Partnership

Treasury Management Strategy, Annual Investment Strategy and Capital Strategy 2025/2026

Date of meeting 14 March 2025 **Date of report** 25 February 2025

Report by Director of Finance & Corporate Support

1. Object of report

To update members on treasury management processes and seek approval for the proposed treasury management strategy and annual investment strategy for 2025/2026, and to seek approval for the proposed capital strategy for 2025/2026 which forms part of SPT's integrated revenue, capital and treasury management planning.

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.

The primary requirements of the Code of Practice are as follows:

- creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of SPT's treasury management activities.
- creation and maintenance of Treasury Management Practices which set out the manner in which SPT will seek to achieve those policies and objectives.
- receipt by the Partnership of an annual Treasury Management Strategy Statement (including the Annual Investment Strategy) for the year ahead; a Mid-Year Review Report; an Annual Review Report covering activities during the previous year; and regular reporting during the financial year of prudential and treasury indicators.
- delegation by SPT of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

Treasury management in this context is defined as:
"The management of the organisation's borrowing, investments and cash flows, including 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."

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it seeks approval for the proposed treasury management strategy for the year ahead.

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.

The main objectives of the Prudential Code are as follows:

- capital plans and investment plans should be affordable and proportionate.
- all borrowing or other long-term liabilities should be within prudent and sustainable levels.
- risks associated with investment are proportionate to financial capacity.
- treasury management decisions are in accordance with good professional practice.
- an organisation must not borrow to invest primarily for financial return.

The Prudential Code requires the preparation of a capital strategy, which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- an overview of how the associated risk is managed.
- the implications for future financial sustainability.

This report covers:

- the Treasury Management Strategy (the capital plans and how the investments and borrowings are to be organised) including prudential indicators and treasury indicators;
- the Investment Strategy (the parameters on how investments are to be managed); and
- the Capital Strategy.

3. Treasury Management Strategy 2025/2026

The capital expenditure plans outlined below (section 3.5.1) summarise the service activity of SPT. The treasury management function ensures that SPT's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

3.1 Treasury management advisors

SPT has appointed MUFG Corporate Markets Treasury Limited T/A MUFG Corporate Markets as its external treasury management advisors.

SPT recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

SPT also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

3.2 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an on-going impact on investments unless resources are supplemented each year from new sources (e.g. asset sales).

Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Table 1 Year End Resources	2023/2024 Actual £000	2024/2025 Forecast £000	2025/2026 Forecast £000	2026/2027 Estimate £000	2027/2028 Estimate £000
General Fund Balance	116,078	113,018	112,141	107,192	99,692
Insurance Fund	1,219	1,219	1,219	1,219	1,219
Capital Fund	26,360	26,360	26,360	26,360	26,360
Renewal and Repair Fund	1,500	1,500	1,500	1,500	1,500
Capital Grants Unapplied Account [1]	28,644	28,617	27,178	22,802	17,302
Total core funds	**173,801**	**170,714**	**168,398**	**159,073**	**146,073**
Working capital [2]	13,095	13,095	13,095	13,095	13,095
Expected investments	**186,896**	**183,809**	**181,493**	**172,168**	**159,168**

[1] unspent specific and general capital grants from previous years

[2] working capital balances shown are estimated year-end, these may be higher mid-year

3.3 Portfolio position

SPT's overall portfolio position, for both current and forward projections, is summarised in Table 2 below.

Table 2 Investments	2023/2024 Actual £000	2024/2025 Forecast £000	2025/2026 Forecast £000	2026/2027 Estimate £000	2027/2028 Estimate £000
Cash deposits with UK banks and building societies (rated)	186,896	183,809	181,493	172,168	159,168
Cash deposits with DMADF [3]	0	0	0	0	0
Investment properties	5,625	5,625	5,625	5,625	5,625
Shareholdings in joint venture companies	5	5	5	5	5
Managed in-house	**192,526**	**189,439**	**187,123**	**177,798**	**164,798**
Managed externally	**0**	**0**	**0**	**0**	**0**
Total Investments [4]	**192,526**	**189,439**	**187,123**	**177,798**	**164,798**

[3] Debt Management Account Deposit Facility (DMADF) with the Debt Management Office

[4] the reduction in Investments from 2025/2026 onwards mainly relates to the Scottish Government Specific Grant for Subway Modernisation, which is forecast to be fully utilised over this period

Cash deposits with UK banks, building societies and the DMADF are categorised as Treasury Investments. These investments arise from the organisation's cash flows or treasury risk management activity and ultimately represent balances that need to be invested until the cash is required for use in the course of business.

