

**South Ayrshire Council**

**Report by Head of Finance and ICT  
to South Ayrshire Council  
of 3 March 2022**

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**Subject: Treasury Management and Investment Strategy 2022/23**

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**1. Purpose**

- 1.1 The purpose of this report is to request that Members consider the proposed Treasury Management and Investment Strategy for financial year 2022/23.

**2. Recommendation**

- 2.1 **It is recommended that the Council approves the draft Treasury Management and Investment Strategy for 2022/23 (attached as Appendix 1).**

**3. Background**

- 3.1 The Treasury Management service undertakes two main roles within the Council:
- 3.1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part 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 investment appetite, whilst providing adequate liquidity initially before considering investment return.
- 3.1.2 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 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.
- 3.2 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity and the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects.

3.3/

- 3.3 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.
- 3.4 Whilst any loans to third parties, commercial investment initiatives or other non-financial investments will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
- 3.5 CIPFA defines treasury management as:  
‘The management of the local authority’s borrowing, investments and cashflows, 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.’

## 4. Proposals

- 4.1 The purpose of the Treasury Management and Investment Strategy is to detail the planned activities for the treasury service in the forthcoming financial year. The draft proposed Strategy for 2022/23 is attached at Appendix 1.
- 4.2 CIPFA have introduced changes to CIPFA Treasury Management Code and Prudential Code which are outlined in the introduction at Appendix 1. These changes will be reflected in Treasury Management and Investment Strategy reports from financial year 2023/24 onwards and do not have an impact on the strategy for financial year 2022/23. Discussions are currently being held with Treasury Management Forum and South Ayrshire Council consultants, Link Group, to ensure a consistent approach to implementation of these changes and that the timescale for these changes is met.
- 4.3 The Strategy sets out the basis for decision making in relation to managing the Council’s cash flow position to ensure appropriate investment returns are achieved and ensuring that appropriate funding for budgeted capital investment plans during 2022/23 are in place and to ensure the relevant borrowings are in line with loan charge budgets.
- 4.4 The overall objectives for the Council’s Treasury Management and Investment Strategy are:
- 4.4.1 ***For Borrowings the objective is:***
- to minimise the revenue cost of borrowings;
  - to manage the Council’s cash flow;
  - to manage the borrowing repayment profile;
  - to assess interest rate movements, and borrow/invest accordingly;
  - to monitor and review the level of variable rate loans held in order to take advantage of interest rate movements; and
  - to identify and evaluate opportunities for debt rescheduling.

#### 4.4.2 ***For Temporary Investments the objective is:***

- to protect capital security of the invested funds; and
- to obtain the best market return available commensurate with protection of security and liquidity.

Temporary investments will continue to be managed using the following priorities in order of importance:

- security of capital;
- liquidity; and
- yield.

#### 4.5 ***Reporting Requirements*** - The reporting of Treasury Management to Members in 2022/23 is proposed to be as follows:

##### 4.5.1 **A Treasury Management and Investment Strategy Report (this report)** - This first, and most important, report covers:

- the capital plans (including prudential indicators);
- the Treasury Management Strategy (how the investments and borrowings are to be managed) including treasury indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

This report is presented to Council for approval.

##### 4.5.2 **A Mid-Year Treasury Management Report** – This will update Members on the progress of the strategy, including loan charges, prudential indicators, and any proposed change to the strategy or whether any policies require revision.

This report is presented to the Audit and Governance Panel for scrutiny and then to Leadership Panel for approval.

##### 4.5.3 **An Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

This report is presented to the Audit and Governance Panel for scrutiny and to Leadership Panel for approval.

## 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 There are no resources implications arising from this report other than those resulting from the delivery of the proposed Strategy as contained in Appendix 1.

## **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 The Council would not be compliant with the requirements of the CIPFA Treasury Management Code of Practice.

## **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 2.

## **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 Brian McGinley, Portfolio Holder for Resources and Performance, and the contents of this report reflect any feedback provided.

## **14. Next Steps for Decision Tracking Purposes**

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 Leadership Panel in the 'Council and Leadership Panel Decision Log' at each of its meetings until such time as the decision is fully implemented:

<b><i>Implementation</i></b>	<b><i>Due date</i></b>	<b><i>Managed by</i></b>
The approved strategy will be incorporated into the 2022/23 treasury and investment planning and management process	1 April 2022	Head of Finance and ICT

**Background Papers**    **2021 revised CIPFA Treasury Management Code and Prudential Code**

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

**CIPFA The Prudential Code for Capital Finance in Local Authorities**

**The Local Government Investments (Scotland) Regulations 2010**

**The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016**

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**Date: 23 February 2022**

# Treasury Management And Investment Strategy 2022/23

March 2022





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## Introduction

### 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. '*

The background for the requirements strategy is set out in the in the undernoted legislation:

All treasury management reports written during the financial year of 2022/23 will need to take into account the under-noted:

- CIPFA Treasury Management Codes of Practice and Guidance notes 2021/22;
- 2021 revised CIPFA Treasury Management Code and Prudential Code
- CIPFA Prudential Code for Capital Finance in Local Authorities revised 2017;
- CIPFA Prudential Code for Capital Finance in Local Authorities - Guidance Notes for practitioners 2018;
- Finance Circular 7/2016, which covered Loans Fund Accounting and the revised requirements around loans fund repayments;
- Statutory investment regulations;and
- Statutory guidance for annual loan repayments.

### **CIPFA Treasury Management Code and Prudential Code – 2021 changes will impact on future Treasury Management Strategy Statement and Annual Investment Strategy reports and the risk management framework for 2023/24 onwards.**

CIPFA published the revised codes on 20 December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. The Council has, however, to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address Environmental, Social and Governance issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;

- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices (TMP's));
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to TMP1 to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- **a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).**

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

#### Treasury management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

#### Service delivery

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

#### Commercial return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report. However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether they feel it is relevant to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

- **South Ayrshire Council's Treasury Management and Investment Strategy for 2022/23 is set out in the following Sections 1 to 4 plus Annex A and B.**

## Treasury Management and Investment Strategy 2022/23

### Section 1 - Capital Plans and Prudential Indicators 2020/21 to 2024/25

The Council's capital expenditure plans and delivery are the key drivers of treasury management activity. The capital expenditure plans are reflected in prudential indicators, which are designed to assist in providing Members with an overview of the Council's capital plans.

1.1 **Capital Expenditure** - This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the budget cycle.

Members are asked to approve the capital expenditure forecasts:

<b>Capital Expenditure</b>	<b>2020/21 Actual £'000</b>	<b>2021/22 Projected £'000</b>	<b>2022/23 Estimate £'000</b>	<b>2023/24 Estimate £'000</b>	<b>2024/25 Estimate £'000</b>
General Services	33,334	65,952	131,329	78,281	60,521
HRA	17,504	23,895	66,153	40,249	21,351
<b>Total</b>	<b>50,838</b>	<b>89,847</b>	<b>197,482</b>	<b>118,530</b>	<b>81,872</b>
<b>Financed by:</b>					
Government Grant/Other	(14,651)	(10,564)	(10,580)	(16,965)	(12,308)
Capital Receipts/Other	(18,455)	(21,594)	(22,815)	(19,190)	(20,088)
<b>Net financing need for the year – (Borrowing)</b>	<b>17,732</b>	<b>57,689</b>	<b>164,087</b>	<b>82,375</b>	<b>49,476</b>

The table above takes in to account the 2020/21 actual and 2021/22 budget projections for spend and any programme decisions that impact on future years. The table also summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources.

