

### Treasury Management – 2024/25 End of Year review

#### 1 Introduction & Background

- 1.1 This appendix provides a review of treasury management activity for the second half of 2024/25 as required by the Treasury Management Code. It reports the performance against the Treasury Management Strategy and key Prudential and Treasury Indicators for the second half of the year.
- 1.2 The 2024/25 Treasury Management Strategy Statement (TMSS), which includes the Annual Investment Strategy (AIS), was approved by Budget, Strategy, Finance & City Regeneration Committee on 8 February 2024 and full Council on 22 February 2024 as part of the Budget Report. The Treasury Management Strategy sets out the role of Treasury Management, the strategy for Treasury Management activity in 2024/25, and the key parameters and indicators for investing council cash balances and undertaking borrowing for the year.
- 1.3 The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Effective cash flow planning enables surplus monies to be invested in counterparties (financial institutions) or financial instruments commensurate with the council's risk appetite, providing adequate cash availability (liquidity) is maintained.
- 1.4 The second main function of the treasury management service is the funding of the council's capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer-term cash flow planning, to ensure that the council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn on may be restructured to meet the council's risk or cost objectives.
- 1.5 The Chartered Institute of Public Finance & Accountancy (CIPFA) defines treasury management as:

“The management of the local authority's borrowing, 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 Economic Background

- 2.1 The expectation for interest rates when the 2024/25 Treasury Management Strategy was set, based on external advice, was that Base Rate had peaked, and a number of rate reductions were forecast during the year. However, concerns of elevated inflation and wider economic uncertainty meant that cuts were not as fast and deep as previously forecast. The expectation is that the Bank of England Base Rate will continue to be reduced steadily further during 2025/26.
- 2.2 A full summary of the economic background for 2024/25 has been provided by the council's treasury management advisors, MUFG Corporate Markets (MUFG - formerly Link Asset Services), at **Annex 2**.

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### 3 Treasury Management Activity

3.1 Within the year, the council complied with its legislative and regulatory requirements with regards to treasury management. A summary of the actions taken in the 6 months to March 2025 is provided within this appendix. The main points are:

- Investment balances have continued to reduce as the council maintains a strategy to maximise internal reserves and balances to temporarily finance the borrowing need in the capital programme.
- The highest risk indicator on investments during the period was 0.006% which is below the maximum benchmark of 0.050%.
- The return on investments has slightly exceeded the benchmark rates for the period.
- The council entered into two tranches of new HRA PWLB borrowing totalling £60m in the last 6 months of 2024/25 in response to interest rate reductions to reduce the HRA under-borrowing position.
- The two borrowing limits approved by full Council have not been exceeded.
- The Annual Investment Strategy parameters have been met throughout the 6-month period.

3.2 The following table summarises the treasury activity in the half year to March 2025 compared to the corresponding period in the previous year. The final column shows the full year activity for 2024/25.

<b>Treasury Activity</b>	<b>Oct - Mar 2022/23</b>	<b>Oct - Mar 2023/24</b>	<b>Oct - Mar 2024/25</b>	<b>Full Year 2024/25</b>
Long-term borrowing raised (General Fund)	(£0.0m)	(£0.0m)	(£0.0m)	(£0.0m)
Long-term borrowing raised (HRA)	(£0.0m)	(£0.0m)	(£60.0m)	(£60.0m)
Long-term borrowing repaid (General Fund)	£5.3m	£4.2m	£0.6m	£7.2m
Long-term borrowing repaid (HRA)	£5.4m	£4.2m	£0.0m	£7.0m
Short-term borrowing (raised)/repaid	(£0.5m)	(£25.0m)	(£1.0m)	£18.0m
Investments made	£314.9m	£334.6m	£375.2m	£710.3m
Investments maturing	(£397.4m)	(£407.0m)	(£374.7m)	(£765.6m)

3.3 The Financing Costs budget variance in 2024/25 was a £1.131m underspend. This is primarily due to lower than anticipated borrowing costs where the council has maintained a strategy to utilise internal borrowing as much as possible, as well as investment rates being greater than anticipated as Base Rate reductions were not as fast and deep as previously forecast. In addition, the council recognised one-off interest payable of £0.413m relating to an external loan that became payable during the year.

3.4 The table below summarises how the day-to-day cash flows in the second half-year have been funded compared to the same period in the previous two years, with the final column showing the full year cashflows for 2024/25. There has been a significant reduction in investment balances over the last three years mainly because of a significant increase in under-borrowing, using the council's own internal reserves and balances to temporarily finance the borrowing need in the capital programme. In addition, the council has undertaken long-term PWLB borrowing in the year to reduce the HRA under-borrowing position in response to interest rates reductions and reducing cash balances.

