Treasury Management and Investment Strategy 2023/24 & Prudential Indicators

Report by David Gladwin, Acting Chief Financial Officer

Report for Decision

1 Recommendations

The Audit Committee is invited to comment on this report before it is presented to Council. In particular, Audit Committee should note the following recommendations which are proposed to be put to Council on 21 February 2023:-

a) Approve the restriction of the Authorised Limit to the value of the Capital Financing Requirement at 31 March 2024 (£472.662 million), pending finalisation of the General Services Capital Plan Prioritisation;

b) To note the ongoing review in respect of incorporating ESG criteria into the decision making process for making deposits, and that officers will continue to monitor and evaluate emerging approaches as the marketplace develops;

c) Note that there are no other material changes proposed to the Treasury Management and Investment Strategy (TMIS) for 2023/24 from the strategy currently in place, other than to update the Prudential Indicators (Section 5 and Appendix 2), to reflect the revised capital plans;

d) Note the retention of the current approach for the repayment of loans fund advances as outlined in Section 7; and

e) Accordingly approve the Treasury Management and Investment Strategy for 2023/24.

2 Purpose of Report/Executive Summary

In accordance with the Treasury Management Code of Practice, the annual Treasury Management & Investment Strategy (TMIS) & Prudential Indicators report is required to be adequately scrutinised before being recommended to the Council. For Midlothian, this role is undertaken by the Audit Committee, with this report being presented to Audit Committee on 7 February 2023 prior to consideration by Council on 21 February 2023.

The purpose of the report to Council will be to provide an update on the implementation of the Council's TMIS 2022/23, and to make recommendations to facilitate consideration of the 2023/24 Strategy, specifically the TMIS for 2023/24, the 2021 update to the Prudential and Treasury Management Codes, the Prudential and Treasury indicators contained therein, and the approach to the statutory repayment of loans fund advances.

Any revisions arising from Audit Committee consideration of the report on 7 February 2023 will be incorporated into the final version of the report to Council on 21 February 2023.

Date: 27 January 2023

Report Contact:
Gary Thomson, Senior Finance Business Partner
gary.thomson@midlothian.gov.uk **0131 271 3110**

3. Update on implementation of TMIS for 2022/23

3.1 Borrowing

The Council's borrowing position as set out in the 2022/23 Treasury Management Mid-Year Review Report was £323.271 million at 31 March 2022, and six months later was £322.838 million on 30 September 2022.

The principle source of borrowing is the UK Debt Management Office's Public Works Loans Board (PWLB) and fixed rate loans are taken at a time and tenure which takes cognisance of the PWLB rates (derived from the UK Gilts market) and the management of maturity risk in the long term across the Council's loan portfolio.

The Council's loan portfolio, as at 20 January 2023, is shown in table 1 below:-

Table 1: Current Loan Portfolio as at 20 January 2023

Loan Type	**Principal Outstanding £000's**	**Weighted Average Rate**
PWLB Annuity	505	8.91%
PWLB Maturity	284,776	2.92%
LOBO	20,000	4.51%
Market Loans	16,886	2.68%
Salix Loans	235	0.00%
Total Loans	**322,402**	**3.01%**

The repayment profile of this debt is shown in graphical and tabular form below:-