**Any shortfall of resources results in a funding requirement (borrowing).**

**Other Long-Term Liabilities (OLTL)** - The above summarised capital plan excludes other long-term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

Due to new financial regulation IFRS16 (International Financial Reporting Standard 16) from 1<sup>st</sup> April 2022 leases which were previously off-balance sheet will now require to be included. This will impact the OLTL figure. It is anticipated this impact will be reported in the Mid-year treasury report.

1.2 **Borrowing and Capital Financing Requirement**

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has

not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.

Any capital expenditure, which has not immediately been paid for, 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 that are financed by borrowing.

The CFR includes any other long-term liabilities (e.g., PFI schemes and finance leases). Whilst these schemes increase the CFR and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council does not require borrowing separately for these schemes.

The Council has £95.8m of such schemes within the CFR as of 31 Mar 2021.

The table below shows the projected and estimated movement in the CFR based on current capital expenditure plans.

<b>Capital Financing Requirement</b>	<b>2020/21 Actual £'000</b>	<b>2021/22 Projected £'000</b>	<b>2022/23 Estimate £'000</b>	<b>2023/24 Estimate £'000</b>	<b>2024/25 Estimate £'000</b>
General Services	280,923	321,651	420,374	467,832	497,361
HRA	69,117	75,843	130,155	152,465	158,846
<b>CFR</b>	<b>350,040</b>	<b>397,494</b>	<b>550,529</b>	<b>620,297</b>	<b>656,207</b>
Other Long-Term Liabilities	(99,567)	(95,777)	(91,951)	(88,023)	(84,047)
<b>Underlying Borrowing Need</b>	<b>250,473</b>	<b>301,717</b>	<b>458,578</b>	<b>532,274</b>	<b>572,160</b>
<b>Movement in underlying borrowing need</b>	<b>10,943</b>	<b>51,244</b>	<b>156,861</b>	<b>73,696</b>	<b>39,886</b>
<b>Movement in underlying borrowing need represented by</b>					
Net financing need for the year	17,732	57,689	164,087	82,375	49,476
Less scheduled debt amortisation	(6,789)	(6,445)	(7,226)	(8,679)	(9,590)
<b>Movement in underlying borrowing need.</b>	<b>10,943</b>	<b>51,244</b>	<b>156,861</b>	<b>73,696</b>	<b>39,886</b>

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 1.1

and the details above demonstrate the scope of this activity and, by approving these figures; consider the scale proportionate to the Authority's remaining activity.

### 1.3 **Capital Affordability Indicators**

The previous section covers the overall capital and 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.

#### 1.3.1 **Actual and Estimates of the 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 of the Council.

	<b>2020/21 Actual %</b>	<b>2021/22 Projected %</b>	<b>2022/23 Estimate %</b>	<b>2023/24 Estimate %</b>	<b>2024/25 Estimate %</b>
General Services	5.77	5.58	6.06	6.80	7.43
HRA	11.32	10.13	11.34	16.02	18.72
Average Rate	6.48	6.21	6.78	7.90	8.77

#### 1.3.2 **HRA Debt Ratios**

<b>£'000</b>	<b>2020/21 Actual £'000</b>	<b>2021/22 Projected £'000</b>	<b>2022/23 Estimate £'000</b>	<b>2023/24 Estimate £'000</b>	<b>2024/25 Estimate £'000</b>
<b>HRA debt</b>	68,794	75,522	129,834	152,149	158,528
<b>HRA revenues</b>	33,055	33,074	34,051	34,105	35,310
<b>Ratio of debt to revenues</b>	2.08	2.28	3.81	4.46	4.49

<b>£'000</b>	<b>2020/21 Actual £'000</b>	<b>2021/22 Projected £'000</b>	<b>2022/23 Estimate £'000</b>	<b>2023/24 Estimate £'000</b>	<b>2024/25 Estimate £'000</b>
<b>HRA debt</b>	68,794	75,522	129,834	152,149	158,528
<b>Number of HRA dwellings</b>	8,126	8,142	8,333	8,493	8,599
<b>Debt per dwelling</b>	£8,466	£9,276	£15,581	£17,914	£18,436

1.3.3 Significant investment is planned in the next few years in the HRA major component replacement programme and the new build programme which has increased the debt per dwelling figure in the table above.

- 1.3.4 All of the above indicators at 1.3 are designed to indicate the financing costs of the Council's investment plans against its revenues and that of the HRA. The Code does not provide target figures and also states that these indicators are not comparable between authorities given the wide ranging variations in Council's historic debt and borrowing and investment plans.

## Section 2 - Treasury Management

The capital expenditure plans set out in Section 1 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the management of the cash flow and, where capital plans require, the arrangement of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

### 2.1 *Current Portfolio Position*

The Council's treasury portfolio position as at 31 March 2021, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

<b>External Debt</b>	<b>2020/21 Actual £'000</b>	<b>2021/22 Projected £'000</b>	<b>2022/23 Estimate £'000</b>	<b>2023/24 Estimate £'000</b>	<b>2024/25 Estimate £'000</b>
Opening Debt at 1 April	236,163	238,159	287,434	432,385	508,660
Long Term Debt Maturities	(6,004)	(5,725)	(2,049)	(8,725)	(6,570)
New External Debt	8,000	55,000	147,000	85,000	45,000
<b>External Debt</b>	<b>238,159</b>	<b>287,434</b>	<b>432,385</b>	<b>508,660</b>	<b>547,090</b>
Other long-term liabilities (PPP + Finance Leases)	99,567	95,777	91,951	88,023	84,047
<b>Actual Debt at 31 March</b>	<b>337,726</b>	<b>383,211</b>	<b>524,336</b>	<b>596,683</b>	<b>631,137</b>
<b>The Capital Financing Requirement</b>	<b>350,040</b>	<b>397,494</b>	<b>550,529</b>	<b>620,297</b>	<b>656,207</b>
<b>Under / (Over) Borrowing</b>	<b>12,314</b>	<b>14,283</b>	<b>26,193</b>	<b>23,614</b>	<b>25,070</b>

<b>External Debt</b>	<b>238,159</b>	<b>287,434</b>	<b>432,385</b>	<b>508,660</b>	<b>547,090</b>
Cash Investments	(73,390)	(69,800)	(30,000)	(35,000)	(35,000)
<b>Net External Debt</b>	<b>164,769</b>	<b>217,634</b>	<b>402,385</b>	<b>473,660</b>	<b>512,090</b>

Within the prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for



2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Head of Finance and ICT reports that the Council complied with this prudential indicator in the current year. This view considers current commitments, existing plans, and the proposals in the budget report.

## 2.2 **Treasury Indicators: Limits to Borrowing Activity**

2.2.1 **The Operational Boundary** - this is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the Council's under/over borrowed position.

