

REPORT TO: CITY GOVERNANCE COMMITTEE – 17 FEBRUARY 2025
REPORT ON: TREASURY MANAGEMENT ACTIVITY 2024/2025 (MID-YEAR REVIEW)
REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES
REPORT NO: 41-2025

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April to 30 September 2024.

2 RECOMMENDATION

The Committee is asked to note the information contained herein.

3 FINANCIAL IMPLICATIONS

The Treasury Management activity during the first half of the current financial year indicates that the Loans Fund interest rate of 3.85%, assumed when setting the 2024/2025 Revenue Budget, will not be achieved due to higher than anticipated interest rates. A overspend of around £1.9m against the adjusted budget provision for capital financing costs in HRA and General Services is being projected. Capital financing costs are continually monitored throughout the financial year.

4 BACKGROUND

The Council operates a balanced budget, which broadly means cash raised during the year will meet its revenue cash expenditure. An integral part of the treasury management operations is to ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

On 4 March 2024, the City Governance Committee approved the Council's Treasury Policy Statement (Report no. 61-2024, article VI of minute refers) setting out the policies which would govern all borrowing and lending transactions carried out by the Council. The Treasury Policy Statement requires that the City Governance Committee receive and consider the Treasury Management Strategy at the beginning of each new financial year.

At the same meeting, members also approved the Council's Treasury Management Strategy for 2024/2025 (Report no. 60-2024, article V of minute refers). This monitoring report covers the Treasury Management activity over the first six months of 2024/2025 financial year.

5 DEBT POSITION

The Council's gross debt position at the beginning and mid-point of the financial year was as follows:

		1 April 2024		30 September 2024	
Funding type		Principal £m	Average Rate %	Principal £m	Average Rate %
Long-term Fixed Rate	PWLB	476.3	3.9	468.3	3.9
	Market	30.0	4.2	30.0	4.2
Long-term Variable Rate	PWLB	-	-	-	-

	Market	-	-	-	-
Total Long-term Debt		506.3	3.9	498.3	3.9
Short-term Fixed Rate	Market	95.7	5.8	120.7	5.2
Total Debt		602.0	3.9	619.0	3.9

6 ACTUAL BORROWING

6.1 Long-Term - Public Work Loans Board

No long-term borrowing was undertaken in the report period.

6.2 Short-Term - Market

In order to indicate the level of short-term borrowing, shown below are the lowest and highest daily amounts outstanding each month, together with the short-term borrowing position at the end of every month and the range of interest rates at which borrowing was undertaken:

Month	Lowest Amount Outstanding £m	Highest Amount Outstanding £m	End of month Amount Outstanding £m	Interest Rate Range %	
				Min	Max
2024					
April	75.7	95.7	95.7	4.50	6.60
May	95.7	105.7	105.7	4.50	6.60
June	100.7	115.7	105.7	4.50	6.60
July	105.7	105.7	105.7	4.50	6.60
August	95.7	115.7	115.7	4.50	6.60
September	115.7	120.7	120.7	4.25	6.30

The Council's Treasury Management Strategy document provides that the amount of the overall borrowing which may be outstanding by way of variable rate exposure should be no greater than 30% of net borrowings included in Prudential Code Indicators (circa £182m). All borrowing is in accordance with the Council's Treasury Policy Statement & Strategy, ensuring that borrowing activities are undertaken as required, and at the most advantageous rates.

7 ACTUAL LENDING

Balances on reserves and variations in cash flow requirements mean that there will be surplus funds which will be invested for short periods (maximum of 364 days). Short-term investments will be restricted only to those institutions identified in the Council's approved counterparties list provided they have maintained a suitable credit rating.

The lending figures shown include funds held on behalf of Tay Road Bridge Joint Board, Tayside Valuation Joint Board and Tayside Contracts.

