



Mid-Year Treasury Management Report 2023/2024

Date of meeting 24 November 2023

Date of report 14 November 2023

Report by Director

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 2023/2024 and to seek approval to extend the Banking and Merchant Services contract for a further period of up to three years from 1 April 2024.

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 a very challenging outlook. Economic activity is losing momentum. Inflationary pressures remain elevated but the rate is slowing down. Unemployment remains at historically low levels but is rising gradually.

UK GDP in volume terms is estimated to have risen by 0.2% in 2023 Q2 (April to June). UK GDP is expected to be flat 0.0% in 2023 Q3 (July to September) and to rise by 0.1% in 2023 Q4 (October to December). The expectation is that UK GDP will continue to remain flat at 0.0% throughout 2024 as tighter financial conditions weigh on consumer spending. Thereafter, UK GDP is expected to start to recover slowly but to remain well below historical averages in the medium term.

CPI inflation has decreased from 8.7% in April 2023 to 6.7% in September 2023. CPI inflation is expected to continue to fall to around 4.75% in late 2023 as a result of lower energy, core goods and food prices inflation. The expectation is that CPI inflation continues to fall to return to the 2% target by the end of 2025 and to fall below target thereafter, as an increasing degree of economic slack reduces domestic inflationary pressures.

The unemployment rate was 4.3% in the three months to July 2023. Falling vacancies together with surveys indicating an easing of recruitment difficulties point to a loosening in the labour

market. Pay growth remains high but is expected to decline over the medium term. The unemployment rate is expected to rise gradually to 5.1% by 2026 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 1 November 2023, the MPC voted by a majority to maintain Bank Rate at 5.25%.

The MPC expects that monetary policy will need to be sufficiently restrictive for sufficiently long to return CPI inflation to its' 2% target sustainably in the medium term.

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-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
5.25	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00

4. Treasury Management Strategy Update

The Treasury Management Strategy 2023/2024, including the Annual Investment Strategy, was approved by the Partnership on 17 March 2023.

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. Banking and Merchant Services Contract

On 8 February 2019, the Strategy & Programmes Committee approved the award of contract to Bank of Scotland plc for the provision of banking and merchant services. This contract commenced on 1 April 2019 for an initial period of three years with the option to extend for a further two years. The contract is due to end on 31 March 2024.

spt.co.uk/media/mxhdlbpg/sp080219_agenda12.pdf

The merchant services mainly relate to handling debit and credit card transactions at Subway ticket offices and ticket vending machines. Work is planned to commence shortly to develop and implement a contactless payment solution at the entry barriers which would support payment by debit card, credit card and mobile devices.

It is therefore recommended that the Banking and Merchant Services Contract is extended for a further period of up to three years from 1 April 2024, to enable the continuation of services during the development phase of this contactless payment solution at Subway.

The estimated annual costs are £14,000 for banking services and £140,000 for merchant services but it should be noted that these charges are variable and transaction driven.

6. 2023/2024 Capital Programme Position

The 2023/2024 capital budget was approved by the Partnership on 17 March 2023. 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 2023/2024 as approved by the Partnership on 29 September 2023.

Table 2 Capital Programme Position	2023/2024 Original Budget £000	Amendmen ts £000	2023/2024 Revised Budget £000
Capital expenditure 2023/2024	52,128	742	52,870
Scottish Government general capital grant	15,327	0	15,327
Scottish Government specific capital grant ¹	12,880	2	12,882
Other grants and contributions	0	1,040	1,040
Revenue contribution to the capital programme	4,143	0	4,143
Transfer from Subway Modernisation Fund ²	2,706	(2)	2,704
Transfer from Subway Infrastructure Fund ²	5,975	0	5,975
Transfer from Capital Grants Unapplied Account ³	6,777	0	6,777
Capital funding 2023/2024	47,808	1,040	48,848
Forecast variance	4,320	(298)	4,022

¹ ring-fenced grant funding

² General Fund - Earmarked Reserve

³ unspent specific and general capital grants from previous years

As is normal, the plan is set greater than the available funding to ensure that the plan delivery is maximised within the funding available and project delivery movements. As a consequence, there is a projected shortfall of £4.022m.

It is anticipated that the current economic environment and resource constraints will continue to affect the delivery of projects in 2023/2024 and that further budget amendments will be necessary.

