Annual Report 2023/24
Treasury Management and Actual Prudential Indicators

1. Introduction

1.1 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government in Scotland Act 2003 (the Act), provides the powers to borrow and invest as well as providing controls and limits on this activity. The Act permits Scottish Ministers to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2023/24).

- Statutory Instrument (SSI) 29 of 2004, requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities, and therefore operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services; and the treasury activity with regard to the CIPFA Code of Practice for Treasury Management in Local Authorities.

- Statutory Instrument (SI) 2016 No 123 requires the Council to document its policy on the prudent repayment of loans fund advances.

1.2 The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and the Prudential Code and operates its treasury management service and capital programme in compliance with these Codes and the above requirements. These require that the prime objective of the treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis.

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and a revised Prudential Code.

A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. One recommendation was that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the Authority have been apportioned between treasury and non-treasury investments. For 2023/24, a Capital Strategy was reported and approved by Council on 1 March 2023.

1.3 During 2023/24 the minimum reporting requirements were that the Council should receive the following reports:

- an annual treasury strategy in advance of the new financial year (Council 29 March 2023)
- a mid-year treasury update report (Council 20 December 2023)
- an annual report following the financial year-end describing the activity compared to the strategy (this report).

1.4 This report sets out:

- A summary of the 2023/24 strategy.
- The Council's treasury position at 31 March 2024.
- The main Prudential Indicators and compliance with limits.
- A summary of the economic factors affecting the strategy over 2023/24.
- The 2023/24 Treasury activity.
- Performance indicators set for 2023/24.
- Disclosure regarding the repayment of loan fund advances for 2023/24.
- Risk and Performance.

2. A Summary of the 2023/24 Strategy

2.1 **Borrowing** – it is forecast that the capital borrowing need (the Capital Financing Requirement) will be almost fully funded by external borrowing which is a mixture of short term and long term debt. Against this background and the risk within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Section 95 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

2.2 **Investments -** with the economic background at the time, the investment climate had one over-riding risk consideration - counterparty security risk. As a result of the underlying concerns, officers maintained an operational investment strategy which tightened the controls already in place in the approved investment strategy. The Council's investment strategy primary objectives are safeguarding the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective.

2.3 Based on the above, the treasury strategy was to postpone borrowing (by not borrowing in advance of need) and in particular minimise longer term borrowing to avoid the cost of holding higher levels of investments at higher interest rates and to reduce counterparty risk.

3. The Council's Treasury Position at 31 March 2024

3.1 During 2023/24, the Chief Officer – Resources, in line with the Treasury Strategy, managed the debt position with the use of internal funds as well as a mix of short-term and long-term external borrowing, and the treasury position at 31 March 2024 compared with the previous year was:

Table 1

Treasury position – excluding PPP	**31 March 2023**		**31 March 2024**	
	Principal	**Average Rate**	**Principal**	**Average Rate**
Fixed Interest Rate Debt	£614.160m	3.19%	£718.597m	4.48%
Variable Interest Rate Debt	£0.000m	0.00%	£0.00m	0.00%
Total Debt	**£614.160m**	**3.19%**	**£718.597m**	**4.48%**
Total Investments	**£6.478m**	**4.00%**	**£28.997m**	**4.62%**
Net borrowing position	**£607.682m**		**£689.600m**	

3.2 From the above table, it can be seen that the average interest rate on the debt held as at 31 March has increased from 3.19% in 2023 to 4.48% as at 31 March 2024. At the same time the average rate has increased on the investments held as at 31 March from 4.00% in 2023 to 4.62% as at 31 March 2024.

3.3 The external debt figure included within Table 1 includes both short term and long term debt.

3.4 There are four treasury prudential indicators which cover the activity of the treasury function. Complying with these indicators reduces the risk of an adverse movement in interest rates impacting negatively on the Council's overall position:

- Upper limits on variable rate exposure.
- Upper limits on fixed rate exposure.
- Maturity structures of borrowing.
- Total principal funds invested for greater than 365 days.

