Agenda Item No.12

South Ayrshire Council

Report by Chief Financial Officer
to South Ayrshire Council
of 6 March 2025

Subject: Treasury Management and Investment Strategy Mid-Year Report 2024/25

1. Purpose

1.1 The purpose of this report is to provide Members with a mid-year treasury management update for the financial year 2024/25.

2. Recommendation

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

3. Background

Treasury Management

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 4 December 2024 considered the Treasury Management and Investment Strategy Mid-Year Report 2024/25 (attached at Appendix 1) and agreed that it be remitted to the Council for approval.

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	Borrowing Strategy for 2024/25
3.1 to 3.2	Review of Investment Strategy and Performance
4.1	Review of compliance with Treasury and Prudential Limits for 2024/25
5.1	Borrowing in advance; and
6.1	Debt Re-scheduling.
7.1 to 7.3	Other

4.2 The Council 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 £2.130m in 2024/25, based on an estimate of the average revenue balances held during the year. Budgeted at achieving an assumed interest rate return of 5.50% on these balances.

At September 2024 (Qtr2) the full year budgeted income is projected at £2.205m, a surplus of £0.075m.

6.1.2 **Capital Financing Costs** - the budget for loan charges in 2024/25 is £17.610m, comprising £6.457m for loan principal, £10.978m for interest costs and £0.174m for loans fund expenses.

The current projection for loans charges to the General Fund is an over-spend of £1.334m in interest and expenses. This is offset by the projected surplus of income of £0.075m bringing an overall overspend of £1.259m.

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 £0.240m in 2024/25, based on an estimate of the average revenue balances held during the year. Budgeted at achieving an assumed interest rate return of 5.50% on these balances.

At September 2024 (Qtr2) the full year estimate for investment income earned is £0.342m resulting in a surplus of £0.102m.

6.2.2 **Capital Financing Costs** - the budget for HRA loan charges in 2024/25 is £7.277m, comprising £2.443m for loan principal, £4.762m for interest costs and £0.071m for loans fund expenses.

The current projection for HRA loan charges is an underspend of £0.276m in interest and expenses. In addition, the projected surplus of income of £0.102m results in an overall underspend of £0.378m.

The projected surplus will 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

12.1 The matters referred to in this report contribute to Commitment 1 of the Council Plan: Fair and Effective Leadership/ Leadership that promotes fairness.

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.

Background Papers	**CIPFA Code of Practice for Treasury Management in the Public Services** **Report to South Ayrshire Council of 6 March 2024 – Treasury and Investment Strategy 2024/25** **Report to Audit and Governance Panel of 4 December 2024 - Treasury Management and Investment Strategy Mid-Year Report 2024/25**
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Date: 25 February 2025

Economic Update and Interest Rates

1. Economics and Interest Rates

- The third quarter of 2024 (July to September) saw:
  - Gross Domestic Product (GDP) growth slowed in July following downwardly revised Q2 figures (0.5% q/q)
  - A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
  - CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
  - Core CPI inflation increasing from 3.3% in July to 3.6% in August;
  - The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
  - 10-year gilt yields falling to 4.0% in September.
- The lack of growth in the economy in June and July suggests a slight slowdown in GDP growth as opposed to a return to recession. In addition, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months.

  This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services Purchasing Managers' Index (PMI) balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an increase in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.
- The 1.0% m/m increase in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the Office for National Statistics (ONS) reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.
- The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Capital Economics company suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.
- The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to calm. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.
- Other labour market indicators also point to a less restrictive labour market. The 59,000 fall in the alternative Pay As You Earn (PAYE) measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three

months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

- Consumer Price Index (CPI) inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.
- The Bank of England initiated the phase of lowering rates in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the European Central Bank (ECB) more than the US Federal Reserve, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members chose to vote to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.
- Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank of England if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.
- The treasury forecast from Link Advisory Services has been updated after the MPC on 7th November and is reflected in Section 2.
- Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the US Federal Reserve rate cut on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.
- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently.

MPC meetings

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the Federal Open Market Committee (FOMC), but there was no change.
- On 7 November, the Bank of England's Monetary Policy Committee (MPC) voted 8-1 to cut the bank base rate to 4.75%. Going forward, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

2. Interest Rates Forecast

The Authority has appointed Link Group as its treasury advisors and part of their service is to assist the Authority 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 1 November 2012.

Our latest forecast on 11 November sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

Our 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 1 November 2012.