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	Oct - Mar 2022/23	Oct - Mar 2023/24	Oct - Mar 2024/25	Full Year 2024/25
<b>Net cash flow (shortage)/surplus</b>	<b>(£72.1m)</b>	<b>(£88.0m)</b>	<b>(£57.0m)</b>	<b>(£77.5m)</b>
Represented by:				
Increase/(reduction) in long-term borrowing	(£10.7m)	(£8.4m)	£59.4m	£45.9m
Increase/(reduction) in short-term borrowing	£0.5m	£25.0m	(£1.4m)	(£23.9m)
Reduction/(increase) in investments	£82.5m	£73.4m	(£0.5m)	£55.3m
Reduction/(increase) in bank balance	(£0.2m)	(£1.0m)	(£0.5m)	£0.2m

### 4 Investment Strategy

- 4.1 All parameters in the Annual Investment Strategy have been complied with in full.
- 4.2 No new counterparties have been added to the approved counterparty list during the year.
- 4.3 A summary of investments made by the in-house team and outstanding as at 31 March 2025 is set out in the table below and shows that investments continue to be held in good quality, short-term instruments in line with the approved strategy.

<b>Summary of Investments as at 31 March 2025</b>		
'AAA' rated money market funds	£11.7m	37%
'AA' rated institutions*	£0.0m	0%
'A' rated institutions	£10.7m	34%
'BBB' rated institutions	£0.0m	0%
Unrated Funds	£9.3m	29%
<b>Total</b>	<b>£31.7m</b>	<b>100%</b>
Period – less than one week	£21.1m	67%
Period – between one week and one month	£5.6m	18%
Period – between one month and three months	£0.0m	0%
Period – between three months and 1 year	£0.0m	0%
Period – more than 1 year**	£5.0m	15%
<b>Total</b>	<b>£31.7m</b>	<b>100%</b>

\* For the purposes of this analysis, other Local Authorities are assumed to have the same credit rating as the UK government (AA).

\*\* All investments that are over one year either have a legal offset against debt with the same counterparty, or are with other Local Authorities.

### **Risk**

- 4.4 As part of the investment strategy for 2024/25 the council agreed a maximum risk benchmark of 0.05% i.e. there is a 99.95% probability that the council will get its investments back. The benchmark is a simple target that measures risk based on the financial standing of counterparties and length of each investment based on historic default rates. The actual risk indicator has varied between 0.001% and 0.006% between October 2024 and March 2025, reflecting the high proportion of investments held in high security and/or very liquid investments. It should be remembered however that the benchmark is an 'average risk of default' measure and does not constitute an expectation of loss for any particular investment.

Investment Risk benchmark	0.050%
Maximum investment risk experienced Oct - Mar	0.006%

- 4.5 The treasury management service is subject to a detailed audit on a regular basis. This includes the testing of the control environment and the management of risk. A

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‘substantial’ level of assurance was provided during the most recent audit in January 2025, meaning that controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

### **Investment Performance**

- 4.6 The council’s investment portfolio (adjusted for pooled funds) achieved an average rate of 4.70% over the last six months of the year against a benchmark rate of 4.68% for the same period. The investments performance has therefore outperformed the SONIA benchmark rate by 0.02%, as investment balances have been largely maintained in liquidity MMFs where there is usually a timing lag of the reducing Base Rate being reflected in yields.
- 4.7 The following table summarises the performance achieved on investments compared to the approved benchmark for the whole year.

<b>Investment Performance</b>	<b>Apr - Sept 2024/25</b>	<b>Oct - Mar 2024/25</b>	<b>Full Year 2024/25</b>
Average Investment Rate	5.21%	4.70%	5.04%
SONIA Benchmark Rate	5.12%	4.68%	4.90%
Performance Against Benchmark Rate	+0.09%	+0.02%	+0.14%

- 4.8 Since Base Rates peaked at 5.25%, there have been several Base Rate reductions, with the latest being a reduction to 4.50% in February 2025. The transition to a falling rate environment, combined with significantly reduced liquid balances has prompted the decision not to place any long-term investments during the period. The current priority for officers is to maintain sufficient liquidity to allow the council to limit external borrowing whilst rates continue to fall.
- 4.9 The Royal London (RLAM) short dated funds total return (capital and revenue combined) was 6.20% for the year to March 2025. The value of the investment as at 31 March 2025 was £9.284m, which presents a reduction of capital value compared to an initial investment of £10.000m. This reduction of capital value is not a reduction in the worth of the individual assets in the fund but reflects a “marked to market” valuation of the funds at the end of each month, declining due to the steep rise in interest rates from December 2021. Capital valuations have improved by 0.97% since 31 March 2024; a trend that is expected to continue now that the Base Rate has peaked and continues to fall.