An analysis of the lending position to 30 September 2024 below shows:

Month	Lowest Amount Lent £m	Highest Amount Lent £m	End of month Amount Lent £m	Interest Rate Range %	
				Min	Max
2024					
April	6.1	28.6	6.6	5.23	5.29
May	0.1	26.2	2.9	5.11	5.26
June	0.9	25.7	6.6	5.21	5.26
July	6.4	28.7	18.9	5.20	5.24
August	2.1	14.0	2.5	5.06	5.21
September	2.2	30.5	12.2	5.00	5.17

All of the above investments are with external counterparties, in compliance with the approved Treasury Policy Statement.

8 SPECIFIED INVESTMENTS

In accordance with the Treasury Management Strategy, in specific circumstances, specified funds identified by the Executive Director of Corporate Services are invested in longer term investment vehicles. These funds are Common Good; General Insurance; and Maintenance and Perpetuity of Lairs. These investments may have a higher risk threshold and can be subject to market fluctuation. Investment activity in the current financial year is summarised as follows:

Value of funds invested at 1 April 2024	£6,160,079
Withdrawals made within period	-
Value of funds invested at end of period	£6,160,079
Capital Growth of Investments	£52,837
Overall value of funds at 30 September 2024	£6,212,916

Total Return on Investments in period:	
Capital Growth of Investments ¹	£52,837
Income from Investments ²	£160,932
Total Return on Investments in period	£213,769

Notes

1 – Capital growth from bond investments occurs when the price of the bond increases above the purchase price.

2 – Income from bond investments primarily comes from interest payments, also known as coupon payments, that the bond issuer makes to the bondholder. These payments are typically made at regular intervals and are based on the bond's coupon rate, which is a fixed percentage of the bond's face value (par value).

9 OUTLOOK FOR THE SECOND HALF OF 2024/2025

The Council's appointed treasury advisors (Link Group) assist the Council in formulating a view on interest rates. Link Group provided the following forecasts on 11 November 2024. These interest rate forecasts are for various terms, PWLB certainty rates are gilt yields plus 80bps:

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Base Rate View	4.75%	4.50%	4.25%	4.00%	4.00%	3.75%
3m average earnings	4.70%	4.50%	4.30%	4.00%	4.00%	4.00%
6m average earnings	4.70%	4.40%	4.20%	3.90%	3.90%	3.90%
12m average earnings	4.70%	4.40%	4.20%	3.90%	3.90%	3.90%
5yr PWLB Rate	5.00%	4.90%	4.80%	4.60%	4.50%	4.50%
10yr PWLB Rate	5.30%	5.10%	5.00%	4.80%	4.80%	4.70%
25yr PWLB Rate	5.60%	5.50%	5.40%	5.30%	5.20%	5.10%
50yr PWLB Rate	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%

	Jun-26	Sep-26	Dec-26	Mar-27
Base Rate View	3.75%	3.75%	3.50%	3.50%
3m average earnings	3.80%	3.80%	3.80%	3.50%
6m average earnings	3.80%	3.80%	3.80%	3.50%
12m average earnings	3.80%	3.80%	3.80%	3.50%
5yr PWLB Rate	4.40%	4.30%	4.20%	4.10%
10yr PWLB Rate	4.50%	4.50%	4.40%	4.30%
25yr PWLB Rate	5.00%	4.90%	4.80%	4.70%
50yr PWLB Rate	4.80%	4.70%	4.60%	4.50%

Bank of England Monetary Policy Committee has reduced interest rates on two occasions this financial year from 5.25% to 4.75% on 7 November 2024. The interest rate forecast table above shows base rate is expected to continue reducing to 4.00% during 2025 with further reductions in 2026.

10 PRUDENTIAL CODE INDICATORS

The Treasury Management activity at mid-year was maintained within the prudential code limits. Updated indicators are shown in Appendix 1. Limits for future years have been amended to take account of current expectations.

11 RISK

The Treasury Risks have been reviewed and changes since the last review in October 2024 are as follows:

Item 9 – Over reliance on key officers. The likelihood of this risk has reduced due embedded arrangements made to mitigate absences of key staff within the team. Appendix 2 outlines detailed risk analysis.

