



Mid-Year Treasury Management Report 2024/2025

Date of meeting 29 November 2024

Date of report 11 November 2024

Report by Director of Finance & Corporate Support

1. Object of report

To update the Committee on the treasury management activities and the actual Prudential and Treasury Indicators for the first half of financial year 2024/2025.

2. Background to report

SPT has adopted the CIPFA Treasury Management in The Public Services: Code of Practice and Cross-sectoral Guidance Notes (the “Code of Practice”) and fully complies with the requirements of the 2021 Edition, which includes this mid-year review report.

SPT has adopted the CIPFA Prudential Code for Capital Finance in Local Authorities (the “Prudential Code”) and fully complies with the requirements of the 2021 Edition.

3. The Economy and Interest Rates

Economic performance to date and outlook

The UK economy continues to face challenges and uncertainty. Economic growth has been slow. Inflation has fallen back but is expected to rise again. Unemployment remains at historically low levels.

UK GDP in volume terms is estimated to have risen by 0.5% in 2024 Q2 (April to June). The expectation is that UK GDP will fall back to 0.25% per quarter over the second half of 2024. Four-quarter growth is expected to pick up to 1.75% in 2025 before falling back slightly as a margin of economic slack is projected to emerge during 2026.

CPI inflation has decreased from 2.3% in April 2024 to 1.7% in September 2024 as previous global shocks have subsided, although remaining domestic inflationary pressures are resolving more slowly. CPI inflation is expected to increase to 2.5% by the end of 2024 as weakness in energy prices falls out of the annual comparison. Thereafter, the expectation is that CPI inflation will fall back to the 2% target by 2026, as a margin of economic slack emerges and acts against second-round effects in domestic prices and wages.

The unemployment rate was 4.1% in the three months to July 2024. Conditions in the labour market have eased, although they appear to be relatively tight by historical standards. Pay growth has slowed. The unemployment rate is expected to rise gradually to 4.4% by 2027 Q4 (October to December).

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain economic growth and employment. At its meeting on 6 November 2024, the MPC voted by a majority to reduce Bank Rate to 4.75%.

The MPC believes that monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium-term have dissipated further.

Interest rate forecast

SPT has appointed Link Group, Treasury Solutions as its treasury management advisors and the following table gives their current view on the prospects for Bank Rate.

Table 1 Bank Rate (%) forecast										
Now	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
4.75	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50

4. Treasury Management Strategy Update

The Treasury Management Strategy 2024/2025, including the Annual Investment Strategy, was approved by the Partnership on 15 March 2024. There are no proposed policy changes to the Treasury Management Strategy. The information in this report updates the position in light of the economic position and budgetary changes already approved.

5. 2024/2025 Capital Programme Position

The 2024/2025 capital budget was approved by the Partnership on 15 March 2024. Subsequently, amendments have been approved by the Partnership and further information can be found in the Capital Monitoring Reports submitted to the Strategy & Programmes Committee.

Table 2 below provides a summary of the revised capital programme position for 2024/2025 as approved by the Strategy & Programmes Committee on 6 September 2024 with proposed amendments as reported to the Committee on 29 November 2024.

Table 2 Capital Programme Position	2024/2025 Approved Budget £000	Amendme nts £000	2024/2025 Revised Budget £000
Capital expenditure 2024/2025	37,545	6,621	44,166
Scottish Government general capital grant	0	0	0
Scottish Government specific capital grant ¹	0	28,000	28,000
Other grants and contributions	4,707	0	4,707
Revenue contribution to the capital programme	4,242	0	4,242
Transfer from Subway Fund ²	3,143	(3,143)	0
Transfer from Subway Infrastructure Fund ²	6,000	0	6,000
Transfer from / (to) Capital Grants Unapplied Account ³	11,489	(11,675)	(186)
Capital funding 2024/2025	29,581	13,182	42,763
Projected funding gap	7,964	(6,561)	1,403

¹ ring-fenced grant funding

² General Fund - Earmarked Reserve

³ unspent specific and general capital grants from previous years

There is currently no General Capital grant capital funding formally proposed by the Scottish Government for SPT in 2024/2025 and consequently there is a projected funding gap. SPT is drawing on earmarked reserves for other projects and a contribution from revenue to fund most of this gap, leaving a balance of £1.403m for which funding is still to be identified.