<b>Operational Boundary</b>	<b>2021/22 £'000</b>	<b>2022/23 £'000</b>	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>
Debt	328,000	472,000	548,000	587,000
Other long-term liabilities	95,000	92,000	88,000	84,000
<b>Total</b>	<b>423,000</b>	<b>564,000</b>	<b>636,000</b>	<b>671,000</b>

2.2.2 **The Authorised Limit for External Borrowing** - a further key prudential indicator - represents a control of the maximum level of external debt. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit (Affordable Capital Expenditure Limit) determined under section 35(1) of the Local Government in Scotland Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.

<b>Authorised limit</b>	<b>2021/22 £'000</b>	<b>2022/23 £'000</b>	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>
Debt	333,000	474,000	557,000	632,000
Other long-term liabilities	135,000	132,000	128,000	124,000
<b>Total</b>	<b>468,000</b>	<b>606,000</b>	<b>685,000</b>	<b>756,000</b>

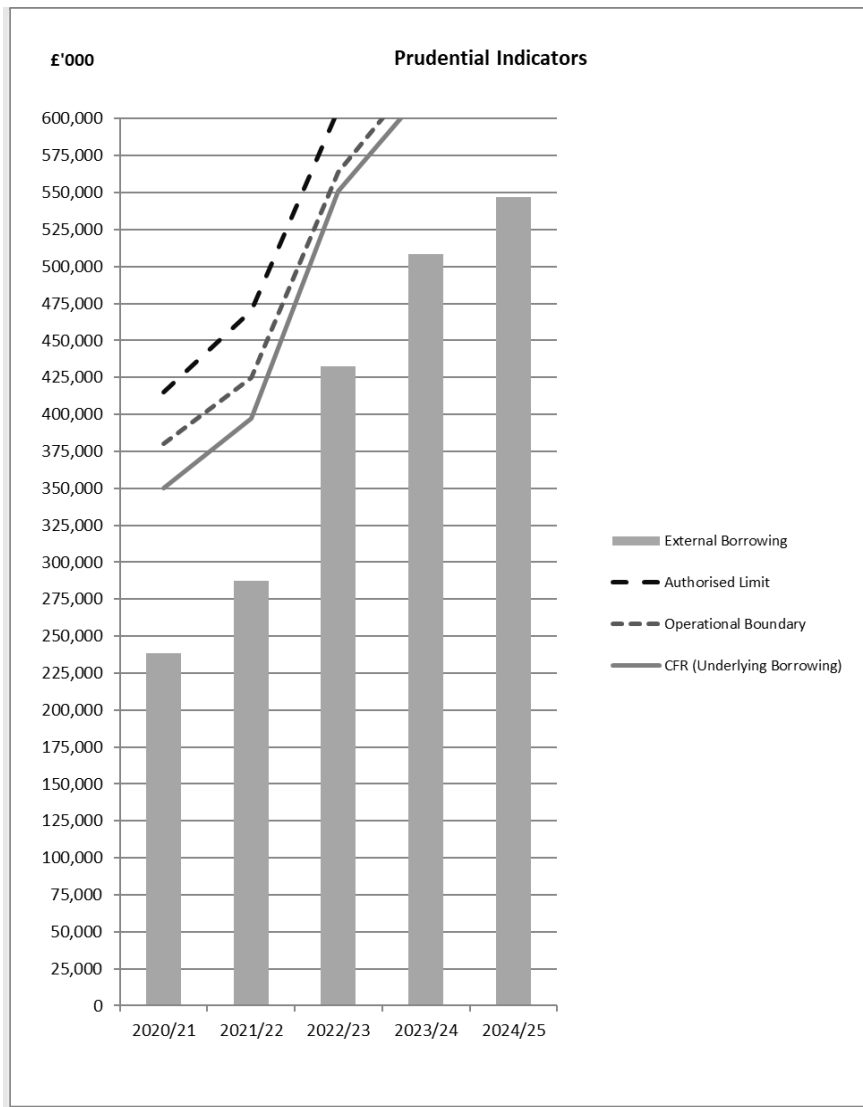
2.2.3 The under-noted graph shows the relationship between the 4 main components of capital financing:

- Authorised Limit (Debt).
- Operational Boundary (Debt).
- Capital Financing Requirement; and
- Actual External Debt

The graph below shows the increasing trend in the substantial capital investment plans of the Council in the medium term, and therefore increasing debt and capital financing requirements going forward.

Both the authorised debt and operational boundary indicators include a margin for the balance of other financing arrangements such as PPP schemes.

Both the Operational Boundary and Authorised Limit will be impacted by the new IFRS16 legislation and will require to both be increased to allow for the changes due to previous lease arrangements that were off balance sheet now being included and impacting the CFR (Capital Financing Requirement). As previously indicated the value of this impact will be reported in the Mid-Year treasury report.



### 2.3 ***Economic Commentary (Information provided by South Ayrshire Council Treasury Consultants Link Group)***

#### **COVID-19 vaccines.**

The covid vaccines implemented in 2021 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 arrival of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This dashed such hopes and raised major concerns that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that although this mutation is very fast spreading, it does not cause severe illness in fully

vaccinated people. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time focused on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection. It also placed restrictions on large indoor gatherings and hospitality venues over Christmas and into January and requested workers to work from home. This hit sectors like restaurants, travel, tourism and hotels hard which had already been hit hard during 2021. Economic growth will also have been lower due to people being ill and not working. The economy, therefore, faces significant headwinds in early 2022 although some sectors have learned how to cope well with Covid. The big question 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 be implemented to contain their spread until tweaked vaccines become widely available.

## **A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE**

- The threat from Omicron caused huge national concern at the time of December's Monetary Policy Committee (MPC) meeting; that is no longer the case.
- The MPC raised Bank Rate by another 0.25% in February and narrowly avoiding making it a 0.50% increase by a 5-4 voting margin.
- Our forecast now expects the MPC to deliver another 0.25% increase in March; their position appears now to be to go for sharp increases.
- The March increase is likely to be followed by an increase to 1.0% in May and then to 1.25% in November.
- The MPC is currently much more heavily focused on combating inflation than on protecting economic growth.
- However, 54% energy cap cost increases from April, together with 1.25% extra employee national insurance, food inflation around 5% and council tax likely to rise in the region of 5% too - these increases are going to hit lower income families hard despite some limited assistance from the Chancellor to postpone the full impact of rising energy costs.
- Consumers are estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above increases. But most of those holdings are held by more affluent people whereas poorer people already spend nearly all their income before these increases hit and have few financial reserves.
- The increases are already highly disinflationary; inflation will also be on a gradual path down after April so that raises a question as to whether the MPC may shift into protecting economic growth by November, i.e., it is more debatable as to whether they will deliver another increase then.
- The BIG ISSUE – will the current spike in inflation lead to a second-round effect in terms of labour demanding higher wages, (and/or lots of people getting higher wages by changing job)?
- If the labour market remains very tight during 2022, then wage inflation poses a greater threat to overall inflation being higher for longer, and the MPC may then feel it needs to take more action.