## **5 Borrowing**

- 5.1 The council operates separate debt portfolios for the General Fund and the HRA following the introduction of the HRA Self-Financing regime in 2012. The table below shows the Council’s total external borrowing and average rates as at 31 March 2025, split between the General Fund and the HRA.

	<b>General Fund Borrowing</b>	<b>HRA Borrowing £m</b>	<b>Total Borrowing</b>	<b>Average Rate</b>
PWLB	£144.5m	£236.0m	£380.5m	2.97%
Market Loans	£16.3m	£18.7m	£35.0m	4.33%
<b>Long-term borrowing</b>	<b>£160.8m</b>	<b>£254.7m</b>	<b>£415.5m</b>	<b>3.08%</b>
<b>Average rate of long-term borrowing</b>	<b>3.00%</b>	<b>3.14%</b>	<b>3.08%</b>	
Short-term borrowing	£5.0m	£0.0m	£5.0m	6.10%
<b>Total Borrowing</b>	<b>£165.8m</b>	<b>£254.7m</b>	<b>£420.5m</b>	<b>3.12%</b>

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- 5.2 MUFG had been forecasting that interest rates had peaked and would begin to fall during 2024/25. Therefore, new long-term borrowing for both the General Fund and the HRA had been avoided over the last two years with the borrowing need for the capital programme being met by using existing cash balances and short-term borrowing from other local authorities until long-term rates start reducing.
- 5.3 In response to interest rate reductions and falling cash balances to support the under-borrowing position, the council undertook new long-term PWLB borrowing of £60m during 2024/25 towards the HRA under-borrowing position. This borrowing was undertaken in two tranches to mature in 2025/26 and 2026/27, to enable refinancing when borrowing rates are expected to reduce further.
- 5.4 The General Fund capital outturn includes projects funded by borrowing of £26.7m compared to an original estimate of £50.0m and the HRA Capital Outturn includes projects funded by borrowing of £43.2m compared to an original estimate of £62.0m.
- 5.5 The Capital Financing Requirement (CFR) for both the General Fund and HRA are shown in the table below.

<b>General Fund Capital Financing Requirement (CFR) – Underlying Borrowing requirement</b>	<b>Original Estimate 2024/25</b>	<b>Actual 2024/25</b>
Opening General Fund CFR	£237.0m	£233.6m
In year borrowing requirement	£50.0m	£26.7m
Minimum Revenue Provision	(£11.0m)	(£10.5m)
<b>Closing General Fund CFR</b>	<b>£276.0m</b>	<b>£249.8m</b>
<b>GF External Long-term Borrowing as at 31 March 2025</b>		<b>£160.8m</b>
<b>GF Under-borrowing as at 31 March 2025</b>		<b>£89.0m</b>
<b>HRA Capital Financing Requirement (CFR) – Underlying Borrowing requirement</b>	<b>Original Estimate 2024/25</b>	<b>Actual 2024/25</b>
Opening HRA CFR	£239.0m	£242.0m
In year borrowing requirement	£62.0m	£43.2m
Minimum Revenue Provision	£0.0m	£0.0m
<b>Closing HRA CFR</b>	<b>£301.0m</b>	<b>£285.2m</b>
<b>HRA External Long-term Borrowing as at 31 March 2025</b>		<b>£254.7m</b>
<b>HRA Under-borrowing as at 31 March 2025</b>		<b>£30.5m</b>

- 5.6 The overall under-borrowing position of the council as at 31 March 2025 is £119.5m. The table below highlights an increase of £13.4m compared to the previous financial year, due to an increase in the council's CFR partly offset by an net increase in the external long-term borrowing position. The increase in internal borrowing has been supported by reducing the Council's investment balances during the year.

