SUBJECT:	**TREASURY MANAGEMENT STEWARDSHIP AND ACTUAL PRUDENTIAL INDICATORS REPORT 2024/25 (OUTTURN)**
DIRECTORATE:	**CHIEF EXECUTIVE & TOWN CLERK**
REPORT AUTHOR:	**LAURA SHIPLEY, FINANCIAL SERVICES MANAGER**

1. Purpose of Report

1.1 The annual Treasury Management stewardship report is a requirement of the Council's reporting procedures under regulations issued under the Local Government Act 2003. It covers the treasury management 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).

2. Executive Summary

2.1 During 2024/25 the Council complied with its legislative and regulatory requirements. The key prudential indicators for the year, with comparators, are as follows:

Actual Prudential Indicators	2023/24 Actual £'000	2024/25 Actual £'000
Capital Expenditure		
General Fund	11,632	18,966
HRA	14,732	16,793
Total	**26,364**	**35,759**
Capital Financing Requirement (CFR)		
General Fund	70,846	73,407
HRA	78,935	81,446
Total CFR	**149,781**	**154,853**
Gross Borrowing		
Borrowing at 31st March	107,742	105,067
Investments		
Longer than 1 year*	0	0
Under 1 year	17,543	20,083
Total	**17,543**	**20,083**
Net Borrowing (borrowing less investments)		
Net Borrowing at 31st March	90,199	84,984

*Capital expenditure values may differ to the Financial Outturn report due to the introduction of IFRS16 whereby new leases undertaken by the Council are classified capital expenditure

Other prudential and treasury indicators are to be found in Appendix A and B. The Chief Finance Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

3. Background

3.1 The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code and the above requirements. These require that the prime objective of treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable, and sustainable basis.

3.2 One of the requirements of the Prudential Code is to ensure adequate monitoring of the capital expenditure plans, prudential indicators (PIs) and treasury management response to these plans. This report fulfils that requirement and includes a review of compliance with Treasury and Prudential Limits in 2024/25 and shows the status of the Prudential Indicators at 31st March 2025. For the 2024/25 financial year the minimum reporting requirements were that members should receive the following reports:

- an annual Treasury Management Strategy in advance of the year (Council 27h February 2024)
- a quarterly treasury update (Executive Q1 27th August 2024 & Q3 24th February 2025)
- a mid-year treasury update report (Executive 18th November 2024)
- an annual report following the year describing the activity compared to the strategy (this report)

3.3 The regulatory environment places a greater onus on members for the review and scrutiny of treasury management policy and activities than in previous years. This report is 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.

3.4 In compliance with the Prudential Code treasury management reports are scrutinised by Performance Scrutiny Committee and reviewed by the Executive prior to reporting to Full Council if required. Member training for the Performance Scrutiny and Audit Committees was undertaken on 4th February 2025 in order to support their roles in scrutinising the treasury management strategy and policies.

4. Summary of Performance against Treasury Management Strategy 2024/25

4.1 The full details of transactions in the year and performance against the Prudential Indicators are included at Appendices A and B.

4.2 Key issues to note from activity during 2024/25:

- The Council's total debt (including leases and lease-type arrangements) at 31st March 2025 was £107.286m (Appendix A section 4.4) compared with the Capital Financing Requirement of £154.583m (Appendix A section 3.5). This represents an under-borrowing position of £47.297m, which is currently being supported by internal resources. Additional long-term borrowing will be taken in future years to bring levels up to the Capital Financing Requirement, subject to liquidity requirements, if preferential interest rates are available.

- The Council's Investments at the 31st March 2025 were £19.127m (Appendix A section 4.3), which is £1.584m higher than at 31st March 2024. Average investment balances for 2024/25 were £25.313m, which was higher than estimated balances of £16m in the Medium-Term Financial Strategy 2024-29 due to higher than anticipated balances being made available through government grants. It should be noted that this refers to the principal amounts of investments held, whereas the investment values included in the balance sheet are based on fair value. In most cases, this will simply be equal to the principal invested, unless the investment has been impaired.

- Actual investment interest earned on balances was £1.131m compared to £661k estimated in the Medium-Term Financial Strategy 2024-29 (Appendix A section 9.2).

- The interest rate achieved on investments was 4.55% (5.11% in 2023/24).