## **PUBLIC WORKS LOAN BOARD (PWLB) RATES**

- The yield curve has flattened out considerably.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate.
- It is difficult to say currently what effect the Bank of England starting to sell gilts will have on gilt yields once Bank Rate rises to 1%: it is likely to act cautiously as it has

already started on not refinancing maturing debt. A passive process of not refinancing maturing debt could begin in March when the 4% 2022 gilt matures; the Bank owns £25bn of this issuance. A pure roll-off of the £875bn gilt portfolio by not refinancing bonds as they mature, would see the holdings fall to about £415bn by 2031, which would be about equal to the Bank's pre-pandemic holding. Last August, the Bank said it would not actively sell gilts until the *"Bank Rate had risen to at least 1%"* and, *"depending on economic circumstances at the time."*

- It is possible that Bank Rate will not rise above 1% as the MPC could shift to relying on quantitative tightening (QT) to do the further work of taking steam out of the economy and reducing inflationary pressures.
- Increases in US treasury yields over the next few years could add upside pressure on gilt yields though, more recently, gilts have been much more correlated to movements in bond yields than treasury yields.

## **MPC MEETING 4<sup>TH</sup> FEBRUARY 2022**

- After the Bank of England became the first major western central bank to put interest rates up in this upswing in December, it has quickly followed up its first 0.15% rise by another 0.25% rise to 0.50%, in the second of what is very likely to be a series of increases during 2022.
- The Monetary Policy Committee voted by a majority of 5-4 to increase Bank Rate by 25bps to 0.5% with the minority preferring to increase Bank Rate by 50bps to 0.75%. The Committee also voted unanimously for the following: -
  - to reduce the £875bn stock of UK government bond purchases, financed by the issuance of central bank reserves, by ceasing to reinvest maturing assets.
  - to begin to reduce the £20bn stock of sterling non-financial investment-grade corporate bond purchases by ceasing to reinvest maturing assets and by a programme of corporate bond sales to be completed no earlier than towards the end of 2023.
- The Bank again sharply increased its forecast for inflation – to now reach a peak of 7.25% in April, well above its 2% target.
- The Bank estimated that UK GDP rose by 1.1% in quarter 4 of 2021 but, because of the effect of Omicron, GDP would be flat in quarter 1, but with the economy recovering during February and March. Due to the hit to households' real incomes from higher inflation, it revised down its GDP growth forecast for 2022 from 3.75% to 3.25%.
- The Bank is concerned at how tight the labour market is with vacancies at near record levels and a general shortage of workers - who are in a very favourable position to increase earnings by changing job.
- As in the December 2021 MPC meeting, the MPC was more concerned with combating inflation over the medium term than supporting economic growth in the short term. However, what was notable was the Bank's forecast for inflation: based on the markets' expectations that Bank Rate will rise to 1.50% by mid-2023, it forecast inflation to be only 1.6% in three years' time. In addition, if energy prices beyond the next six months fell as the futures market suggests, the Bank said CPI (Consumer Price Index) inflation in three years' time would be even lower at 1.25%. With calculations of inflation, the key point to keep in mind is that it is the rate of change in prices – not the level – that matters. Accordingly, even if oil and natural gas prices remain flat at their current elevated level, energy's contribution to headline inflation will drop back over the course of this year. That means the current energy contribution to CPI inflation, of 2% to 3%, will gradually fade over the next year.
- So, the message to take away from the Bank's forecast is that they do not expect Bank Rate to rise to 1.5% in order to hit their target of CPI inflation of 2%. The immediate issue is with four members having voted for a 0.50% increase in February,

it would only take one member more for there to be another 0.25% increase at the March meeting.

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative tightening) holdings of bonds is as follows: -
  1. Raising Bank Rate as "the active instrument in most circumstances".
  2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
  3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

## LINK GROUP FORECASTS

### a. Bank Rate

- Covid remains a major potential downside threat as we are most likely to get further mutations. However, their severity and impact could vary widely, depending on vaccine effectiveness and how broadly it is administered.
- 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, Link Group expect to have to revise forecasts again - in line with whatever the new news is.

### b. PWLB rates and gilt and treasury yields

**Gilt yields.** Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Link Group forecasts show little overall increase in gilt yields during the forecast period to March 2025 but 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 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 Link Group forecasts for medium to 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. This was in addition to the \$900bn support package previously passed in December 2020. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme roll-out 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 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 (Federal Reserve Board) was still providing substantial stimulus through monthly QE (Quantitative Easing) 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 recent December meeting with an aggressive response to damp inflation down during 2022 and 2023.

- **At its 3<sup>rd</sup> 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 **15<sup>th</sup> 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, all other things being equal.
- It 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. This would take rates back above 2% to a neutral level for monetary policy. It also gave up on calling the sharp rise in inflation as being 'transitory'.
- At its **26<sup>th</sup> January meeting**, the Fed became even more aggressive following inflation rising sharply even further. It indicated that rates would begin to rise very soon, i.e., it implied at its March meeting it would increase rates and start to run down its holdings of QE purchases. It also appears likely that the Fed could take action to force longer term treasury yields up by prioritising selling holdings of its longer bonds as yields at this end have been stubbornly low despite rising inflation risks. The low level of longer dated yields is a particular concern for the Fed because it is a key channel through which tighter monetary policy is meant to transmit to broader financial conditions, particularly in the US where long rates are a key driver of household and corporate borrowing costs.

There are also possible **DOWNSIDE RISKS** 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 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.

#### **Globally, views are as follows: -**

- **EU.** The ECB (European Central Bank) joined with the Fed by announcing on **16<sup>th</sup> 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 during the first half of 2022. The ECB did not change its rate at its **3<sup>rd</sup> February meeting**, but it was clearly shocked by the increase in inflation to 5.1% in January. The President of the ECB, Christine Lagarde, hinted in the press conference after the meeting that the ECB may accelerate monetary tightening before long and she hinted that asset purchases could be reduced more quickly than implied by the previous guidance. She also refused to reaffirm officials' previous assessment that interest rate hikes in 2022 are "very unlikely". It, therefore, now looks likely that all three major western central banks will be raising rates this year in the face of sharp increases in inflation - which is looking increasingly likely to be stubbornly high and for much longer than the previous oft repeated 'transitory' descriptions implied.
- **China.** The pace of economic growth has now fallen back after the initial surge of recovery from the pandemic and China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. However, with Omicron having now spread to China, and being much more

easily transmissible, lockdown strategies may not prove so successful in future. To boost flagging economic growth, The People’s Bank of China cut its key interest rate in December 2021.

- **Japan.** 2021 was a difficult year in combating Covid. However, recent business surveys indicate that the economy is rebounding rapidly now that the bulk of the population is fully vaccinated, and new virus cases have plunged. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back towards its target of 2% any time soon.
- **World growth.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. 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.

## 2.4 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 7<sup>th</sup> February 2022. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 7.2.22													
	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	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

*Additional notes on this forecast table:*

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of our previous forecasts, our money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

- Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.

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 16<sup>th</sup> December 2021 and then to 0.50% at its meeting of 4<sup>th</sup> February 2022.