SPT continues to work closely with Transport Scotland to agree a position in relation to capital funding to resolve the funding gap and ensure longer-term capital funding is in place. TS have indicated that they will commit to fund £28m as part of their commitment to the Subway Modernisation Project in 2024/25, this reduces the amount requiring to be drawn from other earmarked reserves.

6. Prudential and Treasury Indicators

During the first half of financial year 2024/2025, SPT has operated within the Prudential and Treasury Indicators set out in the Treasury Management Strategy 2024/2025.

Table 3 below provides a summary of the Prudential and Treasury Indicators as at Period 7, ending 12 October 2024.

Table 3 Prudential and Treasury Indicators	2024/2025 Original Forecast £000	2024/2025 Revised Forecast £000	2024/2025 Period 7 Actual £000
Prudential Indicators			
Capital Expenditure	32,803	44,166	15,371
Capital Financing Requirement (CFR)	0	0	0
Actual External Debt	0	0	0
Operational Boundary for External Debt	50,000	50,000	50,000
Authorised Limit for External Debt	55,000	55,000	55,000
Ratio of financing costs to net revenue stream	0%	0%	0%
Ratio of net income from service investments to net revenue stream	2%	2%	1%
Treasury Indicators			
Liability Benchmark ¹	(146,517)	(180,000)	(169,826)
Principal sums invested > 365 days ²			
- Actual	0	50,000	0
- Authorised Limit	50,000	50,000	50,000

¹ The Liability Benchmark is calculated as SPT's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing,

planned minimum revenue provision and any other major cash flows forecast. Since SPT is currently debt-free, the Liability Benchmark has a negative value, representing the treasury management investments.

² Investments taken out during the financial year for a period greater than 365 days.

SPT had no requirement for borrowing in the first half of financial year 2024/2025 and remains debt free.

7. Investment Strategy

In terms of investment policy, the Treasury Management Strategy 2024/2025 states that “SPT’s investment priorities will be security first, liquidity second and then return.” During the first half of financial year 2024/2025 this investment policy was followed in full.

The 2024/2025 Strategy lists the types of investments which can be used and sets appropriate limits for the amount that can be held in each investment type. During the first half of financial year 2024/2025 this policy was followed in full.

In terms of credit rating criteria, SPT applies the service provided by our treasury management advisors, Link Group, to classify counterparties into bands which indicate the relative credit rating and suggested duration for investments. During the first half of financial year 2024/2025 this credit rating policy was followed in full and there were no liquidity difficulties.

In terms of counterparty limits, the 2024/2025 Strategy set these as follows:

- Principal Banker - the greater of £50m or 50% of total balances;
- Debt Management Office – 100% of total balances;
- Other Institutions - the greater of £10m or 35% of total balances; and
- To allow for temporary operational circumstances, there is a tolerance level of 2% of the balance held with each counterparty.

Additionally, SPT has set an individual transaction limit of £20m with a tolerance level of 2%.

During the first half of financial year 2024/2025, this policy was followed in full.

During the first half of financial year 2024/2025, SPT has only held investment balances with approved UK institutions. The Counterparty List for 2024/2025 is shown at Appendix 1, with updated credit ratings.

8. Investment Outturn

The result of the investment strategy undertaken by SPT to Period 7, ending 12 October 2024, is shown in the Table 4 below.