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

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 2024/25 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

	2024/25 Original Estimate £'000	***2024/25 Latest Estimate £'000***
Prudential Indicator – General Services		
Capital Expenditure	**102,570**	**61,105**
General Services - Financed By		
General and Specific Grant	8,360	9,997
Capital Receipts/Other	32,426	4,815
Borrowing	61,784	46,293
	102,570	**61,105**
Prudential Indicator – HRA		
Capital Expenditure	**64,389**	**58,275**
HRA - Financed By		

	2024/25 Original Estimate £'000	***2024/25 Latest Estimate £'000***
Borrowing	61,546	46,583
CFCR, Draw on surplus	1,798	1,798
Other Receipts/ Grants	1,045	9,894
	64,389	**58,275**

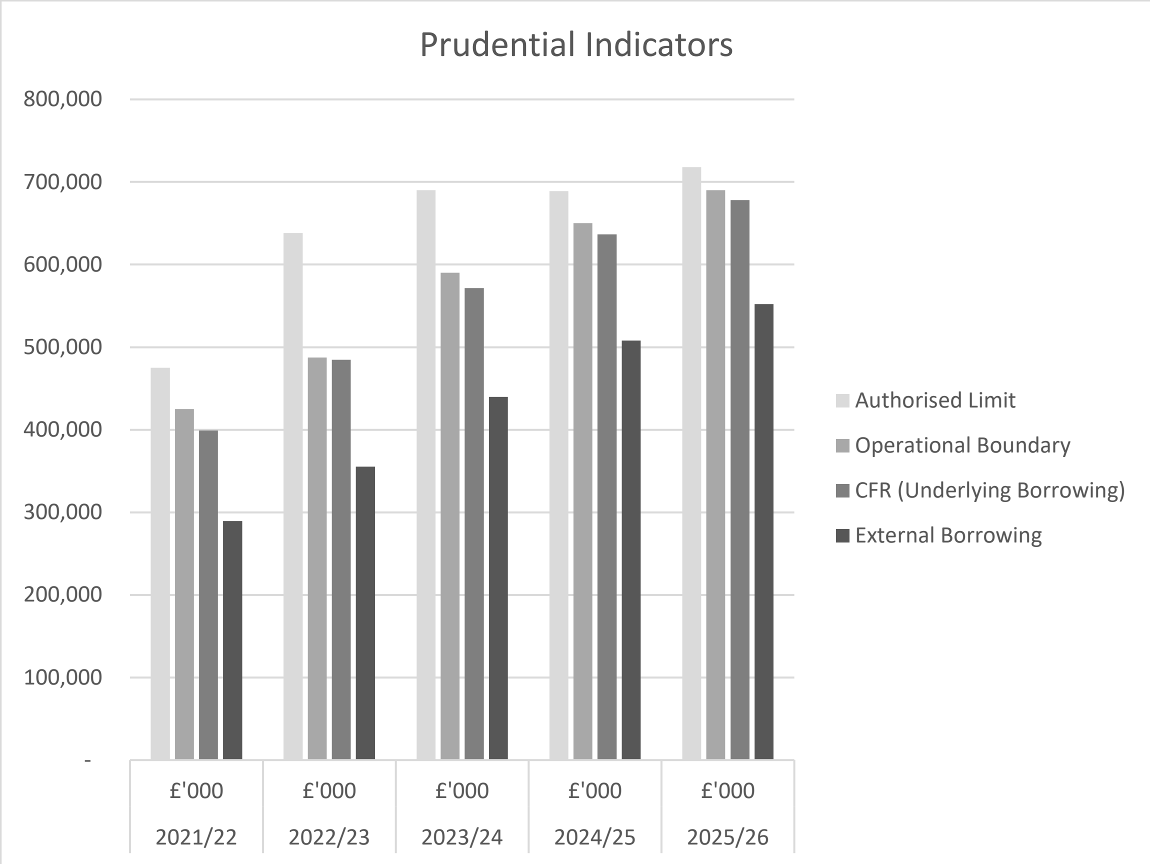
1.2 ***Capital Financing Requirement, Debt Position and Operational Boundary Indicators***

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

Table 2

Prudential Indicator – CFR	***2024/25 Original Estimate £'000***	***2024/25 Updated Estimate £'000***
Capital Financing Requirement – GS	481,816	466,352
Capital Financing Requirement – HRA	171,136	145,409
Total Capital Financing Requirement	**652,952**	**611,761**

(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 2023/24 in an under borrowed position (CFR compared with external debt) of £58.801m. 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/

Table 3

Prudential Indicators – Debt	***2024/25 Original £'000***	***2024/25 Updated £'000***
Authorised Limit	705,000	658,683
Operational Limit	660,000	602,721
External Debt	527,674	468,674

2.1 Borrowing Strategy 2024/25 (Update)

(1) The Council's capital financing requirement (CFR) estimate for 2024/25 has been revised to £611.761m 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 2024/25 was set at £121m but has been revised to £92.876m. This drop is attributed to increased cost of supplies and re-profiling of capital projects. 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 £160.0m to £95.0m.