Investment properties and shareholdings in joint venture companies are categorised as Service Investments. These investments are taken or held primarily for the provision and for the purposes of delivering public services (including regeneration and local infrastructure), or in support of joint working with others to deliver such services. These investments may or may not involve commercial returns; however, obtaining those returns will not be the primary purpose of the investment.

3.4 Borrowing strategy

SPT is currently debt free and the capital funding and expenditure profiles to 2027/2028 do not require any borrowing.

SPT will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that SPT can ensure the security of such funds.

Against this background and the risks within the economic outlook, the Director of Finance & Corporate Support will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. Any decisions will be reported to the Partnership at the earliest available opportunity.

3.5 Prudential Indicators 2025/2026 to 2027/2028

SPT's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Members will be aware that SPT normally prepares an aligned three-year rolling capital programme and budget which seeks to balance the transport project delivery aspirations and the available funding. SPT has again prepared a programme covering the period 2025/2026 to 2027/2028 but members are advised that in doing so no general capital grant funding information for years two or three is known at this stage. Therefore, the capital programme and capital funding for 2026/2027 and 2027/2028 is based on estimates and is indicative only, noting that this will be refined and resubmitted at a later stage when funding information is available.

3.5.1 Capital expenditure and financing

This prudential indicator is a summary of SPT's capital expenditure plans and how these plans are being funded.

Table 3	**2023/2024 Actual £000**	**2024/2025 Forecast £000**	**2025/2026 Forecast £000**	**2026/2027 Estimate £000**	**2027/2028 Estimate £000**
Capital expenditure	**42,412**	**43,636**	**49,547**	**18,776**	**20,900**
Capital grants and contributions	45,861	32,707	43,291	12,400	12,400
Revenue contribution to the capital programme	0	4,242	2,985	0	0
Transfers from General Fund Earmarked Reserves	3,873	6,660	1,832	2,000	3,000
Transfers from / (to) Capital Grants Unapplied Account	(7,322)	27	1,439	4,376	5,500
Capital funding	**42,412**	**43,636**	**49,547**	**18,776**	**20,900**
Net financing need for the year	**0**	**0**	**0**	**0**	**0**

3.5.2 Capital Financing Requirement

The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of SPT's indebtedness and so its underlying borrowing need. Any capital expenditure above (3.5.1), which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

Table 4 Capital Financing Requirement	**2023/2024 Actual £000**	**2024/2025 Forecast £000**	**2025/2026 Forecast £000**	**2026/2027 Estimate £000**	**2027/2028 Estimate £000**
CFR	0	0	0	0	0
Movement in CFR	0	0	0	0	0

3.5.3 Actual external debt

Table 5 shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement), highlighting any over or under borrowing.

Table 5 External Debt	**2023/2024 Actual £000**	**2024/2025 Forecast £000**	**2025/2026 Forecast £000**	**2026/2027 Estimate £000**	**2027/2028 Estimate £000**
Gross debt at 1 April	0	0	0	0	0
Expected change in debt	0	0	0	0	0
Actual gross debt at 31 March	**0**	**0**	**0**	**0**	**0**
Capital Financing Requirement (CFR)	**0**	**0**	**0**	**0**	**0**
Under / (over) borrowing	0	0	0	0	0

Within the range of prudential indicators there are a number of key indicators to ensure that SPT operates its activities within well-defined limits. One of these is that SPT needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/2026 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

SPT has complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

3.5.4 Limits to borrowing activity

Whilst there are currently no plans to borrow, the Operational Boundary and Authorised Limit have been set to enable SPT to react to any changes in circumstances.

Operational Boundary: This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Table 6 Operational Boundary	2024/2025 Forecast £000	2025/2026 Forecast £000	2026/2027 Estimate £000	2027/2028 Estimate £000
Debt	50,000	50,000	50,000	50,000

Authorised Limit for External Borrowing: This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Partnership. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

The authorised limits for external debt for the current year and two subsequent years are the legislative limits determined under Regulation 6(1) of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016.

Table 7 Authorised Limit	2024/2025 Forecast £000	2025/2026 Forecast £000	2026/2027 Estimate £000	2027/2028 Estimate £000
Debt	55,000	55,000	55,000	55,000

3.5.5 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on SPT's overall finances.

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

Table 8	2023/2024 Actual	2024/2025 Forecast	2025/2026 Forecast	2026/2027 Estimate	2027/2028 Estimate
Ratio of financing costs to net revenue stream	0%	0%	0%	0%	0%

Ratio of net income from service investments to net revenue stream

The intention of this indicator is to show the net financial impact on the organisation of its entire non-treasury investment income.

