Classification: Choose classification

# Annual Treasury Management Review 2024/25

## English Local Authorities

**DATE 08 APRIL 2025**

**MUFG Corporate Markets**
A division of MUFG Pension & Market Services

# Contents

## ABBREVIATIONS USED IN THIS REPORT

**CE:** Capital Economics - is the economics consultancy that provides MUFG Corporate Markets Treasury Limited, with independent economic forecasts, briefings and research.

**CFR:** capital financing requirement - the Authority’s annual underlying borrowing need to finance capital expenditure and a measure of the Authority’s total outstanding indebtedness.

**CIPFA:** Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

**CPI:** consumer price index – the official measure of inflation adopted as a common standard by the UK and countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

**MHCLG:** the Ministry for Housing, Communities and Local Government - the Government department that directs local authorities in England.

**ECB:** European Central Bank - the central bank for the Eurozone

**EU:** European Union

**EZ:** Eurozone - those countries in the EU which use the euro as their currency

**Fed:** the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

**FOMC:** the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing/tightening policy. It is composed of 12 members - the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

**GDP:** gross domestic product – a measure of the growth and total size of the economy.

**G7:** the group of seven countries that form an informal bloc of industrialised democracies - the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom - that meets annually to discuss issues such as global economic governance, international security, and energy policy.

**Gilts:** gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e., a rise in the price of a gilt will mean that its yield will fall.

**HRA:** housing revenue account.

**IMF:** International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

**MPC:** the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing/tightening.

**MRP:** minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

**PFI:** Private Finance Initiative – capital expenditure financed by the private sector i.e., not by direct borrowing by a local authority.

**PWLB:** Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

**QE/QT:** quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. This is called quantitative tightening. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to ‘cool’ the economy.

**RPI:** the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

**SONIA:** the Sterling Overnight Index Average. Generally, a set of indices for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

**TMSS:** the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the Full Council before the start of each financial year.

**VRP:** a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).

# Annual Treasury Management Review 2024/25

## Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2024/25. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2024/25 the minimum reporting requirements were that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 29/02/2024)
- a mid-year, (minimum), treasury update report (Council 23/01/2025)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

In addition, Cabinet and the Finance, Audit and Risk (FAR) Committee have received quarterly treasury management update reports.

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 provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Finance, Audit and Risk (FAR) Committee before they were reported to Cabinet / Full Council . Members are provided with an annual training session on Local Government finance, which takes place in June each year. All members are invited, with a focus on new members attending. Members of Finance, Audit and Risk Committee are provided with a short training session before most meetings. The content of these sessions is guided by Members needs, and treasury management will be considered as a topic for 2025/26.

## Executive Summary

During 2024/25, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

| Prudential and treasury indicators | 31.3.24 Actual £000 | 2024/25 Original £000 | 31.3.25 Actual £000 |
|---|---|---|---|
| Capital expenditure | 2.409 | 22.633 | 11.362 |
| Capital Financing Requirement: | -2.583 | 11.856 | -0.578 |
| Gross borrowing | 0.347 | 11.857 | 0.325 |
| External debt | 0.347 | 0.325 | 0.325 |
| Investments | 46.000 | 25.500 | 45.000 |
| Net borrowing | -45.653 | -25.175 | -44.675 |

Other prudential and treasury indicators are to be found in the main body of this report. The Director- Resources (s151 Officer) also confirms that no new borrowing was only undertaken and the statutory borrowing limit, (the authorised limit), was not breached.

## Introduction and Background

This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Authority's underlying indebtedness, (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Authority has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

## 1. The Council's Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

| £m General Fund | 31.3.24 Actual | 2024/25 Budget | 31.3.25 Actual |
|---|---|---|---|
| **Capital expenditure** | **2.409** | **22.633** | **11.362** |
| **Financed in year** | 2.273 | 8.621 | 9.353 |
| **Unfinanced capital expenditure** | **0.136** | **14.012** | **2.009** |

## 2. The Council's Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2024/25 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

The Council's 2024/25 MRP Policy, (as required by MHCLG Guidance), was approved as part of the Revenue Budget and Investment Strategy Report for 2024/25 on 29/02/2024.

