REPORT TO COUNCIL

Date of Meeting: 10 June 2025

Report of: Strategic Director of Corporate Resources & s151 Officer

Title: Treasury Management 2024/25

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 To report on the current Treasury Management performance for the 2024/25 financial year and the position regarding investments and borrowings at 31 March 2025. The report is a statutory requirement and is for information only with no key decisions required.

2. Recommendations:

2.1 It is recommended that Council notes the content of this report.

3. Reasons for the recommendation:

3.1 It is a statutory requirement for the Council to publish regular reports on Treasury Management to Council. This includes an annual Treasury Management Strategy and half yearly report and a year-end report as a minimum.

4. What are the resource implications including non financial resources

4.1 The report is an update on the overall performance in respect of treasury management for the 2024/25 financial year. Therefore, there are no financial or non-financial resource implications.

5. Section 151 Officer comments:

5.1 Whilst the Council has undertaken some short-term borrowing and base rate is falling, the impact is not being seen in Government borrowing rates which remain high. This is being mirrored in Local authority lending and borrowing meaning that the Council has actually generated a better interest position than it budgeted for. This has been shared across the General Fund and HRA. The General Fund's repayment of debt was also slightly lower reflecting a smaller repayment required for the vehicle lease. At present interest rates remain high with 50-year funds attracting a rate of 6.19% (5.50% for the HRA) meaning every £1m borrowed would cost the Council £65,000 a year.

6. What are the legal aspects?

6.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Treasury Management Code of Practice recommends that members be updated on treasury management activities regularly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code. Adoption of the Code is required by regulations laid under the Local Government Act 2003.

Chapter 1 of the Act sets out capital finance and accounts requirements. Section 1 states that local authorities have the powers to borrow money for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. Sections 2 to 6 of the Act cover the duty to control borrowing and the duty to determine affordable borrowing limits. Section 12 covers the power to invest.

The Treasury Management Strategy is based on the requirements of MHCLG's Guidance on Local Government Investments and the CIPFA Treasury Management code.

This report confirms that the section 151 Officer is satisfied that Council borrowing is affordable and in accordance with the provisions of the Local Government Act 2003, the MHCLG's Guidance and CIPFA Code of Practice.

7. Monitoring Officer's comments:

7.1 This report is for Members' information. The Monitoring Officer has no additional comments.

8. Report details:

8.1 **The Economy and Interest Rates**

Forecasts from our Treasury Management advisers (MUFG Corporate Markets) at the time of approval of the Treasury Management Strategy report for 2024/25 were as follows:

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

The most recent projections from our advisers were:

MUFG Corporate Markets Interest Rate View 10.02.25													
	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28
BANK RATE	4.50	4.25	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.50	4.30	4.30	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.50	3.50	3.50
6 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.60
5 yr PWLB	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.40	4.30	4.20	4.20	4.10	4.00
10 yr PWLB	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.50	4.50	4.40	4.40
25 yr PWLB	5.80	5.70	5.60	5.50	5.40	5.30	5.20	5.10	5.00	5.00	4.90	4.90	4.80
50 yr PWLB	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.60	4.50

UK inflation has proved somewhat stubborn throughout 2024/25. Having started the financial year at 2.3% in April, the CPI measure of inflation briefly dipped to 1.7% in September before picking up pace again in the latter months. February data showed CPI rising by 2.8%, 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. As of 31st March, the Bank Rate stood 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). The Bank Rate has since been reduced to 4.25%

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 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%.

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.

8.2 **Treasury Management Strategy Statement**

The Council approved the 2024/25 Treasury Management Strategy at its meeting on 20th February 2024. The Council's stated investment strategy was to continue to hold small surplus funds and to seek to utilise its Call Accounts, Money Market Funds, use the Government's Debt Management Office and use short-dated deposits which would be placed with Local Authorities, Banks or Building Societies which are on the Council's counterparty list.

