Agenda Item No. 8

South Ayrshire Council

Report by Head of Finance, ICT and Procurement
to Audit and Governance Panel
of 7 December 2022

Subject: Treasury Management and Investment Strategy Mid-Year Report 2022/23

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1. Purpose

1.1 The purpose of this report is to provide Members with a mid-year treasury management update for the financial year 2022/23.

2. Recommendation

2.1 It is recommended that the Panel:

2.1.1 scrutinises the contents of this report; and

2.1.2 remits the report to the Cabinet meeting of 17 January 2023 for approval.

3. Background

Treasury Management

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

3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash will involve arranging long or short-term loans or using longer term cash flow surpluses. In addition, in certain interest rate environments debt previously drawn may be restructured to meet Council risk or cost objectives.

3.3 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

4. Proposals

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

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

Section	Description
1	Economics and Interest Rates
2	Interest Rates Forecast and Commentary Borrowing Strategy for 2022/23;

4.1.2 ***Appendix 2* – Treasury Activity**

Section	Description
1.1 to 1.2	The Council's Capital Expenditure plans and Capital Financing Requirement (CFR);
2.1	Borrowing Strategy for 2022/23;
3.1 to 3.2	Review of Investment Strategy and Performance
4.1	Review of compliance with Treasury and Prudential Limits for 2022/23;
5.1	Borrowing in advance; and
6.1	Debt Re-scheduling.
7.1 to 7.3	Other

4.2 The Panel is requested to scrutinise the contents of this report; and thereafter agree to remit the report to the Cabinet meeting of 17 January 2023 for approval, in accordance with the requirements of the CIPFA Code.

5. Legal and Procurement Implications

5.1 There are no legal implications arising from this report.

5.2 There are no procurement implications arising from this report.

6. Financial Implications

6.1 ***General Services***

6.1.1 **Interest on Revenue Balances** - the Council budgeted for investment income of £0.114m in 2022/23, based on an estimate of the average revenue balances held during the year. Budgeted at achieving an assumed interest rate return of 0.50% on these balances.

At September 2022 (Qtr2) the full year budgeted income is projected at £0.573m, a surplus of £0.459m.

6.1.2 **Capital Financing Costs** - the budget for loan charges in 2022/23 is £12.748m, comprising £5.870m for loan principal, £6.700m for interest costs and £0.178m for loans fund expenses.

The current projection for loans charges to the General Fund is an over-spend of £0.366m in interest and expenses. This is due to Bank of England base rate increasing at a rate higher than originally forecast and as a result external borrowing has had to be taken at a higher rate than previously projected. Full advantage is being taken of any dips in the market to achieve borrowing at the best rate possible and this will be monitored as the year progresses. Note that the counter side of this is that investments are performing better than anticipated as shown in point 6.1.1.

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

6.2.1 **Interest on Revenue Balances** - the HRA budgeted for investment income of £0.050m in 2022/23, based on an estimate of the average revenue balances held during the year. Budgeted at achieving an assumed interest rate return of 0.50% on these balances.

At September 2022 (Qtr2) the full year estimate for investment income earned is £0.128m resulting in a surplus of £0.078m.

6.2.2 **Capital Financing Costs** - the budget for HRA loan charges in 2022/23 is £3.918m, comprising £1.356m for loan principal, £2.496m for interest costs and £0.066m for loans fund expenses.

The current projection for HRA loan charges is an under spend of £0.395m in interest and expenses.