(4) The current strategy is to consider medium term external borrowing in Qtr3 of £10.0m and Qtr. 4 of £10.0m 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 £5.0m 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.

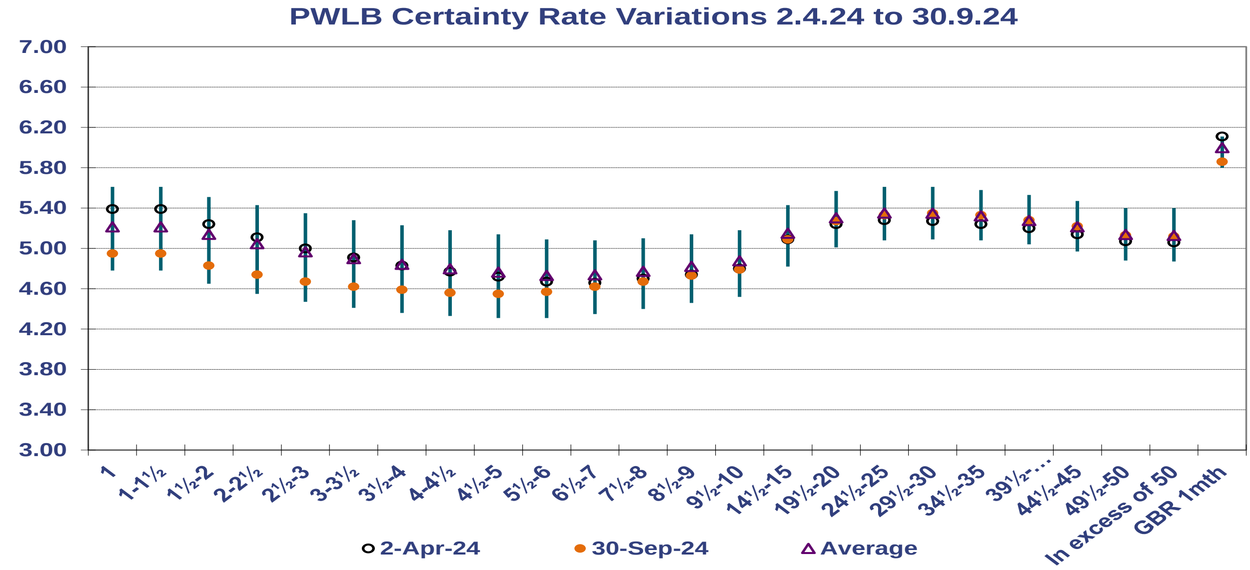
A pragmatic approach however is being taken in terms of the timing of new long term external borrowing given the current market uncertainties due to a number of factors such as the overall economic climate and interest rate fluctuations along with the pace of the spend in the Council's capital programme.

(5) The table at 2.2.1 below shows the high and low rates available from the PWLB during the period April 24 – Sept 24.