Table 9	2023/2024 Actual	2024/2025 Forecast	2025/2026 Forecast	2026/2027 Estimate	2027/2028 Estimate
Ratio of net income from service investments to net revenue stream	2%	2%	2%	2%	2%

3.6 Treasury Indicators 2025/2026 to 2027/2028

3.6.1 Liability Benchmark

The Liability Benchmark is a measure of how well the existing loans portfolio matches planned borrowing needs. It involves an evaluation of the amount, timing and maturities needed for new borrowing in relation to SPT's plans. There are four components to the Liability Benchmark:

- Existing loan debt outstanding: SPT’s existing loans that are still outstanding in future years.
- Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Loans Fund advances / Loans Fund principal repayments.
- Net loans requirement: 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 Loans Fund principal repayments and any other major cash flows forecast.
- Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Table 10 Liability Benchmark	**2023/2024 Actual £000**	**2024/2025 Forecast £000**	**2025/2026 Forecast £000**	**2026/2027 Estimate £000**	**2027/2028 Estimate £000**
Existing loan debt outstanding	0	0	0	0	0
Loans CFR	0	0	0	0	0
Net loans requirement	(186,896)	(183,809)	(181,493)	(172,168)	(159,168)
Liability Benchmark	(186,896)	(183,809)	(181,493)	(172,168)	(159,168)

3.6.2 Investment Treasury Indicator and Limit

The Investment Treasury Indicator and Limit is the total principal funds invested for greater than 365 days. These limits are set with regard to SPT’s liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

Table 11	**2024/2025 £000**	**2025/2026 £000**	**2026/2027 £000**	**2027/2028 £000**
Principal sums invested for longer than 365 days	50,000	50,000	50,000	50,000

4. Annual Investment Strategy 2025/2026

4.1 Investment policy

SPT’s investment policy implements the requirements of the following:

- Local Government Investments (Scotland) Regulations 2010 (and accompanying Finance Circular 5/2010);
- CIPFA Treasury Management in The Public Services: Code of Practice and Cross-sectoral Guidance Notes 2021 Edition; and
- CIPFA Treasury Management Guidance Notes 2021 Edition.

SPT’s investment priorities will be security first, liquidity second and then return. SPT will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity and with regard to the organisation’s risk appetite.

The above regulations and guidance place a high priority on the management of risk. SPT has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1) SPT has defined the list of types of investment instruments that are permitted investments authorised for use in Appendix 1. Appendix 2 expands on the treasury risks involved in each type of investment and the mitigation measures adopted.

2) SPT will set limits on the amounts and maturity of its investments through applying credit rating criteria (section 4.3) and counterparty limits (section 4.5).
3) SPT has determined that it will only use approved counterparties from the United Kingdom.
4) SPT has determined that all investments will be denominated in Sterling.
5) SPT will set a limit for the amount of its investments which are invested for longer than 365 days, as shown in Table 11 above (section 3.6.2).
6) SPT has set an individual transaction limit of £20m with a tolerance level of 2%.
7) SPT has appointed treasury management advisors (section 3.1) to provide expert advice on how to optimise an appropriate balance of security, liquidity and return, given the risk appetite of the organisation in the context of the expected level of cash balances and need for liquidity throughout the year.

However, SPT will also pursue value for money in treasury management and will monitor the return from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

The above criteria are unchanged from last year.

4.2 Permitted investments

The Local Government Investments (Scotland) Regulations 2010 (and accompanying Finance Circular 5/2010) requires the Partnership approval of all the types of investments to be used and set appropriate limits for the amount that can be held in each investment type.

SPT has determined that all investments will be denominated in Sterling.

Details of all permitted investments can be found in Appendix 1. The limits for the amount that can be held in each investment type can be found in Appendix 2.

4.3 Credit rating criteria

Minimum acceptable credit criteria are applied in order to generate a list of counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

SPT applies the service provided by our treasury management advisors, MUFG Corporate Markets. This service employs a modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- sovereign ratings.

This modelling approach combines credit ratings, and any assigned watches and outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative credit rating of counterparties. These colour codes are used by SPT to determine the suggested duration for investments, as shown in Table 12:

Table 12	
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)

SPT has determined that it will only use approved counterparties from the United Kingdom. A full list of SPT's potential counterparties can be found in Appendix 3.

Credit ratings will be monitored regularly and if a downgrade results in the counterparty no longer meeting SPT's minimum criteria, its further use as a new investment will be withdrawn immediately.

4.4 Environmental, Social & Governance (ESG) considerations

ESG considerations are becoming increasingly important for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis.

This means that a consistent and developed approach to ESG for public service organisations, investing in short-term cash deposits, is currently difficult.