The Council's CFR for the year is shown below, and represents a key prudential indicator.

| CFR (£m): General Fund | 31.3.24 Actual | 2024/25 Budget | 31.3.25 Actual |
|---|---|---|---|
| **Opening balance** | -2.719 | -2.156 | -2.587 |
| **Add unfinanced capital expenditure (as above)** | 0.136 | 14.012 | 2.009 |
| **Less MRP/VRP*** | 0 | 0 | 0 |
| **Less PFI & finance lease repayments** | 0.004 | 0 | **0** |
| **Closing balance** | **-2.587** | 11.856 | **-0.578** |

The negative closing balances mean that the Council does not have a need to borrow.

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

**Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator as all borrowing is historic and it is not economical to repay it.

| | 31.3.24 Actual £'m | 2024/25 Budget £'m | 31.3.25 Actual £'m |
|---|---|---|---|
| **Gross borrowing position** | 0.347 | 0.325 | 0.325 |
| **CFR** | -2.583 | 11.856 | -0.578 |

**The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2024/25 the Council has maintained gross borrowing within its authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

**Actual financing costs as a proportion of 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.

| | **2024/25 £'m** |
|---|---|
| Authorised limit | 7.0 |
| Maximum gross borrowing position during the year | 0.347 |
| Operational boundary | 2.0 |
| Average gross borrowing position | 0.337 |
| Financing costs as a proportion of net revenue stream | -16.54% |

## 3. Treasury Position as of 31st March 2025

The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2024/25 the Council's treasury position, (excluding borrowing by PFI and finance leases) was as follows:-

| DEBT PORTFOLIO | 31.3.24 Principal £'m | Rate/ Return | 31.3.25 Principal £'m | Rate/ Return |
|---|---|---|---|---|
| Fixed rate funding: | | | | |
| -PWLB | 0.347 | 10.28% | 0.325 | 10.72% |
| -Market | 0.000 | | 0.00 | |
| Variable rate funding: | | | | |
| -PWLB | 0.000 | | 0.000 | |
| -Market | 0.000 | | 0.000 | |
| **Total debt** | **0.347** | **10.28%** | **0.325** | **10.72%** |
| **CFR** | **-2.579** | | **-0.954** | |
| **Over / (under) borrowing** | **2.926** | | **1.279** | |
| **Total investments** | **46.0** | **5.47%** | **45.0** | **5.1%** |
| **Net debt** | **(45.653)** | | **(44.675)** | |

The maturity structure of the debt portfolio was as follows:

| | 31.3.24 Actual £'000 | 31.3.25 Actual £'000 |
|---|---|---|
| Under 12 months | 21 | 20 |
| 12 months and within 24 months | 20 | 15 |
| 24 months and within 5 years | 40 | 33 |
| 5 years and within 10 years | 15 | 7 |
| 10 years and above | 250 | 250 |

| INVESTMENT PORTFOLIO | 31.3.24 Actual £'m | 31.3.24 Actual % | 31.3.25 Actual £'m | 31.3.25 Actual % |
|---|---|---|---|---|
| **Treasury investments** | | | | |
| Banks | 2 | 4 | 0 | 0 |
| Building societies – rated | 0 | 0 | 0 | 0 |
| Building societies – unrated | 0 | 0 | 0 | 0 |
| Local authorities | 44 | 96 | 36 | 80 |
| DMADF (H M Treasury) | 0 | 0 | 9 | 20 |
| **TOTAL TREASURY INVESTMENTS** | 46 | 100 | 45 | 100 |

The maturity structure of the investment portfolio was as follows:

| | 31.3.24 Actual £m | 31.3.25 Actual £m |
|---|---|---|
| Investments Longer than 1 Year | 2.0 | 0 |
| Investments Up to1 Year | 44.0 | 45.0 |

# 4. The Strategy for 2024/25

The strategy in 2024/25 was to continue lending to UK banks, building societies, money market funds and Local Authorities and allow investments with non-UK banks with a credit rating greater than AA- with a AAA Country rating. Only UK banks that met credit rating criteria ("BBB" or above for longer term deals, and F3 or above for short term deals) were on the Council's lending list. (These are Fitch definitions of ratings). Not all building societies are credit rated but this did not preclude them from the lending list as lending to a building society was dependant on their asset size. Where a society did have a rating, this was considered at the time of the deal taking into account the amount of investment and the length of the deal.

### 4.1 Investment strategy and control of interest rate risk

Investment returns remained robust throughout 2024/25 with Bank Rate reducing steadily through the course of the financial year (three 0.25% rate cuts in total), and even at the end of March the yield curve was still relatively flat, which might be considered unusual as further Bank Rate cuts were expected in 2025/26.