4.3 **Risk Benchmarking**

The following reports the outturn position against the security and liquidity and yield benchmarks in the Treasury Management Strategy.

Security

- The average security risk gives the estimated default rate on the investment counterparties which comprise the portfolio at 31st March 2025. The Council's actual average security risk for the portfolio as at 31st March 2025 is 0.006%. This reflects a very low risk portfolio and equates to a potential financial loss of £183 on the investment portfolio of £3m using individual risk of default percentages (£16.127m of our instruments do not have a counterparty credit rating).

- Specified Investments are high security sterling investments (i.e. high credit quality) with a maturity of no more than one year. Non-specified investments are all other investments representing a potentially greater risk; however, the risk is still minimal due to the stringent controls over counterparty credit quality contained within the Investment Strategy. The 2024/25 strategy set a maximum limit of 75% of the portfolio to be held in non-specified investments. At 31st March 2025, 100% of the investment portfolio was held in specified investments. The Chief Finance Officer can report that the investment portfolio was maintained within this limit throughout the year.

Liquidity

In respect of this area the Council set liquidity benchmarks to maintain:

- Liquid short-term deposits of at least £5 million available with a week's notice.
- Weighted Average Life benchmark was expected to be 0.50 years (183 days).

The actual liquidity indicators at 31st March 2025 were as follows:

- Liquid short-term deposits of £16.127 million as at 31st March 2025.
- Weighted Average Life of the investment portfolio was 0.02 years (8 days). This reflects the changing investment landscape with a balance between maintaining cash for liquidity purposes and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended.

Yield

The Local measure of yield benchmark employed is –

- Investments – return above the SONIA o/n rate (local indicator 5)

The average SONIA o/n rate for the financial year was 4.90%, actual return on investments achieved during the year was 4.55%.

4.4 **Benchmarking**

Mitsubishi UFJ Financial Group (MUFG) are the Council's treasury management advisors who offer a benchmarking club for their clients, which the Council participate in. This is organised on a regional group basis. The group to which City of Lincoln belongs has 14 members within the East Midlands region. The following summary shows performance against the group average, Not Metropolitan districts, and the population as a whole, indicating a lower than average risk portfolio, with much lower levels of investment balances achieving a level of return in excess of similar authorities.

Investment Benchmarking	CoLC	Benchmarking Group Average	Non-Met Districts	Population Average
Principal at 31/3/25	£19,127,000	£63,541,397	£36,462,141	£73,500,114
Weighted Average rate of return at 31/3/25	4.53%	4.60%	4.67%	4.63%
Weighted average maturity at 31/3/25	8 days	84 days	75 days	67 days
Weighted average credit risk at 31/3/25	1.63	1.96	2.06	2.01

4.5 Financing costs as a percentage of net revenue stream have reduced in 2024/25 when compared with 2023/24, due to a reduction in total borrowing (the council is letting debt mature rather than refinancing while interest rates are high) in turn reducing interest expense. See Appendix A section 7.4.1.

The HRA financing costs to net revenue stream, have also reduced when compared to 2023/24.

5. Strategic Priorities

5.1 Through its Treasury Management Strategy, the Council seeks to reduce the amount of interest it pays on its external borrowing and maximise the interest it achieves on its investments in order to support the Medium-Term Financial Strategy and the delivery of the Council's Vision.

6. Organisational Impacts

6.1 Finance

The financial impacts are contained within the main body of the report and within appendices A and B.

6.2 Legal Implications including Procurement Rules

The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 (LGA 2003) and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code and the DLUCH Investment Guidance when carrying out their treasury management functions.

6.3. Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

Due to the nature of the report, no specific Equality Impact Analysis is required.

7. Risk Implications

7.1 The Local Government Act 2003, the Prudential Code and the Treasury Management Code of Practice include a key principal that an organisations appetite for risk is included in their annual Treasury Management Strategy and this should include any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing.

8. Recommendation

8.1 That Executive notes the actual prudential indicators contained within appendices A and B and recommends to Full Council for approval.

8.2 The Executive approves the annual treasury management report for 2024/25.

Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	Three Appendix A – Annual TM Report Appendix B – Local TM Indicators Appendix C – Economic Background 24-25 report
List of Background Papers:	Medium Term Financial Strategy 2024-29 & 2025-29 Prudential Indicators 2024/25 & 2025-30 Treasury Management Strategy 2024/25 & 2025-30
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Appendix A

Annual Report on the Treasury Management Service and Actual Prudential Indicators 2024/25

1. Introduction

1.1 The Council undertakes capital expenditure on long-term assets. These activities can 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.

