

Report

Report to:	Finance and Corporate Resources Committee
Date of Meeting:	6 March 2024
Report by:	Head of Finance (Strategy), Finance and Corporate Resources

Subject:	Treasury Management Activity – 2023/2024 Third Quarter Review
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ provide a third quarter review of Treasury Management Activity for 2023/2024

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the contents of this report be noted.

3. Background

3.1 In order to provide members with information on the Council's Treasury Management activities, a quarterly report is presented to this Committee. This report covers the period 1 April 2023 to 31 December 2023.

4. Market Performance

4.1. At the time of writing the base rate was 5.25% and the Bank of England Asset Purchase Programme (commonly referred to as its policy of quantitative easing) was £738bn. The Council's Treasury Management Advisers are predicting that the base rate has now peaked and will begin to fall during the second quarter of 2024/2025.

5. Debt Management and Borrowing Strategy

5.1. The Council began the year with debt of £1,036.302m with fixed rate loans from the Public Works Loans Board (PWLb) making up 99.18% of the debt.

5.2. Table 1 shows the movement in borrowing from 1 April 2023 to 31 December 2023. Short term borrowing reflects borrowing which will mature in the coming year, or where the debt can be recalled in the coming year.

Table 1 – Movement in Borrowing to 31 December 2023

	Balance at 01/04/2023 £m	New Borrowing £m	Debt Maturing £m	Debt Repaid £m	Balance at 31/12/2023 £m	Increase/ Decrease in Borrowing £m
Short Term Borrowing	21.770	0.000	(21.770)	0.000	0.000	(21.770)
Long Term Borrowing	1,014.532	0.000	0.00	0.000	1,014.532	0.000
TOTAL BORROWING	1,036.302	0.000	(21.770)	0.000	1,014.532	(21.770)

- 5.3. In 2012/2013, HM Treasury introduced a “certainty rate” to enable eligible local authorities to access cheaper PWLB funding, with a 20 basis point (0.20%) reduction on the standard rate. South Lanarkshire Council has access to this reduced rate.
- 5.4. The Council has an expected funding requirement of £266.257 million for 2023/2024 including £166.307 million carried over from 2022/2023. The report to South Lanarkshire Council on Service Concessions in January 2023 introduced a strategy that recognised the level of reserves and cash balances held by the council to reduce the need to borrow for this funding requirement. After taking these into account, the council has an expected borrowing requirement of £73.855 million for 2023/2024.
- 5.5. The Executive Director (Finance and Corporate Resources), under delegated powers, will continue to take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into consideration the differential between investment earnings and debt costs that remains high.
- 5.6. No borrowing has been taken so far in the current financial year. Instead, cash balances have been used to fund capital spend. Borrowing to replace these balances will be required going forward.

6. Investment Activity

- 6.1. On a daily basis, the Treasury Management section within Finance and Corporate Resources manages the Council’s cash balances. These balances can result from day-to-day cash flow situations where income has been received before expenditure has taken place, and from the balances held in earmarked reserves for use at a later date. It is the responsibility of the section to manage these funds. The primary consideration when making deposits is the security of funds. Secondary to this, consideration is given to ensuring we have access to funds when necessary, and that these funds are working as well as they can for the Council.
- 6.2. The Prudential Indicators, Treasury Management Strategy and Annual Investment Strategy Report for 2023/2024 was approved by South Lanarkshire Council on 22 February 2023. This included details of permitted investments for the Council.
- 6.3. Prior to depositing funds with any bank or building society, checks are made with the Council’s treasury adviser, Link Asset Services, that the institution is considered safe and that any deposit conforms to their recommended time duration as determined by their Rating Methodology. This methodology uses credit ratings, rating watches and outlooks and credit default swap (CDS) prices to establish a suggested time duration for deposits.

- 6.4. Deposits made in the period 1 April 2023 to 31 December 2023 totalled £1,200.332 million. This is the cumulative deposits placed over this period. This is broken down per sector and institution in Table 2. 82.23% of these deposits were made with the UK Government through the Debt Management Office (DMO) deposit facility.
- 6.5. In order to manage their cash flow over the short term, local authorities, as part of normal treasury management activity, will place money on deposit with other local authorities. Deposits placed with other local authorities account for 15.69% of deposits. The remaining 2.08% was placed in instant access call accounts with Bank of Scotland and The Royal Bank of Scotland.