12 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

13 CONSULTATIONS

The Council's Leadership Team have been consulted in the preparation of this report.

14 BACKGROUND PAPERS

None.

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

30 JANUARY 2025

PRUDENTIAL CODE INDICATORS - TREASURY MANAGEMENT INDICATORS

Adoption of Revised CIPFA Treasury Management Code of Practice

Yes

Upper limit for variable and fixed rate exposure

	Net principal re variable rate borrowing / investments	Net principal re fixed rate borrowing / investments
2024/25	30%	100%
2025/26	30%	100%
2026/27	30%	100%
2027/28	30%	100%
2028/29	30%	100%
2029/30	30%	100%

Actual External Debt

	31/03/2023	31/03/2024
	£m	£m
Actual borrowing	516.161	592.019
Actual other long term liabilities	164.096	159.104
Actual external debt	680.257	751.123

Maturity structure of fixed rate borrowing 2024/25

Period	Lower %	Upper %
Under 12 months	0	10
12 months & within 24 months	0	15
24 months & within 5 years	0	25
5 years & within 10 years	0	25
10 years +	50	95
Upper limit for total principal sums invested for over 364 days	n/a	No sums will be invested longer than 364 days

External debt, excluding investments, with limit for borrowing and other long-term liabilities separately identified

	Authorised Limit			Operational Boundary		
	Borrowing £m	Other £m	Total £m	Borrowing £m	Other £m	Total £m
2024/25	717.000	154.000	871.000	687.000	154.000	841.000
2025/26	753.000	148.000	901.000	723.000	148.000	871.000
2026/27	779.000	142.000	921.000	749.000	142.000	891.000
2027/28	800.000	135.000	935.000	770.000	135.000	905.000
2028/29	801.000	129.000	930.000	771.000	129.000	900.000
2029/30	803.000	123.000	926.000	773.000	123.000	896.000

PRUDENTIAL CODE INDICATORS - PRUDENTIAL INDICATORS

Capital Expenditure		
Non-HRA £m	HRA £m	Total £m

2024/25	110.955	15.714	126.669
2025/26	55.976	34.506	90.482
2026/27	38.815	30.934	69.749
2027/28	38.993	20.900	59.893
2028/29	12.828	26.622	39.450
2029/30	12.831	26.755	39.586