3.5 Table 2 shows the actual upper limits set per debt type and maturity as at 31 March 2024.

Table 2

	2023/24 Actual	**2023/24 Revised Indicator**
Upper Limits on Fixed Interest Rates (Against maximum position)	100.00%	100.00%
Upper Limits on Variable Interest Rates (Against maximum position)	0.00%	50.00%

Maturity Structure Fixed Rate Borrowing (%)	Year End	Max	Min
Under 12 months	36.73%	50.00%	0%
12 months to 2 years	9.36%	50.00%	0%
2 years to 5 years	17.91%	50.00%	0%
5 years to 10 years	2.52%	50.00%	0%
10 years to 20 years	2.46%	50.00%	0%
20 years to 30 years	4.72%	50.00%	0%
30 years to 40 years	2.23%	50.00%	0%
40 years to 50 years	21.54%	100.00%	0%
50 years to 60 years	2.52%	100.00%	0%
60 years to 70 years	0.00%	100.00%	0%
Maximum Principal Funds Invested > 364 Days	£0.472m	£1m	Nil

4. The Main Prudential Indicators and Compliance with Limits

4.1 The Council is required by the Prudential Code to report the actual prudential indicators after the year end.

4.1.1 Capital Expenditure and its Financing

This indicator shows total capital expenditure for the year and how this was financed. The decrease in capital expenditure between revised estimate and actual as noted below in Table 3 is due to expenditure which has been reprofiled from 2023/24 into the 2024/25 capital programme, together with resources. The indicators for 2023/24 will be revised in line with this.

Table 3

	2023/24 Actual	**2023/24 Revised Estimate***
Capital expenditure:	£87.383m	£88.479m
Resourced by:		
Capital receipts and grants	£26.331m	£29.377m
Revenue	£0.077m	£0.250m
Capital expenditure - additional need to borrow for in-year capital spend	**£60.975m**	**£55.852m**

* From the Treasury Strategy Report

4.1.2 Gross Borrowing and the Capital Financing Requirement (CFR)

In order to ensure that borrowing levels are prudent, over the medium term the Council's gross borrowing must only be used for capital purposes. Gross borrowing should not therefore, except in the short term, exceed the total of the capital financing requirement in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years. This essentially means that the

Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2023/24.

4.1.3 The Chief Officer Resources can confirm the Council has complied with this indicator over the medium term (as can be seen by comparing the gross debt figure at 31 March 2024 with the anticipated CFR at 31 March 2027 as detailed in Table 4 below), and in the short term, the adjusted gross borrowing position also under the CFR as at 31 March 2023.

Table 4

	2023/24 Actual	**2023/24 Revised Indicator***
Gross borrowing position per Table1	£718.597m	£670.883m
PPP Liability	£87.449m	£89.815m
Adjusted gross borrowing position	**£806.046m**	**£760.698m**
Capital Financing Requirement	**£794.231m**	**£792.123m**

* From the Treasury Strategy – Council 27 March 2024

	2023/24 Actual
CFR at 31 March 2024	
2023/24 Actual	**£794.231m**
Estimated Movement in CFR*	
2024/25	£99.415m
2025/26	£94.129m
2026/27	£49.419m
Anticipated CFR at 31 March 2027	**£1,037.194m**
Gross Debt at 31 March 2024	**£806.046m**

* Estimated movements from treasury Management Strategy 2024/25 – March 2024

4.1.4 The Authorised Limit

The Authorised Limit is the "Affordable Borrowing Limit" required by Section 35 of the Local Government in Scotland Act 2003. The Council does not have the power to borrow above this level. The information in Table 5 demonstrates that during 2023/24 the Council has maintained gross borrowing within its Authorised Limit.

4.1.5 The Operational Boundary

The operational boundary is an indicator against which the Council monitors its external debt position. It is based on the Council's estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. Periods where the actual position is either below or over the Operational Boundary are acceptable subject to the Authorised Limit not being breached. The information in Table 5 demonstrates that during 2023/24 the Council has maintained gross borrowing within its Operational Boundary.

4.1.6 Actual financing costs as a proportion of net revenue stream

This indicator shows the actual impact of capital expenditure in 2023/24 compared to the projected impact of the General Services Capital Plan Refresh and the HRA Capital Plan Update as approved by Members on 1 March 2023. The cost of capital is described as loan charges within the revenue budgets.