Table 2 – Investment Activity 1 April 2023 to 31 December 2023

Counterparty	Deposit Totals (£m)	% of Total Deposits	Average Interest Rate
Deposits in UK Government			
Debt Management Account Deposit Facility	987.000	82.23%	4.84%
Total Deposits in UK Government	987.000	82.23%	4.84%
Deposits in UK Local Authorities	188.300	15.69%	5.15%
Deposits in UK Banks and Building Societies:			
Bank of Scotland	22.732	1.89%	4.61%
Royal Bank of Scotland	2.300	0.19%	1.00%
Total Deposits in UK Banks and Building Societies	25.032	2.08%	4.28%
Total Deposits 01/04/2023 to 31/12/2023	1,200.332	100.00%	4.88%

- 6.6. The average interest rates achieved from the deposits are also shown in Table 3. Interest rates achievable for deposits have been increasing, however there is still a differential between these and the rates at which the Council can borrow.
- 6.7. Actual deposits as at 31 December 2023 totalled £108.678 million.

7. Management of Risk

- 7.1. It is recognised that no Treasury Management activity is without risk and practices are put in place in order to limit risk. As noted in section 6.2, the Treasury Management Strategy was approved in February 2023 and set a framework for Treasury Management activities in 2023/2024. It also set limits on debt and investments in order to mitigate risks.
- 7.2. The Annual Investment Strategy for 2023/2024, also approved in February 2023, included details on how risk would be managed for all permitted investments. This included criteria for placing deposits with the Debt Management Office (DMO), UK Local Authorities, Banks and Building Societies and Money Market Funds.

- 7.3. Part of the criteria for counterparties is meeting minimum credit ratings with the three main rating agencies. A credit rating evaluates the credit worthiness of an organisation. It is an evaluation made by a credit rating agency of the organisation's ability to pay back the debt and the likelihood of default.
- 7.4. Tables 3 to 5 show a breakdown of deposits with details of the credit ratings of banks and building societies used from 1 April 2023 to 31 December 2023. Deposits with the DMO are with the UK Government and so have a rating equivalent to the UK's sovereign rating. Deposits with local authorities are considered to be of very high credit quality.

Table 3 – Fitch Ratings

Long Term Rating	Short Term Rating	Deposits Totals	Percentage of Total Deposits
Deposits with DMO / UK Government (AA-)		987.000m	82.23%
Deposits with Local Authorities		188.300m	15.69%
A+	F1	25.032m	2.08%
Total		1,200.332m	100.00%

Table 4 – Moody's Ratings

Long Term Rating	Short Term Rating	Deposits Totals	Percentage of Total Deposits
Deposits with DMO / UK Government (Aa3)		987.000m	82.23%
Deposits with Local Authorities		188.300m	15.69%
A1	P-1	25.032m	2.08%
Total		1,200.332m	100.00%

Table 5 – Standard and Poor's Ratings

Long Term Rating	Short Term Rating	Deposits Totals	Percentage of Total Deposits
Deposits with DMO / UK Government (AA)		987.000m	82.23%
Deposits with Local Authorities		188.300m	15.69%
A+	A-1	22.732m	1.89%
A	A-1	2.300m	0.19%
Total		1,200.332m	100.00%

- 7.5. The tables above show that 97.92% of deposits were made with counterparties of very high credit quality (DMO / UK Government and other local authorities). The remaining 2.08% were deposits in instant access accounts with Bank of Scotland and The Royal Bank of Scotland.
- 7.6. The graph at Appendix 1 shows the duration of deposits made from 1 April 2023 to 31 December 2023. The graph shows that, since 1 April 2023, all deposits have been made for 1 year or less. The maximum maturity period of 183 days was for a deposit of £5.000 million.
- 8. Next Quarter Investment Plans**
- 8.1. The current investment framework will be continued in the next quarter. Deposits will continue to be placed with the institutions where their ratings are consistent with the Council's approved criteria. Deposits will also continue to be placed with the DMO and UK local authorities.