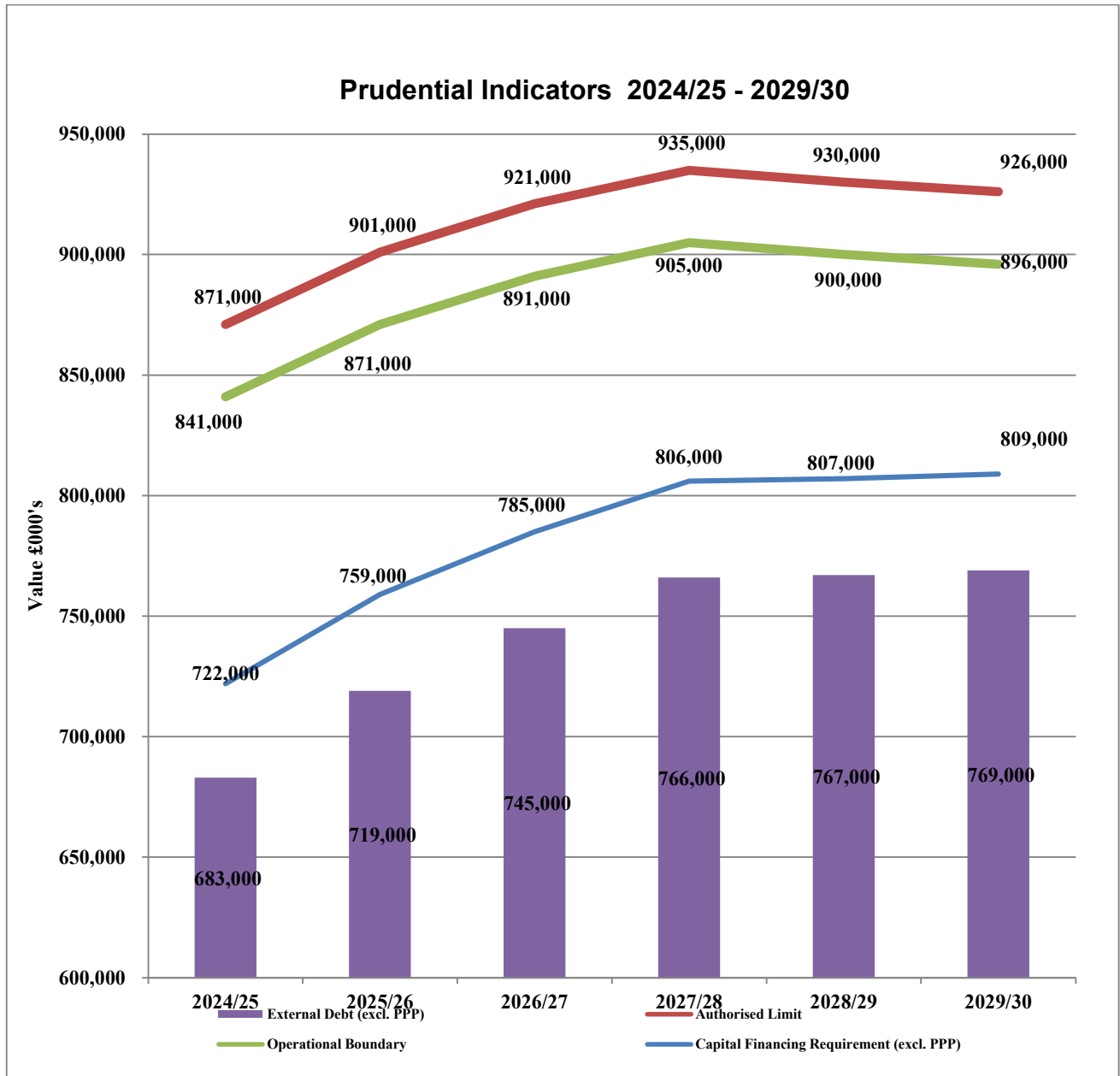
	Ratio Commercial & Service Income to Net Revenue Stream	Ratio of financing costs to Net Revenue Stream	
	Non HRA %	Non-HRA %	HRA %
2024/25	1.3	6.2	35.1
2025/26	1.3	7.1	34.9
2026/27	1.3	7.1	36.4
2027/28	1.3	7.2	37.7
2028/29	1.3	7.0	37.7
2029/30	1.3	6.9	37.7

	Net Borrowing Requirement (NBR)			Capital Financing Requirement (CFR)			
	1 April £m	31 March £m	Movement £m	Non-HRA £m	HRA £m	Total £m	Movement £m
2024/25	577.677	683.000	105.323	544.000	178.000	722.000	78.114
2025/26	683.000	719.000	36.000	561.000	198.000	759.000	37.000
2026/27	719.000	745.000	26.000	571.000	214.000	785.000	26.000
2027/28	745.000	766.000	21.000	585.000	221.000	806.000	21.000
2028/29	766.000	767.000	1.000	575.000	232.000	807.000	1.000
2029/30	767.000	769.000	2.000	566.000	243.000	809.000	2.000

	NBR v CFR Difference
	Total £m
2024/25	39.000
2025/26	40.000
2026/27	40.000
2027/28	40.000

2028/29	40,000
2029/30	40,000

The following provides a graphical representation of the 5-year projection of External Debt, Capital Financing Requirement, Authorised Limit and Operational Boundary :