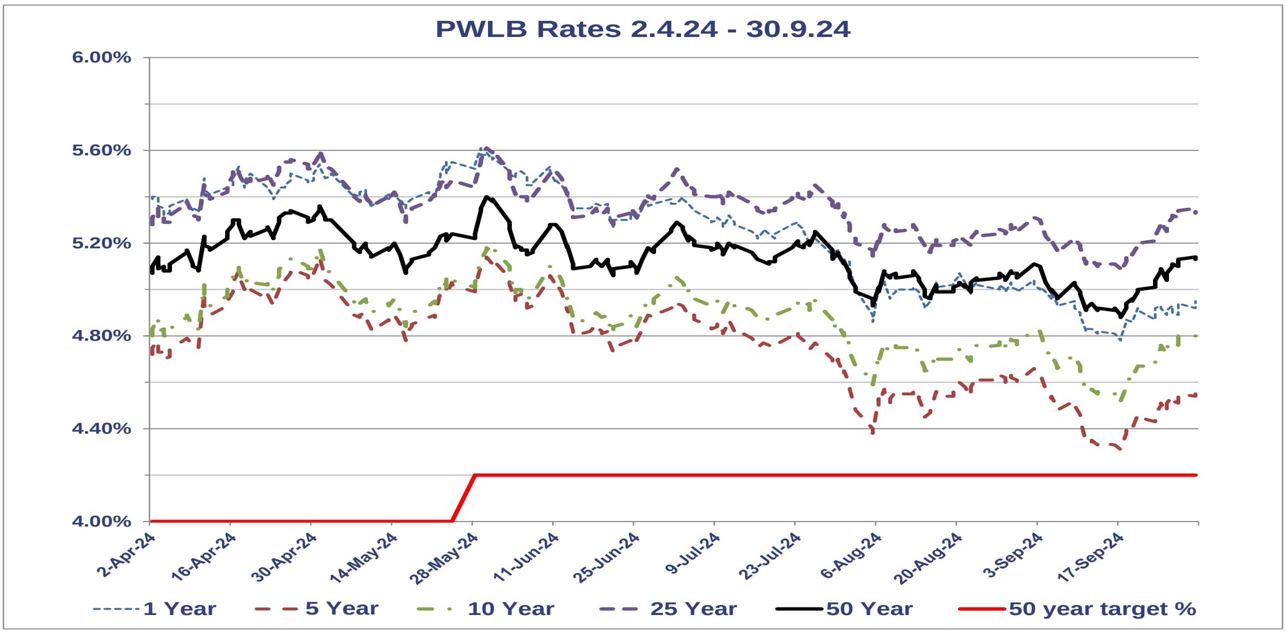
2.2 The current PWLB rates are set as margins over gilt yields as follows: -.

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)

2.2.1 **PWLB certainty rates 1 April 2024 to 30 September 2024**



2.2.2 **PWLB Interest Rates – Apr 24 – Sep 24**



3.1 ***Investment Strategy***

The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 6 March 2024. 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 2024/25***

(1) The Council's average level of funds available for investment purposes in the first half of the year 2024/25 was **£19.6m.** 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 2024/25.

	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	5.25	5.20	5.21	5.20	5.17	5.08
High Date	02/04/2024	03/05/2024	27/06/2024	17/04/2024	31/05/2024	30/05/2024
Low	5.00	4.95	4.90	4.79	4.58	4.17
Low Date	01/08/2024	01/08/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
Average	5.17	5.12	5.11	5.06	4.96	4.75
Spread	0.25	0.25	0.31	0.41	0.58	0.91

(3) The Council's average performance rate for Quarter ended 30th September 2024 was **5.31%**. 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 Chief Financial Officer 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 where appropriate, 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, they have risen and remain fairly high. 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 good return on investment rates using Money Market Funds (MMF).

The following table summarises the Council's investments as of 30 September 2024.

Table 6

Counterparty	Type	Principal £'000	Interest Rate	Maturity	Colour Code (Based on credit information)
Bank of Scotland	Liquidity	12,450	4.95%	N/A	Orange
MMF VNAV – Federated Cash Plus	Liquidity	30	4.10%	N/A	
Money Market Fund – Federated (Prime Rate Class3)	Liquidity	400	5.02%	N/A	AAA
Money Market Fund - Aberdeen Liquidity Fund - Sterling Fund Class L-1	Liquidity	5,000	5.005%	N/A	
Lancashire County Council	Maturity	5,000	5.75%	05/01/2025	Red
Total Investment		22,878			

4.1 ***Review of Compliance with Treasury and Prudential Limits for 2024/25***

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 2024/25 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 2024/25 year end projected total debt position of £473,674 is below the projected CFR of £613,472 which indicates that external borrowing is only being used for capital purpose.

   Table 7/

Table 7

	2023/24 Actual £'000	***2024/25 Borrowing as @ 30/9/24 £'000***	***2024/25 Projection £'000***
Long Term Borrowing – PWLB	239,459	239,182	317,474
Long Term Borrowing - LOBO	33,200	33,200	33,200
Long Term Borrowing - Market	44,000	44,000	49,000
Short Term Borrowing – Market	71,000	83,000	69,000
External Debt	**387,659**	**399,382**	**473,674**
Other Long-Term Liabilities	88,023	84,047	84,047
Total Debt	**475,682**	**483,429**	**552,721**
Capital Financing Requirement (CFR)	534,483	611,761	611,761
(Under) Over borrowed	**(58,801)**	**(128,332)**	**(59,040)**

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 2024/25 indicator.