Figure 1: Loan Maturity Structure

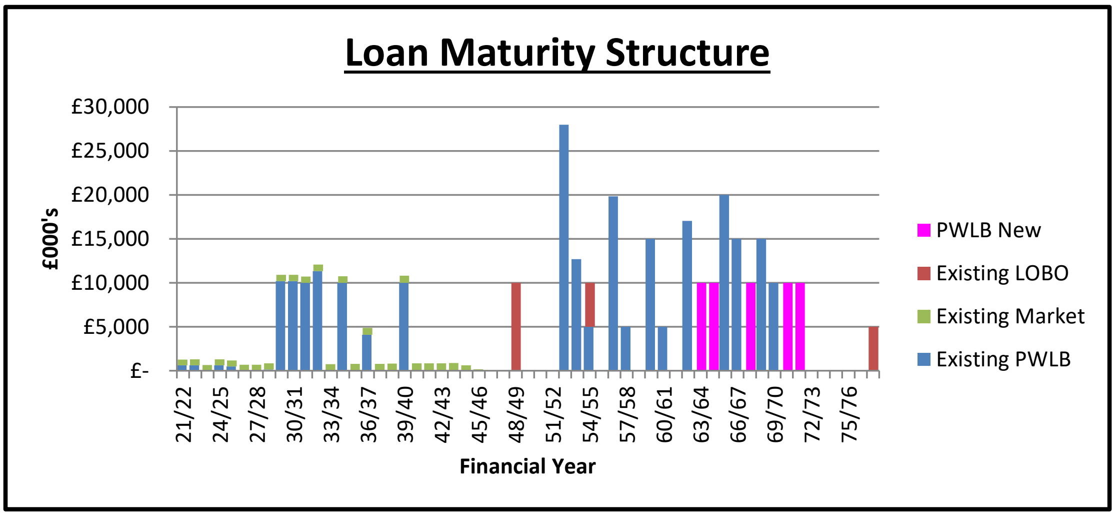


Table 2: Loan Maturity Profile

Financial Year	2022/23 Remaining £000's	2023/24-2026/27 £000's	2027/28-2031/32 £000's	2032/33-2036/37 £000's	2037/38+ £000's
Debt Maturing	648	4,330	33,857	29,258	254,309
% of total portfolio	0.20%	1.34%	10.50%	9.08%	78.88%

As can be noted in the graph and table above, proactive Treasury Management by the Council in the last decade has placed the Council in an extremely strong refinancing position for its existing external debt portfolio, with only £4.978 million, or just 1.54%, of the Council's total Loan Portfolio of £322.402 million requiring refinancing over the current and forthcoming four financial years. This extremely low short-term exposure to refinancing risk has put the Council in a strong position to plan its new borrowings in advance, take advantage of any dips in longer-term borrowing rates from PWLB (as demonstrated above) and other sources, and maintain a low weighted average coupon rate on external debt.

3.2 Deposits

The Council's position for funds on deposit fluctuates on a daily basis, with the 2022/23 Treasury Management Mid-Year Review Report setting out the position at 31 March 2022 of £156.367 million and six months later on 30 September 2022, at £167.399 million.

The position at 20 January 2023, as set out in Table 3 below, totals £146.055 million.

Table 3: Current Deposits as at 20 January 2023

Investment Type	Principal Outstanding £000's	Weighted Average Rate
Bank Call Accounts	14,940	3.30%
Money Market Funds	44,115	3.32%
Bank Fixed Term Deposits	70,000	3.17%
Other Local Authorities	17,000	2.30%
Total Investments	**146,055**	**3.23%**

The cash balances above represent the following:

- Funds held in Bank Fixed Term Deposits and on Deposit with other Local Authorities which are cash backing the Council's projected useable reserves (at 31 March 2023) of £70.273 million;
- A balance held in instant access accounts and money market funds which are used for day to day liquidity to meet cashflow requirements;
- The remainder reflects accumulated balances reflective of (a) the Scottish Government providing upfront funding to local authorities to support a range of grant schemes, (b) advanced

Revenue Support Grant payments and Early Years Capital Grant payments, (c) the receipt of developer contributions from sites across Midlothian, towards new school, community, road and other infrastructure, and (d) the impact of rephasing of the Council's capital plans as reported in the General Services and HRA Quarter 3 Financial Monitoring reports.

The Council's current deposit portfolio is broadly reflective of the wider UK Local Authority position, as noted in the Treasury Management & Annual Investment Strategy Statement – 2023/24 Detailed in Appendix 4, Section 4.4. .