Bank Rate reductions of 0.25% occurred in August, November and February, bringing the headline rate down from 5.25% to 4.5%. Each of the Bank Rate cuts occurred in the same month as the Bank of England publishes is Quarterly Monetary Policy Report, therein providing a clarity over the timing of potential future rate cuts.

As of early April 2025, market sentiment has been heavily influenced of late by President Trump's wide-ranging trade tariffs policy. Commentators anticipate a growing risk of a US recession, whilst UK GDP is projected by the Office for Budget Responsibility to remain tepid, perhaps achieving 1% GDP growth in 2025/26.

Looking back to 2024/25, investors were able to achieve returns in excess of 5% for all periods ranging from 1 month to 12 months in the spring of 2024 but by March 2025 deposit rates were some 0.75% - 1% lower. Where liquidity requirements were not a drain on day-to-day investment choices, extending duration through the use of "laddered investments" paid off.

That is not to say that investment choices were straight-forward. Concerns over rising inflation after the Autumn Statement in October led to reduced expectations for Bank Rate to fall. Indeed, the CPI measure of inflation is expected to reach c3.75% by the autumn of 2025, which could provide for some presentational issues for a Bank whose primary mandate is to ensure inflation is close to 2% on a two-to-three-year timeframe. At the end of March, only two further rate cuts were priced into the market for 2025 (4% at December 2025). A week later and sentiment has changed dramatically in the wake of the equity market sell-off to the extent that markets now expect three Bank Rate reductions between May and December 2025 (Bank Rate to fall to 3.75%).

### 4.2 Borrowing strategy and control of interest rate risk

The policy of avoiding new borrowing by running down spare cash balances which has served well over the last few years continued during 24/25.

Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2024/25. Bank Rate did peak at 5.25% as anticipated, but the initial expectation of significant rate reductions did not transpire, primarily because inflation concerns remained elevated. Forecasts were too optimistic from a rate reduction perspective, but more recently the forecasts, updated from November 2024 onwards, look more realistic.

At the start of April 2025, following the introduction of President Trump's trade tariffs policies, the market now expects Bank Rate to fall to 3.75% by the end of December 2025, pulling down the 5- and 10-year parts of the curve too.

This should provide an opportunity for greater certainty to be added to the debt portfolio, although a significant fall in inflation will be required to underpin any material movement lower in the longer part of the curve.

| MUFG Corporate Markets Interest Rate View 05.02.24 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 |
| BANK RATE | 5.25 | 5.25 | 4.75 | 4.25 | 3.75 | 3.25 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 3 month ave earnings | 5.30 | 5.30 | 4.80 | 4.30 | 3.80 | 3.30 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 6 month ave earnings | 5.20 | 5.10 | 4.60 | 4.10 | 3.70 | 3.30 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 |
| 12 month ave earnings | 5.00 | 4.90 | 4.40 | 3.90 | 3.60 | 3.20 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | 3.20 | 3.20 |
| 5 yr PWLB | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 3.80 | 3.70 | 3.60 | 3.60 | 3.50 | 3.50 | 3.50 |
| 10 yr PWLB | 4.70 | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 3.90 | 3.80 | 3.70 | 3.70 | 3.70 | 3.70 |
| 25 yr PWLB | 5.20 | 5.10 | 4.90 | 4.80 | 4.60 | 4.40 | 4.30 | 4.20 | 4.20 | 4.10 | 4.10 | 4.10 | 4.10 |
| 50 yr PWLB | 5.00 | 4.90 | 4.70 | 4.60 | 4.40 | 4.20 | 4.10 | 4.00 | 4.00 | 3.90 | 3.90 | 3.90 | 3.90 |

## 5. Borrowing Outturn

**Borrowing**
No new borrowing was undertaken during the year

**Borrowing in advance of need**
The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

**Rescheduling**
No rescheduling was done during the year as the approximate 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