As shown in the forecast table above, the forecast for Bank Rate now includes a further three increases of 0.25% in March, May and November 2022 to end at 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.
- 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

The Monetary Policy Committee is now very concerned at the way that forecasts for inflation have had to be repeatedly increased within a matter of just a few months. Combating this rising tide of inflation is now its number one priority and the 5-4 vote marginally approving only a 0.25% increase on 4<sup>th</sup> February rather than a 0.50% increase, indicates it is now determined to push up Bank Rate quickly. A further increase of 0.25% is therefore probable for March, and again in May, followed possibly by a final one in November. However, data between now and November could shift these timings or add to or subtract from the number of increases.

However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- We do not know whether there will be further mutations of Covid and how severe they may be, nor how rapidly scientific advances may be made in combating them.
- The economy was running out of steam during the second half of 2021 and Omicron will mean that economic growth in quarter 1 of 2022 is likely to be flat, though on the rise towards the end of the quarter as the economy recovers. However, 54% energy cap cost increases from April, together with 1.25% extra employee national insurance, food inflation around 5% and council tax likely to rise in the region of 5% too - these increases are going to hit lower income families hard despite some limited assistance from the Chancellor to postpone the full impact of rising energy costs.
- Consumers are estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above increases. But most of those holdings are held by more affluent people whereas poorer people already spend nearly all their income before these increases hit and have few financial reserves.
- These increases are already highly disinflationary; inflation will also be on a gradual path down after April so that raises a question as to whether the MPC may shift into protecting economic growth by November, i.e., it is more debatable as to whether they will deliver another increase then.
- The BIG ISSUE – will the current spike in inflation lead to a second-round effect in terms of labour demanding higher wages, (and/or lots of people getting higher wages by changing job)?
- If the labour market remains very tight during 2022, then wage inflation poses a greater threat to overall inflation being higher for longer, and the MPC may then feel it needs to take more action.
- If the UK were to invoke article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this would have the potential to end up in a no-deal Brexit.

## Forecasts for PWLB rates and gilt and treasury yields

**Gilt yields.** Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Link Group forecasts show little overall increase in gilt yields during the forecast period to March 2025 but 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 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 medium to longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

There are also possible **DOWNSIDE RISKS** 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 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). 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. 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 higher in the US than in the UK; 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 and enduring will inflationary pressures turn out to be in both the US and the UK, and so impact treasury and gilt yields?
- **Will the major western central banks implement their previously stated new average or sustainable level inflation monetary policies when inflation has now burst through all previous forecasts and far exceeded their target levels? Or are they going to effectively revert to their previous approach of prioritising focusing on pushing inflation back down and accepting that economic growth will be very much a secondary priority - until inflation is back down to target levels or below?**
- How well will central banks manage the running down of their stock 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?
- If Russia were to invade Ukraine, this would be likely to cause short term volatility in financial markets, but it would not be expected to have a significant impact beyond that.

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 for local authority investing – 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 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 once economies recover from the various disruptions caused by the pandemic.
- 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** have started improving in the second half of 21/22 and are expected to improve further during 22/23 as the MPC progressively increases Bank Rate.
- **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. The current margins over gilt yields are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- Borrowing for capital expenditure. Our long-term (beyond 10 years) forecast for Bank Rate is 2.00%. As nearly all PWLB certainty rates are now above this level, borrowing strategy will need to be reviewed, especially as the maturity curve has flattened out considerably. Better value can be obtained at the very short and at the longer end of the curve and longer-term rates are still at historically low levels. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio. In addition, there are also some cheap alternative sources of long-term borrowing if a client is seeking to avoid a “cost of carry” but also wishes to mitigate future re-financing risk.
  - While this authority will not be able to avoid borrowing to finance new capital expenditure, (to replace maturing debt), there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

## 2.5 ***Borrowing Strategy***

At the time of writing this report, the Council is estimated to have an under-borrowed position at the end of 2021/22 of £14.281m, (around 4.7% of the total underlying borrowing requirement). This would mean that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loan debt and means that an element of internal resources, cash and revenue surpluses have been used to finance capital expenditure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. Given the under-borrowed position is 4.7% of the borrowing requirement it removes an element of interest rate risk.

During **2022/23** it is estimated that the Council and HRA will have additional borrowing requirements of **£164.087m**.

The strategy is to fund the majority of this requirement from long term external borrowing of **£147m** whilst increasing the under-borrowed position to around 5.8% of the borrowing requirement. Although an increase on the current year position, this remains a prudent strategy in the current interest rate environment and also allows flexibility in taking a pragmatic approach in terms of the pace of the major capital spend in 2021/22.

The treasury team are monitoring longer term interest rate forecasts on a regular basis in order to assess timing of longer term borrowing; whilst still minimising the cost of carrying any new borrowing prior to the loans actually being required.

Whilst the under-borrowed position remains a minimal risk, the significant borrowing requirements in 2022/23 and the level of temporary borrowing will require close monitoring.

Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Director of Finance will monitor

interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

The estimates of borrowing required are set out in the under-noted table:

<b><i>New Borrowing (Year)</i></b>	<b><i>General Services £'000</i></b>	<b><i>HRA £'000</i></b>	<b><i>Total £'000</i></b>
2023/24	57,950	24,425	82,375
2024/25	40,438	9,038	49,476
2025/26	4,838	8,286	13,124
2026/27	3,801	14,785	18,586
2027/28	15,830	7,736	23,566
<b>Total 5 Yr Borrowing</b>	<b>122,857</b>	<b>64,270</b>	<b>187,127</b>

It is emphasised that a pragmatic approach will be taken when considering the timing of this borrowing externally in the light of prevailing interest rates, the overall treasury strategy, cost of carry, and in particular the out-turn of capital expenditure as the projects are delivered in 2022/23 and 2023/24:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, 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 on new borrowing will be reported to Members within the mid-year Treasury Report or the end of year out-turn report.

### **Treasury Management Limits on Activity**

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

<b><i>Maturity Structure of Fixed Interest Rate Borrowing</i></b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0.00%	25%
1 – 2 years	0.00%	25%
2 – 5 years	0.00%	50%
5 – 10 years	0.00%	75%
10 years and above	0.00%	90%

## 2.6 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 and method C below will be the prudent repayment option adopted by the Council.

- a. **Statutory method**
- b. **Depreciation method** – annual repayment of loans fund advances will follow standard depreciation accounting procedures.
- c. **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method.
- d. **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream.

Finance Circular 7/2016 suggests Councils set out additional disclosures on loans fund account information, so the proposed disclosure note below has been provided to assist. Paragraph 89 of the Finance Circular also states, ‘a local authority should set out their policy on the interest rate selected for the annuity calculation’.

The annuity rate applied to the loans fund repayments was based on historic interest rates and is currently 5%. However, under regulation 14 (2) of SSI 2016 No 123, the Council has reviewed and re-assessed the historic annuity rate to ensure that it is a prudent application.

The result of this review suggests that an annuity rate of 5% would remain a prudent approach and provides for principal repayments closely associated with the use of the assets.