As outlined in section 4.3 above, SPT applies credit rating criteria to support its assessment of suitable counterparties utilising information from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. These agencies are now highlighting how they incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings. As such, to an extent, SPT is incorporating ESG considerations into its assessment of suitable counterparties.

SPT will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

4.5 Counterparty limits

SPT's counterparty limits are set 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.

4.6 Liquidity considerations

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

4.7 Investment risk benchmarking

SPT will use an investment benchmark to assess the investment performance of its investment portfolio of backward-looking 7-day compounded SONIA.

SONIA is the risk-free rate for sterling markets administered by the Bank of England. It is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

4.8 Investment activity reporting

SPT will report on its investment activity as part of its Mid-Year Treasury Management Report and Annual Treasury Management Report. In between these reports, a brief update will be included within the Capital Monitoring Reports.

4.9 Economic outlook

The UK economy continues to face challenges amid rising uncertainty over global trade. Economic growth is weak. Inflation is falling back but is expected to rise again temporarily. Unemployment has risen but remains at historically low levels.

Economic growth (GDP) was estimated to have risen by 0.8% in 2024 Q1 (January to March); risen by 0.4% in Q2; remained flat 0.0% in Q3; and risen by 0.1% in Q4. GDP growth has been weaker than expected as have indicators of business and consumer confidence, which would be consistent with a recent slowdown in demand. GDP is expected to rise by 0.1% in 2025 Q1. Thereafter, four-quarter GDP growth is expected to pick up gradually reaching 1.8% in 2028 Q1.

The unemployment rate was 4.4% in the three months to December 2024, remaining at historically low levels. The labour market has continued to ease and is judged to be broadly in balance. The unemployment rate is expected to rise gradually to around 4.5% during 2025. Thereafter, unemployment is expected to continue to rise gradually, reaching 4.8% in 2027 Q1.

Consumer Price Index (CPI) inflation has fallen gradually from 4.0% in January 2024 to 3.0% in January 2025. Domestic inflationary pressures are easing but they remain somewhat elevated. CPI inflation is expected to rise quite sharply in the near term, to 3.7% in 2025 Q3 reflecting recent developments in global energy costs and regulated utility prices. Thereafter, CPI inflation is expected to fall back to around 1.9% in 2028 Q1.

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that seeks to help to sustain economic growth and employment. At its latest meeting on 5 February 2025, the MPC voted by a majority to reduce Bank Rate by 0.25 percentage points to 4.50%. The MPC expects to make further reductions in Bank Rate but will take a gradual and careful approach due to the weakness in the economy.

4.10 Prospects for interest rates

SPT has appointed MUFG Corporate Markets as its treasury management advisors and Table 13 below gives their current view on the prospects for interest rates.

Table 13	Bank Rate	PWLB [5] 5 year	PWLB [5] 10 year	PWLB [5] 25 year
March 2025	4.50%	5.00%	5.30%	5.80%
June 2025	4.25%	4.90%	5.20%	5.70%
September 2025	4.25%	4.80%	5.10%	5.60%
December 2025	4.00%	4.70%	5.00%	5.50%
March 2026	3.75%	4.60%	4.90%	5.40%
June 2026	3.75%	4.50%	4.80%	5.30%
September 2026	3.75%	4.40%	4.70%	5.20%
December 2026	3.50%	4.40%	4.70%	5.10%
March 2027	3.50%	4.30%	4.60%	5.00%
June 2027	3.50%	4.20%	4.50%	5.00%
September 2027	3.50%	4.20%	4.50%	4.90%
December 2027	3.50%	4.10%	4.40%	4.90%
March 2028	3.50%	4.00%	4.40%	4.80%

[5] the PWLB borrowing rates shown are based on the Certainty Rate (the standard rate minus 0.20%)

Investing in 2025/2026, is likely to be characterised by interest rates which are falling back as the financial year progresses. However, SPT's investment priorities continue to be security first, liquidity second and then return.

5. Capital Strategy 2025/2026

The CIFPA Prudential Code for Capital Finance in Local Authorities (the "Prudential Code") requires SPT to produce an annual Capital Strategy.

The purpose of the Capital Strategy is to ensure that capital expenditure and investment decisions are aligned with service objectives and properly take account of stewardship and value for money. Capital plans should be proportionate and affordable. All borrowing or other long-term liabilities to fund capital plans should be within prudent and sustainable levels. The Capital Strategy should take a long-term view and not just consider the approved programme. The Capital Strategy should also form part of SPT's integrated revenue, capital and balance sheet planning.

