Agenda Item No. 10

South Ayrshire Council

Report by Head of Finance and ICT to Audit and Governance Panel of 7 November 2018

Subject: Treasury Management Mid-Year Report – 2018/19

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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 2018/19.

2. Recommendation

2.1 It is recommended that the Panel:

2.1.1 scrutinises the contents of this report; and thereafter

2.1.2 remits the report to the Leadership Panel of 27 November 2018 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 Accordingly, treasury management is defined 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.'

3.4 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).

3.5 The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of an annual Treasury Management Strategy Report - including the Annual Investment Strategy for the year ahead.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For the Council, the delegated body is the Audit and Governance Panel.

Capital Strategy

3.6 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: -

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

3.7 The Capital Strategy was included within the 2018-2022 Financial Strategy approved by the Leadership Panel in June 2018.

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***

Interest rate forecast and commentary for the first half of 2018/19.

4.1.2 ***Appendix 2***

Section	*Description*
1.1 to 1.2	The Council's Capital Expenditure plans and Capital Financing Requirement (CFR);
2.1	Borrowing Strategy for 2018/19;
3.1 to 3.2	Review of Investment Strategy & Performance
4.1	Review of compliance with Treasury and Prudential Limits for 2018/19;
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 Leadership Panel of 27 November 2018 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 £0.326m in 2018/19, based on an estimate of the average revenue balances held during the year, and achieving an assumed interest rate return of 0.70% on these balances.

At September 2018 (Qtr2) the full year budgeted income is projected at £0.355m, a surplus of £0.029m.

6.1.2 **Capital Financing Costs** - the budget for loan charges in 2018/19 is £13.006m, comprising £5.877m for loan principal, £6.951m for interest costs and £0.178m for loans fund expenses.

The current projection for loans charges to the General Fund is an under-spend of £0.645m in interest and expenses.

6.2 *Housing Revenue Account (HRA)*

6.2.1 **Interest on Revenue Balances** - the HRA budgeted for investment income of £0.054m in 2018/19, based on an estimate of the average revenue balances held during the year and achieving an assumed interest rate return of 0.70%.

At September 2018 (Qtr2) the full year estimate for investment income earned is £0.114m resulting in a surplus of £0.060m.

6.2.2 **Capital Financing Costs** - the budget for HRA loan charges in 2018/19 is £3.709m, comprising £1.119m for loan principal, £2.525m for interest costs and £0.065m for loans fund expenses.

The current projection for HRA loan charges is an under-spend of £0.302m.

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 the Council strategic objective of 'Effective Leadership that Promotes Fairness' and within that to the outcome 'Ensure the Council is structured to make the best use of resources'.

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 Peter Henderson, Portfolio Holder for Resources and Performance, 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 1 March 2018 – Treasury Management and Investment Strategy 2018/19
	Report to Leadership Panel of 12 June 2018 – Financial Strategy 2018 to 2022 (3 Year)
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Date: 30 October 2018

1. Economic Background Commentary: April to September 2018 - Commentary

1.1 UK

The first half of 2018/19 has seen UK ***economic growth*** post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase ***Bank Rate*** on 2nd August from 0.50% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. ***Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019***.

As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.)

Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. ***However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.***

In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit.

However, the central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

1.2 USA

President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in Qtr1 to 4.2% in Qtr2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Federal Reserve increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

1.3 Eurozone

Growth was unchanged at 0.4% in Qtr2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

2. Interest Rates Forecast and Commentary

2.1 The Council's treasury adviser, Capita Asset Services, provide the following forecast:

Date	Bank Rate	PWLB Rates			
		5 year	10 year	25 year	50 year
Oct 18	0.75%	2.00%	2.40%	2.80%	2.60%
Dec 18	0.75%	2.00%	2.50%	2.90%	2.70%
Mar 19	0.75%	2.10%	2.50%	3.00%	2.80%
Jun 19	0.75%	2.20%	2.60%	3.10%	2.90%
Sep 19	1.00%	2.20%	2.70%	3.10%	2.90%
Dec 19	1.00%	2.30%	2.70%	3.20%	3.00%
Mar 20	1.00%	2.30%	2.80%	3.30%	3.10%
Sep 20	1.25%	2.50%	2.90%	3.40%	3.20%
Mar 21	1.50%	2.60%	3.10%	3.50%	3.30%

2.2 The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.50% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast.

We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.50%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

2.3 The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

2.3.1 **Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:**

- Bank of England monetary policy takes action too quickly 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.

- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.

- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government.

- In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.

