
Report To:	Policy & Resources Committee	Date:	19 November 2024
Report By:	Chief Financial Officer	Report No:	FIN/75/24/AP/KJ
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	Treasury Management – Mid-Year Report 2024/25		

1.0 PURPOSE AND SUMMARY

- 1.1 For Decision For Information/Noting
- 1.2 The purpose of this report is:
- To advise the Committee of the operation of the treasury function and its activities for the first six months of 2024/25 as required under the terms of Treasury Management Practice 6 (“TMP6”) on “Reporting Requirements and Management Information Arrangements”.
 - To request that the Committee remits the report to the Full Council for their approval.
- 1.3 As at 30 September 2024 the Council had gross external debt (including PPP) of £236,157,495 and investments (cash balances managed in house) of £28,399,327. This compares to gross external debt (including PPP) of £234,304,481 and investments of £6,502,107 at 31 March 2024. This shows an improvement in the Council’s cashflow largely arising from early payment by the Scottish Government on grants due to their move to a new payments system.
- 1.4 The Council operated within the required treasury limits and Prudential Indicators for the year set out in the Council’s Treasury Policy Statement, annual Treasury Strategy Statement, and the Treasury Management Practices.

2.0 RECOMMENDATIONS

- 2.1 It is recommended that the Committee notes the contents of the Mid-Year Report on Treasury Management for 2024/25 and that a refreshed Loan Charge funding model will be presented to the 5 December Council.
- 2.2 It is requested that the Committee remits the report to the Full Council for approval.

Alan Puckrin
Chief Financial Officer

3.0 BACKGROUND AND CONTEXT

- 3.1 The Council is required by the revised CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities to produce a mid-year treasury management review of activities and prudential and treasury indicators for 2024/25.
- 3.2 Treasury Management in this context is defined as: “The management of the local authority’s 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.”
- 3.3 The treasury management issues arising since the start of 2024/25 were:
- a. The Council’s debt (including PPP) has increased during the period by £1,853,014 due largely to borrowing £3,000,000 in late April for cash flow purposes.
 - b. The Council’s investments have increased by £21,897,220 due to net cash flows into the Council in the period re: early payment of GRG in September.
 - c. As at 31 March 2024 the Council had under borrowed against its capital financing requirement by £65,951,000. The latest projection is for the under borrowing to reduce to £55,587,000 as at 31 March 2025. Under borrowing means that the Council is using funds it currently has to cash flow capital expenditure rather than bringing in funds from borrowing. The projected level of under borrowing is considered manageable but the position is kept under review in light of Council capital financing and other funding requirements.
 - d. There remains financial market volatility and economic uncertainty in the UK and around the world largely caused by uncertainty over inflation, the timing and extent of any reductions in interest rates, and the conflicts in Ukraine and the Middle East.
 - e. The forecast in February 2024 was for the Bank Rate to fall to 4.75% by September 2024 and then down to 3.75% by the end of March 2025 and to 3.00% by the end of September 2025 through to the end of the forecast period of March 2027. The Bank Rate was cut from 5.25% to 5.00% in August. The latest forecast is for rates to fall to 4.50% in December 2024, to 4.00% by March 2025, to 3.50% by June 2025, to 3.25% by September 2025, and to 3.00% in September 2026.
 - f. PWLB rates for new borrowing had been expected to fall by between 0.40% and 0.60% through to March 2025. As at the mid-year point, rates had fallen by up to 0.41% for loans up to 6½ years with increases of up to 0.15% for other periods. The volatility during the 6-month period resulted in spreads between the high and low rates for some loan periods of up to 0.88% (e.g. borrowing rates for 3 years of 4.96% in April were 5.35% in May, 4.47% in mid-September, and 4.67% in late September).
 - g. The Council’s treasury advisers expect PWLB rates to fall by the end of March 2025 to 4.30% for 5 years, 4.40% for 10 years, 4.80% for 25 years and 4.60% for 50 years. The extent and speed of any changes to rates will depend on the economic and other factors affecting the UK and global markets.
 - h. The Council did not undertake any other debt restructuring during the first six months of 2024/25 and remained within its Prudential Indicator and Treasury Management limits.
 - i. The Council’s investments earned a rate of return of 5.12% during the period. This was 0.04% higher than the SONIA benchmark.
 - j. All investments were in accordance with the Council’s investment policy and no institutions with which investments were made had any difficulty in repaying those investments and interest in full during the period.
 - k. The Council’s investments were with counterparties that have high creditworthiness (the Bank of Scotland and Santander UK) and in accordance with the Council’s investment strategy.