The Council's stated borrowing strategy was to defer long-term borrowing and to reduce the size of the Council's investment balance instead, however some targeted long-term borrowing can be undertaken where the costs will be offset against future income streams.

The Council is currently maintaining an under-borrowed position; so, the actual borrowings of the Council are below the Council's borrowing requirement, as it has taken advantage of internal borrowings. This means that the Council's borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure instead of borrowing at elevated levels.

During the year £10m was borrowed from PWLB for 1 year to support working balances. This will need to be re-financed over a longer period when long-term borrowing rates have reduced.

8.3 **Investments**

A number of Money Market Funds have been set up by the Council, which also allow immediate access to our funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.

<u>Property Funds</u>

The Council has made two investments, totalling £5m, in the CCLA – LAMIT property fund (April and November 2016). The investment in the property fund is a long-term commitment which will mean that there will be fluctuations in the return over the period of the investment.

Amount	Investment	Dividend Yield
£5,000,000	CCLA – LAMIT Property Fund	5.05%

The value of the investment as of 31 March 2025 was £4,500,103. At the end of the financial year the value of the investment in the Property Fund is adjusted to equal the number of units held multiplied by the published bid price, with the gain or loss taken to the Available for Sale Reserve. Movements in the unit price therefore have no impact on the General Fund until the investment is sold or impaired.

The Council's investments as of 31st March 2025 were:

<u>Money Market Funds</u>

Amount	Investment	Interest rate*
£9,000,000	Federated Short-Term Sterling Prime Fund	4.95%
£10,000,000	Aberdeen Standard Liquidity Fund	4.96%
£nil	CCLA - The Public Sector Deposit Fund	5.03%
£nil	Black Rock Institutional Sterling Liquidity Fund	4.90%
£19,000,000		

* Interest rate is variable, therefore rates quoted are an average of 2024/25 rates.

The Council had no Fixed Term Deposits as of 31st March 2025.

8.4 **Borrowings**

The Council's long-term borrowing is currently £163.232m (£90.988m General Fund and £72.244m HRA). In addition, during 2024/25 £10m was borrowed from PWLB for one year. Details of loans are set out below.

The Council made a one-off payment on 28 March 2012, to buy itself out of the HRA subsidy system. The final settlement figure of £56.884m was confirmed in February 2012. The amount was borrowed from the Public Works Loans Board over a 50-year period and in repayable on maturity at the end of the loan term. The interest rate was 3.48% fixed for the term of the loan.

Existing loans

Due to the costs of borrowing no further long-term PWLB loans were taken out during the year, although £10m was borrowed for 1 year to support working balances. The section 151 Officer confirms that long-term borrowing has only been undertaken for a capital purpose and that Council borrowing is affordable and in accordance with the provisions of the Local Government Act 2003 the MHCLG's Guidance and CIPFA Code of Practice.