APPENDIX 2**Six Monthly Treasury Risk Register Report**

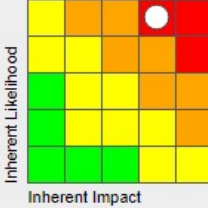
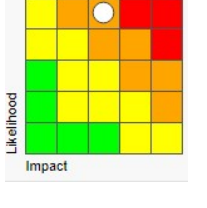
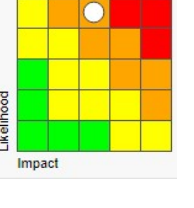
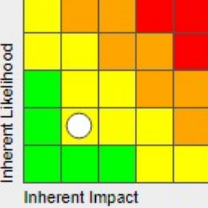
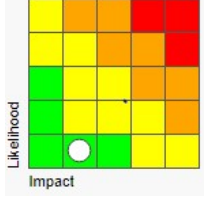
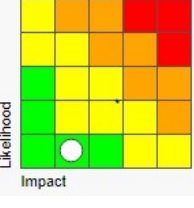
Report Author: Executive Director of Corporate Services

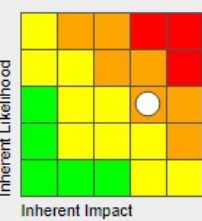
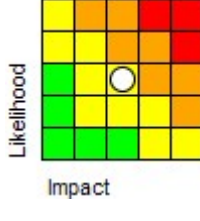
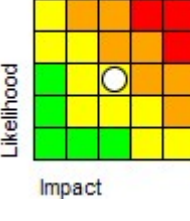
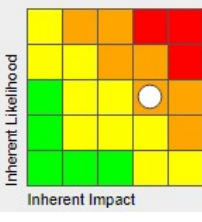
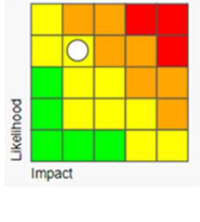
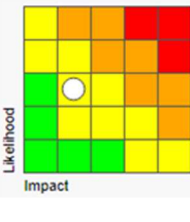
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Risk Title	Risk Factors	Potential Effect	Potential Outcome	Inherent Risk	Control Measures/Mitigation	Residual Risk (Prev Review)	Residual Risk at Jan 2025
1. Loss of capital due to counterparty collapse	The Council loses its principal investment or investment becomes impaired	Counterparty collapses or faces a financial crisis rendering it unable to repay investments	<ul style="list-style-type: none"> . The Council may suffer financial loss . The repayment of funds from the counterparty could be significantly delayed or impaired Either of these outcomes could have an adverse impact on operational funding levels	<p>Inherent Likelihood</p> <p>Inherent Impact</p>	Per the Treasury Management Strategy: <ul style="list-style-type: none"> . Maximum investment value on approved counterparties in order to spread and reduce risk. . Controls and procedures are in place to ensure investment and durations limits with approved counterparties are not exceeded. . Counterparties are also monitored and reviewed on a weekly basis at least or more regularly if considered necessary to do so. . Limited threshold rating for approval of counterparties. 	<p>Likelihood</p> <p>Impact</p>	<p>Likelihood</p> <p>Impact</p>
2. Decline / rise in interest rates	The Council may not achieve its target level of interest payable / receivable for budgetary purposes.	Impact on revenue budget resulting in mandatory efficiencies affecting service delivery	<ul style="list-style-type: none"> . Base rate rising affecting associated market borrowing rates. . Lower risk counterparties not offering competitive rates in low rate environment affecting deposits. 	<p>Inherent Likelihood</p> <p>Inherent Impact</p>	<ul style="list-style-type: none"> . Arranging longer term investments where investment objectives and criteria allows in order to capitalise on higher rate of returns without risk of opportunity cost. . Offsetting the loss of interest income / cost of borrowing by undertaking refinancing loans at lower rates than previously undertaken as opportunities arise. 	<p>Likelihood</p> <p>Impact</p>	<p>Likelihood</p> <p>Impact</p>