Table 5 *

	2023/24
Revised Indicator - Authorised Limit	£898.992 m
Revised Indicator - Operational Boundary	£824.012 m
Maximum gross borrowing position during 2022/23	£717.577 m
Minimum gross borrowing position during 2022/23	£602.573 m

	Estimated	Actual
Financing Costs as a proportion of net revenue stream		
General Fund	8.53%	10.90 %
Housing (HRA)	28.30%	41.90 %

* From Mid Year Report 20 December 2023

5. Summary of the Economic Factors affecting the Strategy during 2023/24

5.1 The Economy and Interest Rates 2023/24 – to March 2024

(Source: Link Treasury Management Annual Report Template 2023/24 Scotland April 2024)

UK Economy

Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, UK interest rates have continued to be volatile from Bank Rate through to 50-year gilt yields, for all of 2023/24.

Markets have sought an end to central banks' on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24 but to date only the Swiss National Bank has cut rates and that was at the end of March 2024.

UK, Eurozone and US 10-year yields have all stayed high throughout 2023/24. The table below provides a snapshot of the conundrum facing central banks: inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgment as to when rates can be cut.

	UK	Eurozone	US
Bank Rate	5.25%	4%	5.25%-5.5%
Inflation	3.4% year on year (Feb)	2.4% year on year (Mar)	3.2% year on year (Feb)
Unemployment Rate	3.9% (Jan)	6.4% (Feb)	3.9% (Feb)

The Bank of England, in their March meeting, left interest rates at 5.25% for the fifth time in a row. The Bank's communications suggest the Monetary Policy Committee (MPC) is gaining confidence that inflation will fall sustainably back to the 2.0% target. However, although the MPC noted that "the restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures", conversely it noted that key indicators of inflation persistence remain elevated and policy will be "restrictive for sufficiently long" and "restrictive for an extended period".

The UK economy has started to perform a little better in Q1 2024 but is still recovering from a shallow recession through the second half of 2023. Indeed, Q4 2023 saw negative GDP growth of -0.3% while year on year growth was also negative at -0.2%.

Unemployment is currently sub 4%, against a backdrop of still over 900,000 of job vacancies, and annual wage inflation is running at above 5%. With gas and electricity price caps falling in April 2024, the CPI measure of inflation - which peaked at 11.1% in October 2022 – is now due to slide below the 2% target rate in April and to remain below that Bank of England benchmark for the next couple of years, according to Capital Economics. The Bank of England still needs some convincing on that score. It is noted that core CPI was still 4.5% in February and, ideally, needs to fall further.

From a fiscal perspective, the further cuts to national insurance tax (from April) announced in the March Budget will boost real household disposable income by 0.5 - 1.0%. After real household disposable income rose by 1.9% in 2023, Capital Economics forecast it will rise by 1.7% in 2024 and by 2.4% in 2025. These rises in real household disposable income, combined with the earlier fading of the drag from previous rises in interest rates, means GDP growth of 0.5% is envisaged in 2024 and 1.5% in 2025. The Bank of England is less optimistic than that, seeing growth struggling to get near 1% over the next two to three years.

USA Economy

Despite the markets willing the Federal Open Market Committee to cut rates as soon as June 2024, the continued resilience of the economy, married to sticky inflation, is providing a significant headwind to a change in monetary policy. Markets currently anticipate three rate cuts this calendar year, but two or less would not be out of the question. Currently, policy remains flexible but primarily data driven.

In addition, the Fed will want to shrink its $16 trillion balance sheet at some point. Just because the $ is the world's foremost reserve currency (China owns over $1 trillion) does not mean the US can continually run a budget deficit. The mix of stubborn inflation and significant treasury issuance is keeping treasury yields high. The 10 year stands at 4.4%.