4. Treasury Management & Investment Strategy 2023/24

4.1 Main Objectives of TMIS 2023/24

The objectives of the current and proposed TMIS are:-

- To secure long-term borrowing to fund capital investment, through locking in to long-term interest rates and de-risking the Council's Capital Financing Requirement (CFR);

- To ensure short-term liquidity to manage the Council's day-to-day cashflow. This is achieved through the utilisation of instant access Money Market Fund and Bank Accounts, with the amount held in these reflecting the Council's level of working capital and fluctuating throughout the year due to a number of factors;

- To cash back the Council's usable reserves.

No material changes are proposed to the current TMIS which was scrutinised by Audit Committee in January 2022 and approved by Council in February 2022, other than for the following:-

a) Approve the restriction of the Authorised Limit to the value of the Capital Financing Requirement at 31 March 2024 (£472.662 million), pending finalisation of the General Services Capital Plan Prioritisation;

b) To note the ongoing review in respect of incorporating ESG criteria into the decision making process for making deposits, and that officers will continue to monitor and evaluate emerging approaches as the marketplace develops;

Similarly no changes are recommended to the Permitted Investments, other than the removal of Qatar as an approved country for Investment.

More detail on the borrowing and investment strategy for 2023/24 is provided in Sections 4.2, 4.3 and 4.4 below.

4.2 Borrowing Requirement 2022/23 to 2026/27

The Council's capital plans contain projections of capital expenditure and income over the forthcoming financial years. Any expenditure not financed directly by income, requires funding through borrowing.

The projected borrowing requirement arising from the Council's Capital Plans, the Midlothian Energy Limited (MEL) Shareholder Injection, and the maturing long-term loans that require to be refinanced, over the period 2022/23 to 2026/27 is shown in table 4:-

Table 4: Total Borrowing Requirement over the period 2022/23 to 2026/27

	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's	2026/27 £000's	Total £000's
Capital Expenditure						
General Services	28,505	86,289	96,822	51,791	12,787	**276,194**
HRA	41,400	94,897	60,711	21,822	8,943	**227,773**
Total Capital Expenditure	**69,905**	**181,186**	**157,533**	**73,613**	**21,730**	**503,967**
Total Available Financing	-28,729	-43,082	-44,357	-21,697	-13,607	**-151,473**
Principal Debt Repayments	-5,986	-9,389	-11,238	-11,830	-12,185	**-50,628**
Capital Expenditure less available Financing	**35,189**	**128,715**	**101,938**	**40,086**	**-4,062**	**301,867**
MEL Shareholder Injection	4,420	710	3,560	0	0	**8,690**
Maturing Long-term Loans	1,465	830	1,448	1,355	851	**5,949**
Total Borrowing Requirement	**41,074**	**130,255**	**106,946**	**41,441**	**-3,211**	**316,506**
Borrowing secured from previous years	-16,024	0	0	0	0	**-16,024**
Total Remaining Borrowing Requirement	**25,050**	**130,255**	**106,946**	**41,441**	**-3,211**	**300,482**

4.3 Borrowing Strategy for remainder of 2022/23 and 2023/24

Borrowing is undertaken to finance the Council's approved Capital plans and to do so in the most cost effective way. As can been noted from Table 4 above the Council has a significant borrowing requirement across the current and forthcoming four financial years (2022/23 to 2026/27).

This TMIS provides for this capital investment to be underpinned by long-term borrowing, recognising the current interest rate environment, the significant borrowing requirement arising from the Council's capital plans, and the long term benefits of de risking the delivery and affordability of these capital plans by locking into the certainty brought by PWLB fixed rate loans.

The Council's external loan debt at 31 March 2023 is projected to be £322.402 million. Based on the Council's historic and current approved Capital Plans, the **Underlying Borrowing Requirement (UBR) –** which is the Council's underlying need to borrow for capital purposes (excluding the long-term liability arising from PFI/DBFM projects) – at 31 March 2023 is expected to equate to £343.625 million.

