

QUARTER 1 TREASURY MANAGEMENT REPORT 2025/26

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 quarter of 2025/26.

EXECUTIVE SUMMARY

- 2.1 This is a routine first quarter report on Treasury Management operations for the period ended 30 June 2025.
- 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 The Treasury Management Strategy for 2025/26, which was approved by the Comhairle on 5 February 2025, included the recommended Prudential Indicator estimates for the year. The Indicators have been updated to reflect the changes to date and are shown in paragraph 10.

RECOMMENDATION

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

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Background Papers: None

IMPLICATIONS

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

Resource Implications	Implications/None
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
Strategic Implications	Implications/None
Risk	The risks associated with the Comhairle's Management Strategy are set out in section 5.2 of the Report
Equalities	None
Corporate Strategy	None
Environmental Impact	None
Consultation	None

INTRODUCTION

- 5.1 The Comhairle adopted the Code of Practice for Treasury Management in Local Authorities in 2002. The revision to the Code of Practice in 2021 introduced a new requirement that monitoring of the treasury management operation should be reported on a quarterly basis.
- 5.2 The Comhairle's 2025/26 Treasury Management Strategy was approved at Policy and Resources on 5 February 2025. No treasury management activity is without risk and the Comhairle is exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Comhairle's treasury management strategy.

ECONOMIC BACKGROUND

- 6.1 UK headline consumer price inflation (CPI) increased over the quarter, rising from an annual rate of 2.6% in March to 3.4% in May, well above the Bank of England's 2% target. The core measure of inflation also increased, from 3.4% to 3.5% over the same period. May's inflation figures were generally lower than in the previous month, however, when CPI was 3.5% and core CPI was 3.8%. Services inflation was 4.7% in May, a decline from 5.4% the previous month.
- 6.2 Data released during the period showed the UK economy expanded by 0.7% in the first quarter of the calendar year, following three previous quarters of weaker growth. However, monthly GDP data showed a contraction of 0.3% in April, suggesting growth in the second quarter of the calendar year is unlikely to be as strong as the first.

- 6.3 Having started the financial year at 4.5%, the Bank of England's Monetary Policy Committee (MPC) cut Base Rate to 4.25% in May. At the June MPC meeting, the committee voted by a majority of 6-3 to keep rates on hold. This dovish tilt by the Committee is expected to continue and financial market expectations are that the next cut will be in August, in line with the publication of the next quarterly Monetary Policy Report (MPR).

DEBT PORTFOLIO AT 30 JUNE 2025

7.1

	Balance 31.03.25 £'000	Movement £'000	Balance 30.06.25 £'000	Ave Rate 30.06.25 %
PWLB	126,263	0	126,263	6.14
Investments	31,687	6,052	37,739	4.53

LONG-TERM BORROWING

- 8.1 No long-term borrowing took place in the three months ended 30 June 2025 and the Comhairle does not currently have a forecasted requirement to borrow.
- 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.

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.
- 9.2 The Comhairle's investment priorities which are in line with the Scottish Government Investment Regulations are:
- (a) security of the invested capital;
 - (b) liquidity of the invested capital; and
 - (c) 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:
- (a) the Debt Management Agency Deposit Facility (DMADF);
 - (b) banks/building societies meeting the criteria set in the approved 2025/26 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 2025/26 Treasury Management Strategy and approved by the Policy and Resources Committee on 5 February 2025.