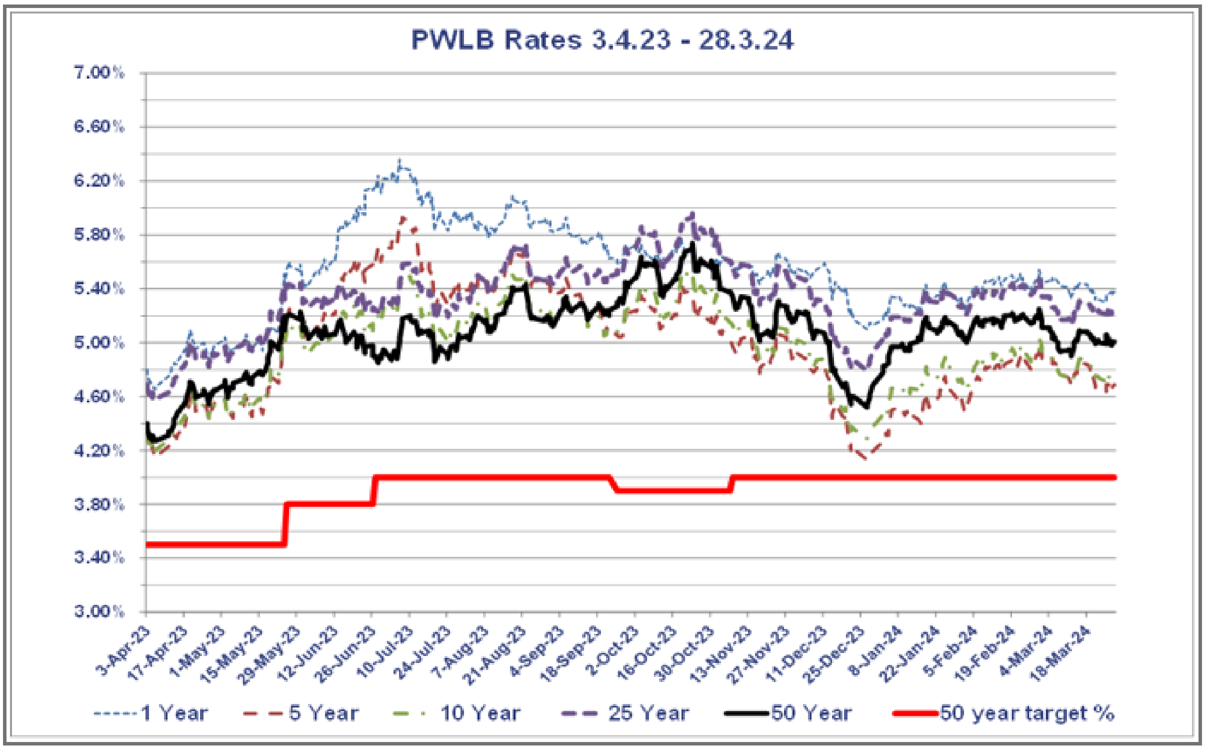
Inflation is currently a little above 3%. The market is not expecting a recession, but whether rates staying high for longer is conducive to a soft landing for the economy is uncertain, hence why the consensus is for rate cuts this year and into 2025.

EZ Economy.

Although the Euro-zone inflation rate has fallen to 2.4%, the European Central Bank will still be mindful that it has further work to do to dampen inflation expectations. However, with growth steadfastly in the slow lane (GDP flatlined in 2023), a June rate cut from the current 4% looks probable.

5.2 Borrowing Rates in 2023/24

The graph for Public Works Loan Board (PWLB) interest rates below shows that interest rates have continued to increase and most PWLB rates have been on a general upward trend since December 2023.



Source: Link Treasury Management Annual Report Template 2023/24 (Scotland)

6. 2023/24 Treasury Activity

6.1 **Borrowing** – The Council raised new short term loans of £248.000m during 2023/24 for the replacement of naturally maturing debt and to finance the Council's capital programme.

6.2 **Rescheduling** – No debt rescheduling has taken place in 2023/24.

6.3 **Repayment** – The Council repaid naturally maturing debt of £279.186m.

6.4 **Summary of Debt Transactions** – The overall position of the debt activity resulted in the average annual interest rate paid throughout the year, year on year increasing from 3.19% (2022/23) to 4.48% (2023/24)

6.5 **Investment Policy –** The Scottish Government issued The Local Government Investments (Scotland) Regulations 2010 on 1 April 2010.

6.6 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

6.7 The Council's short term cash investments increased from £6.478m at the beginning of the year to £29.097m at the end of the year with an average balance of £11.093m and received an average return of 4.62% over the year. In addition to the short term cash investments the Council also had 2 long term investments in Clydebank Property Company and Hub West Scotland with a total value of £0.472m as at 31 March 2024 as identified in table 2 above (investments over 364 days).