5.1 Capital Plan 2025/2026 to 2027/2028

The proposed Capital Plan 2025/2026 to 2027/2028, including the Capital Budget 2025/2026, is being presented separately to this Partnership meeting.

As members will be aware, balancing a capital budget and delivery of a plan in the context of a one-year settlement and within the current restrictions is very difficult in terms of approving (and then delivering) projects. However, if capital investment across the region is to continue, then it is necessary to take a balanced approach to the assumptions made.

5.2 Regional Transport Strategy (RTS)

The Capital Strategy is aligned with the main strategic documents governing SPT. The most significant of these is the Regional Transport Strategy (RTS).

SPT's capital programme seeks to progress projects that help to deliver the RTS Policies and that are aligned with the RTS objectives. The five RTS objectives are as follows:

- Objective 1: To improve accessibility, affordability, availability and safety of the transport system, ensuring everyone can get to town centres, jobs, education, healthcare and other everyday needs
- Objective 2: To reduce carbon emissions and other harmful pollutants from transport in the region
- Objective 3: To enable everyone to walk, cycle or wheel and for these to be the most popular choices for short, everyday journeys
- Objective 4: To make public transport a desirable and convenient travel choice for everyone
- Objective 5: To improve regional and inter-regional connections to key economic centres and strategic transport hubs for passengers and freight

A majority of projects help achieve more than one objective.

5.3 Links to other strategies, plans, regulations and guidance

Officers anticipate that a more detailed assessment of the climate change and carbon consequences of projects within the capital programme will be undertaken in the future. Further consideration is being given as to how this can be done in a detailed but proportionate way, whether any assessment should be undertaken on individual projects or on a cumulative programme impact basis, and whether SPT or a council / project promoter be responsible for the assessment.

In addition, various other internal strategies and plans influence capital investment decisions:

- Treasury Management Strategy (included in this report)
- Prudential Indicators for Capital Financing (included in this report)
- Procurement Strategy
  spt.co.uk/about-us/who-we-are/standards-responsibility/procurement-strategy/
- Asset Management Plans

Various external strategies either directly influence SPT's overall strategies or need to be considered when evaluating investment proposals:

- National Transport Strategy
  transport.gov.scot/our-approach/national-transport-strategy/
- Local Transport Strategies

5.4 Factors influencing the capital programme

Projects can arise through a variety of both internal and external sources. Table 14 below summarises the most significant of these.

Table 14 Factors influencing the capital programme	
Internal	**External**
• Corporate Priorities • Investments identified in Strategies, Policies and Plans (including RTS Action Plan and Strathclyde Regional Bus Strategy) • Work required on existing assets • Replacement of existing assets • ICT investment and replacement • Carbon Management • Invest to Save Projects • Resources to deliver the programme	• National Transport Strategy • Strategic Transport Projects Review 2 • Government initiatives / specific grants • Clyde Metro Case for Investment • Local Transport Plans • Economic Development • Emergencies • Works required to comply with legislation • Public expectations • Projects arising through Partnership working • Availability of external funding • Resources to deliver the programme

All of the above are considered each year when developing the capital programme and revenue budget.

5.5 Governance of the Capital Programme

5.5.1 Capital budgeting

SPT reviews its capital budget on an annual basis and has a defined process from seeking bids to final approval. For a project to be included for consideration within the capital programme a bid form must be completed, which captures:

- project description
- project scope
- project dependencies
- project justification and benefits
- links to the Regional Transport Strategy (RTS)
- cost information
- programme information

All proposals are assessed by the Policy & Planning Team, Finance Team and the Strategy Group to ensure that they fit with the RTS, are achievable, affordable and are also value for money. Major projects require supporting documentation (e.g. business cases, feasibility studies, etc).

Once the proposals have been reviewed the next stage is to submit the proposed Capital Plan for approval to the Strategy & Programmes Committee or Partnership. The capital budget is approved by the Partnership for year one, with years two and three being indicative only. This is a consequence of the one-year financial settlement received by SPT.

5.5.2 Programme monitoring

The capital programme is monitored on various levels and differs depending on the nature and the size of projects. SPT's capital programme can be split into three categories:

- standard projects
- major projects / programmes
- partner projects

Regardless of project type, the financial performance is reported to Project Managers and the Strategy Group on a 4-weekly basis during the financial year. In addition, the performance is reported to the Strategy & Programmes Committee for noting and also for the approval of budget amendments.

An example of a current major project is the Subway Modernisation Programme. Due to the size and nature of the investment the programme has its own governance structure in addition to the overarching corporate structure. Progress throughout the programme is monitored by an Internal Project Board, a Project Board (which includes the main contractors) and also by specific reports to the Partnership.