**Repayments**
£22K of PWLB loans were repaid during the year, as they became due.
balances.

## 6. Investment Outturn

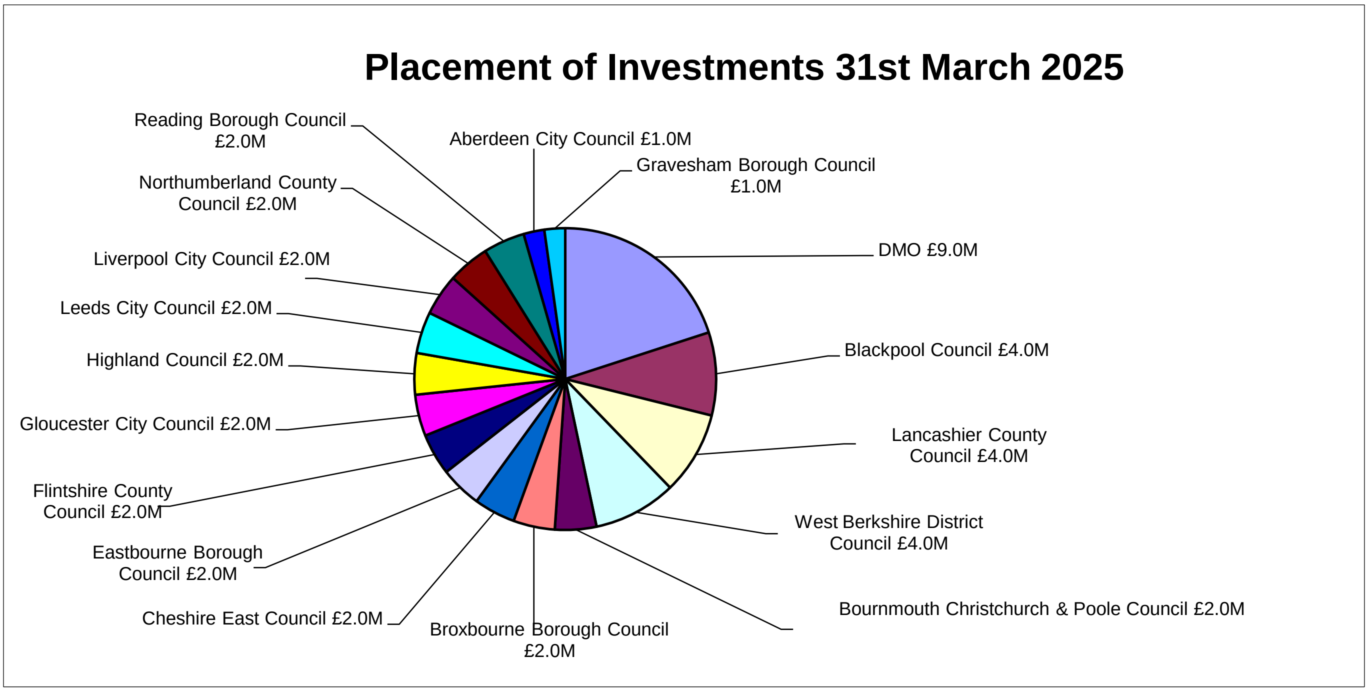
**Investment Policy** – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council in February 2024. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties. However, the £5M combined limit on the Council's Current Account and Call Account was exceed on 20th March for one day. The combined total on both accounts was £10.9M. The Treasury Officer had to take emergency leave on the day so the planned deals were actioned the following morning. This occurred on the same day as other leave in the team.

