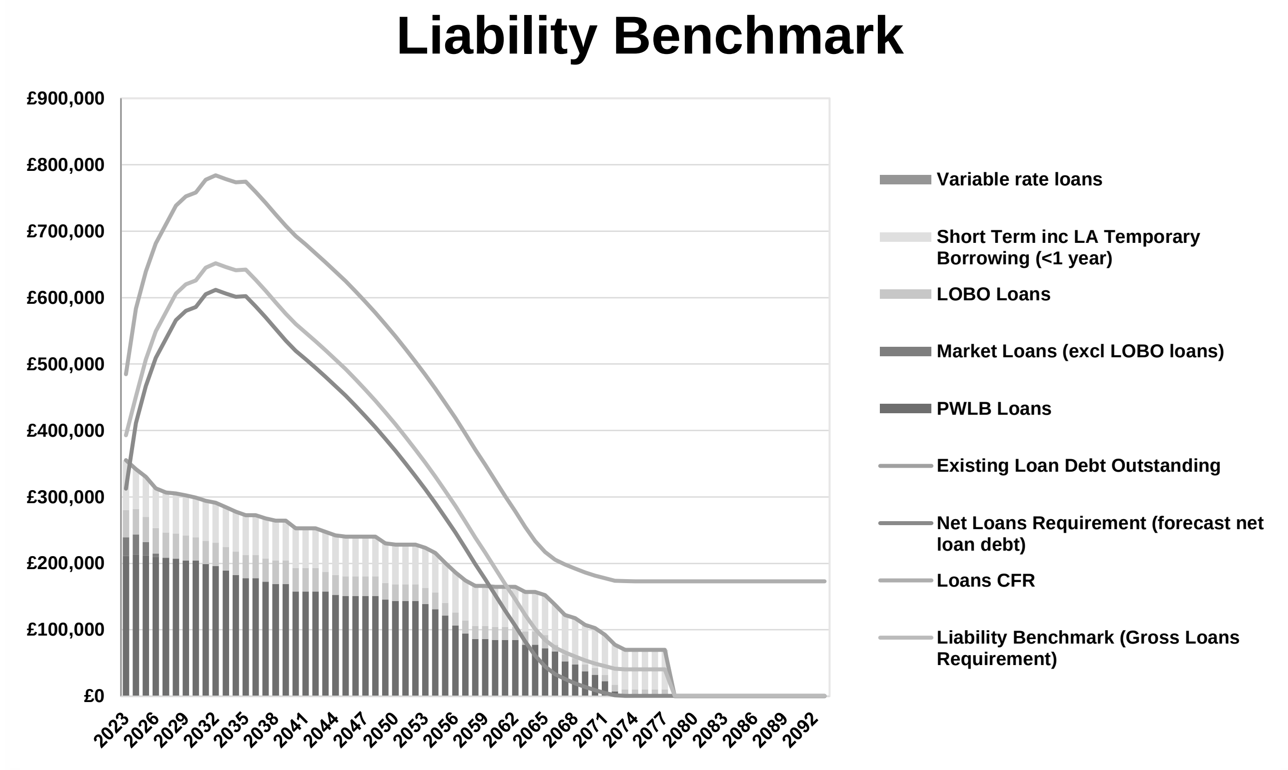
1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.

2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Loans Fund advances/Loans Fund principal repayments. (Note only approved prudential borrowing is included).

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

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

The graph below shows the projected movement in the liability benchmark.



5.1 *Borrowing in Advance of Need*

The Local Government Investment Regulations (Scotland) 2010 requires the Council to set out its strategy and approach to borrowing in advance of need, which is defined as any borrowing undertaken which will result in the total external debt exceeding the CFR for the following twelve-month period. The Council has not borrowed in advance of need during the six months to 30 September 2023.

6.1 *Debt Rescheduling*

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

7.1 Other Current Issues

Sources of Borrowing – regarding ESG (Environmental, Social and Governance)

While the prime considerations when investing surplus funds are security liquidity and yield, it is recognised that consideration must be given to other factors such as climate change, environmental, social, and good governance (ESG), to support a policy of sustainability. For these considerations to work effectively any policy should be derived on a corporate level, at which point the finance team can implement for treasury investing. Most highly rated lenders will have an ESG policy in place, which can be reviewed periodically and form part of the counterparty selection process for treasury investments. We currently have investments with Standard Chartered Fixed Term ESG deposit accounts. The same interest rate is offered for both non-ESG and ESG accounts allowing investment at the same return but also in line with policy.