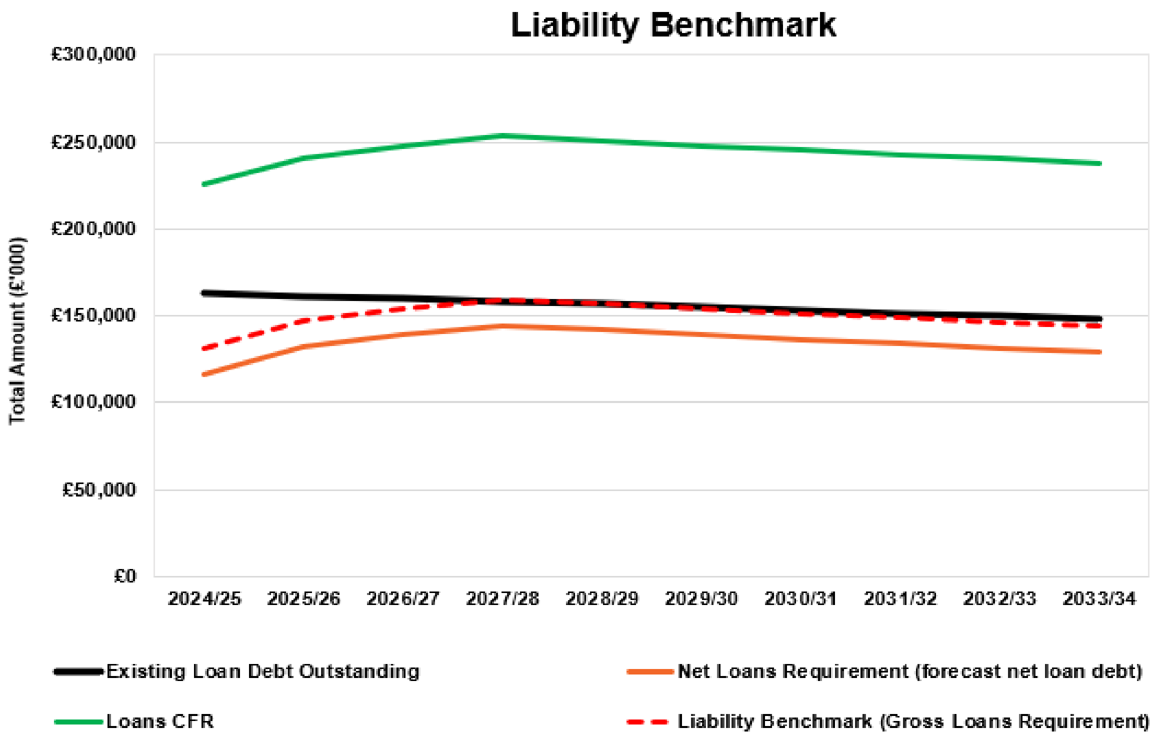
Amount as at 31/3/2025	Lender	Interest rate	End date
£56,884,000	PWLB maturity (HRA)	3.48%	28/03/2062
£1,782,267	PWLB 25-year annuity	2.34%	11/01/2044
£1,767,489	PWLB 25-year annuity	2.08%	04/04/2044
£3,956,024	PWLB 30-year annuity	1.61%	26/09/2049
£7,739,639	PWLB 35-year annuity	1.71%	26/09/2054
£33,427,926	PWLB 50-year annuity	1.80%	26/09/2069
£15,360,000	PWLB maturity (HRA)	1.31%	14/04/2070
£42,314,696	PWLB 50-year annuity	1.78%	24/12/2071
£10,000,000	PWLB 1 year maturity	4.87%	12/03/2026

8.5 **Compliance with Treasury and Prudential Limits**

During 2024/25 the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices. The approved limits within the Annual Investment Strategy set out in the TMSS were not breached during the year ended 31st March 2025.

To support the risk management of the capital financing requirement a graphical indication of the Council's borrowing liability and actual loans for the General Fund and HRA combined is shown overleaf.



8.6 **Net Interest Position**

The General Fund shows a slight improvement against the estimate for net interest payable, the position is:

	2024/25 Budget £	Outturn £	Variation £
Interest paid	1,841,500	1,899,788	58,288
Interest earned			
Temporary investment interest	(1,200,000)	(1,425,332)	(225,332)
Other interest earned	(9,500)	(9,485)	15
Science Park Loan	-	(8,569)	(8,569)
CVS Loan	(4,000)	(4,293)	(293)
Guildhall		(£54,367)	(£54,367)
Less			
Interest to HRA	1,000,000	1,085,213	85,213
Interest to deposits held	5,000	14,554	9,554
Interest to Trust Funds	10,000	31,988	21,988
Lord Mayors Charity	500	103	(397)
GF interest (received) / paid out	(198,000)	(370,189)	(172,189)
Net Interest	**1,643,500**	**1,608,159**	**(35,341)**

CCLA – LAPF Dividend	(225,000)	(252,716)	(27,716)
Net Interest after dividends	**1,418,500**	**1,276,884**	**(141,616)**

Net interest payable for 2024/25 was £142k lower than budget. An expected underspend of £33k was reported in the Treasury Management half year update to Council at its meeting on 17th December 2024.