7. Human Resources Implications

7.1 Not applicable.

8. Risk

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

8.1.1 There are no risks associated with adopting the recommendations.

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

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

9. Equalities

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

10. Sustainable Development Implications

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

11. Options Appraisal

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

12. Link to Council Plan

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

13. Results of Consultation

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

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

Background Papers	**CIPFA Code of Practice for Treasury Management in the Public Services** **Report to South Ayrshire Council of 3 March 2022 – Treasury and Investment Strategy 2022-23**
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Date: 24 November 2022

1. Economic and Interest Rates

1. Economic Update and commentary

- The second quarter of 2022/23 saw:
  - GDP (Gross Domestic Product) revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being.
  - Signs of economic activity losing momentum as production fell due to rising energy prices.
  - CPI (Consumer price Index)inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term.
  - The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply.
  - Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come.
  - Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23rd September (with further change to Chancellor on 14th October).
- The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.
- There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.
- The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households’ bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.
- The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a reduction in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

- CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.
- However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.
- Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.
- During 2022, there has been a change of both Prime Minister and Chancellor. The new Prime Minister and Chancellor (Liz Truss and Kwasi Kwarteng) made steps to change government policy. The government's huge fiscal loosening from its proposed significant tax cuts would add to existing domestic inflationary pressures and would potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although with Chancellor Kwasi Kwarteng being replaced by Jeremy Hunt these announcements have already been reversed. With the further resignation of Liz Truss as Prime Minister and the appointment of Rishi Sunak the market has settled slightly but the forecast still holds a number of economic challenges.
- Fears that the government had no fiscal anchor on the back of the announcements by Liz Truss, meant the pound weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.
- The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed (Federal Reserve) and ECB (European Central Bank) raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively low. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger drain on their real incomes.
- Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point increases in February and

March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

- Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.
- Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.
- There is a possibility that the Bank continues with QE at the long end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.
- After an uncertain start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

2. Interest Rates Forecast and Commentary

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

The latest forecast on 27th September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.

Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps).

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

1.1 ***The Council's Capital Expenditure and Prudential Indicators***

(1) The following section provides the information relating to the 2022/23 capital position and prudential indicators.

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

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

Table 1

	2022/23 Original Estimate £'000	***2022/23 Latest Estimate £'000***
Prudential Indicator – General Services		
Capital Expenditure	**131,329**	**99,647**
General Services - Financed By		
General and Specific Grant	9,000	9,371
Capital Receipts/Other	13,910	7,712
Borrowing	108,419	82,564
	131,329	**99,647**

Prudential Indicator – HRA		
Capital Expenditure	**66,153**	**36,254**
HRA - Financed By		
Borrowing	55,668	15,403
CFCR, Draw on surplus	8,905	11,606
Other Receipts/ Grants	1,580	9,245
	66,153	**36,254**