2.3.2 **Upside risks to current forecasts for UK gilt yields and PWLB rates**

- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.

- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

1.1 ***The Council's Capital Expenditure and Prudential Indicators (Revised)***

(1) The following section provides the information relating to the 2018/19 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

(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 (as at Period 4 - 31 July 2018)

	2018/19 Original Estimate £'000	***2018/19 Latest Estimate £'000***
Prudential Indicator – General Services		
Capital Expenditure	**48,777**	**37,860**
General Services - Financed By		
General and Specific Grant	11,217	11,217
Capital Receipts/Other	2,231	5,775
Borrowing	35,329	20,868
	48,777	**37,860**

Prudential Indicator – HRA		
Capital Expenditure	**24,358**	**19,851**
HRA - Financed By		
Borrowing	10,610	994
CFCR, Draw on surplus	11,003	14,688
Other Receipts/ Grants	2,745	4,169
	24,358	**19,851**

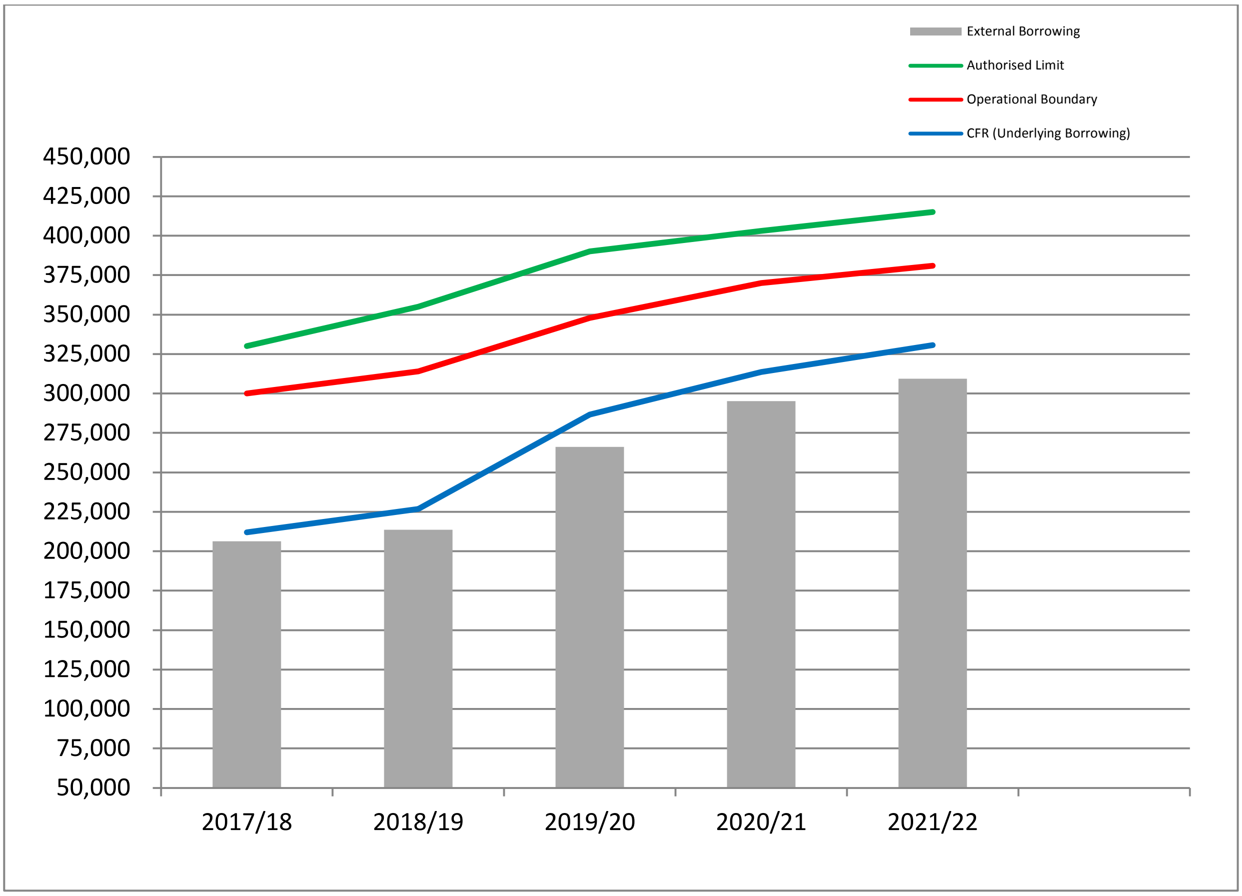
1.2 ***Capital Financing Requirement, Debt Position and Operational Boundary Indicators***

(1) Table 2 shows the CFR (underlying borrowing need which excludes other long term liabilities such as PPP and Finance Leases).