Table 8

Prudential Indicator – Authorised Limit for External Debt	***2024/25 Original Indicator £'000***	***2024/25 Revised Indicator £'000***
Borrowing	515,000	520,660
Other Long-Term Liabilities	145,000	138,023
Authorised Limit	**660,000**	**658,683**

3. **Liability Benchmark**

The third prudential indicator for 2024/25 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:

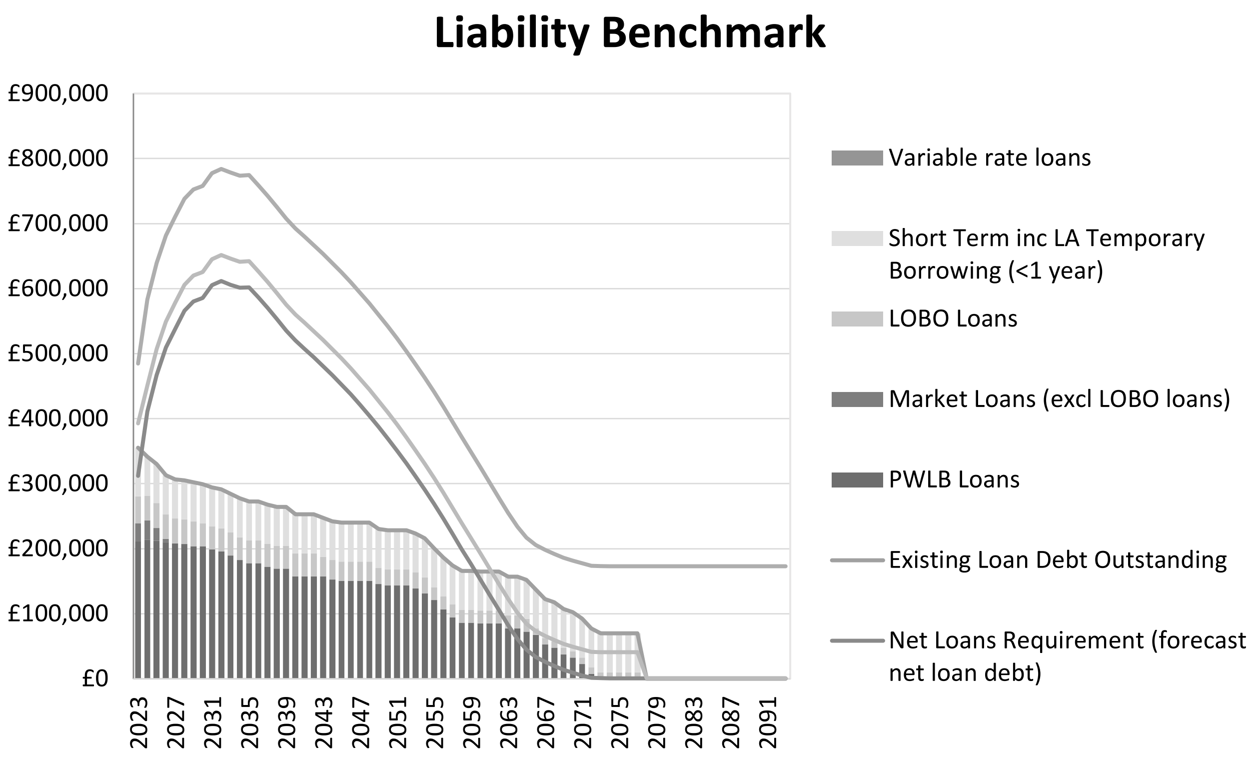
1' **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.

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 2024.

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

7.1.1 **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.

7.1.2 **Changes to Accounting Standards for Leasing Arrangements**

The change to accounting standards to IFRS16 for leasing arrangements requires that all leasing contracts are held on the balance sheet. This is the change from the previous accounting standard IAS17. This will mean that the Capital Financing Requirement figures (CFR) and the Operational Boundaries will increase to reflect the change in accounting policy.

The work to prepare for the transition for the reporting of this in the year end accounts 24/25 is making good progress. A separate report is being prepared to provide detailed information on the effect of these changes and should be at Audit and Governance Panel

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 2024/25
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 **Chief Financial Officer**

Date: 8 November 2024