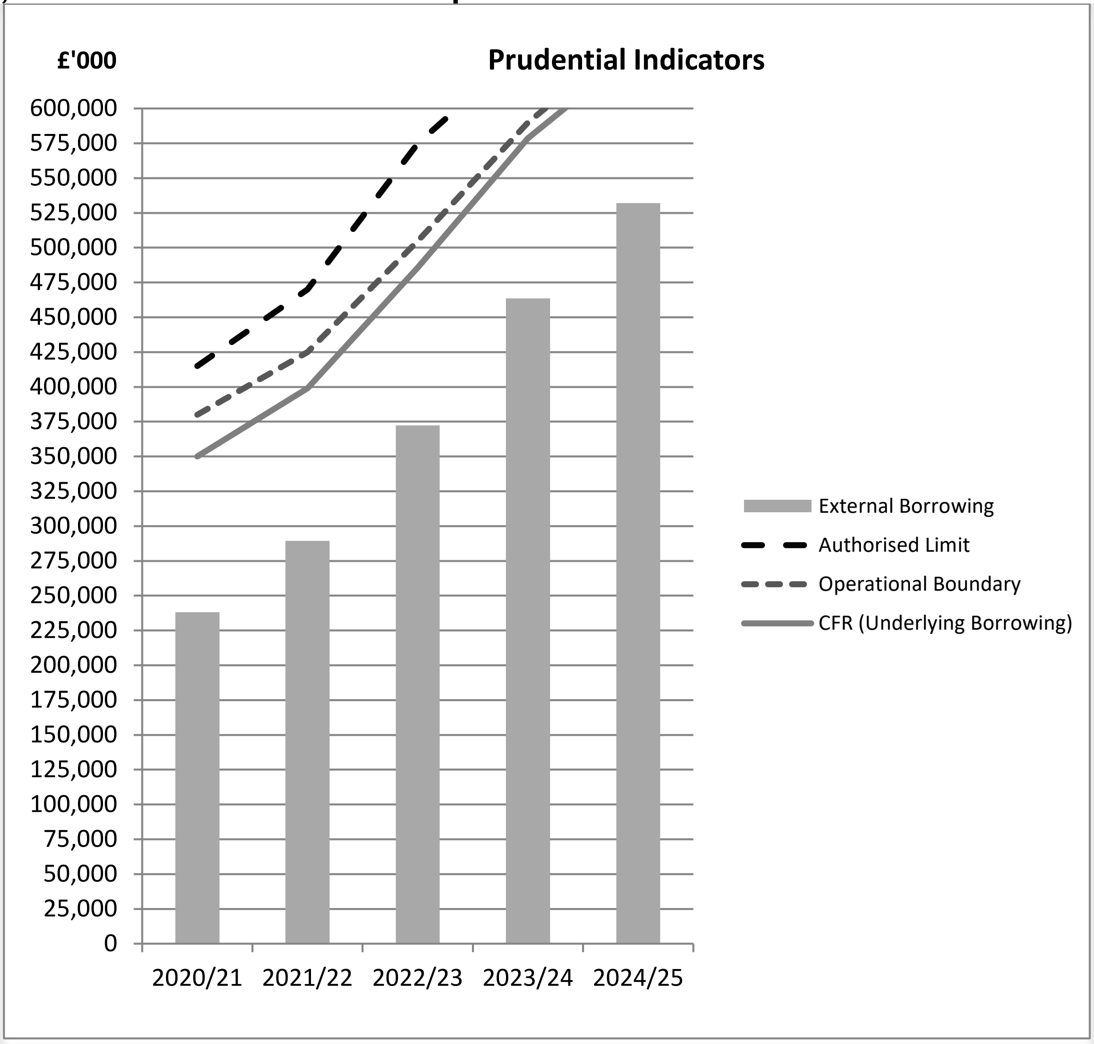
1.2 ***Capital Financing Requirement, Debt Position and Operational Boundary Indicators***

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

Table 2

Prudential Indicator – CFR	***2022/23 Original Estimate £'000***	***2022/23 Updated Estimate £'000***
Capital Financing Requirement – GS	420,374	396,818
Capital Financing Requirement – HRA	130,155	88,978
Total Capital Financing Requirement	**550,529**	**485,796**

(2) **Prudential Indicators Graph**



1

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

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

2. **Capital Financing Requirement –** shows increases in CFR in line with external debt. The Council ended 2021/22 in an under borrowed position (CFR compared with external debt) of £13,678m. The current strategy will be to reflect an under-borrowed position in the short/medium term as reflected in the graph.

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

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

Table 3

Prudential Indicators – Debt	***2022/23 Original £'000***	***2022/23 Updated £'000***
Authorised Limit	606,000	575,000
Operational Limit	564,000	505,000
External Debt	432,385	372,385

1. ***Borrowing Strategy 2022/23 (Update)***

(1) The Council's capital financing requirement (CFR) estimate for 2022/23 has been revised to £485,796 based on the revised capital spend projections, as shown at 1.1, (2) Table 1. The CFR denotes the Council's underlying need to borrow for capital purposes. To fund the CFR the Council may borrow from the PWLB or the market (external borrowing) or fund from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions and availability of internal cash resources.

(2) The original borrowing requirement for 2022/23 was set at £164.08m but has been revised to £97.9m. This drop is attributed to supply shortages and rising costs caused by the current economic environment and War in Ukraine. This then resulted in the slippage in current year of the capital programme.

(3) This has resulted in revising the external borrowing requirement from the original £147.0m to £85.0m which reflects the under-spend in loan charges outlined in the financial implications at Section 6 – Financial Implications.