- 8.2. Treasury Bills will be used when they return a higher yield than deposits in the DMO for the same, very low risk.
- 8.3. We will continue to work with our Treasury Management Advisers, Link, to ensure we gain all information available on counterparties before any deposits are made.

9. Treasury Management Indicators

- 9.1. The purpose of these indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to restrictive limits, they will impair the opportunities to reduce costs or improve performance. The indicators are detailed in sections 9.2 to 9.5.
- 9.2. **Limits for External Debt:** The operational and authorised limits for external debt for 2022/2023 were set in the Prudential Indicators, Treasury Management Strategy and Annual Investment Strategy 2023/2024 approved by South Lanarkshire Council on 22 February 2023. These are shown in Table 6, along with a column showing the difference between the actual debt level and the limits (headroom).

Table 6 – Limits for External Debt

	Estimate as per 2023/24 Strategy	Minimum Headroom to Limits in period	Headroom as at 31/12/2023
	£m	£m	£m
Operational Limit for external debt	1,270.000	233.698	255.468
Authorised Limit for external debt	1,290.000	253.698	275.468

- 9.3. The indicator shows that we have not breached the operational and authorised limits to 31 December 2023. There has been a minimum level of headroom of £253.698 million between actual and authorised level for external debt in the period to 31 December 2023.
- 9.4. **Limits on Maturity Structure:** By setting limits on the maturity structure of borrowing, the exposure to large concentrations of debt needing to be replaced at the same time in the future at currently unknown rates can be limited. This effectively places a limit on exposure to longer term interest rate movement. This is shown in Table 7.

Table 7 – Limits on Maturity Structure

Maturity Structure of Borrowing				
	Upper Limit	Lower Limit	Maximum for period to 31/12/23	Actuals as at 31/12/23
Under 12 months	30.00%	0.00%	2.10%	0.00%
12 months and 24 months	30.00%	0.00%	3.33%	3.33%
24 months and 5 years	50.00%	0.00%	25.66%	25.66%
5 years and 10 years	60.00%	0.00%	33.13%	33.13%
10 years and 20 years	60.00%	0.00%	4.29%	4.29%
20 years and 30 years	70.00%	0.00%	11.35%	11.35%
30 years and 40 years	80.00%	0.00%	22.24%	22.24%
40 years and 50 years	90.00%	0.00%	0.00%	0.00%
50 years and above	90%	0%	0.00%	0.00%

9.5. The indicator shows that the upper limits for all maturity profiles have not been breached to 31 December 2023.

10. Employee Implications

10.1. There are no employee implications.

11. Financial Implications

11.1. Any deposit interest received offsets Loan Charges made to the Council's Revenue budget.

11.2. The costs of borrowing for capital expenditure have been built into the long-term Revenue Budget Strategy.

12. Climate Change, Sustainability and Environmental Implications

12.1. There are no implications for climate change or sustainability in terms of the information contained in this report.

12.2. There is also no requirement to carry out an environmental impact assessment in terms of the information contained within this report.

13. Other Implications (Including Environmental and Risk Issues)

13.1. Section 7 of this report provides details of how investment risk is managed.

14. Equality Impact Assessment and Consultation Arrangements

14.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and, therefore, no impact assessment is required.

14.2. There is no requirement to carry out any consultation in terms of the information provided in this report.

Jackie Taylor

Head of Finance (Strategy)

9 February 2024

Link(s) to Council Values/Priorities/Outcomes

♦ Accountable, effective, efficient and transparent

Previous References

- ♦ Prudential Indicators, Treasury Management Strategy and Annual Investment Strategy 2023/2024, South Lanarkshire Council, 22 February 2023
- ♦ Treasury Management Activity – 2023/2024 First Quarter Review, 27 September 2023
- ♦ Treasury Management Activity – 2023/2024 Second Quarter Review, 6 December 2023

List of Background Papers

♦ None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:

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Maturity of Deposits Placed 1 April 2023 - 31 December 2023