At year-end, should the actual expenditure exceed the available funding shown in Table 2 above, then a transfer would be made from the Capital Fund equivalent to the shortfall.

7. Prudential and Treasury Indicators

During the first half of financial year 2023/2024, SPT has operated within the Prudential and Treasury Indicators set out in the Treasury Management Strategy 2023/2024.

Table 3 below provides a summary of the Prudential and Treasury Indicators as at Period 7, ending 14 October 2023.

Table 3 Prudential and Treasury Indicators	2023/2024 Original Forecast £000	2023/2024 Revised Forecast £000	2023/2024 Period 7 Actual £000
Prudential Indicators			
Capital Expenditure	52,128	52,870	7,156
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	-14%	-14%	-22%
Ratio of net income from service investments to net revenue stream	1%	1%	2%
Treasury Indicators			
Liability Benchmark ¹	(136,906)	(157,587)	(181,336)
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 2023/2024 and remains debt free.

8. Investment Strategy

In terms of investment policy, the Treasury Management Strategy 2023/2024 states that "SPT's investment priorities will be security first, liquidity second and then return." During the first half of financial year 2023/2024 this investment policy was followed in full.

The 2023/2024 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 2023/2024 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 2023/2024 this credit rating policy was followed in full and there were no liquidity difficulties.

In terms of counterparty limits, the 2023/2024 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 2023/2024, this policy was followed in full.

During the first half of financial year 2023/2024, SPT has only held investment balances with approved UK institutions. The Counterparty List for 2023/2024 is shown at Appendix 1, with updated credit ratings.

9. Investment Outturn

The result of the investment strategy undertaken by SPT to Period 7, ending 14 October 2023, is shown in the Table 4 below.

Table 4	Average Investment £000	Average Rate of Return %	Benchmark Return ¹ %	Liquidity
Account 1	977	3.24	4.71	Instant Access
Account 2	16,622	3.24	4.71	Instant Access
Account 3	15,152	4.94	4.71	Instant Access
Account 4	1,137	4.78	4.71	Instant Access
Account 5	25,000	4.98	4.71	95 Day Notice
Account 6	12,857	4.75	4.71	Fixed Term
Account 7	29,286	5.23	4.71	Fixed Term
Account 8	104	2.71	4.71	Instant Access
Account 9	6,081	3.68	4.71	35 Day Notice
Account 10	23,412	4.45	4.71	Fixed Term
Account 11	3,061	2.94	4.71	Instant Access
Account 12	5,154	4.24	4.71	31 Day Notice
Account 13	9,914	5.10	4.71	95 Day Notice
Account 14	20,000	4.80	4.71	Fixed Term
Account 15	25,714	4.98	4.71	Fixed Term

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

To Period 7, ending 14 October 2023, SPT earned interest of £4.375m against budgeted income of £2.745m.

The overall average rate of return obtained equates to 4.67% per annum, which is 0.04% per annum below 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.

10. Committee action

The Committee is recommended to:

- (i) note the content of this report; and
- (ii) approve the extension of the Banking and Merchant Services Contract for a period of up to three years from 1 April 2024, with an estimated three year value of £462,000.

11. 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 Neil Wylie
Title Director

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Title Chief Executive

For further information, please contact *Neil Wylie, Director* on 0141 333 3380.

SPT's Counterparty List 2023/2024

Investment balances have been held with the following counterparties so-far during financial year 2023/2024:

Counterparty Institution	Country / Classification	Band
Bank of Scotland PLC	UK / Bank	Red
Barclays Bank PLC	UK / Bank	Green
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	Red
The Royal Bank of Scotland Plc	UK / Part Nationalised Bank	Blue
Nationwide Building Society	UK / Building Society	Red
Debt Management Office	UK / Government	Yellow

Investment balances could also potentially be held with the following counterparties during financial year 2023/2024:

Counterparty Institution	Country / Classification	Band
Al Rayan Bank Plc	UK / Bank	Red
Barclays Bank UK PLC	UK / Bank	Red
Close Brothers Ltd	UK / Bank	Red
Clydesdale Bank PLC	UK / Bank	Green
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
Coventry Building Society	UK / Building Society	Red
Leeds Building Society	UK / Building Society	Green
Skipton Building Society	UK / Building Society	Red
Yorkshire Building Society	UK / Building Society	Green
National Westminster Bank PLC	UK / Part Nationalised Bank	Blue

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)