(4) The current strategy is to consider long term external borrowing in Qtr3 of £15.0m and Qtr. 4 of £40.0m of PWLB borrowing. To date in Qtr. 1 and 2 £20.0m long term borrowing has been taken from PWLB securing low interest rates being offered. A further £10.0m of medium to long term borrowing was secured in Qtr. 1 from the other local authority market, again taking advantage of low interest rates being offered.

A pragmatic approach however is being taken in terms of the timing of new long term external borrowing given the current market uncertainties due to a number of factors such as change in government personnel and new Prime Minister, war in Ukraine and interest rate fluctuations along with the pace of the spend in the Council's capital programe.

(5) The table at 2.2.1 below shows the high and low rates available from the PWLB during the period April 22 – Aug 22.

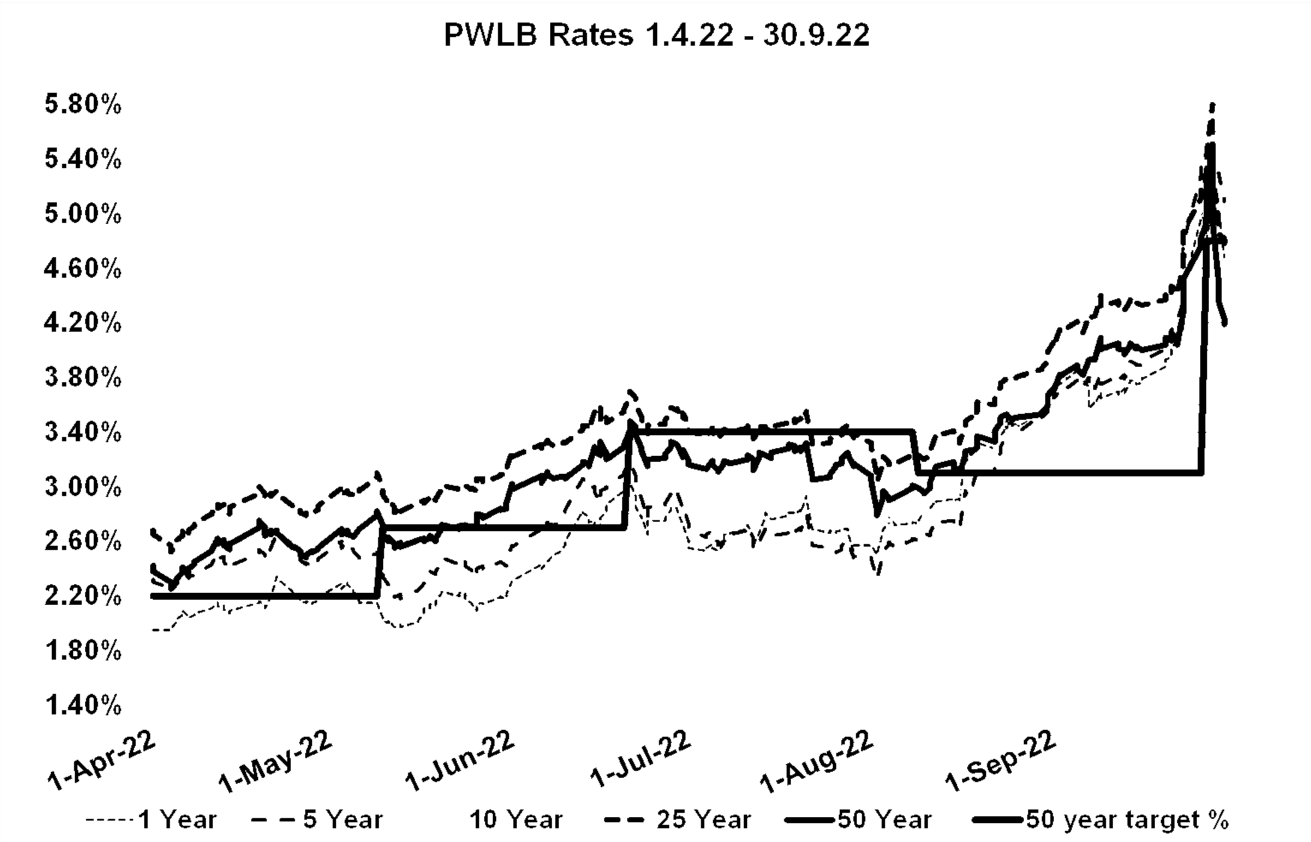
1. The current PWLB rates are set as margins over gilt yields as follows: -.