Appendix 3

South Ayrshire Council
Equality Impact Assessment
Scoping Template

Equality Impact Assessment is a legal requirement under the Public Sector Duty to promote equality of the Equality Act 2010. Separate guidance has been developed on Equality Impact Assessment's which will guide you through the process and is available to view here: Equality Impact Assessment including Fairer Scotland Duty

Further guidance is available here: Assessing impact and the Public Sector Equality Duty: a guide for public authorities (Scotland)

The Fairer Scotland Duty ('the Duty'), Part 1 of the Equality Act 2010, came into force in Scotland from 1 April 2018. It places a legal responsibility on Councils to actively consider ('pay due regard to') how we can reduce inequalities of outcome caused by socio-economic disadvantage, when making strategic decisions. See information here: Interim Guidance for Public Bodies in respect of the Duty, was published by the Scottish Government in March 2018.

1. Policy details

Policy Title	Treasury Management and Investment Strategy Mid-year Report 2023/24
Lead Officer (Name/Position/Email)	Kate Copland, Senior Finance Officer, Treasury/ Capital – kate.copland@south-ayrshire.gov.uk

2. Which communities, groups of people, employees or thematic groups do you think will be, or potentially could be, impacted upon by the implementation of this policy? Please indicate whether these would be positive or negative impacts

Community or Groups of People	Negative Impacts	Positive impacts
Age – men and women, girls & boys	-	-
Disability	-	-
Gender Reassignment (Trans/Transgender Identity)	-	-
Marriage or Civil Partnership	-	-
Pregnancy and Maternity	-	-
Race – people from different racial groups, (BME) ethnic minorities and Gypsy/Travellers	-	-
Religion or Belief (including lack of belief)	-	-
Sex – gender identity (issues specific to women & men or girls & boys)	-	-
Sexual Orientation – person's sexual orientation i.e. LGBT+, lesbian, gay, bi-sexual, heterosexual/straight	-	-
Thematic Groups: Health, Human Rights & Children's Rights	-	-

3. What likely impact will this policy have on people experiencing different kinds of social disadvantage? (Fairer Scotland Duty). Consideration must be given particularly to children and families.

Socio-Economic Disadvantage	Negative Impacts	Positive impacts
Low Income/Income Poverty – cannot afford to maintain regular payments such as bills, food, clothing	-	-
Low and/or no wealth – enough money to meet Basic living costs and pay bills but have no savings to deal with any unexpected spends and no provision for the future	-	-
Material Deprivation – being unable to access basic goods and services i.e. financial products like life insurance, repair/replace broken electrical goods, warm home, leisure/hobbies	-	-
Area Deprivation – where you live (rural areas), where you work (accessibility of transport)	-	-
Socio-economic Background – social class i.e. parent's education, employment and income	-	-

4. Do you have evidence or reason to believe that the policy will support the Council to:

General Duty and other Equality Themes Consider the 'Three Key Needs' of the Equality Duty	Level of Negative and/or Positive Impact (High, Medium or Low)
Eliminate unlawful discrimination, harassment and victimisation	Low
Advance equality of opportunity between people who share a protected characteristic and those who do not	Low
Foster good relations between people who share a protected characteristic and those who do not. (Does it tackle prejudice and promote a better understanding of equality issues?)	Low
Increase participation of particular communities or groups in public life	Low
Improve the health and wellbeing of particular communities or groups	Low
Promote the human rights of particular communities or groups	Low
Tackle deprivation faced by particular communities or groups	Low

5. Summary Assessment

Is a full Equality Impact Assessment required? (A full Equality Impact Assessment must be carried out if impacts identified as **Medium and/or High**)	~~**YES**~~ **NO**

Rationale for decision:

The strategy outlines the approach to be taken in managing the Council's cash flow and capital funding arrangements and is a mechanism for ensuring that budget targets are achieved: a full EQIA is, therefore, not required

Signed : Tim Baulk **Head of Service**

Date: 30 November 2023