The key reasons for the variance to budget are as follows:

Interest payable was £58k higher than budgeted. During the year it was necessary to borrow £10m from PWLB for one year to support working balances so PWLB interest was £26k higher than budgeted. The interest element of finance leases was £32k higher than budgeted, largely due to new fleet leases during the year, and on leases classified as Right of Use assets in accordance with IFRS16.

Interest rates on temporary investments and money market funds remained high and offset the reduction in cash balances. This resulted in a net £172k additional interest after paying over interest relating to the HRA and other funds held. The CCLA Property Fund yielded £28k higher than budgeted dividends.

The Housing Revenue Account (HRA) earned £1,085k interest on its balances compared with the budget of £1,000k. This is calculated on the following:

- HRA working balance.
- The balance of funds in the Major Repairs Reserve and Useable Capital Receipts

The Council borrowed £56,884k to buy itself out of the HRA subsidy scheme since the borrowing cap was lifted in October 2018, and the HRA has since borrowed a further £15,360k towards new Council housing development projects.

The HRA had approval to borrow a further £7.7m however due to currently high interest rates no external borrowing has been undertaken during 24/25 and the borrowing has been delayed to future years, so interest payable was £213k lower than the £2,394k originally budgeted for 24/25. £9k has been charged on the borrowing used to fund the Council's Own Build properties which was included in the budget.

8.7 **Repayment of debt**

Repayment of Debt	**Estimate 2024/25 £**	**Outturn £**	**Variation £**
Minimum Revenue Provision	2,531,020	2,505,261	25,759
Voluntary Revenue Provision	(700,000)	(700,000)	-
TOTAL	**1,831,020**	**1,805,261**	**25,759**

There has been a small increase in MRP compared with budget as a result of additional leases being included in compliance with IFRS 16.

8.8 **Future Position**

The approved capital programme for 2025/26 includes a borrowing requirement of £32.463m (£26.185m General Fund and £6.278m HRA). The decision of whether to take external long-term borrowing will be made in light of current and forecast interest rates and the decision is delegated to the section 151 Officer and Leader of the Council.

The short-term investments that are made through the call accounts and money market funds ensure cash can be accessed immediately. This has an ongoing impact on returns but increases the security of our cash.

The Council's four Money Market Funds, which are AAA, rated, currently offer rates circa 4.3%, but these rates are likely to be impacted with the projected further reductions in base rate during 2025/26.

We will also lend, when possible, to institutions on the Council's counterparty list which includes other Local Authorities, UK and Foreign owned banks and the Debt Management Office.

Officers will continue to liaise to treasury advisors in respect of new investment opportunities. Any decisions taken will comply with the code of practice that requires the council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. In addition to these 3 core principles the Council will also consider Environmental, Social and Governance risks in accordance with the approved Environmental, Social and Governance Policy. If an amendment to the current treasury management strategy is required, a report will be presented to committee requesting the necessary amendments.

9. How does the decision contribute to the Council's Corporate Plan?

9.1 Treasury Management supports the Council in generating additional funds for investing in Services, whilst minimising the amount of interest paid on borrowings. It does not in itself contribute to the Council's Corporate Plan.

10. What risks are there and how can they be reduced?

10.1 The council uses treasury management advisors who continually provide updates on the economic situation, interest rates and credit ratings of financial institutions. They also provide a counterparty list which details the financial institutions which meet the council's treasury management strategy.

11. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and

- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because there are no significant equality and diversity impacts associated with this decision.

12. Carbon Footprint (Environmental) Implications:

12.1 We are working towards the Council’s commitment to carbon neutral by 2030. The impact of each new investment is considered prior to approval.

13. Are there any other options?

13.1 None.

Strategic Director of Corporate Resources & s151 Officer, David Hodgson

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Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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