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

2.2.1 **PWLB certainty rates 1 April 2022 to 30 September 2022**

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

2.2.2 **PWLB Interest Rates – Apr 22 – Sep 22**



3.1 ***Investment Strategy***

The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 3rd March 2022. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- security of capital;
- liquidity; and
- yield

(2) The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness.

3.2 ***Investment Performance 2022/23***

(1) The Council's average level of funds available for investment purposes in the first half of the year 2022/23 was **£76.3m.** These funds are available on a temporary basis and are dependent on several factors including cash flows, reserve balances, borrowing strategy, etc. As these funds are linked to Council reserves earmarked for specific purposes, they are not available to spend on additional services and represent the current 'cash' position.

(2) LIBOR and LIBID rates ceased from the end of 2021. LIBOR has been replaced with a rate based on SONIA (Sterling Overnight Index Average). On advice received from the Council's consultants, Link Group, the replacement benchmark to be used is the 90-day backward SONIA compounded rate. Below table 5 shows the rates for quarter ended 30th September 2022.

Table 5

QUARTER ENDED 30/9/2022							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	2.25	2.19	2.19	1.82	1.55	1.22	0.73
High Date	22/09/2022	30/09/2022	30/09/2022	30/09/2022	30/09/2022	30/09/2022	30/09/2022
Low	0.75	0.69	0.69	0.57	0.39	0.23	0.14
Low Date	01/04/2022	28/04/2022	29/04/2022	01/04/2022	01/04/2022	01/04/2022	01/04/2022
Average	1.28	1.22	1.19	1.11	0.91	0.67	0.37
Spread	1.50	1.50	1.50	1.26	1.16	0.99	0.58

(3) The Council's average performance rate for Quarter ended 30th September 2022 was **0.955%**. This exceeds the benchmark average return of 0.91% as shown in above table, exceeds the low mark of 0.39% but does not quite exceed the high rate of 1.55%. Investments will continue to be monitored in the current climate of changing interest rates.

(4) The Head of Finance and ICT confirms that the approved investment strategy was not breached in the first half of the financial year 2022/23.

(5) The Council continues to lend to other local authorities in order to diversify

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

The following table summarises the Council's investments as of 30 September 2022.

Table 6

Counterparty	Type	Principal £'000	Interest Rate	Maturity	Colour Code (Based on credit information)
Bank of Scotland	Liquidity	7,850	2.20%	N/a	Orange
Santander Bank Plc	Maturity	10,000	3.00%	20/03/2023	Red
Money Market Fund – Federated (Prime Rate Class3)	Liquidity	3,000	1.7297%	N/A	AAA
London Borough of Croydon	Maturity	5,000	2.30%	29/09/2023	N/A
Rotherham Metropolitan Borough Council	Maturity	5,000	0.90%	10/10/2022	N/A
Liverpool City Council	Maturity	5,000	0.25%	24/01/2023	N/A
Cornwall Council	Maturity	5,000	1.50%	14/11/2022	N/A
Thurrock Council	Maturity	5,000	0.75%	09/01/2023	N/A
Thurrock Council	Maturity	5,000	0.75%	31/01/2023	N/A
Slough Borough Council	Maturity	5,000	2.25%	29/08/2023	N/A
London Borough of Croydon	Maturity	5,000	2.30%	04/09/2023	N/A
Slough Borough Council	Maturity	5,000	2.20%	14/08/2023	N/A
Standard Chartered Bank	Maturity	5,000	1.46%	07/10/2022	Red
Standard Chartered Bank	Maturity	5,000	2.51%	09/02/2023	Red
Lloyds Bank Corporate Markets	Maturity	5,000	2.61%	09/02/2023	Red
Total Investment		**80,850**	**1.8721%**		

4.1 *Review of Compliance with Treasury and Prudential Limits for 2022/23*

1. The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the

estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

Table 7 below shows that the 2022/23-year end projected total debt position of £393,211 is below the projected CFR of £411,362 which indicates that external borrowing is only being used for capital purpose.