Partner projects predominantly involve grant funding that SPT provides to other organisations, such as our constituent local authorities. Although the projects will be managed directly by the partners, they are still reported on internally in the same way as any other project. SPT officers are in contact with the partners on a regular basis, to ensure that the overall capital programme is managed and updated appropriately.

5.5.3 Project management

SPT has a specific department with qualified project managers that are allocated to internal projects. All projects within SPT have a designated project manager who either comes direct from the project pool or from other staff throughout the organisation. Projects are managed in a controlled manner through the use of various project management techniques, including project plans, budgets etc.

For the Subway Modernisation projects there is a specific Project Management Office (PMO), in addition to various project managers for the different work streams and senior project managers. The role of the PMO is to ensure standardisation of working practices and processes across the various work streams and also to provide professional support and expertise to the individual project managers.

5.5.4 Risk management

It is vital that risk is managed and mitigated where possible on all capital projects. In addition to SPT's corporate risk register individual projects have their own risk registers that are regularly reviewed.

5.5.5 Democratic scrutiny

The Partnership, Strategy & Programmes Committee and Audit & Standards Committee all play a vital role in the governance of the capital programme. The roles of the individual committees are defined within the Committee Terms of Reference, which can be found within SPT's Governance Manual.
spt.co.uk/media/a23ptd0y/governance-manual-may-2023.pdf

The Partnership's role is to approve the capital budget and also any associated strategies. In addition, regular updates on major projects are submitted to the Partnership for scrutiny. The Strategy & Programmes Committee is responsible for the monitoring of the capital programme and approving any in-year amendments. The Audit & Standards Committee has the opportunity to scrutinise reports in relation to the capital projects / programme specifically and also practices and processes relating to capital works.

5.6 Funding the Capital Programme

The capital programme can be funded from various sources as shown in Table 15 below.

Table 15 Sources of capital funding	
Internal	**External**
• Capital Receipts • Reserves • Revenue contribution	• Government Grants • Other Grants • Contributions from partners • Other Contributions • Borrowing

SPT's primary source of funding is Government Grants, both specific and general.

Although SPT has the power to borrow, currently it is debt-free and there are no plans to borrow.

5.7 Revenue implications

The revenue implications of investment decisions are considered when proposals are being assessed for inclusion within the capital programme. The revenue effects of investment decisions are:

- increased running or maintenance costs
- savings generated through a spend to save initiative
- loss of interest if a project is funded from reserves / capital receipts
- borrowing costs if SPT decided to borrow to fund a specific project or the programme as a whole

SPT will always have regard to the affordability of its proposed capital investments, in terms of the revenue implications arising. The revenue implications of investment decisions will always be reflected in revenue budgets and outturns.

5.8 Long-term capital projections

As mentioned above, it is challenging to develop long-term capital plans in the context of a one-year financial settlement, when future funding is not known. However, there are major works that SPT is either currently undertaking or planning for future years and there are clear themes which are likely to continue going forward. Table 16 below details the themes and major works by Directorate / Service.

Table 16 **Themes and major works**		
Directorate / Service	**Continuing Themes**	**Major Works**
Bus Operations	• Bus Station Improvements • Bus Stops and Shelters Upgrade • Real Time Passenger Information (RTPI)	Modernisation of Bus Stations
Corporate / Customer Standards	• Corporate Systems • Advertising Infrastructure	
Digital	• Technical Refresh • Enhanced Cyber Security • Connectivity	
Projects	• Smart & Integrated Ticketing • Transport Planning Model Development • Accessibility • Decarbonisation	
Subway	• Tunnel & Infrastructure Works • Station Minor Works • Depot Improvements • Plant & Equipment	Subway Modernisation - Rolling Stock & New System
Local Authorities and Others	• Bus Infrastructure Works • RTPI Preparatory Works • Route / Corridor / Junction Improvements • Rail Station / Interchange Improvements and Developments • Active Travel • Park & Ride	Future projects are dependent on available funding and supporting Strategic Transport Projects Review 2 (STPR2).

Based on current themes and historic spend a broad estimation can be made on the projected capital programme by Directorate / Service over the next 10 years, as shown in Table 17 below.