Risk Title	Risk Factors	Potential Effect	Potential Outcome	Inherent Risk	Control Measures/Mitigation	Residual Risk (Prev Review)	Residual Risk at Jan 2025
					The Council continually monitors base rate and rates being achieved against budget to ensure it has secured the best value possible in the challenging economic climate.		
3. Fraudulent activity (now incorporating cybercrime)	<ul style="list-style-type: none"> . Financial loss to the Council as a direct consequence of fraudulent activity . Loss of money for the Council . Disciplinary action for the staff involved . Reputational damage 	Potential fraud by staff	Fraudulent activity	<p>Inherent Likelihood</p> <p>Inherent Impact</p>	<ul style="list-style-type: none"> . Segregation of staff duties. . Review and monitor of internal controls to ensure the correct protocol across all relevant areas is being followed. . Ensure all insurance policies and relevant guarantees (Fidelity £2m per individual circumstance) are fully up to date. 	<p>Likelihood</p> <p>Impact</p>	<p>Likelihood</p> <p>Impact</p>
4. Money laundering	<ul style="list-style-type: none"> . Fine and/or imprisonment . Reputational damage 	Money laundering by external parties	External parties pay a transaction by cash and subsequently request a refund	<p>Inherent Likelihood</p> <p>Inherent Impact</p>	<ul style="list-style-type: none"> . Ensure the money laundering policy is reviewed and up to date. . Reconcile refunds back to source of income. . Raise awareness of this issue amongst staff . Review requirements of financial regulations. 	<p>Likelihood</p> <p>Impact</p>	<p>Likelihood</p> <p>Impact</p>
5. Network Failure / banking system being inaccessible	Daily Treasury functions will not be carried out	The Council is unable to carry out its daily treasury functions due to a network failure	RBS Bankline is unavailable or the Council's network has failed	<p>Inherent Likelihood</p> <p>Inherent Impact</p>	Invoke the business continuity plan to minimise the effects of a network issue.	<p>Likelihood</p> <p>Impact</p>	<p>Likelihood</p> <p>Impact</p>

Risk Title	Risk Factors	Potential Effect	Potential Outcome	Inherent Risk	Control Measures/Mitigation	Residual Risk (Prev Review)	Residual Risk at Jan 2025
6. Revenue Budgets	The Council may not be able to execute some desired projects	Revenue budgets are unable to meet borrowing costs of capital schemes	Revenue budgets come under pressure from restricted government funding or non-delivery of programmed savings		<p>. Revenue budgets monitored on monthly basis and future year forecasts undertaken.</p> <p>. Reserve some capital receipts to cover borrowing costs in the short term.</p> <p>. Ensure monthly financial reports and Forecasts are produced and analysed</p> <p>. All borrowing decisions are made based on prudential indicators and are planned based on long term projections.</p> <p>. Capital Plans and borrowing is reviewed annually before the revenue budget is set to ensure that the costs are affordable.</p>		
7. Lack of suitable counterparties	Use of counterparties not paying best value rates.	The Council does not have enough "space" with approved counterparties to place investments/deposit surplus cash balances.	Rising cash balances and a restricted counterparty list		<p>The Council continually monitors its approved counterparty listing in conjunction with cash balances. Any potential new investment opportunities are discussed at Treasury Management performance meetings. The Council uses call accounts and money market funds to deposit surplus cash balances However, there are also limits on the amounts deposited to such funds. The Council has a facility to deposit cash with the Debt Management Office should all other investment options be exhausted.</p>		

Risk Title	Risk Factors	Potential Effect	Potential Outcome	Inherent Risk	Control Measures/Mitigation	Residual Risk (Prev Review)	Residual Risk at Jan 2025
8. Lack of expertise of Committee or amongst officers	Financial consequence	Lack of training and continuous professional development.	Detrimental decisions made in relation to financial investment management.		<ul style="list-style-type: none"> . Provision of training . External investment advice . Consultation with peer groups. 		
9. Over reliance on key officers	Detrimental decisions made in relation to financial investment management.	Specialist nature of work means there are relatively few experts in this field	If an officer leaves or falls ill knowledge gap may be difficult to fill.		<ul style="list-style-type: none"> . Key officers transfer specialist knowledge to colleagues. . Procedures & guidance available. . In the short-term advice can be sought from external investment adviser and/or peer support. 		 Reduced likelihood

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