<b>Under-borrowing as at 31 March 2025</b>	<b>2023/24</b>	<b>2024/25</b>
Total CFR	£475.7m	£535.0m
Less: External long-term borrowing	(£369.6m)	(£415.5m)
<b>Total Under-borrowing</b>	<b>£106.1m</b>	<b>£119.5m</b>

- 5.7 Short-term borrowing of £5.0m was undertaken in March 2025 from another Local Authority to fund temporary reductions in liquid cash at the financial year end, when

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cash balances are usually at their lowest. The short-term borrowing was undertaken at a rate of 6.10%. This rate reflects a particularly high demand for short-term borrowing between Local Authorities in March; Local Authorities tend to have very similar cash flow patterns, additionally many Local Authorities are utilising very similar strategies of avoiding long-term borrowing. This short-term borrowing was repaid during April 2025 to minimise the borrowing cost.

- 5.8 The table below shows that the Council has complied with the Operational Boundary and Authorised Borrowing Limits set within the Treasury Management strategy.

<b>Borrowing Limits</b>	<b>Operational Boundary</b>	<b>Authorised Borrowing Limit</b>
Limit set for 2024/25	£630.0m	£680.0m
Less: PFI & Leases	£44.0m	£44.0m
Limit for Underlying Borrowing	£586.0m	£636.0m
<b>Actual External Borrowing at 31 March 2025</b>	<b>£420.5m</b>	<b>£420.5m</b>
<b>Headroom*</b>	<b>£165.5m</b>	<b>£215.5m</b>

*\*Authorised Borrowing headroom cannot be less than zero*

- 5.9 The maturity profile of the Authority's borrowing has complied with the limits set within the strategy. There has been an increase in the borrowing with maturity between 12 months to 2 years relating to the new borrowing undertaken in year to enable refinancing when borrowing rates are expected to reduce further.

<b>Maturity Structure of borrowing</b>	<b>Lower Limit set</b>	<b>Upper Limit set</b>	<b>Actual as at 31 March 2025</b>
Under 12 Months	0%	40%	8%
12 months to 2 years	0%	40%	10%
2 years to 5 years	0%	50%	2%
5 years to 10 years	0%	75%	4%
Over 10 years	40%	100%	76%

## 6 Treasury Advisors

- 6.1 Officers recognise that responsibility for decisions remains with the organisation at all times and ensure that undue reliance is not placed upon external service providers and advisers. However, it is recognised that there is value in employing external providers of treasury management services in order to access specialist skills and resources.

## 7 Member Training

- 7.1 It is a requirement of CIPFA's Treasury Management code to ensure that the members responsible for decision making and scrutiny of the authority's TMSS are adequately trained to undertake their roles in this area.
- 7.2 Treasury Management training was last provided in January 2024. This was offered to all members and is currently available on the Members section of the Learning Zone.

### Annex 1 – Glossary of Terms

**Authorised Borrowing Limit:** The limit for which the council's external borrowing cannot breach. This limit is set by Council as part of the budget each year. This needs to be approved by Council to amend in the year if required.

**Capital Financing Requirement (CFR):** The council's cumulative need to borrow to support its capital programme. This increases each year by capital expenditure where existing funding streams (such as reserves, capital receipts, grants or revenue contributions) have not been applied (which is also known as funding through borrowing). The Council must make an annual minimum revenue provision (MRP) which reduces the CFR.

**Credit Ratings:** The council uses the credit ratings for counterparties provided by the three main credit ratings agencies (Moody's, Fitch and Standard & Poor) to determine how much and for how long the council can lend to them. The highest credit rating as described in the strategy is AAA, and the lowest credit rating that the council is willing to lend to is BBB.

**Debt Maturity Profile:** The timeline over which the council has to repay its debt. A smooth profile is preferable, as small, regular repayments reduce the risk of having to replace a lot of debt at a time when it may not be the optimum market conditions.

**Lender Option Borrower Option (LOBO) Loans:** Loans held with market lenders (such as banks), where lenders hold the right to increase the interest rate on the loans at set intervals during the loan. The council has the right to repay the loans without penalty if the lender chooses to increase the interest rate.

**Marked to Market:** An accounting method of measuring the fair value of investments at a point in time by valuing the investment under prevailing market conditions.

**Minimum Revenue Provision (MRP):** A statutory provision that the council sets aside from revenue to reduce its CFR. This has the impact of setting aside the cash to repay any debt incurred as a result of funding the capital programme by borrowing.

**Operational Boundary:** A limit set by Council as part of the budget each year. Whilst the Authorised Limit cannot be breached, the operational boundary is the expected level at which external debt will reach, taking into account current levels of debt, maturing debt that may need replacing and capital plans for the forthcoming year.