9.5 Investments at 30 June 2025 were as follows:

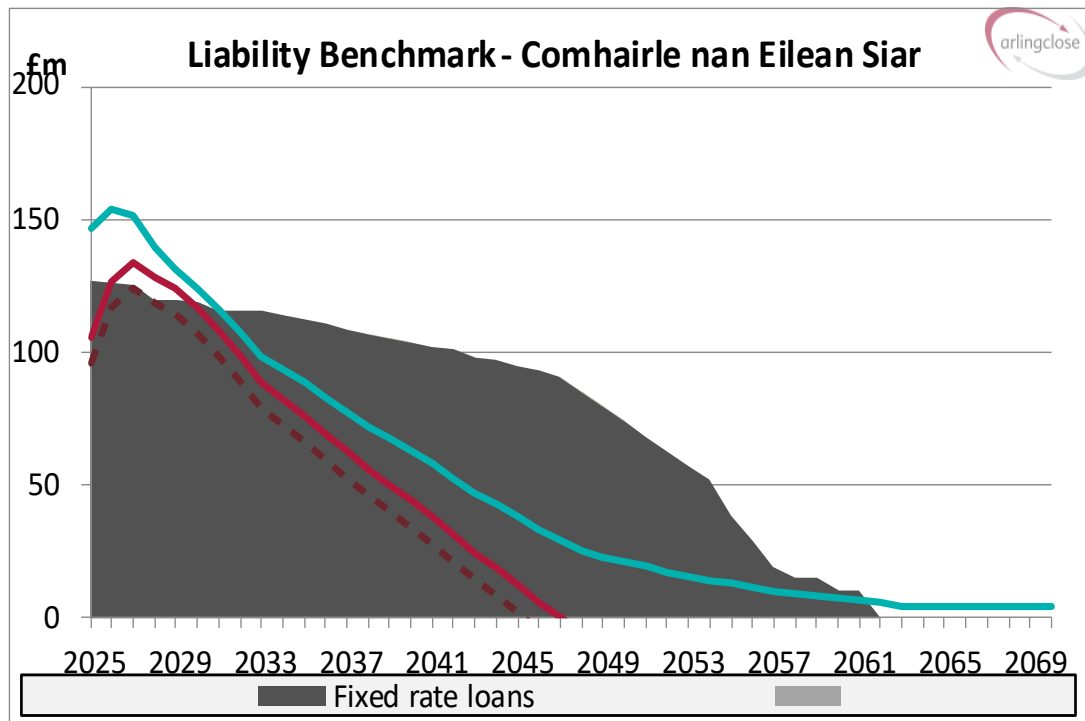
Institution	£	Term	Rate %
Royal Bank	164,245	Instant Access	1.100
Barclays Bank	1,675,000	Instant Access	2.850
D.M.A.D.F.	1,350,000	Fixed deposit to 02/07/2025	4.200
D.M.A.D.F.	2,350,000	Fixed deposit to 09/07/2025	4.200
D.M.A.D.F.	3,725,000	Fixed deposit to 16/07/2025	4.210
D.M.A.D.F.	1,000,000	Fixed deposit to 23/07/2025	4.210
D.M.A.D.F.	2,475,000	Fixed deposit to 28/07/2025	4.210
Cornwall Council	5,000,000	Fixed deposit to 07/07/2025	4.200
Harlow Council	3,000,000	Fixed deposit to 17/07/2025	4.450
Moray Council	5,000,000	Fixed deposit to 24/07/2025	5.050
Leeds City Council	5,000,000	Fixed deposit to 28/07/2025	5.600
North Lanarkshire Council	2,000,000	Fixed deposit to 09/10/2025	4.800
Blackpool Borough Council	5,000,000	Fixed deposit to 10/11/2025	4.600
	<u>37,739,245</u>	<i>Average interest rate</i>	4.531

PRUDENTIAL INDICATORS

10.1

	2024/25	2025/26	2026/27	2027/28
Indicator	Actual	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Net Capital Expenditure Funded by Borrowing	-656	20,561	8,534	208
Financing Costs to net revenue stream	5.09%	5.92%	6.15%	5.98%
Capital Financing Requirement	146,342	155,300	156,300	149,000
Gross External Debt	126,395	125,060	119,175	119,717
Authorised limit for external debt	165,843	164,000	162,000	155,500
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%

- 10.2 **Liability Benchmark:** The liability benchmark is a projection of the amount of loan debt outstanding that the Comhairle requires each year into the future to fund its existing debt liabilities. The benchmark shows the gap between the Comhairle's outstanding loans and the need for borrowing.



OTHER RELEVANT FACTORS

- 11.1 **Certainty Rate:** Authorities are required to apply on an annual basis to access the 'Certainty Rate', a 20-basis point reduction on the standard PWLB borrowing rate. Although current projections show the Comhairle having no external borrowing requirement, an application to access the certainty rate will continue be made to the PWLB on an annual basis.
- 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.