This means that the Council is expected to be £21.223 million (6%) under-borrowed at the end of the 2022/23 financial year i.e. the Council has funded the majority (94%) of its underlying borrowing requirement as at 31 March 2023.

The long-term borrowing the Council took in late 2021/22 to pre-fund part of its 2022/23 borrowing requirement has allowed the Council to defer taking long-term borrowing during 2022/23 when long-term borrowing rates rose significantly, and instead use part of its cash balances to support the in-year borrowing requirement during 2022/23.

In the current economic climate, this is a prudent approach which balances (a) de-risking the longer term borrowing requirement at current longer term borrowing rates; against (b) the current year and forthcoming financial year budget projections. The Council has an extremely low short-medium term exposure to refinancing risk and is therefore in a strong position to plan its new borrowing requirements in advance, taking advantage of any dips in longer-term borrowing rates from PWLB and other sources, and maintain a low weighted average coupon rate on external debt.

The **Underlying Borrowing Requirement** is projected to rise to £619.304 million by 31 March 2027 – almost double the current Underlying Borrowing Requirement. The profile of this, and the projected external loan portfolio to fund the Underlying Borrowing Requirement over the period 2022/23 to 2026/27, is shown in graphical format below.

Figure 3: Loan Portfolio & Underlying Borrowing Requirement

PWLB Borrowing

It is expected that the majority of the Council's remaining 2022/23 and 2023/24 borrowing requirement of £155.306 million (table 4) will be funded through new PWLB maturity loans.

Long-term PWLB borrowing rates for both HRA and non-HRA purposes, which were on a gradual upward trend during the early part of the 2022/23 financial year, saw a significant spike in interest rates due to the tumultuous market volatility experienced in autumn 2022 as a result of the government's economic policy, with longer term PWLB borrowing rates topping out at just under 6.00%. During late 2022, as a degree of market confidence in the UK Economy and Fiscal/Monetary policy returned, rates shifted downwards to around 3.60%-3.90%, before shifting gradually back north during early 2023 to sit at c. 4.24%-4.57% at the time of writing.

The short-medium-term forecast is for PWLB long-term rates to sit flat at around the 4.30% mark during the remainder of 2022/23 and into the early part of 2023/24, before starting to ease off gradually during the mid-latter part of the 2023/24 year, and forecast to sit at c 3.90% by March 2024.

Council officers will therefore continue to monitor PWLB and market rates throughout 2023/24 in order to take advantage of any dips in the market in order to resource the Council’s remaining 2022/23, and 2023/24, borrowing requirement of £155.306 million (see table 4).

Temporary Borrowing

The Bank of England’s Monetary Policy Committee raised base rate throughout the 2022/23 financial year, to a level of 3.50% at the time of writing and with further rises expected in the 2 remaining meetings in February and March. This is forecast to take base rate to a peak of 4.50% by the start of the 2023/24 financial year, before gradually dropping back to c. 4.00% towards the end of 2023/24.

As such, utilisation of an element of temporary borrowing – which typically tracks close to base rate levels – within the Council’s overall loan portfolio may prove attractive whilst the market waits for inflation, and therein gilt yields and PWLB rates, to drop back later in 2023.

However, given the market volatility in 2023/24, this position can shift quickly and Council officers will continue to monitor the temporary borrowing and long-term borrowing markets to assess whether temporary borrowing would add value to the Council’s overall portfolio.

The quantum of any temporary borrowing will also be assessed against the backdrop of potential long term costs if the opportunity is missed to take PWLB or other market loans to de-risk the Council’s long-term Capital Financing Requirement.

Forward Borrowing

The opportunity also continues to exist to consider further loans on a ‘forward dealing’ basis, and officers will continue to explore the viability of these loans as part of securing the long term borrowing required to meet the Council’s Underlying Borrowing Requirement.

4.4 Investment Strategy for remainder of 2022/23 and 2023/24

No changes are proposed to the Investment Strategy from that approved by Council in the 2022/23 TMIS.