**PWLB Loans:** Loans held with the Public Works Loans Board. This is the primary lender for Local Authorities, and the PWLB forms part of the Debt Management Office (DMO) within the HM Treasury department of Central Government.

**Risk Benchmark:** An indicator used to monitor the perceived level of risk within the council's investment portfolio.

**Under-borrowing:** (also known as internal borrowing) The difference between the council's CFR and actual level of debt, where the actual debt is lower than the CFR. This

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occurs when council uses cash from its own reserves to temporarily fund capital expenditure.

**SONIA:** Sterling Over Night Index Average – A benchmark rate calculated and administrated by the Bank of England. This rate effective replaces LIBOR from 1 January 2022 as the key benchmark rate in the UK. The calculation of SONIA 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 institutional investors.



### Annex 2 – Economic Overview

#### Provided by Link Asset Services – April 2025

UK inflation has proved somewhat stubborn throughout 2024/25. Having started the financial year at 2.3% y/y (April), the CPI measure of inflation briefly dipped to 1.7% y/y in September before picking up pace again in the latter months. The latest data shows CPI rising by 2.8% y/y (February), but there is a strong likelihood that figure will increase to at least 3.5% by the Autumn of 2025.

Against that backdrop, and the continued lack of progress in ending the Russian invasion of Ukraine, as well as the potentially negative implications for global growth as a consequence of the implementation of US tariff policies by US President Trump in April 2025, Bank Rate reductions have been limited. Bank Rate currently stands at 4.5%, despite the Office for Budget Responsibility reducing its 2025 GDP forecast for the UK economy to only 1% (previously 2% in October).

Moreover, borrowing has becoming increasingly expensive in 2024/25. Gilt yields rose significantly in the wake of the Chancellor's Autumn Statement, and the loosening of fiscal policy, and have remained elevated ever since, as dampened growth expectations and the minimal budget contingency (<£10bn) have stoked market fears that increased levels of borrowing will need to be funded during 2025.

The table below provides a snapshot of the conundrum facing central banks: inflation pressures remain, labour markets are still relatively tight by historical comparisons, and central banks are also having to react to a fundamental re-ordering of economic and defence policies by the US administration.

	UK	Eurozone	US
Bank Rate	4.50%	2.5%	4.25%-4.5%
GDP	0.1%q/q Q4 (1.1%y/y)	+0.1%q/q Q4 (0.7%y/y)	2.4% Q4 Annualised
Inflation	2.8%y/y (Feb)	2.3%y/y (Feb)	2.8%y/y (Feb)
Unemployment Rate	4.4% (Jan)	6.2% (Jan)	4.1% (Feb)

The Bank of England sprung no surprises in their March meeting, leaving Bank Rate unchanged at 4.5% by a vote of 8-1, but suggesting further reductions would be gradual. The Bank of England was always going to continue its cut-hold-cut-hold pattern by leaving interest rates at 4.50% but, in the opposite of what happened at the February meeting, the vote was more hawkish than expected. This suggested that as inflation rises later in the year, the Bank cuts rates even slower, but the initial impact of President Trump's tariff policies in April 2025 on the financial markets underpin our view that the Bank will eventually reduce rates to 3.50%.

Having said that, the Bank still thinks inflation will rise from 2.8% in February to 3¾% in Q3. And while in February it said "inflation is expected to fall back thereafter to around the 2% target", this time it just said it would "fall back thereafter". That may be a sign that the Bank is getting a bit more worried about the "persistence in domestic wages and prices, including from second-round effects". Accordingly, although we expect a series of rate cuts over the next year or so, that does not contradict the Bank taking "a gradual and careful" approach to cutting rates, but a tepid economy will probably reduce inflation further ahead and prompt the Bank to cut at regular intervals.

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From a fiscal perspective, the increase in businesses' national insurance and national minimum wage costs from April 2025 is likely to prove a headwind, although in the near-term the Government's efforts to provide 300,000 new homes in each year of the current Parliament is likely to ensure building industry employees are well remunerated, as will the clamp-down on immigration and the generally high levels of sickness amongst the British workforce. Currently wages continue to increase at a rate close to 6% y/y. The MPC would prefer a more sustainable level of c3.5%.

As for equity markets, the FTSE 100 has recently fallen back to 7,700 having hit an all-time intra-day high 8,908 as recently as 3rd March. The £ has also endured a topsy-turvy time, hitting a peak of \$1.34 before dropping to \$1.22 in January and then reaching \$1.27 in early April 2025.