



**HALF YEAR TREASURY REPORT 2024/25**

Report by Chief Financial Officer

**PURPOSE**

- 1.1 The purpose of the Report is to provide Members with a summary Report of the Treasury Management activity during the first six months of 2024/25.

**EXECUTIVE SUMMARY**

- 2.1 This half yearly Report ensures the Comhairle is embracing Best Practice in accordance with CIPFA's recommendations which that require that Members are informed of Treasury Management activities at least twice a year.
- 2.2 Treasury Management 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".
- 2.3 The Comhairle borrows and invests substantial sums of money and therefore has potentially large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Comhairle's Treasury Management Strategy.
- 2.4 As a consequence of the cyber-attack suffered by the Comhairle in November 2023, there was no Treasury Management Strategy put forward for the financial year 2024/25 however, the Treasury Management function continued to abide by the Strategy for 2023/24 which was approved by the Comhairle on 26 April 2023.
- 2.5 Loan charges are calculated on all Comhairle treasury activities: revenue and capital cash flow, borrowing and investments. Savings are expected in the current year and an indication to the level of the saving will be provided in the next report.

**RECOMMENDATION**

- 3.1 **It is recommended that the Comhairle note the Report**

Contact Officer: Katherine Smith, Principal Accountant tel. 01851 822631  
Background Papers: None

## IMPLICATIONS

4.1 The following implications are applicable in terms of the Report.

<b>Resource Implications</b>	<b>Implications/None</b>
Financial	This Report is entirely concerned with financial matters
Legal	Section 1 of The Local Government in Scotland Act 2003 Section 35 of The Local Government in Scotland Act 2003 Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition The Local Government Investments (Scotland) Regulations 2010
Staffing	None
Assets and Property	None
<b>Strategic Implications</b>	<b>Implications/None</b>
Risk	The risks associated with the Comhairle's Management Strategy are set out in sections 9.3 and 9.4 of the Report
Equalities	None
Corporate Strategy	None
Environmental Impact	None
Consultation	None

## INTRODUCTION

- 5.1 This mid-year Report provides Members with an update on:
- (a) the wider economy;
  - (b) the Comhairle's debt portfolio;
  - (c) details of long-term borrowing taken in the financial year up to 30 September 2024;
  - (d) any debt rescheduling that has taken place up to 30 September 2024;
  - (e) the investment position;
  - (f) the treasury prudential indicators; and
  - (g) other significant factors in relation to the Loans Fund operation which will impact on Treasury operations throughout the remained of 2024/25.

## ECONOMIC BACKGROUND

- 6.1 UK headline consumer price inflation remained around the Bank of England's (BoE) target, falling from an annual rate of 3.2% in March to 2.08% in May and then increasing marginally to 2.2% in July and August. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August.
- 6.2 The UK economy continued to expand over the period, albeit slowing from the 0.7% gain in the first quarter (Jan-Mar) to 0.5% in the second quarter. Of the monthly figures, the economy was estimated to have registered no growth in July.
- 6.3 Labour market data was slightly better, showing an easing in the tightness of the job market, with inactivity rates and vacancies declining. However, a degree of uncertainty remains given ongoing issues around the data collected for the labour force survey by the Office for National Statistics. Figures for the three months to July showed the unemployment rate fell to 4.1% from 4.4% in the previous three-month period while the employment rate rose to 74.8% from 74.3%.

- 6.4 Over the same period, average regular earnings (excluding bonuses) were 5.1%, down from 5.4% in the earlier period, and total earnings (including bonuses) were 4.0%. Adjusting for inflation, real regular pay rose by 2.2% in May to July and total pay by 1.1%.
- 6.5 With headline inflation lower, the BoE cut Base Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. At the September MPC meeting, committee members voted 8-1 for no change. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern amongst policymakers.

#### **DEBT PORTFOLIO AT 30 SEPTEMBER 2024**

7.1

	<b>Balance 31.03.24 £'000</b>	<b>Debt Matured £'000</b>	<b>Debt Repaid £'000</b>	<b>New Borrowing £'000</b>	<b>Balance 30.09.24 £'000</b>	<b>Increase/ (decrease) £'000</b>
PWLB	127,266	0	0	0	127,266	0
Investments	33,007				38,505	5,498

#### **LONG-TERM BORROWING**

- 8.1 No long-term borrowing took place in the six months ended 30 September 2024 and the Comhairle does not expect to borrow in the second half of the year.
- 8.2 The use of internal resources to fund in lieu of borrowing has therefore continued to be the most cost-effective means of financing capital expenditure and financing loan maturities. In addition, this has lowered the overall treasury risk by reducing external debt and has contributed to loan charge savings.

#### **INVESTMENT STRATEGY**

- 9.1 The Comhairle is holding significant invested funds representing balances and reserves held plus income received in advance of expenditure. These funds are invested in accordance with the priorities in paragraph 9.2 and with the institutions listed at paragraph 9.3.
- 9.2 The Comhairle's investment priorities which are in line with the Scottish Government Investment Regulations are:
- security of the invested capital;
  - liquidity of the invested capital; and
  - an optimum yield which is commensurate with security and liquidity.
- 9.3 Security of capital is the overriding objective and the Comhairle's investment risk is reduced by limiting the Comhairle's counterparty list which is drawn up with reference to a variety of factors and by using the Debt Management Agency Deposit Facility as the default position in any time of significant stress in the markets. In addition, the sums invested in any one institution are restricted as is the term that sums may be invested for. Any institution can be suspended or removed should relevant factors give rise to concern. Current counterparties are:
- the Debt Management Agency Deposit Facility (DMADF);
  - banks/building societies meeting the criteria set in the approved 2023/24 Strategy; and

(c) other local authorities.