Council should note that in parallel to securing its external borrowing to finance the capital financing requirement, the strategy means that Council should continue to cash back the Council’s useable reserves. In doing so, the Council are able to continue to minimise the extent of under-borrowing and at the same time de-risk the Council’s forward borrowing requirement; whilst also ensuring that all deposits are securely placed with high creditworthy counterparties, complying with the CIPFA Treasury Management Code principles of security, liquidity and then yield – in that order.

All deposits will be placed with high creditworthy counterparties in accordance with the approved creditworthiness policy as outlined in Appendix 1, with a tenor reflective of the expected drawdown of useable reserve forecasts, and at a yield commensurate with this.

The list of Permitted Investments in Appendix 1 also remains unchanged from that approved by Council in the 2022/23 TMIS, other than the removal of Qatar as an approved country for Investment.

As required by the CIPFA Treasury Management Code, Local authorities "must not borrow to invest for the primary purpose of financial return." Midlothian Council does not and has not borrowed to invest for the primary purpose of financial return.

<u>Environmental, Social and Governance (ESG) in credit and counterparty policies (Treasury Management Practice 1)</u>

The inclusion of ESG criteria is still very much an emerging area in the Local Authority environment which will require ongoing monitoring. For the 2023/24 financial year, the Council's priorities of security, liquidity and then yield remain paramount and unchanged (and in that order), with ESG criteria an added 4th element to consider in the decision making process.

Page 50 of CIPFA's Treasury Management Code states:-

> "*ESG issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult.*
>
> *Organisations are therefore recommended to consider their credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with their organisation's own relevant policies, such as environmental and climate change policies.*"

For short term investments with counterparties, this Council utilises the Link creditworthiness service which uses the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which in themselves include analysis of ESG factors, and specifically the "G" element, when assigning ratings. Of the 3 elements of ESG, the most important element when considering treasury deposits is the Governance aspect – given the majority of treasury deposits undertaken by Midlothian Council are naturally short dated in duration, poor governance can have a more immediate impact on the financial circumstances of an entity and potential for a default event that could impact the amount of principal returned on the deposit.

Those financial institutions viewed as having poor/weak corporate governance are generally less well rated in the first instance or have a higher propensity for being subject to negative rating action, and the Council's existing creditworthiness policy will therefore take this into account.

Environment and Social factors are also important, but relate more to the long-term impact. Council should note that in relation to the security aspect of Treasury deposits, placing an undue weight on the Environmental and Social factors in the decision making process could have an adverse effect of limiting the list of potential counterparty options, thus decreasing diversification. This could then in turn lead to a widening of credit (security) criteria, or those with a stronger "ESG" performance, in order to restore a balance of diversification across the deposit portfolio, potentially increasing credit risk – and placing the cornerstone of prudent investing at risk.

The inclusion of ESG criteria therefore remains an area which requires ongoing review.

Council officers, in conjunction with the Council's treasury advisers Link, will therefore monitor and assess ongoing developments and emerging standards in this area, and methods in which the Council can incorporate ESG factors into our creditworthiness assessment process, and report back to Council accordingly.

5 Prudential Indicators – Midlothian Council

The Prudential Code for Capital Finance in Local Authorities requires that Councils can demonstrate that their Capital Plans are affordable, prudent and sustainable, taking into account the financial provisions made in current and future revenue budgets; and that Treasury Management decisions are taken in accordance with good practice.