### Loans Fund Advances to General Fund

Loans Fund	Actual 2020/21 £'000	Est 2021/22 £'000	Est 2022/23 £'000	Est 2023/24 £'000	Est 2024/25 £'000
Opening Balance	169,640	179,291	223,806	326,355	377,741
Add advances	15,158	49,711	108,419	57,950	40,438
Less repayments	(5,507)	(5,196)	(5,870)	(6,564)	(6,933)
Closing Balance	<b>179,291</b>	<b>223,806</b>	<b>326,355</b>	<b>377,741</b>	<b>411,246</b>

### Loans Fund Advances to HRA

Loans Fund	Actual 2020/21 £'000	Est 2021/22 £'000	Est 2022/23 £'000	Est 2023/24 £'000	Est 2024/25 £'000
Opening Balance	67,501	68,793	75,522	129,834	152,149
Add advances	2,574	7,978	55,668	24,425	9,038
Less repayments	(1,282)	(1,249)	(1,356)	(2,110)	(2,659)
Closing Balance	<b>68,793</b>	<b>75,522</b>	<b>129,834</b>	<b>152,149</b>	<b>158,528</b>

## 2.7 ***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 sum 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.

Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 20% of the expected increase in borrowing need (CFR) over the three-year planning period; and
- Would not look to borrow more than 12 months in advance of need.

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

## 2.8 ***Debt Rescheduling***

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

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; and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

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

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a 'cost of carry' or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

Our advisors Link Group will keep us informed as to the relative merits of each of these alternative funding sources. All rescheduling will be reported to Members in the mid-year or year-end treasury reports.

### **Section 3 – Annual Investment Strategy**

#### **3.1 *Investment 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 Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). 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. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options

The above regulations and guidance place a high priority on the management of risk.. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps' and overlay that information on top of the credit ratings.
3. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. The Council has defined the list of types of investment instruments that are permitted investments authorised for use in Annex A. Annex B expands on the risks involved in each type of investment and the mitigating controls.
5. Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 3.2.



6. Transaction limits are set for each type of investment in appendix 3.2.
7. The Council will set a limit for the amount of its investments which are invested for longer than 365 days, (see paragraph 3.4).
8. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 3.3).
9. The Council has engaged external consultants, (see paragraph 4.3), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
10. All investments will be denominated in sterling.

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

The Council will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, Regular monitoring of investment performance will be carried out during the year.

### 3.2 ***Credit Worthiness Policy***

The Council applies the credit worthiness service provided by Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

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

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of Credit Default Swap (CDS) spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments.

The Council will therefore use counterparties within the following durational bands:

- Yellow            5 years
- Dark Pink       5 years for Ultra short dated bond funds with a credit score of 1.25
- Light Pink       5 years for Ultra short dated bond funds with a credit score of 1.5
- Purple            2 years
- Blue              1 year (UK part nationalised banks)

- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not used

The under-noted table sets out the monetary limits that will be applied to each counterparty within each colour on the creditworthiness matrix.

Applying the criteria in the under-noted table has been derived from the Council's current investment activities in terms of funds available for investment, and cash flow requirements. This policy also provides a clear defined policy on investment activity limits.

	<b>Colour Code (Based on credit information)</b>	<b>Limit per Counterparty</b>	<b>Maximum Maturity Period</b>
Banks/ Building Societies	Yellow	£25m	5 Years
Banks – (UK Part Nationalised)	Blue	£25m	1 Year
Banks/ Building Societies	Purple	£20m	2 Years
Banks/ Building Societies	Orange	£15m	1 Years
Banks/ Building Societies	Red	£10m	6 months
Banks/ Building Societies	Green	£5m	100 days
Banks/ Building Societies	No Colour	£0	0 days
Council's Corporate Bankers	Orange	£50m	1 Year
Debt Management Account – UK Treasury	AA+	unlimited	6 months
Local / Public Authorities	N/A	£10m	2 Years
Housing Associations	Colour Bands	£5m	As per colour band
Money Market Funds CNAV	AAA	£20m	Liquid
Money Market Funds LVNAV	AAA	£10m	Liquid
Money Market Funds VNAV	AAA	£10m	Liquid
Ultra-short, dated bond funds with a credit score of 1.25	Dark Pink/ AAA	£10m	Liquid
Ultra-short, dated bond funds with a credit score of 1.25	Light Pink/ AAA	£10m	Liquid

The Link Group creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalent) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be

given to the whole range of ratings available, or other topical market information, to support their use.

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

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis.

Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

### 3.3 **Country Limits – Credit Worthiness**

Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

#### **CDS prices**

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

#### **Other limits**

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-financial investments, countries, groups and sectors.

- a) **Non-financial investment limit.** The Council has determined that it will limit the maximum total exposure to non-financial investments, (e.g. property and third party loans).
- b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-**. The list of countries that qualify using this credit criteria as at the date of this report are shown below. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

## **APPROVED COUNTRIES FOR INVESTMENTS**

This list is based on those countries which have sovereign ratings of AA- or higher, (shown is the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

### AAA

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

### AA+

- Canada
- Finland
- U.S.A.

### AA

- Abu Dhabi (UAE)
- France

### AA-

- Belgium
- Hong Kong
- Qatar
- U.K.

## 3.4 **Investment Strategy**

**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.

## Bank Rate and Investment Returns Expectations

The current forecast shown in paragraph 2.4, includes a forecast for Bank Rate to reach 1.25% in November 2022.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows.:

Average earnings in each year	Now	Previously
2022/23	1.00%	0.50%
2023/24	1.25%	0.75%
2024/25	1.25%	1.00%
2025/26	1.25%	1.25%
Years 6 to 10	1.50%	-
Years 10+	2.00%	2.00%

**Investment Treasury Indicator and Limit** - total principal funds invested for greater than 364 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.

<i>Maximum principal sums invested &gt; 365 days</i>			
	<i>2021/22 £m</i>	<i>2022/23 £m</i>	<i>2023/24 £m</i>
Principal sums invested > 364 days	£10m	£10m	£10m

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

### 3.5 **Investment – Cash Liquidity**

A key responsibility of the Treasury function is to ensure the Council maintains adequate liquidity of cash to ensure its payment obligations can be fully met at all times. This liquidity of cash is required on a daily basis to meet the cash flow requirements of payments to employees, suppliers, agencies, re-payment of loan interest and benefits etc.

The Council does not currently utilise an overdraft facility from its bankers, Bank of Scotland as liquidity cash is available using investment accounts. Additionally the Council has access to short term loan funding from the money markets when required.

**Liquidity** - in respect of this area the Council seeks to maintain:

- Bank overdraft - £0.00m; and
- Liquidity cash available of £15m.

### 3.6 **End of Year Investment Report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report. This report will be submitted to the Council's Audit and Governance Panel and South Ayrshire Council Leadership Panel prior to 30

September following the end of each financial year (or as soon as practicable depending on Council meeting dates).

## **Section 4 – Governance Arrangements**

### **4.1 *Financial Regulations***

The Financial Regulations set out the responsibilities of the Council and the Audit and Governance Panel in respect of treasury matters as follows:

#### **4.1.1 Council**

- Approval of treasury strategy report.

#### **4.1.2 Leadership Panel**

- budget consideration and approval
- approval of the division of responsibilities
- approval of mid-year and annual report; and
- Approving the selection of external service providers and agreeing terms of appointment.

#### **4.1.3 Audit and Governance Panel**

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body; and
- Scrutiny of the mid-year and annual report.