3.4 The Council's debt position was as follows:

	At 31 March 2024	At 30 September 2024
	£	£
Total Excluding PPP	181,234,481	184,242,495
PPP Debt	53,070,000	51,915,000
Total Including PPP	234,304,481	236,157,495

Further detail is given in the following table:

	At 31 March 2024		At 30 September 2024		Movement In Period
	Principal	Rate	Principal	Rate	Principal
	£000		£000		£000
Fixed Rate Funding:					
- PWLB	111,378		114,378		3,000
- LOBO *	16,000		16,000		0
- Market	40,000		40,000		0
- Temporary	0		0		0
	167,378	4.22%	170,378	4.24%	3,000
Variable Rate Funding:					
- PWLB	0		0		0
- LOBO *	13,500		13,500		0
- Market	0		0		0
- Temporary #	356		364		8
	13,856	4.93%	13,864	4.92%	8
Total Debt (Excl PPP)	181,234	4.27%	184,242	4.29%	3,008
PPP Debt	53,070		51,915		(1,155)
Total Debt (Incl PPP)	234,304		236,157		1,853

* - LOBO Loans are shown as variable when they have less than 1 year to go until their next call date. The total value of LOBO Loans has not changed during the period, just the split between fixed and variable.

- Temporary Loans are funds held by the Council on behalf of the Common Good and Trust Funds that are treated as borrowing for Treasury Management purposes.

3.5 The Council's investment position was as follows:

	At 31 March 2024		At 30 September 2024		Movement In Period
	Principal	Return	Principal	Return	Principal
	£		£		£
Investments:					
- Fixed Term Deposits	0	0.00%	0	0.00%	0
- Notice Accounts	52,781	3.99%	54,123	4.99%	1,342
- Deposit Accounts	6,449,326	5.15%	28,345,204	4.88%	21,895,878
Totals	6,502,107	5.14%	28,399,327	4.88%	21,897,220

Maximum level of investments in period: £28,388,755 on 30 September 2024

Minimum level of investments in period: £ 1,841,214 on 25 April 2024

Daily average for the period: £16,438,483

An analysis of the above investments is shown in Appendix 1.

In addition to the above cash balances managed in-house, the Council has other transactions/balances required to be treated as investments under Investment Regulation 31. Appendix 2 includes these transactions/balances along with estimates for 2024/25.

3.6 2024/25 Latest Projection Compared to Estimates in 2024/25 Strategy

The latest 2024/25 projection compared to the estimates in the 2024/25 strategy:

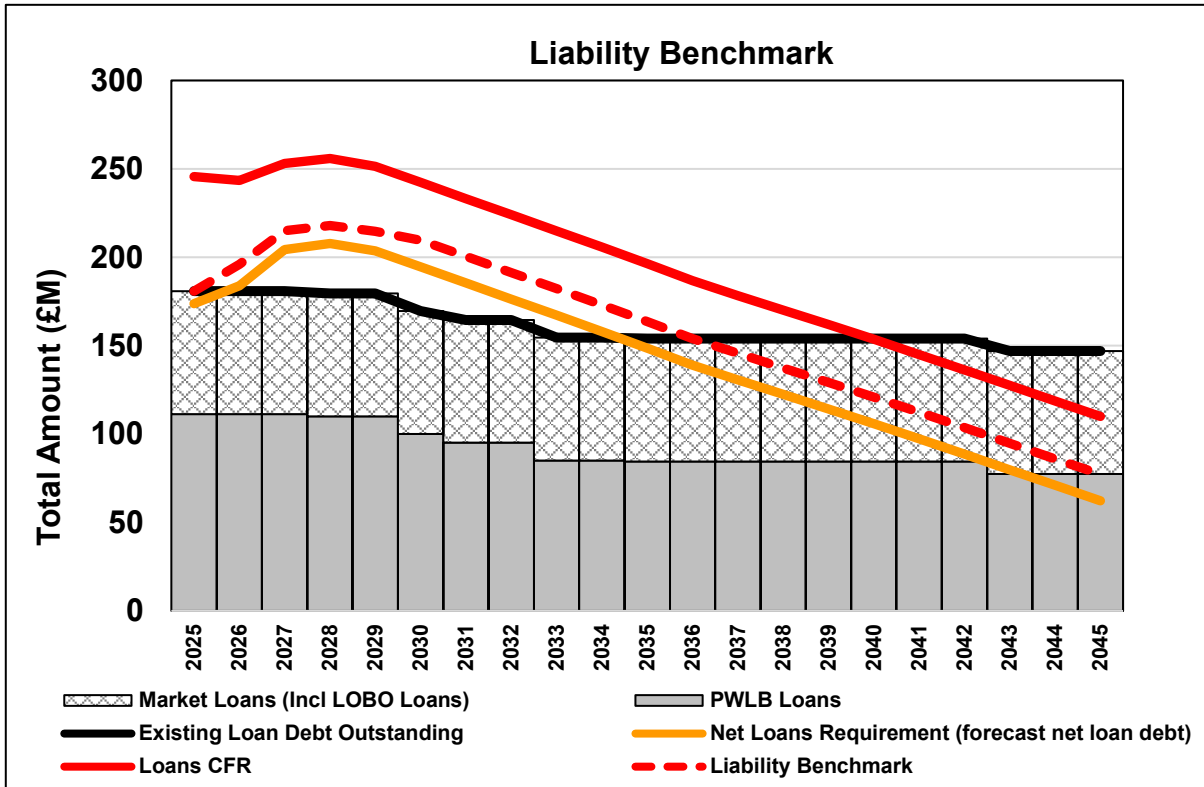
	2024/25 Estimate	2024/25 Latest Projection
<u>Borrowing Requirement</u>	£000	£000
New borrowing	10,000	10,000
Alternative financing requirements	0	0
Replacement borrowing	12,500	12,500
TOTAL	22,500	22,500
<u>Prudential/Treasury Management Indicators</u>		
	£000	£000
Capital financing requirement (As at 31 March 2025)	292,714	297,578
Gross external debt including PPP (As at 31 March 2025)	236,981	241,991
(Under)/over borrowing against CFR	(55,733)	(55,587)
	£000	£000
Gross Capital Expenditure (Excluding Levelling Up Project)	23,451	19,702
Ratio of financing costs (including PPP) to net revenue stream	8.2%	8.2%
Ratio of net debt (debt and PPP less investments) to net revenue stream	91.1%	92.0%
Ratio of net income from commercial and service investments to net revenue stream	0.0%	0.0%