Table 7

	2021/22 Actual £'000	***2022/23 Borrowing as @ 30/9/22 £'000***	***2022/23 Projection £'000***
Long Term Borrowing – PWLB	178,234	197,429	251,185
Long Term Borrowing - LOBO	41,200	41,200	41,200
Long Term Borrowing - Market	8,000	18,000	18,000
Short Term Borrowing – Market	62,000	70,000	62,000
External Debt	**289,434**	**326,629**	**372,385**
Other Long-Term Liabilities	95,777	91,951	91,951
Total Debt	**385,211**	**418,580**	**464,336**
Capital Financing Requirement (CFR)	398,889	485,796	485,796
(Under) Over borrowed	**(13,678)**	**(67,216)**	**(21,460)**

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

Table 8 below shows the authorised limit amended from the original 2022/23 indicator.

Table 8

Prudential Indicator – Authorised Limit for External Debt	***2022/23 Original Indicator £'000***	***2022/23 Revised Indicator £'000***
Borrowing	474,000	435,000
Other Long-Term Liabilities	132,000	140,000

Authorised Limit	**606,000**	**575,000**

5.1 ***Borrowing in Advance of Need***

The Local Government Investment Regulations (Scotland) 2010 requires the Council to set out its strategy and approach to borrowing in advance of need, which is defined as any borrowing undertaken which will result in the total external debt exceeding the CFR for the following twelve-month period. The Council has not borrowed in advance of need during the six months to 30 September 2022.

6.1 ***Debt Rescheduling***

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

7.1 **Other Current Issues**

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

While the prime considerations when investing surplus funds are security liquidity and yield, it is recognised that consideration must be given to other factors such as climate change, environmental, social, and good governance (ESG), to support a policy of sustainability. For these considerations to work effectively any policy should be derived on a corporate level, at which point the finance team can implement for treasury investing. Most highly rated lenders will have an ESG policy in place, which can be reviewed periodically and form part of the counterparty selection process for treasury investments.

Appendix 3

South Ayrshire Council
Equality Impact Assessment
Scoping Template

Equality Impact Assessment is a legal requirement under the Public Sector Duty to promote equality of the Equality Act 2010. Separate guidance has been developed on Equality Impact Assessment's which will guide you through the process and is available to view here: https://www.south-ayrshire.gov.uk/equalities/impact-assessment.aspx

Further guidance is available here: https://www.equalityhumanrights.com/en/publication-download/assessing-impact-and-public-sector-equality-duty-guide-public-authorities/

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. FSD Guidance for Public Bodies in respect of the Duty, was published by the Scottish Government in March 2018 and revised in October 2021. See information here: https://www.gov.scot/publications/fairer-scotland-duty-guidance-public-bodies/

1. Policy details

Policy Title	Treasury Management and Investment Strategy Mid-year Report 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 – (issues specific to women & men or girls & boys)	-	-

Community or Groups of People	Negative Impacts	Positive impacts
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 i.e. The Fairer Scotland Duty (This section to be completed for any Strategic Decisions). Consideration must be given particularly to children and families.

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

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

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

5. Summary Assessment

Is a full Equality Impact Assessment required? (A full Equality Impact Assessment must be carried out if impacts identified as **Medium and/or High**)	~~**YES**~~ **NO**
Rationale for decision: **The strategy outlines the approach to be taken in managing the Council's cash flow and capital funding arrangements and is a mechanism for ensuring that budget targets are achieved: a full EQIA is, therefore, not required**	
Signed : Tim Baulk **Head of Service** **Date:** 4 November 2022	