Table 4	Average Investment £000	Average Rate of Return %	Benchmark Return ¹ %	Liquidity
Account 1	1,100	3.50	5.12	Instant Access
Account 2	5,758	3.50	5.12	Instant Access
Account 3	31,035	5.03	5.12	Instant Access
Account 4	15,000	5.13	5.12	Fixed Term
Account 5	540	1.89	5.12	Instant Access

Table 4	Average Investment £000	Average Rate of Return %	Benchmark Return ¹ %	Liquidity
Account 6	26,429	5.19	5.12	95 Day Notice
Account 7	42,143	5.30	5.12	Fixed Term
Account 8	34,286	5.21	5.12	Fixed Term
Account 9	107	3.40	5.12	Instant Access
Account 10	3	4.82	5.12	31 Day Notice
Account 11	20,704	5.39	5.12	95 Day Notice

¹ The benchmark return is the backward-looking 7-day compounded SONIA

To Period 7, ending 14 October 2024, SPT earned interest of £4.919m against budgeted income of £3.473m.

The overall average rate of return obtained equates to 5.13% per annum, which is 0.01% per annum above the benchmark.

SPT holds a number of investment accounts with balances below £1,000. This is in order to maintain relationships with counterparties which currently offer low rates of return or do not meet the minimum acceptable credit criteria. Retaining these accounts ensures quick access at the point that these accounts become competitive or regain the minimum acceptable credit criteria. These accounts have not been shown in Table 4 on the basis of materiality.

Investments are placed at available rates at a point in time in accordance with SPT's priorities of security, liquidity and return as well as available counterparty balances whilst taking into account forecast cash flow requirements. Consequently, Table 4 reflects the impact of timing issues in relation to maximising investment returns.

9. Committee action

The Committee is recommended to note the content of this report.

10. Consequences

Policy consequences	<i>None.</i>
Legal consequences	<i>All legislation and regulations are adhered to.</i>
Financial consequences	<i>As detailed in the report.</i>
Personnel consequences	<i>None.</i>
Equalities consequences	<i>None.</i>
Risk consequences	<i>As detailed in the report.</i>
Climate Change, Adaptation & Carbon consequences	<i>None.</i>

Name Lesley Aird
Title **Director of Finance & Corporate Support**

Name Valerie Davidson
Title **Chief Executive**

For further information, please contact *Lesley Aird, Director of Finance & Corporate Support* on 0141 333 3380.

SPT's Counterparty List 2024/2025

Investment balances have been held with the following counterparties so-far during financial year 2024/2025:

Counterparty Institution	Country / Classification	Band
Bank of Scotland PLC	UK / Bank	Red
Barclays Bank PLC	UK / Bank	Red
Goldman Sachs International Bank	UK / Bank	Red
Lloyds Bank Corporate Markets Plc	UK / Bank	Red
Santander UK PLC	UK / Bank	Red
Standard Chartered Bank	UK / Bank	Orange
The Royal Bank of Scotland Plc	UK / Part Nationalised Bank	Blue
Nationwide Building Society	UK / Building Society	Red

Investment balances could also potentially be held with the following counterparties during financial year 2024/2025:

Counterparty Institution	Country / Classification	Band
Debt Management Office	UK / Government	Yellow
Al Rayan Bank Plc	UK / Bank	Red
Barclays Bank UK PLC	UK / Bank	Red
Clydesdale Bank PLC	UK / Bank	Red
Handelsbanken Plc	UK / Bank	Orange
HSBC Bank PLC	UK / Bank	Orange
HSBC UK Bank Plc	UK / Bank	Orange
Lloyds Bank Plc	UK / Bank	Red
National Bank Of Kuwait (International) PLC	UK / Bank	Red
NatWest Markets Plc	UK / Bank	Red
Santander Financial Services plc	UK / Bank	Red
SMBC Bank International Plc	UK / Bank	Red
National Westminster Bank PLC	UK / Part Nationalised Bank	Blue
Coventry Building Society	UK / Building Society	Green
Leeds Building Society	UK / Building Society	Green
Skipton Building Society	UK / Building Society	Red
Yorkshire Building Society	UK / Building Society	Red

Colour Code	Duration (up to)
Yellow	5 years
Purple	2 years
Blue	1 year (only applies to UK Part Nationalised Banks)
Orange	1 year
Red	6 months
Green	100 days
No Colour	0 days (i.e. not to be used)