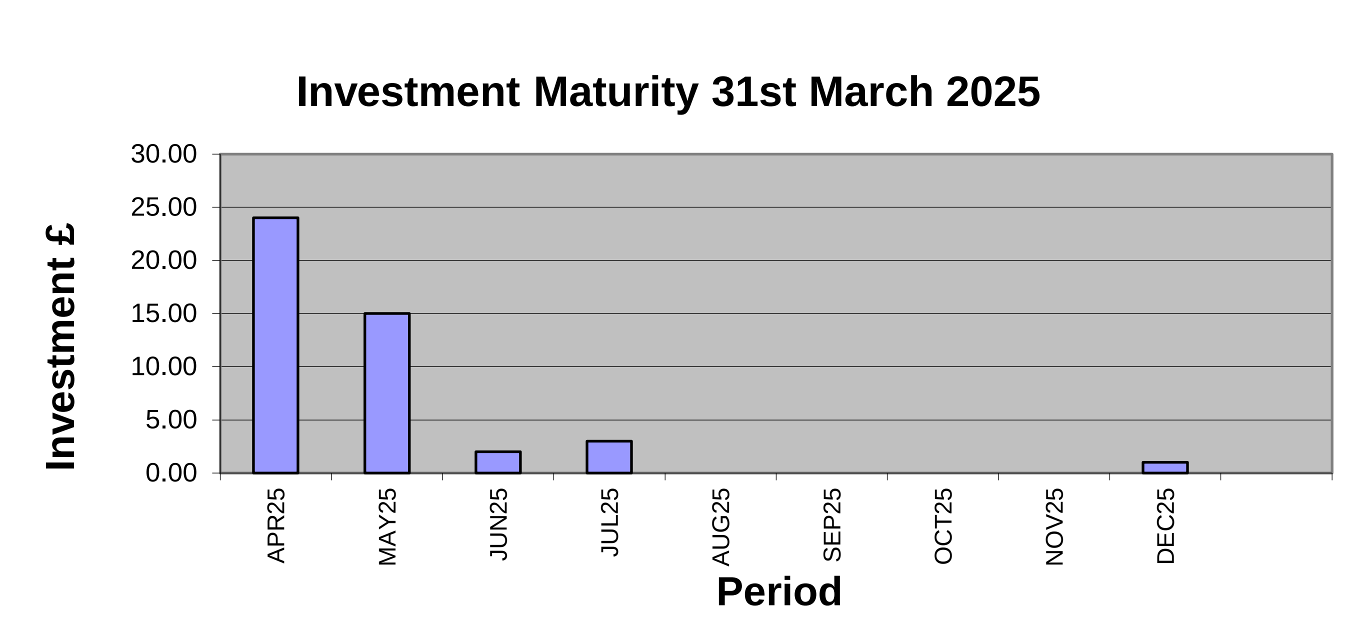
**Investments held by the Council**

- The Council maintained an average Investment balance of £57.3M during the year.
- Total investment income for the year was £2.983M
- Average Interest rate for the year was 5.17%

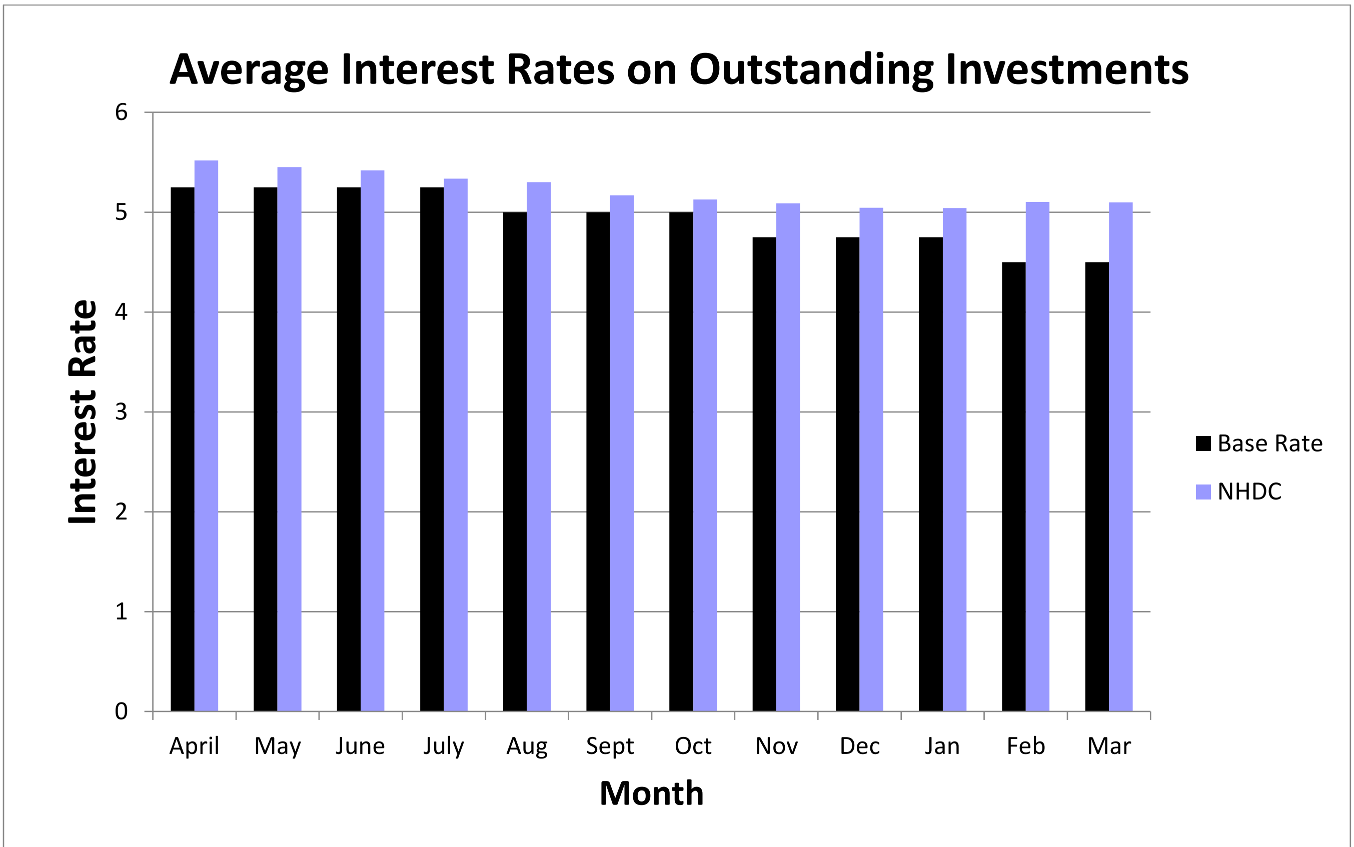
The pie chart below shows the spread of investment balances as at 31 March 2025. This is a snapshot in time that demonstrates the diversification of investments.