9.4 As a consequence of the Bank Recovery and Resolution Directive, introduced in 2014, no public money can be used to re-capitalise a failing bank until investors and depositors have taken losses. This is known as “bail-in” as opposed to “bail-out” which took place in 2008 when tax-payer’s money was used to support RBS and the Lloyds Group. To minimise the risk of loss associated with “bail-in” the Comhairle has continued to diversify its investments in line with the Permitted Investments identified in the 2023/24 Treasury Management Strategy and approved by the Policy and Resources Committee on 26 April 2023.

9.5 Investments at 30 September 2024 were as follows:

<b>Institution</b>	<b>£</b>	<b>Term</b>	<b>Rate %</b>
Royal Bank	304,852	Instant Accedds	1.450
Santander UK	2,000,000	Instant Accedds	2.980
Barclays Bank	2,000,000	Instant Accedds	4.250
D.M.A.D.F.	1,700,000	Fixed deposit to 02/10/2024	4.940
D.M.A.D.F.	4,000,000	Fixed deposit to 09/10/2024	4.940
D.M.A.D.F.	1,500,000	Fixed deposit to 04/10/2024	4.940
D.M.A.D.F.	2,000,000	Fixed deposit to 07/10/2024	4.940
D.M.A.D.F.	3,000,000	Fixed deposit to 09/10/2024	4.940
D.M.A.D.F.	3,000,000	Fixed deposit to 16/10/2024	4.940
D.M.A.D.F.	2,000,000	Fixed deposit to 18/10/2024	4.940
Mid-Suffolk District Council	2,000,000	Fixed deposit to 10/10/2024	5.300
Leeds City Council	5,000,000	Fixed deposit to 27/01/2025	6.000
Blackpool Borough Council	5,000,000	Fixed deposit to 30/04/2025	4.850
Moray Council	5,000,000	Fixed deposit to 24/07/2025	5.050
	<b>38,504,852</b>	<b>Average interest rate</b>	<b>4.934</b>

## PRUDENTIAL INDICATORS

10.1

	2023/24	2024/25	2025/26	2026/27
<b>Indicator</b>	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Net Capital Expenditure Funded by Borrowing	(1358)	26,431	4,742	(802)
Financing Costs to net revenue stream	6.40%	6.67%	6.24%	5.87%
Capital Financing Requirement	147,403	168,295	164,477	155,414
Gross External Debt	127,266	126,264	124,927	119,580
Authorised limit for external debt	166,602	166,000	163,000	161,000
Upper limit for Fixed Interest Rate Exposure on Debt	100%	100%	100%	100%
Upper limit for Fixed Interest Rate Exposure on Investments	100%	100%	100%	100%
Upper limit for Variable Interest Rate Exposure on Debt	40%	40%	40%	40%
Upper limit for Variable Interest Rate Exposure on Investments	100%	100%	100%	100%
<b>Maturity structure of fixed rate borrowing during 2023/24</b>	lower limit			
under 12 months	0%			
12 months and within 24 months	0%			
24 months and within 5 years	0%			
5 years and within 10 years	0%			

10 years and within 20 years	0%			
20 years and within 30 years	0%			
30 years and within 40 years	0%			
40 years and within 50 years	0%			
Upper limit for total principal sums invested over 364 days	0%	0%	0%	0%

## ADDITIONAL SIGNIFICANT FACTORS

- 11.1 **Cyber Attack:** The impact of the cyber-attack in respect of Treasury included the inability to produce the regular reports to Members. However, all Comhairle funds held were safe and no loss was suffered.
- 11.2 **Markets in Financial Instruments Directive (MiFID II):** The Comhairle has opted up to professional client status with its providers of financial services, allowing access to a greater range of services but without the greater regulatory protections afforded to individual and small companies. Given the size and range of the Comhairle’s treasury management activities, this has been judged to be the most appropriate status for the Comhairle.
- 11.3 **Deep Water Port:** Two loans, totalling £40.29m, have been made available to the Stornoway Port Authority (SPA) to facilitate the building of the new Deep Water Port. In line with the terms of the agreements, repayments to the Comhairle have commenced.
- 11.4 **Markets in Financial Instruments Directive (MiFID II):** The Comhairle has opted up to professional client status with its providers of financial services, allowing access to a greater range of services but without the greater regulatory protections afforded to individual and small companies. Given the size and range of the Comhairle’s treasury management activities, this has been judged to be the most appropriate status for the Comhairle.

## CONCLUSION

- 12.1 In compliance with the requirements of the CIPFA Code of Practice this Report provides Members with a summary of the Treasury Management activity during the first half of 2024/25.
- 12.2 None of the Prudential Indicators have been breached, no new long-term borrowing or restructuring has been undertaken and a prudent approach has been taken in relation to investment activity with priority, as always, being given to security and liquidity over yield.