3.7 2024/25 Mid-Year Position Compared to Limits in 2024/25 Strategy

The 2024/25 mid-year position compared to limits in the 2024/25 strategy:

	2024/25 Limits		2024/25 Mid-Year Actual Position	
<u>Prudential/Treasury Management Indicators</u>				
Authorised limit for external debt	£000		£000	
• Borrowing	243,000		184,242	
• Other long-term liabilities	54,000		51,915	
	297,000		236,157	
Operational boundary for external debt	£000		£000	
• Borrowing	228,000		184,242	
• Other long-term liabilities	54,000		51,915	
	282,000		236,157	
Upper limit on sums invested for periods longer than 365 days (Actual is maximum in period)	£000		£000	
	10,000		0	
Upper limits on Fixed/Variable borrowing maturing in each period (LOBOs included based on call dates and not maturity dates) at end of period	Fixed	Var.	Fixed	Var.
• Under 12 months	45%	35%	19.0%	7.5%
• 12 months and within 24 months	45%	35%	12.8%	-
• 24 months and within 5 years	45%	35%	6.1%	-
• 5 years and within 10 years	45%	35%	8.5%	-
• 10 years and within 30 years	45%	35%	3.8%	-
• 30 years and within 50 years	45%	35%	20.6%	-
• 50 years and within 70 years	45%	35%	21.7%	-
<u>Council Policy Limits</u>				
Maximum Percentage of Debt Repayable in Year	25%		21.7%	
Maximum Proportion of Debt at Variable Rates	45%		7.5%	
Maximum Percentage of Debt Restructured in Year	30%		0%	

3.8 The Liability Benchmark is a requirement in the Treasury Management Code. It is calculated from the Council's treasury management debt less investments plus an amount for cash flow/liquidity requirements and is shown in the graph below (the dashed line) with the existing loan debt (PWLB and Market Loans), the Loans CFR (Capital Financing Requirement excluding PPP), and the forecast net loan debt position.



The following points should be noted:

- The graph shows the current Liability Benchmark for 2024/25 plus 20 years (longer than the minimum recommended by CIPFA) but the Council's treasury management debt runs beyond that period.
- The graph includes the impact of the current position plus the approved capital programme (including prudential borrowing) which covers the years up to 2027/28. It does not include any projected additional borrowing or requirement beyond that (albeit that borrowing may well be required depending on plans at the time). It also includes the estimated repayment dates for the refinancing of short-term PWLB loans that were taken out in 2023/24 largely to refinance LOBO loans. Those short-term PWLB loans will be refinanced for longer periods when PWLB interest rates for new borrowing are expected to be lower.
- Where loans outstanding are currently projected to be less than the Liability Benchmark above, this indicates a borrowing requirement (where the Council is underborrowed and exposed to interest rate, liquidity and refinancing risks). Where loans outstanding are projected to be greater than the Liability Benchmark, this indicates a borrowing requirement (where the Council is overborrowed and exposed to credit and reinvestment risks and a possible cost of carry due to different debt and investment interest rates).