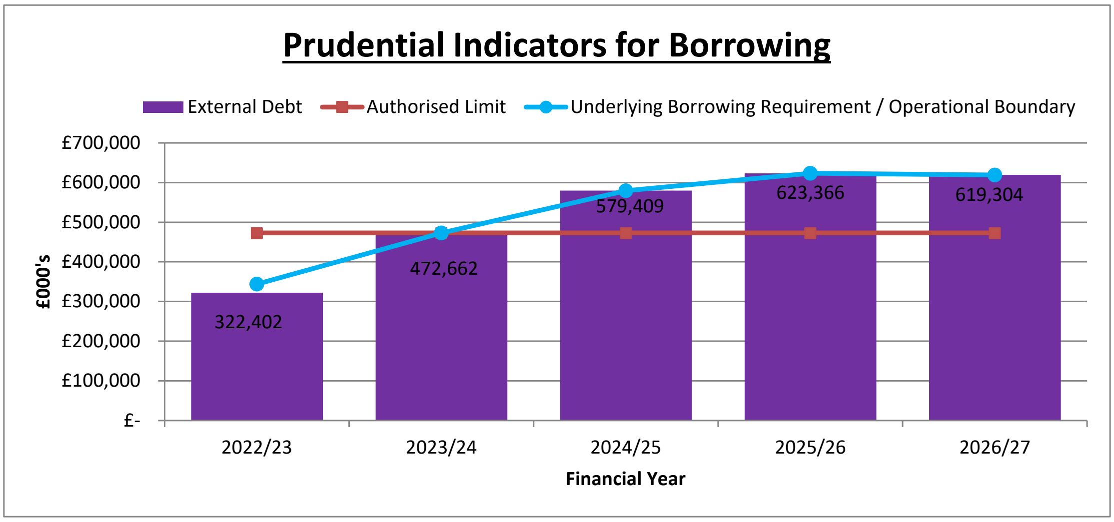
The Prudential Indicators that Councils need to consider relate to both actual, historic outcomes, and future estimated outcomes (covering the same period as the Council's Capital Plans), as follows:-

- Actual outcomes for 2021/22;
- Revised estimates of the 2022/23 indicators; and
- Estimates of indicators for 2023/24 to 2026/27.

The Prudential Indicators required by the Code are listed individually in Appendix 2.

The key Prudential Indicators relating to the Underlying Borrowing Requirement, the expected Gross External Debt, and the proposed Authorised Limit, are shown in graphical format below.

Figure 4: Prudential Indicators for Borrowing



The Capital Financing Requirement (CFR) denotes the Council's underlying need to borrow for capital purposes. The CFR includes borrowing arising as a result of the Council's Capital Plans, plus the long-term liability arising from the Council's PPP/DBFM contracts. The **Underlying Borrowing Requirement** as shown in Figure 4 above strips out the latter of these (long-term liability arising from the Council's PPP/DBFM contracts) from the CFR.

The **Authorised Limit for Borrowing** represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It is the expected maximum borrowing need with some headroom for unexpected movements.

The Authorised Limit for Borrowing for the 2023/24 financial year has been calculated to equate to the maximum value of the Underlying Borrowing Requirement in 2023/24. This equates to £472.662 million as outlined in Table 5 below.

Table 5: Authorised Limit for Borrowing: Calculation

Authorised Limit for Borrowing	**Amount £000's**
CFR – General Services (31 March 2024)	192,891
CFR – HRA (31 March 2024)	279,771
Proposed Authorised Limit for Borrowing	**472,662**

Council is therefore asked to approve an authorised limit for borrowing of £472.662 million.

6 CIPFA Codes & CIPFA Toolkit

6.1 CIPFA Codes

CIPFA, on 20 December 2021, released the new editions of the Treasury Management Code and Prudential Code.

The main areas that have been updated were as noted to Council in the TMIS in February 2022.

CIPFA expect Local Authorities to integrate the requirements of the new Treasury Management and Prudential Codes, and the Treasury Management Guidance Note, into their decision-making, monitoring and management.

