

ANNUAL TREASURY REPORT 2024/25

1. Background

- 1.1 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).
- 1.2 Treasury management is defined as: ‘The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.’
- 1.3 Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council’s treasury management strategy.

2.0 Economic Background

UK Economy

- 2.1 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.
- 2.2 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).
- 2.3 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.
- 2.4 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)

- 2.5 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%.
- 2.6 Having said that, the Bank still thinks inflation will rise from 2.8% in February to 3¼% 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.
- 2.7 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%.
- 2.8 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.

USA Economy

- 2.9 Despite the markets willing the FOMC to repeat the rate cut medicine of 2024 (100 basis points in total), the Fed Chair, Jay Powell, has suggested that the Fed. Funds Rate will remain anchored at 4.25%-4.5% until inflation is under control, and/or the economy looks like it may head into recession as a consequence of President Trump's tariff policies.
- 2.10 Inflation is close to 3% and annualised growth for Q4 2024 was 2.4%. With unemployment just above 4%, and tax cuts in the pipeline, the FOMC is unlikely to be in a hurry to cut rates, at least for now.

EZ Economy

- 2.11 The Eurozone economy has struggled throughout 2024 and is flat lining at present, although there is the promise of substantial expenditure on German defence/infrastructure over the coming years, which would see a fiscal loosening. France has struggled against a difficult political backdrop, but with a large budget deficit it is difficult to see any turn-around in economic hopes in the near-term.
- 2.12 With GDP currently below 1% in the Euro-zone, the ECB is likely to continue to cut rates, although the headline inflation rate is still above 2% (2.3% February 2025). Currently at 2.5%, a further reduction in the Deposit Rate to at least 2% is highly likely.

3.0 Local Context

- 3.1 During 2024/25, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2025/26 as inflation concerns are dampened.
- 3.2 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.
- 3.3 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 3.4 The Council's Capital Financing Requirement (CFR) at 31 March 2025 was £146.614m, while usable reserves and working capital which are the underlying resources available for investment were £67.764m.
- 3.5 The Council has an increasing CFR over the next 2 years of £40.1m, due to the borrowing requirement of £49.9m (GF £19.8m / HRA £30.1m) for financing the capital programme over the forecast period. The CFR reduces when Minimum Revenue Provision (MRP) are made and the repayment of debt, over the forecast period there are loans due for repayment with a combined total value of £9.788m.

4.0 **Borrowing Strategy**

4.1 Borrowing Activity in 2024/25

	Balance 1/4/24 £m	New Borrowing £m	Debt Maturing £m	Balance 31/3/25 £m
CFR	135.658			146.614
Short Term Borrowing	7.065	4.220	-3.847	7.438
Long Term Borrowing	78.397	27.000	-3.037	102.360
Total Borrowing	85.463	31.220	-6.884	109.798
Other Liabilities – Finance Lease Liability	4.864	0.000	-0.126	4.738
Total External Debt	90.327	31.220	-7.010	114.536
Increase/(Decrease) in Borrowing £000				24.209

- 4.2 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
- 4.3 The Council has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark, which also takes into account usable reserves and working capital. Having considered the appropriate duration and structure of the Council's borrowing need based on realistic projections, it was decided not to take any long term borrowing due to the high interest rates.
- 4.4 **LOBOs:** The Council holds £3.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of the £3.5m of LOBOS had options during the year, none of which were exercised by the lender.
- 4.5 **Debt Rescheduling:** The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

5.0 **Investment Activity**

- 5.1 The Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 7 March 2024. The 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.). During 2024/25 the Council's investment balances have ranged between £29.8m and £60.7m.

	Balance 1/4/24 £m	New Investments £m	Investments Redeemed £m	Balance 31/3/25 £m
Short Term Investments	21.910	190.205	-175.587	36.528
Long Term Investments	12.500	0.000	0.000	12.500
Total Investments	34.410	190.205	-175.587	49.028
Increase/(Decrease) in Investments £000				14.618

5.2 Security of capital remained the Council's main objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2024/25.

5.3 Counterparty credit quality is assessed and monitored by Link the Council's treasury advisors, with reference to credit ratings; credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. Link provide recommendations for suitable counterparties and maximum investment periods.

6.0 Compliance with Prudential Indicators

6.1 The Council has complied with its Prudential Indicators for 2024/25, which were set on 7 March 2024 as part of the Council's Treasury Management Strategy Statement.

6.2 **Interest Rate Exposure:** These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates for both borrowing and investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Approved Limit for 2024/25 %	Maximum during 2024/25 £m
<u>Fixed Rate</u>		
Borrowing	100%	99.38%
Investments	75%	16.32%
<i>Compliance with Limit</i>		Yes
<u>Variable Rate</u>		
Borrowing	20%	0.62%
Investments	100%	83.68%
<i>Compliance with Limit</i>		Yes

6.3 **Maturity Structure of Fixed Rate Borrowing.** This indicator is to limit large concentrations of fixed rate debt and control the Council's exposure to refinancing risk.

	Upper Limit %	Fixed Rate Borrowing 31/03/25 £m	Fixed Rate Borrowing 31/3/25 %	Compliance?
Under 12 months	15%	15.938	14.52%	Yes
12 months to 2 years	15%	3.000	2.73%	Yes
2 years to 5 years	30%	16.059	14.63%	Yes
5 years to 10 years	100%	23.936	21.80%	Yes
10 years and above	100%	50.865	46.33%	Yes

- 6.4 **Principal Sums Invested for over 364 Days.** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

Price Risk Indicator	Limit 2024/25	Actual 31/03/25	Compliance?
Limit on principal invested beyond year end	£15m	£12.5m	Yes

- 6.5 **Authorised Limit and Operational Boundary for External Debt.** The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The s151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2024/25.

	Approved Operational Boundary 2024/25 £m	Authorised Limit 2024/25 £m	Actual External Debt 31/03/25 £m
Borrowing – incl Finance Leases	161.972	166.972	114.536
Other Long Term Liabilities	2.000	2.000	0.000
Total	163.972	168.972	114.536

- 6.6 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary of the treasury management activity during 2024/25. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.
- 6.7 The Council also confirms that during 2024/25 it complied with its Treasury Management Policy Statement and Treasury Management Practices.