Table 2

Prudential Indicator – CFR (underlying borrowing need)	***2018/19 Original Estimate £'000***	***2018/19 Updated Estimate £'000***
Capital Financing Requirement – GS	185,101	169,750
Capital Financing Requirement – HRA	66,715	57,051
Total Capital Financing Requirement	**251,816**	**226,801**

(2) **Prudential Indicators Graph**



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

- **External Borrowing –** shows gradual increase over the short medium term as the Council utilises borrowing to fund capital investment
- **Capital Financing Requirement –** shows increases in CFR in line with external debt. The Council reduced its under-borrowed position (CFR compared with external debt) in 2017/18 to £5.6m. Ther current strategy will be to maintain this position in the short/medium term as reflected in the graph.
- **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.
- **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	*2018/19 Original £'000*	*2018/19 Updated £'000*
Authorised Limit	340,000	355,000
Operational Limit	305,000	314,000
External Debt (excluding other long term liabilities)	239,657	213,652

2.1 ***Borrowing Strategy 2018/19 (Update)***

(1) The Council's capital financing requirement (underlying borrowing need) for 2018/19 has been revised to £226.80m 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 2018/19 was set at £45.9m but has been revised to £21.8m.

(3) This has resulted in revising the external borrowing requirement from the original £41.0m to £20.0m which reflects the under-spend in loan charges outlined in the financial implications at Section 7.

(4) The current strategy is to consider long term external borrowing in Qtr4 when £10m of PWLB borrowing and a further £10m of other long term market borrowing will be considered. Around £10m of this new borrowing will be used to reduce the level of short term debt (currently (£50.5m) and thereby reduce exposure to potential increases in short term interest rates.

A pragmatic approach however is being taken in terms of the timing of new long term external borrowing given the current market uncertainties, but also the pace of the spend in the Council's capital programme.

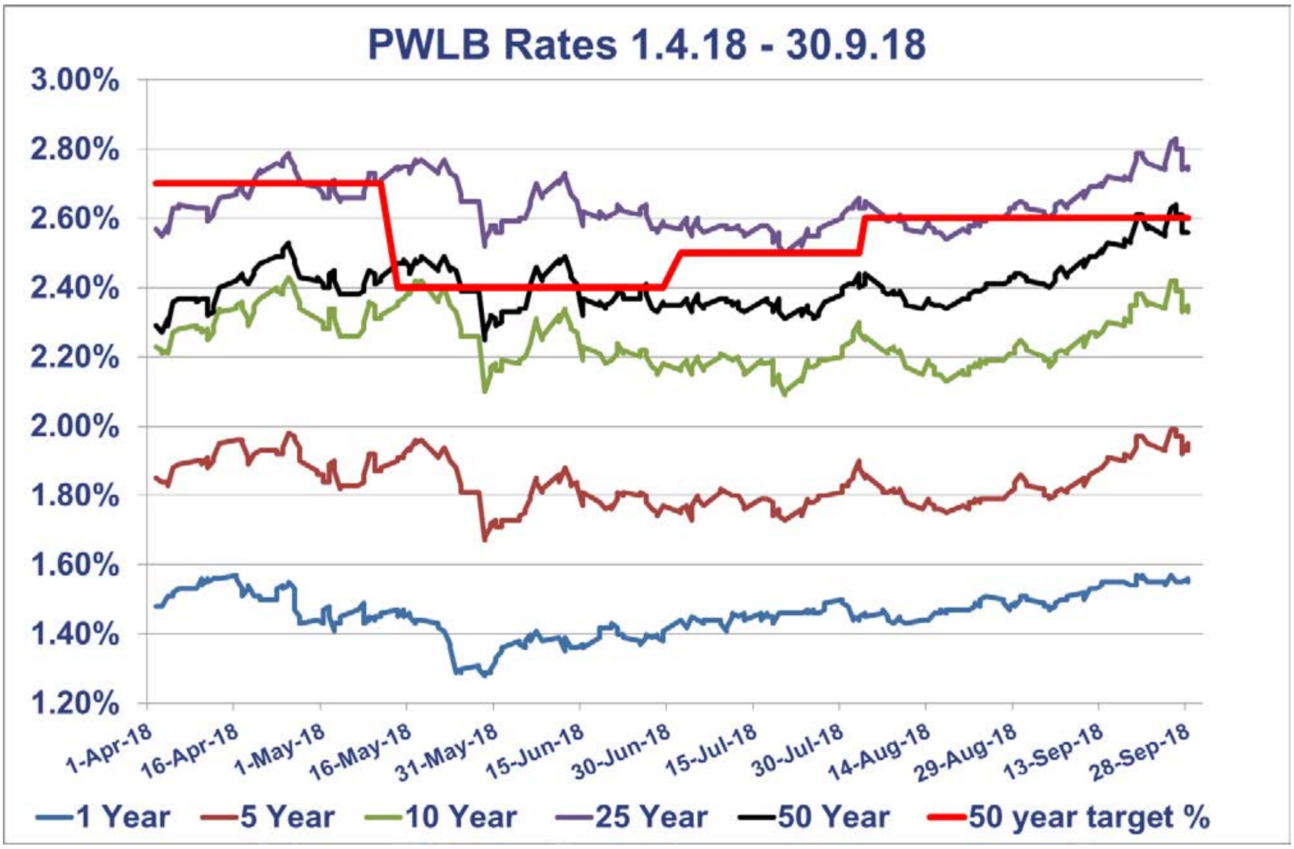
(5) The table at 2.2.1 below shows the high and low rates available from the PWLB during the period April 18 – Sep 18. Although the rates have seen marginal increases we remain in an extremely low interest rate environment with the table at Appendix 1 2.1 only estimating marginal increases over the short to medium term.