CIPFA make it clear that the reporting requirements of the new 2021 Prudential Code must be implemented for the 2023/24 financial year. For Midlothian Council, this will be as follows:-

- A fully updated set of Treasury Management Practices (TMPs) were presented to, and approved by, Audit Committee on 6 December 2022;

- The new Prudential Indicators in respect of (a) the Debt Liability Benchmark (Appendix 2, Section 5.5) and (b) Net Income from Service & Commercial Investments as a proportion of Net Revenue Stream (Appendix 2, Section 1.3) are included within this report;

- The reporting requirements of the Prudential Code requires that the Section 95 officer establish procedures to monitor and report Prudential Management Indicators on a quarterly basis.

  These are already currently reported to Council as part of the Treasury Mid-Year Review (Q2), Treasury Strategy (Q3), and Annual Treasury Outturn (Q4) reports.

  For the 2023/24 financial year, in addition to the existing reporting arrangements, the monitoring and reporting of Prudential Indicators, along with forecast debt and investments indicators, will be reported as part of the existing Quarter 1 integrated revenue and capital financial monitoring reports.

- Officers will incorporate the new Environmental & Sustainability provisions of the Prudential Code in the next update of the Capital Strategy.

6.2 CIPFA Scottish Treasury Management Forum Toolkit

The Council is a member, and represented at officer level on the Executive Committee, of the CIPFA Scottish Treasury Management Forum (Scottish TMF), who have recently undertaken work in partnership with CIPFA to develop a new Scottish Treasury Toolkit.

This Toolkit delivers on the Scottish TMF's vision to create a free (to all members of the Scottish TMF) online learning programme aimed at Elected Members and Treasury Practitioners within Scottish Local Authorities. The toolkit focuses on Scottish regulations with commentary on differences to England and Wales, and includes a series of online learning modules developed to assist Officers and Members in their knowledge and understanding of Treasury practices and procedures.

2022 saw the completion of the first 4 e-learning modules and these will be made available to member organisations from early February 2023, with a further 8 modules in the pipeline of development and which are expected to be made available as the year progresses.

The new Treasury Management Code of Practice (TMP10 Training & Qualifications: Knowledge and Skills) requires organisations to retain a knowledge and skills register of elected members and employees that includes a training schedule outlining the aims and objectives of training and the expected level of knowledge, skills and expertise required of those involved in Treasury Management. This is covered in more detail in the Council's TMPs as approved by Audit Committee on 6 December 2022, a copy of which is in the Members Library.

It is therefore proposed that to assist Elected Members to have the necessary expertise, knowledge and skills to undertake their role in the scrutiny of Treasury Management that officers will assemble a list of Elected Members to undertake the Scottish Treasury Toolkit online e-learning programme.

In parallel with this, officers will also assemble a list of employees charged with the execution of the Treasury Management Strategy to undertake the Scottish Treasury Toolkit online learning programme.

As Elected Members and employees progress through the series of online learning modules, the Council's TMP10: Training & Qualifications: Knowledge and Skills schedule will be updated accordingly.

7 Statutory repayment of loans fund advances

Under the Local Government Finance Circular 7/2016, Council is now required to set out its policy for the statutory repayment of loans fund advances prior to the start of each 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.
The TMIS retains the methodology adopted in 2022/23 – that is as follows:-

7.1 New Assets

In accordance with Finance Circular 7/2016, for all advances made in relation to the provision of a new asset, the policy will be to defer the commencement of the first principal repayment of the loans fund advance until the financial year following the one in which the asset is first available for use.

7.2 Prudent Repayment of Loans Fund Advances

Finance Circular 7/2016 provides a variety of options to Councils for the profiling of the repayment of each loans fund advance, so long as the principle of prudence is maintained. There are 4 options available: (a) Asset Life method; (b) Statutory method; (c) Depreciation method; and (d) Funding/income profile method.

In line with the policy adopted in 2022/23, the Asset Life method shall be used for those assets in Table 6.