### **4.2 *Role of the Section 95 Officer – Head of Finance and ICT***

The S95 (responsible) officer has authority through the Scheme of Delegation and the Financial Regulations for the day to day execution and administration of treasury management decisions in line with the Council's Strategy and Treasury Management Practices. This includes:

- recommending clauses, treasury management policy for approval, reviewing the same regularly and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a longer term timeframe;

- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above; and
- creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed, to include the following:
  - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
  - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
  - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
  - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
  - *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

#### 4.3 **Policy on the Use of External Service Providers**

The Council uses Link Group 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 undue reliance is not placed upon external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which

their value will be assessed are properly agreed and documented, and subjected to regular review.

#### 4.4 ***Training***

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training. This especially applies to Members responsible for scrutiny of the treasury function.

Training sessions for both the Council's Corporate Management Team and Members have been held in recent years and the treasury team will continue to consider other training options in due course.



## Permitted Investments

The Council approves the following forms of investment instrument for use as permitted investments as set out in **Table 1-6** (page 36 to 38).

### Treasury risks

All the investment instruments in Table 1 are subject to the following risks:

- a. **Credit and counter-party risk:** this is the risk of failure by 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.
- b. **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 instant access to cash can be obtained from each form of investment instrument. However, it must 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. The column in tables 1 / 2 headed as 'market risk' will show each investment instrument as being instant access, sale T+3 = transaction date plus 3 business days before you get cash, or term – i.e., money is locked in until an agreed maturity date.
- c. **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. However, some cash rich local authorities may positively want exposure to market risk e.g., those investing in investment instruments with a view to obtaining a long-term increase in value.
- d. **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. All types of investment instrument have interest rate risk except for the following forms of instrument which are at variable rate of interest (and the linkage for variations is also shown):
- e. **Legal and regulatory risk:** this is the risk that the organisation itself, or an organisation powers or regulatory requirements, and that the organisation suffers losses accordingly.

## Controls on treasury risks

- a. **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.
- b. **Liquidity risk:** the Council has a cash flow forecasting model to enable it to determine how long investments can be made and how much can be invested.
- c. **Market risk:** this Council does not purchase investment instruments which are subject to market risk in terms of fluctuation in their value.
- d. **Interest rate risk:** the Council manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximize investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing.
- e. **Legal and regulatory risk:** the Council will not undertake any form of investing until it has ensured that it has all necessary powers and complied with all regulations.

## Unlimited investments

Regulation 24 states that an investment can be shown as being 'unlimited' in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment.

### The Council has given the following types of investment an unlimited category:

- a. **Debt Management Agency Deposit Facility.** This is the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury – i.e., the UK Government's sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts.
- b. **High credit worthiness banks and building societies.** See Section 3.2 relating to creditworthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with high credit worthiness, the Council will ensure diversification of its portfolio ensuring that no more than 50% of the total portfolio can be placed with any one institution or group at any one time.

## Objectives of each type of investment instrument

Regulation 25 requires an explanation of the objectives of every type of investment instrument which an authority approves as being 'permitted'. (Part 1 section 17 also requires authorities to explain any special circumstances that have led them to a particular approach.

### 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** - 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 -** See paragraph 3.2 for an explanation of this authority's definition of high credit worthiness. This is the most widely used form of investment used by local authorities. It offers a much higher rate of return than the DMADF (dependent on term). The Council will ensure diversification of its portfolio of deposits ensuring that no more than 50% of the total portfolio 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 rates 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 so as to provide Councils with greater flexibility to adopt new instruments as and when they are brought to the market.
- 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 the Council is that such backing makes these banks attractive institutions with whom to place deposits, and that will remain our view if the UK sovereign rating were to be downgraded in the coming year.

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

- b. **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. 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.

### 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).** 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 an 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 like 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 risks 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 at 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 are 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 – for example, treasury bills.

- a. **Treasury bills.** These are short-term bills (up to 18 months but usually 9 months or less, although none have ever been issued for this maturity) issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.
- b. **Gilts.** These are longer term debt issuances by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity (for most periods) if the yield curve is positive.
- c. **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government** e.g., National Rail. This is like gilt due to the explicit Government guarantee.
- d. **Sovereign bond issues (other than the UK govt) denominated in Sterling.** As for gilts but issued by other nations. Use limited to issues of nations with at least the same sovereign rating as for the UK.
- e. **Bonds issued by Multi-Lateral Development Banks (MLDBs).** These are like c. and d. above but are issued by MLDBs which are typically guaranteed by a group of sovereign states e.g., European Bank for Reconstruction and Development.

#### 5 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 are called a yield – i.e., is the interest paid by the issuer divided by the price you paid to purchase the security. These are like the previous category but corporate organisation's can have a wide variety of credit worthiness so it is essential for local authorities to only select the organisation's 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 they can be sold ahead of maturity and 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 like 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 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

**Property Fund** - This is a collective investment fund specialising in property. Rather than owning a single property with all the risk exposure that means to one property in one location rising or falling in value, maintenance costs, tenants 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 3-5 years.

### Deposits

<b>Table 1</b>	<b><i>Liquidity risk</i></b>	<b><i>Market risk</i></b>	<b><i>Max % of total investment</i></b>	<b><i>Max. maturity</i></b>
Debt Management Agency Deposit Facility	Term	no	100%	6 months
Term deposits – local / public authorities	Term	no	100%	2 years
Call accounts – banks and building societies	Instant	no	100%	N/A
Term deposits – banks and building societies	Term	no	100%	See Credit Policy (colour code)
Fixed term deposits with variable rate and variable maturities: Structured deposits.	Term	no	10%	See Credit Policy (colour code)

**Deposits with Counterparties Currently in Receipt of Government Support/ Ownership**

<b>Table 2</b>	<b>Liquidity risk</b>	<b>Market risk</b>	<b>Max % of total investment</b>	<b>Max. maturity period</b>
UK Part Nationalised Banks	Term	no	100%	See Credit Policy (colour code)
Banks nationalised by high credit rated (sovereign rating) countries – non-UK	Term	no	100%	See Credit Policy (colour code)
Fixed term deposits with variable rate and variable maturities: Structured deposits	Term	Yes	10%	See Credit Policy (colour code)

**Collective Investment schemes structured as Open-Ended Investment Companies (OEIC's)**

<b>Table 3</b>	<b>Liquidity risk</b>	<b>Market risk</b>	<b>Max % of total investment</b>	<b>Max. maturity period</b>
Government Liquidity Funds	Instant	See Section 3	20%	See credit policy
Money Market Funds (CNAV)	Instant	See Section 3	100%	See credit policy
Money Market Funds LVNAV	Instant	See Section 3	50%	See credit policy
Money Market Funds VNAV	Instant	See Section 3	50%	See credit policy
Ultra-short, dated bond funds with a credit score of 1.25	T+1 – T+5	See Section 3	50%	See credit policy
Ultra-short, dated bond funds with a credit score of 1.50	T+1 – T+5	See Section 3	50%	See credit policy
Bond Funds	Min T+2	See Section 3	50%	See credit policy
Gilt Funds	Min T+2	See Section 3	50%	See credit policy

## Securities issued or guaranteed by governments

<b>Table 4</b>	<b>Minimum Credit Criteria</b>	<b>Liquidity risk</b>	<b>Market Risk</b>
Treasury Bills	UK sovereign	Sale T+1	Yes
UK Government Gilts	UK Sovereign	Sale T+1	Yes
Bond issuance issued by a financial institution which is guaranteed by UK Government e.g., Network Rail	UK Sovereign	Sale T+3	Yes
Sovereign Bond issues (other than UK Government)	AAA	Sale T+1	Yes
Bonds issued by multi-lateral development banks	AAA	Sale T+1	Yes

## Securities issued by corporate organisations

<b>Table 5</b>	<b>Liquidity risk</b>	<b>Market risk</b>	<b>Max % of total investment</b>
Certificates of deposit issued by banks and building societies	Sale T+1	yes	20%
Commercial Paper	Sale T+1	yes	20%
Floating Rate Notes	Sale T+0	yes	20%
Corporate bonds	T +3	Yes	20%

## Other

<b>Table 6</b>	<b>Liquidity risk</b>	<b>Market risk</b>	<b>Max % of total investment</b>	<b>Max. maturity period</b>
Property Funds	Variable	Yes	20%	3-5 Yrs.