Table 17 Projected capital programme 2025/2026 to 2034/2035

	Forecast	Estimate		Projected						
Directorate / Service	**2025/ 2026 £000**	**2026/ 2027 £000**	**2027/ 2028 £000**	**2028/ 2029 £000**	**2029/ 2030 £000**	**2030/ 2031 £000**	**2031/ 2032 £000**	**2032/ 2033 £000**	**2033/ 2034 £000**	**2034/ 2035 £000**
Bus Operations	4,193	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Corporate	257	25	25	25	25	25	25	25	25	25
Customer Standards	130	250	250	50	50	50	50	50	50	50
Digital	270	75	75	75	75	75	75	75	75	75
Projects	2,525	200	200	200	200	200	200	200	200	200
Property	40	50	50	50	50	50	50	50	50	50
Subway	33,356	13,676	15,800	16,000	12,469	10,500	10,500	7,711	7,500	7,500
Local Authorities and Others	2,985	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
People and Place Programme	5,791	0	0	0	0	0	0	0	0	0
Total	**49,547**	**18,776**	**20,900**	**20,900**	**17,369**	**15,400**	**15,400**	**12,611**	**12,400**	**12,400**

6. Partnership action

The Partnership is recommended to approve:

(i) the Treasury Management Strategy 2025/2026;
(ii) the Annual Investment Strategy for 2025/2026;
(iii) SPT's prudential and treasury indicators as detailed in the report;
(iv) the Permitted Investment Types detailed in Appendix 1;
(v) the Counterparty List detailed in Appendix 3; and
(vi) the Capital Strategy for 2025/2026.

7. Consequences

Policy consequences	*None directly.*
Legal consequences	*All legislation and regulations are adhered to.*
Financial consequences	*The contents of this report have been incorporated into SPT's 2024/2025 budgets.*
Personnel consequences	*None directly.*
Equalities consequences	*None directly.*
Risk consequences	*Risk will be quantified and closely monitored during the course of the financial year.*
Climate Change, Adaptation & Carbon consequences	*SPT's capital programme supports delivery of sustainable transport infrastructure to increase use of walking, wheeling and cycling and public transport and to support a reduction in total transport emissions.*

Name	Lesley Aird	**Name**	Valerie Davidson
Title	**Director of Finance & Corporate Support**	**Title**	**Chief Executive**

For further information, please contact *Lesley Aird, Director of Finance & Corporate Support* on *0141 333 3380.*

APPENDIX 1

Permitted Investment Types

1)	**Call accounts with sufficiently high credit rating banks and building societies** Cash is deposited with the institution and is held at instant access or at call. This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit. However, use of call accounts is necessary to ensure that SPT has ready access to cash when required. These tend to be low risk investments depending on the credit rating. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice (up to 100 days).
2)	**Term deposits with sufficiently high credit rating banks and building societies** Cash is deposited with the institution until an agreed maturity date. The cash is locked in until the maturity date however the rate of interest is fixed for the duration of the deposit. These tend to be low risk investments depending on the credit rating. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.
3)	**Term deposits with the Debt Management Account Deposit Facility (DMADF)** Cash is deposited with the Debt Management Account Deposit Facility (DMADF) until an agreed maturity date. The cash is locked in until the maturity date however the rate of interest is fixed for the duration of the deposit. The DMADF is administered by the Debt Management Office (DMO), an Executive Agency of HM Treasury, and therefore represents a direct claim against HM Government. Whilst there is no risk to value with this type of investment, liquidity is low and term deposits cannot be broken. Deposits can be between overnight and six months.
4)	**Investment properties** Investment properties include retail outlets and other spaces within SPT's bus and subway stations and also other legacy transport land and buildings. These assets are leased to third parties and generate a longer-term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).
5)	**Shareholdings in joint venture companies** SPT owns 49% of the ordinary shares in Nevis Technologies Limited, a joint venture between SPT and Ecebs Limited for the provision of a smartcard ticketing and payment service. Other such joint venture arrangements may arise in the future. These are highly illiquid assets with high risk to value (generally the shares are not traded on a market).

APPENDIX 2

Treasury Risks and Mitigation

Investment type	Minimum credit criteria / colour banding	Liquidity risk	Market risk	Maximum limit	Maximum maturity period
Call accounts with sufficiently high credit rating banks and building societies	Green	instant access or call (up to 100 days)	no	100%	up to 100 days
Term deposits with sufficiently high credit rating banks and building societies	Red	term	no	80%	up to 1 year
Term deposits with the Debt Management Account Deposit Facility (DMADF)	none	term	no	100%	up to 6 months
Investment properties	n/a	sale	yes	£15m	n/a
Shareholdings in joint venture companies	n/a	sale	yes	£0.5m	n/a

1) Treasury Risks

Credit and counterparty risk: this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to SPT particularly as a result of the counterparty's diminished credit rating, and the resulting detrimental effect on SPT's capital or revenue resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of credit rating.

Liquidity risk: this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument.

Market risk: this is the risk that, through adverse market fluctuations in the value of the principal sums SPT borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

Interest rate risk: this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on SPT's finances, against which SPT has failed to protect itself adequately.