Table 6: Asset Classes to adopt the "Asset Life" method

Infrastructure	**Current Loans Fund Advance Period**
New Primary Schools/Extensions	60
New Leisure Centres	60
New Offices	60
Road Upgrades	50
Street Lighting Columns	50
Structures/Bridges	50
Footway/Cyclepaths	50
Town Centre Environmental Improvements	50
New Care Homes	45
Children's Play Equipment	20

** Average loans fund advance length*

The annual repayments under the "Asset Life" method for those asset classes as noted above will be calculated using the asset lives and will use the annuity method, to ensure consistency of approach with the Statutory method for all other asset classes (see below). The annuity interest rate that will be used to calculate loans fund principal repayments under the "Asset Life" method will be the in-year loans fund rate, which for 2022/23 is currently estimated to be 2.21%.

For all other asset classes, the policy will be to maintain the practice of previous years and apply what is termed "the Statutory Method" – following the principles of Schedule 3 of the Local Government (Scotland) Act 1975 – with all loans fund advances being repaid by the annuity method. The annuity rate that is proposed to be applied to the loans fund repayments varies and will be the in-year loans fund rate, reflecting the Council's current loan and investment portfolio. The loans fund rate for 2022/23 is forecast to be 2.21%

Whilst neither the Depreciation nor the Funding/income profile methods are currently proposed, Council officers will continue to monitor whether it is appropriate to use this for future capital projects.

8 Performance Indicators 2021/22 – comparison with other Scottish Local Authorities

The Treasury Management Forum collates performance indicators for all Scottish Local Authorities. The indicators relating to financial year 2021/22 have been published and once again demonstrate the continuing effectiveness of the Council's Treasury function in maximising efficiency in Treasury Management activity, with the Council having the 5th lowest weighted average borrowing & investment (loans fund) rate across all Scottish mainland authorities in 2021/22 (2.98%). The Council has consistently maintained the loans fund rate as one of the lowest across all Scottish mainland authorities for the last decade and more. Appendix 3 outlines the loans fund rate for each Scottish Local Authority in 2021/22.

The forecast loans fund rate of 2.21% for 2022/23 is expected to once again be one of the lowest for all Scottish Local Authorities.

Were the internal loans fund rate to have equated to the Scottish weighted average of 3.33%, this would have generated loan charges in 2021/22 of £15.2m. The Council's actual 2021/22 loan charges for General Services and HRA were £14.1m, representing a cash saving (compared to the Scotland average) of £1.1m in 2021/22.

9. Report Implications

9.1 Resource

There are no direct resource implications arising from this report.

9.2 Digital

None

9.3 Risk

The strategies outlined in this report are designed to maintain the effectiveness of the overall risk management arrangements for Treasury activity. Providing the limits outlined in the strategies are observed they will support the controls already in place in the Treasury Management Practices within which the treasury function operates.

The Prudential Indicators contained in Appendix 2 maintain the effectiveness of the overall risk management of Capital Investment and Treasury Management.

9.4 Ensuring Equalities

There are no equality issues arising from this report.

9.5 Additional Report Implications

See Appendix A.

Appendix A: Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable.

A.2 Key Drivers for Change

A.3 Key Delivery Streams

Themes addressed in this report:

☐ One Council Working with you, for you
☒ Preventative and Sustainable
☐ Efficient and Modern
☐ Innovative and Ambitious
☐ None of the above

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

Although no external consultation has taken place, cognisance has been taken of professional advice obtained from Link Asset Services, the Council's appointed Treasury Consultants.

A.6 Impact on Performance and Outcomes

The strategies to be adopted are an integral part of the corporate aim to achieve Best Value as they seek to minimise the cost of borrowing by exercising prudent debt management and investment. This in turn helps to ensure that the Council's capital expenditure is sustainable in revenue terms.

A.7 Adopting a Preventative Approach

Not applicable.

A.8 Supporting Sustainable Development

Not applicable.

Background Papers:-

Appendix 1:-	Permitted Investments
Appendix 2:-	Prudential Indicators
Appendix 3:	Performance Indicators 2021/22
Appendix 4:-	Treasury Management & Annual Investment Strategy Statement – 2023/24 Detailed