However ongoing monitoring of rates will be required in the event an upside risk to gilt yields prevails and in the last week or so we have seen an increase in these longer term rates.

2.2.1 **PWLB certainty rates 1 April 2018 to 30 September 2018**

	1 Year	**5 Year**	**10 Year**	**25 Year**	**50 Year**
3/4/18	1.48%	1.84%	2.22%	2.55%	2.27%
30/9/18	1.55%	1.93%	2.33%	2.74%	2.56%
Low	1.28%	1.67%	2.09%	2.50%	2.25%
Date	01/06/18	20/07/18	20/07/18	20/07/18	29/05/18
High	1.57%	1.99%	2.43%	2.83%	2.64%
Date	17/04/18	25/09/18	25/09/18	25/09/18	25/09/18
Average	1.46%	1.84%	2.25%	2.64%	2.41%

2.2.2 **PWLB Interest Rates – Apr 18 – Sep 18**



3.1 ***Investment Strategy***

(1) The Council uses Link Asset Services credit methodology for the selection of counterparties with whom the Council will deposit funds for investment purposes. The investment strategy continues to be based on the following priorities:

- security of capital;
- liquidity; and
- yield

(2) In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

As shown by forecasts in section 2.1, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

3.2 ***Investment Performance 2018/19***

(1) Investment rates currently available in the market continue at historically low levels. In addition banks have further reduced their own rates, particularly on liquidity and notice deposits. This trend is likely to continue as a result of further regulatory

arrangements that effectively deter banks from holding cash for periods of less than three months maturity, which impacts on liquidity account interest rates.

(2) The Council's average level of funds available for investment purposes in the first half of the year 2018/19 was **£57.6m.** These funds are available on a temporary basis and are dependent on a number of factors including cash flows, reserve balances, borrowing strategy, etc. Because 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.

(3) The following table summarises the Council's performance on investments against the benchmark performance indicator (3 month LIBID) in the current financial year:

Table 5

Benchmark	***Budgeted Return***	***Benchmark Return***	***Council Performance***
3 month LIBID	0.70%	0.60%	0.70%

(4) The Council budgeted for a 0.70% rate of return on investments in 2018/19. As illustrated, current performance is in line with budget at 0.70%.

(5) The Head of Finance and ICT confirms that the approved investment strategy was not breached in the first half of the financial year 2018/19.

(6) 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. The interest rates on offer are competitive in the market and are at a margin generally just above the UK Treasury Debt Management Account facility. These loans are currently offered only where the current bank rate of 0.75% can be achieved or bettered.

The following table summarises the Council's investments as at 30 September 2018.