7. Performance Indicators set for 2023/24

7.1 The treasury strategy defined a set of performance indicators covering the following areas:

7.1.1 **Security** - In the context of benchmarking, assessing security is a very subjective area. Security is currently evidenced by the application of minimum quality criteria to financial institutions that the Council may choose to invest in, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard & Poors). The Council has benchmarked security risk by assessing the historical likelihood of default for investments placed with any institution with a long term credit rating of A- (this is the minimum long term credit rating used in the Council's investment strategy). The Council's maximum security risk is that 0.05% of investments placed with financial institutions could theoretically default based on global historical data. During the year all investments within the Council's portfolio were repaid on their due dates with no defaults of the principal sums recorded.

7.1.2 Liquidity – As required by the CIPFA Treasury Management Code of Practice the Council has stated that it will "ensure that it has adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives". In respect to liquidity as defined above the liquidity arrangements during the year were maintained in line with the facilities and benchmarks previously set by the Council as follows:

- Bank overdraft - £1.000m
- Liquid short term deposits of at least £5.000m available overnight.

7.1.3 Return – For the financial year the investment return averaged 4.569% which is an increase of 2.585% from the previous year. Table 6 illustrates that the Council's average return identified of 4.57% was less than the average return from the Council's bankers investment account (5.14%) and less than the Money Market Funds rate (noted in table 6) which are the local measures of return investment benchmarks approved in March 2012.

The Council's bankers (and therefore the bank with which the investment account is held) are currently Virgin money (formerly Clydesdale Bank plc) which falls within the Category 3 Investment Category approved in the investment strategy approved in February 2017. Due to the credit rating of this bank this category specified a maximum limit £5million which may be held on an overnight basis only thus limiting the ability to attract interest on this account.

Table 6

Benchmark	Benchmark Return	Average Return
Compound 12 month SONIA*	4.98%	4.57%

* SONIA is Sterling Overnight Index Average and has replaced LIBOR & LIBID

8. Disclosure regarding the repayment of loans fund advances for 2023/24

8.1 The policy on the prudent repayment of loans fund advances was detailed in the Mid-Year Monitoring Report 2023/24 - Treasury Management and Prudential Indicators reported to Council on 20 December 2023.

8.2 Table 7 shows the movement in the level of loan fund advances between 1 April 2023 and 31 March 2024 (excluding PPP).

Table 7

	General Fund	Housing
Opening Balance at 1 April 2023	**£357.520m**	**£301.210m**
New Advances in 2023/24	£7.223m	£44.618m
Repayments in 2023/24	(£4.023m)	(£7.662m)
Closing Balance at 31 March 2024	**£360.720m**	**£338.166m**

8.3 Table 8 details the anticipated repayment profile of the balance on the internal loans fund advances (excluding PPP) for both General Services and Housing held at 31 March 2024 (note, this is not external debt).

Table 8

Future Repayment Profile at 31 March 2024	General Fund	Housing	Total
	£m	£m	£m
Under 12 months	4.551	9.502	14.053
2 years to 5 years	13.800	28.363	42.163
6 years to 10 years	25.637	49.888	75.525
11 years to 15 years	29.292	44.056	73.347
16 years to 20 years	25.043	50.144	75.187
21 years to 25 years	17.621	48.454	66.075
26 years to 30 years	12.166	28.263	40.429
31 years to 35 years	10.438	7.010	17.448
36 years to 40 years	12.097	5.568	17.665
41 years to 45 years	12.840	4.553	17.393
46 years to 50 years	15.130	6.178	21.308
51 years to 55 years	20.586	8.705	29.291
56 years to 60 years	25.425	7.739	33.164
61 year +	136.094	39.744	175.838
Total	**360.720**	**338.166**	**698.886**

9. Risk and Performance

9.1 The Council has complied with all relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach. Ongoing consideration of future affordability and sustainability are reported and considered by Members each year when setting the Council's General Fund and HRA capital and revenue budgets.

9.2 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's treasury advisers, has proactively managed its treasury position within the current economic climate taking advantage of lower interest rates where it is deemed appropriate. The Council has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio as the interest rates are predominantly fixed, with the majority of debt comprised of long-term loans.

9.3 Shorter-term rates and likely future movements in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.