Legal and regulatory risk: this is the risk that SPT itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that SPT suffers losses accordingly.

2) Controls on Treasury Risks

Credit and counterparty risk: SPT has set minimum credit criteria to determine which counterparties and countries are of sufficiently high credit rating to be considered for investment purposes.

Liquidity risk: SPT has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.

Market risk: SPT does not purchase investment instruments which are subject to market risk in terms of fluctuation in their value. Investment properties are valued annually at fair value and movements in valuations are recognised in the annual accounts. Shareholdings in joint venture companies are recorded as financial assets at cost, less any provision for losses.

Interest rate risk: SPT manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing.

Legal and regulatory risk: SPT will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations.

3) Unlimited Investments

Regulation 24 states that an investment can classed as being ‘unlimited’ in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment. However, it also requires that an explanation must be given for using that category.

SPT has given the following types of investment an unlimited category:

Call accounts with sufficiently high credit rating banks and building societies: to ensure that SPT has ready access to cash when required, an unlimited amount of the investment portfolio may be put into call accounts with sufficiently high credit rating banks and building societies. However, SPT will diversify its portfolio through its counterparty limits policy, thereby ensuring that no more than £50m or 50% of total balances can be placed with any one counterparty at any one time (subject to a tolerance level of 2% of the balance held with each counterparty).

Term deposits with the Debt Management Account Deposit Facility (DMADF): to ensure that SPT has a safe haven for cash, an unlimited amount of the investment portfolio may be put into term deposits with the Debt Management Account Deposit Facility (DMADF). The DMADF is administered by the Debt Management Office (DMO), an Executive Agency of the UK Treasury, and therefore represents a direct claim against HM Government. There is therefore no minimum credit criteria / colour banding set for the DMO.

SPT's Counterparty List 2025/2026

Counterparty Institution	Country / Classification	Band
Al Rayan Bank Plc	UK / Bank	Red
Bank of Scotland PLC [1]	UK / Bank	Orange
Barclays Bank PLC [1]	UK / Bank	Red
Barclays Bank UK PLC	UK / Bank	Red
Clydesdale Bank PLC	UK / Bank	Red
Co-operative Bank PLC (The)	UK / Bank	Green
Goldman Sachs International Bank [1]	UK / Bank	Red
Handelsbanken Plc	UK / Bank	Orange
HSBC Bank PLC	UK / Bank	Orange
HSBC UK Bank Plc	UK / Bank	Orange
Lloyds Bank Corporate Markets Plc [1]	UK / Bank	Orange
Lloyds Bank Plc	UK / Bank	Orange
National Bank Of Kuwait (International) PLC	UK / Bank	Red
National Westminster Bank PLC	UK / Bank	Orange
NatWest Markets Plc [1]	UK / Bank	Red
Santander Financial Services plc	UK / Bank	Red
Santander UK PLC [1]	UK / Bank	Red
SMBC Bank International Plc	UK / Bank	Red
Standard Chartered Bank [1]	UK / Bank	Orange
The Royal Bank of Scotland Plc [1]	UK / Bank	Orange
Coventry Building Society	UK / Building Society	Green
Leeds Building Society	UK / Building Society	Green
Nationwide Building Society [1]	UK / Building Society	Red
Skipton Building Society	UK / Building Society	Red
Yorkshire Building Society	UK / Building Society	Red
Debt Management Office	UK / UK Government	Yellow

[1] Investment balances have been held with this counterparty so far during financial year 2024/2025

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)

Treasury Management Policy Statement

Strathclyde Partnership for Transport has defined the policies and objectives of its treasury management activities as follows:

1) This organisation defines its treasury management activities as the management of the organisation's borrowing, investments and cash flows, including 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) This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered into to manage these risks.
3) This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable, comprehensive performance measurement techniques within the context of effective risk management.

Treasury Management Scheme of Delegation

Partnership

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy;
- approval of / amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval; and
- approval of the division of responsibilities.

Strategy & Programmes Committee

- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment; and
- reviewing the treasury management policy and procedures and making recommendations to the Partnership.

APPENDIX 6

The treasury management role of the Section 95 officer

The Director of Finance & Corporate Support is the Section 95 (responsible) officer and has the following role:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the organisation;
- ensuring that the organisation has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the organisation does not undertake a level of investing which exposes the organisation to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an organisation;
- ensuring that the organisation has adequate expertise, either in house or externally provided, to carry out the above; and
- creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed, to include the following:
  - risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
  - performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
  - decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
  - reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken; and
  - training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.