Table 6

Counterparty	**Type**	**Principa l £'000**	**Interest Rate**	**Maturity**	**Lowest Long Term Credit Rating**
Bank of Scotland	Liquidity	5,775	0.70%	N/a	A
Bank of Scotland (95d)	Notice	15,000	1.00%	N/a	A
Santander Bank Plc (175d)	Notice	10,000	0.90%	N/a	A
Lancashire County Council	Maturity	5,000	0.55%	30/10/2018	AA
Blackpool Borough Council	Maturity	5,000	0.85%	04/04/2019	AA
Slough Borough Council	Maturity	6,000	0.75%	30/07/2019	AA
Liverpool City Council	Maturity	5,000	0.85%	14/08/2019	AA
Highland Council	Maturity	5,000	0.95%	02/09/2019	AA
Federated(Prime Rate Class3)	Liquidity	5,000	0.69%	N/a	AAA
Total Investment		**61,775**	**0.80%**		

4.1 ***Review of Compliance with Treasury and Prudential Limits for 2017/18***

(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 2018/19 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 2018/19 year end projected total debt position of £304.163m is below the projected CFR of £312.136m which indicates that external borrowing is only being used for capital purposes.

Table 7

	2017/18 Actual £'000	***2018/19 Borrowing as @ 30/9/18 £'000***	***2018/19 Projection £'000***
Long Term Borrowing – PWLB	110,088	107,961	117,452
Long Term Borrowing - LOBO	41,205	41,200	41,200
Long Term Borrowing - Market	5,000	10,000	15,000
Short Term Borrowing – Market	50,000	50,500	40,000
External Debt	**206,293**	**209,661**	**213,652**
Other Long Term Liabilities	83,605	83,605	80,511
Total Debt	**289,898**	**293,266**	**294,163**
Capital Financing Requirement (CFR)	295,511	312,136	307,399
(Under) Over borrowed	**(5,613)**	**(18,870)**	**(13,236)**

(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 2018/19 indicator.

Table 8

Prudential Indicator – Authorised Limit for External Debt	***2018/19 Original Indicator £'000***	***2018/19 Revised Indicator £'000***
Borrowing	285,000	271,000
Other Long Term Liabilities	55,000	84,000
Authorised Limit	**340,000**	**355,000**

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 2018.

6.1 ***Debt Rescheduling*** - Debt rescheduling opportunities have been limited in the current economic climate as a result of an increase in the margin added to gilt yields, and continuing low interest rates which have impacted PWLB new borrowing rates since October 2010. No rescheduling of debt has been undertaken during 2018/19

7.1 **Other Current Issues - . UK banks – ring fencing** -The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as 'ring-fencing'. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

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

7.2 **IFRS9 Accounting Standard** - This accounting standard came into effect from 1st April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted. The impact on this authority is likely to be minimal.

7.3 **Changes in risk appetite** - The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

Appendix 3

South Ayrshire Council **Equality Impact Assessment Scoping**

1. Proposal details

Proposal Title	Lead Officer
Treasury Management Mid-Year Report – 2018/19	**Don McNeill**

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 proposal? Please indicate whether these would be positive or negative impacts

Community, Groups of People or Themes	Negative Impacts	Positive impacts
The whole community of South Ayrshire	-	-
People from different racial groups, ethnic or national origin.	-	-
Women and/ or men (boys and girls)	-	-
People with disabilities	-	-
People from particular age groups for example Older people, children and young people	-	-
Lesbian, gay, bisexual and heterosexual people	-	-
People who are proposing to undergo, are undergoing or have undergone a process to change sex	-	-
Pregnant women and new mothers	-	-
People who are married or in a civil partnership	-	-
People who share a particular religion or belief	-	-
Thematic Groups: Health, Human Rights, Rurality and Deprivation	-	-

3. Do you have evidence or reason to believe that the proposal will support the Council to:

General Duty and other Equality Themes	Level of Negative and/ or Positive Impact (high, medium or low)
Eliminate discrimination and harassment faced by particular communities or groups	Low impact
Promote equality of opportunity between particular communities or groups	Low impact
Foster good relations between particular communities or groups	Low impact
Promote positive attitudes towards different communities or groups	Low impact
Increase participation of particular communities or groups in public life	Low impact
Improve the health and wellbeing of particular communities or groups	Low impact
Promote the human rights of particular communities or groups	Low impact
Tackle deprivation faced by particular communities or groups	Low impact

4. Summary Assessment

Is a full Equality Impact Assessment (EQIA) required? (A full EQIA must be carried out on all high and medium impact proposals**)**	**Yes** [ ] **No** [x]
Rationale for decision: **This report provides Members with a mid-year treasury management update for the financial year 2018/19. Their decision on this has no specific equality implications.**	
Signed : **Tim Baulk** Head of Service	
Date: **16 October 2018**	Copy to equalities@south-ayrshire.gov.uk