3.9 The forecasts from the Treasury Advisors for the Bank Rate as at 31 March each year are:

	Forecast Per 2024/25 Strategy (February 2024)	Latest Forecast (September 2024)
2024/25	3.75%	4.00%
2025/26	3.00%	3.25%
2026/27	3.00%	3.00%

- 3.10 The Council's investment policy for the year is governed by Scottish Government Investment Regulations and was included in the annual investment strategy approved by the Council. This policy sets out the approach for choosing investment categories and counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data such as rating outlooks, credit default swaps, bank share prices etc.
- 3.11 All investments were in accordance with the policy and no institutions with which investments were made had any difficulty in repaying investments and interest in full during the period.

The result of the investment strategy undertaken by the Council in the first six months of 2024/25 is as follows:

Average Investment	Rate of Return (gross of fees)	Benchmark Return (3-month SONIA compounded)
£16,438,483	5.12%	5.08%

The Council's return was higher than the benchmark by 0.04%.

4.0 PROPOSALS

- 4.1 It is proposed that the Committee consider the contents of Section 3 of the report, seek any assurances from Officers, and thereafter remit the Mid-Year Report to the Council for approval.

5.0 IMPLICATIONS

- 5.1 The table below shows whether risks and implications apply if the recommendations are agreed:

SUBJECT	YES	NO	N/A
Financial		X	
Legal/Risk		X	
Human Resources			X
Strategic (LOIP/Corporate Plan)			X
Equalities & Fairer Scotland Duty			X
Children & Young People's Rights & Wellbeing			X
Environmental & Sustainability			X
Data Protection			X

5.2 Finance

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

The Council utilises Treasury Management as part of the overall Financial Strategy. Officers will continue to investigate borrowing and investment opportunities to bring financial benefits to the Council, all within the Treasury Management Policy.

5.3 Legal/Risk

None. Any borrowing or lending is done under the Council's legal powers.

5.4 Human Resources

None.

6.0 CONSULTATION

6.1 This report includes the latest advice from the Council's treasury consultants (Link Treasury Services Limited).

7.0 BACKGROUND PAPERS

7.1 CIPFA - Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – 2021 Edition
Inverclyde Council – Treasury Management Strategy Statement and Annual Investment Strategy 2024/25-2027/28.

Appendix 1**CASH BALANCES MANAGED IN-HOUSE
ACTUAL AS AT 31 MARCH 2024 AND 30 SEPTEMBER 2024**

The following is an analysis of cash balances managed in-house as at 31 March 2024 and at 30 September 2024:

	As At 31 March 2024	As At 30 September 2024
	£	£
<u>Fixed Term Deposits</u>		
None	0	0
Average Interest Rate	0.00%	0.00%
<u>Notice Accounts</u>		
Bank of Scotland	0	0
Santander UK	52,781	54,123
Average Interest Rate	3.99%	4.99%
<u>Deposit Accounts</u>		
Bank of Scotland	6,448,800	28,345,204
Santander UK	526	0
Average Interest Rate	5.15%	4.88%
TOTAL	6,502,107	28,399,327
Average Interest Rate	5.14%	4.88%

Appendix 2**FORECAST OF INVESTMENT BALANCES
ESTIMATE FOR 2024/25 AND ACTUAL AT 30 SEPTEMBER 2024**

Investment Regulation 31 requires the Council to provide forecasts for the level of investments. The estimate for 2024/25 and the actual as at 30 September 2024 are:

	Purpose of Investment	2024/25 Estimate For Year	2024/25 Actual For 1/4/2024 To 30/9/2024
Cash balances managed in-house	Treasury	£000	£000
- At Start of Year		10,000	6,502
- At End of Year/Period		12,555	28,399
- Change in Year/Period		2,555	21,897
- Average daily cash balances		11,278	16,438
Holdings of shares, bonds, units (includes local authority owned company)	Service		
- At Start of Year		2	2
- Purchases		0	0
- Sales		0	0
- At End of Year/Period		2	2
Loans to local authority company or other entity to deliver services	Service		
- At Start of Year		260	260
- Advances		0	0
- Repayments		49	24
- At End of Year/Period		211	236
Loans made to third parties	Service		
- At Start of Year		93	93
- Advances		0	5
- Repayments		25	10
- At End of Year/Period		68	88
Investment properties	Commercial		
- At Start of Year		0	0
- Purchases		0	0
- Sales		0	0
- At End of Year/Period		0	0
Total of all investments			
- At Start of Year		10,355	6,857
- At End of Year/Period		12,836	28,725
- Change in Year/Period		2,481	21,868

The loans made to third parties includes a £50,000 loan to Shared Interest Society Limited ("Shared Interest") as approved by the Policy & Resources Committee in August 2017.

Shared Interest is a company that uses funds invested by individuals and organisations to allow it to provide loans to fair trade businesses around the world.