The graph below shows the maturity profile of investments at 31st March 2025.




The graph below shows the average interest rates on outstanding Investments at month end throughout the year.




The level of risk of any investment will be affected by the riskiness of the institution where it is invested and the period that it is invested for. Where an institution has a credit rating this can be used to measure its riskiness. This can be combined with the period remaining on the investment to give a historic risk of default percentage measure. The table below shows the Historic Risk of Default for outstanding investments at 31 March. The most risky investment still has a risk of default of only around 0.015%. It should also be noted that in general the interest rate received is correlated to the risk, so the interest income received would be less if it took on less risk. All investments have been made in accordance with the Investment Strategy. The risk of default is also affected by the length of the investment.

| Borrower | Interest Rate % | Principal | Days to Maturity from 31/03/25 | Risk of Default % | Expected Credit Loss £ |
|---|---|---|---|---|---|
| DMO | 4.45 | 9,000,000 | 1 | 0.000 | 0 |
| Lancashire County Council | 5.05 | 1,000,000 | 7 | 0.000 | 0 |
| Reading Borough Council | 4.75 | 2,000,000 | 7 | 0.000 | 0 |
| Blackpool Council | 4.75 | 3,000,000 | 24 | 0.001 | 0 |
| Gravesham Borough Council | 5.20 | 1,000,000 | 25 | 0.001 | 0 |
| Leeds City Council | 5.05 | 2,000,000 | 25 | 0.001 | 0 |
| Gloucester City Council | 5.70 | 3,000,000 | 30 | 0.002 | 0 |
| Lancashire County Council | 5.20 | 3,000,000 | 30 | 0.002 | 0 |
| Highland Council | 5.10 | 2,000,000 | 36 | 0.002 | 0 |
| Blackpool Council | 5.70 | 1,000,000 | 39 | 0.002 | 0 |
| Bournemouth, Christchurch & Pool Council | 4.80 | 2,000,000 | 42 | 0.003 | 0 |
| Eastbourne Borough Council | 5.75 | 2,000,000 | 42 | 0.003 | 0 |
| Cheshire East Council | 5.20 | 2,000,000 | 52 | 0.003 | 0 |
| West Berkshire District Council | 4.95 | 2,000,000 | 52 | 0.003 | 0 |
| Flintshire Council | 5.80 | 2,000,000 | 57 | 0.003 | 0 |
| West Berkshire District Council | 5.10 | 2,000,000 | 59 | 0.004 | 0 |
| Northumberland County Council | 4.85 | 2,000,000 | 79 | 0.005 | 0 |
| Broxbourne Borough Council | 5.70 | 1,000,000 | 98 | 0.006 | 0 |
| Liverpool City Council | 4.85 | 2,000,000 | 120 | 0.007 | 0 |
| Aberdeen City Council | 5.50 | 1,000,000 | 254 | 0.015 | 0 |
| **Total** | **5.1** | **45,000,000** | | **0.002** | **0** |

Under IFRS 9, the Code does not recognise a loss allowance where the counterparty is central government or a local authority since relevant statutory provisions prevent default.