## **Accounting Treatment of Investments**

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



**Treasury Management Practice – Credit and Counterparty Risk Management**  
**South Ayrshire Council and Common Good Funds Permitted Investments, Associated Controls**

<i>Type of Investment</i>	<i>Treasury Risks</i>	<i>Mitigating Controls</i>	<i>Council Limits</i>	<i>Common Good Limits</i>
<b>Cash type instruments</b>				
a. Deposits with the Debt Management Account Facility (UK Government) <b>(Very low risk)</b>	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a haven for investments.	Unlimited (maximum 6 months)	Unlimited (maximum 6 months)
b. Deposits with other local authorities or public bodies <b>(Very low risk)</b>	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply.  Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment.  Non- local authority deposits will follow the approved credit rating criteria.	£20m per counterparty – 2 Years	£20m per counterparty – 2 Years
c. Money Market Funds (MMFs) <b>(Low to Very low risk)</b>	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 an 'AAA' rated status from Fitch, Moody's or Standard and Poor's.	£20m	£20m

<i>Type of Investment</i>	<i>Treasury Risks</i>	<i>Mitigating Controls</i>	<i>Council Limits</i>	<i>Common Good Limits</i>
d. Ultra-short, dated bond funds ( <b>low risk</b> )	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 an 'AAA' rated status from Fitch, Moody's or Standard and Poor's.	£10m	£10m
e. Call account deposit accounts with financial institutions (banks and building societies) ( <b>Low risk depending on credit rating</b> )	<p>These tend to be low risk investments but will exhibit higher risks than categories (a), (b) and (c) above.</p> <p>Whilst there is no risk of value with these types of investments, liquidity is high, and investments can be returned at short notice.</p>	<p>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. The selection defaults to the lowest available credit rating to provide additional risk control measures.</p> <p>On day-to-day investment dealing with these criteria will be further strengthened using additional market intelligence.</p>	See credit policy	See credit policy
f. Term deposits with financial institutions (banks and building societies) ( <b>Low to medium risk depending on period and credit rating</b> )	<p>These tend to be low risk investments but will exhibit higher risks than categories (a), (b) and (c) above.</p> <p>Whilst there is no risk of 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.</p>	<p>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. The selection defaults to the lowest available credit rating to provide additional risk control measures.</p> <p>On day-to-day investment dealing with these criteria will be further strengthened using additional market intelligence.</p>	See credit policy	See credit policy

<i>Type of Investment</i>	<i>Treasury Risks</i>	<i>Mitigating Controls</i>	<i>Council Limits</i>	<i>Common Good Limits</i>
g. Government Gilts and Treasury Bills ( <b>Very low risk</b> )	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.	See credit policy	See credit policy
h. Certificates of deposits with financial institutions ( <b>Low risk</b> )	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. 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. The selection defaults to the lowest available credit rating to provide additional risk control measures. On day-to-day investment dealing with these criteria will be further strengthened using additional market intelligence.	See credit policy	See credit policy
i. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) ( <b>Low to medium risk depending on period and credit rating</b> )	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 of 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. The selection defaults to the lowest available credit rating to provide additional risk control measures. On day-to-day investment dealing with these criteria will be further strengthened using additional market intelligence.	See credit policy	See credit policy

<i>Type of Investment</i>	<i>Treasury Risks</i>	<i>Mitigating Controls</i>	<i>Council Limits</i>	<i>Common Good Limits</i>
j. Corporate bonds <b>(Medium to high risk depending on period and credit rating)</b>	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 these criteria will be further strengthened using additional market intelligence.	See credit policy	See credit policy

#### Other types of Investment

<i>Type of Investment</i>	<i>Credit Criteria</i>	<i>Liquidity Risk</i>	<i>Market Risk</i>	<i>Mitigating Controls</i>	<i>Council Limits</i>
Common Good	Not applicable	Not applicable	No	Any Common Good, loan or investment would be subject to a separate panel report and the approval of Members before progressing. Each loan would therefore be assessed on a case-by-case basis and be supported by the rationale behind the investment and likelihood of any loss.	Term – 20 years - unlimited
Registered Social Landlord	Not applicable	Not applicable	No	Any RSL loan or investment would be subject to a separate panel report and the approval of Members before progressing. Each loan would therefore be assessed on a case-by-case basis and be supported by the rationale behind the investment and likelihood of any loss.	Term – 20 years - unlimited
Third Party	Not applicable	Not applicable	No	Any third-party loan or investment would be subject to a separate panel report and the approval of Members before progressing. Each loan would therefore be assessed on a case-by-case basis and be supported by the rationale behind the investment and likelihood of any loss.	Term – 5 years - £1m
Third Party (Soft Loans)	Not applicable	Not applicable	No	Any third-party loan or investment on a soft loan basis (below market rates) would be subject to a separate panel	Term – 5 years - £1m

<i>Type of Investment</i>	<i>Credit Criteria</i>	<i>Liquidity Risk</i>	<i>Market Risk</i>	<i>Mitigating Controls</i>	<i>Council Limits</i>
				report and the approval of Members before progressing. Each loan would therefore be assessed on a case-by-case basis and be supported by the rationale behind the investment and likelihood of any loss.	
hub SW/ SFT Project Investment	Not applicable	Minimum 25 years term	No	Investment is subject to a separate panel report and the approval of Members before progressing. The investment would therefore be assessed on a case basis and be supported by the rationale behind the investment and likelihood of any loss.	Term – 25 years - £1m

**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 ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Head of Finance and ICT, and if required new counterparties which meet the criteria will be added to the list.

## 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 2022/23
Lead Officer (Name/Position/Email)	Denise Love, Senior Accountant Treasury/ Capital – denise.love2@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**

<p><b>Is a full Equality Impact Assessment required?</b> (A full Equality Impact Assessment must be carried out if impacts identified as <b>Medium and/or High</b>)</p>	<p><del>YES</del></p> <p><b>NO</b></p>
<p><b>Rationale for decision:</b></p> <p><b>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</b></p>	
<p><b>Signed :</b> Tim Baulk <span style="float: right;"><b>Head of Service</b></span></p> <p><b>Date:</b> 2 February 2022</p>	