Capital expenditure activity is regulated by the CIPFA Prudential Code, which requires actual outturn to be reported in the following areas: -

- Capital expenditure;
- Capital Financing Requirement;
- Debt;
- Ratio of financing costs to net revenue stream.

The remaining prudential indicators are included to make the annual reporting comprehensive and to comply with the requirements of the Treasury Management Code.

1.2 Part of the Council's treasury activities is to address any borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activities also include managing the Council's cash flows, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost, and then optimise performance. This area of activity is regulated by the CIPFA Code of Practice on Treasury Management.

1.3 Wider information on the regulatory requirements is shown in section 11.

2. The Council's Capital Expenditure and Financing 2024/25

2.1 This forms one of the required prudential indicators and shows total capital expenditure for the year and how this was financed.

Indicators 1&2 - Capital Expenditure	2024/25 Actual £'000	2024/25 Revised Estimate £'000	2023/24 Actual £'000
General Fund capital expenditure	18,966	22,025	11,632
HRA capital expenditure	16,793	17,411	14,732
Total capital expenditure	**35,759**	**39,436**	**26,364**
Financed by:			
Capital receipts	818	1,209	2,557
Capital grants & contributions	13,806	13,712	6,223
Direct Revenue Financing	4,052	13,672	3394
Major repairs reserve	13,042	5,683	9,645
Borrowing need	**4,041**	**5,160**	**4,545**
Total Financing	**35,759**	**39,436**	**26,364**

*Capital expenditure values may differ to the Financial Outturn report due to the introduction of IFRS16 whereby new leases undertaken by the Council are classified capital expenditure

2.2 Further details on 2024/25 Capital Expenditure and Financing can be found in the Financial Performance Outturn 2024/25 report elsewhere on the agenda.

3. The Council's Overall Borrowing Need

3.1 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position and represents 2024/25 and prior years' net capital expenditure that has not yet been charged to revenue or other resources.

3.2 Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council.

3.3 The General Fund element of the CFR is reduced each year by a statutory revenue charge (called the Minimum Revenue Provision - MRP). The total CFR can also be reduced by:

- the application of additional capital resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP) or depreciation.

3.4 The Council's MRP policy for 2025/26 was approved by Council on 27th February 2024 as part of the Prudential Indicators 2025/26 – 2027/28 and Treasury Management Strategy 2025/26

3.5 The Council's CFR for the year is shown below and represents a key prudential indicator. The CFR includes leasing schemes which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

Indicators 3 & 4 - Capital Financing Requirement (CFR)	31 March 2025 Actual £'000	31 March 2025 Revised Estimate £'000	31 March 2024 Actual £'000
CFR - General Fund			
Opening balance 1 April	72,127	74,817	68,881
Plus un-financed capital expenditure	2,969	3,711	2,832
Finance leases	-	-	-
Less MRP/VRP*	(970)	(963)	(867)
Other adjustment	-	-	-
Use of capital receipts	-	-	-
Closing balance 31 March	**74,126**	**77,565**	**70,846**
CFR - Housing Revenue Account			
Opening balance 1 April	78,935	81,650	77,222
Plus un-financed capital expenditure	1,792	1,449	1,713
Closing balance 31 March	**80,727**	**83,099**	**78,935**
Total CFR 31 March	**154,853**	**160,664**	**149,781**

4. Treasury Position at 31st March 2025

4.1 Whilst the Council's gauge of its underlying need to borrow is the CFR, the Chief Finance Officer and the treasury team manage the Council's actual borrowing position by either:

- borrowing to the CFR,
- choosing to temporarily utilise some flow funds instead of borrowing (under-borrowing)
- borrowing for future increases in the CFR (borrowing in advance of need).

4.2 It should be noted that the figures in this report are based on the principal amounts borrowed and invested and so may differ from those in the final accounts by items such as accrued interest (outstanding interest due to be paid and received as at 31st March), or where the carrying amount is based on fair values.

4.3 During 2024/25 the Chief Finance Officer managed the borrowing position to £105.067 million. The treasury position at the 31st March 2025 compared with the previous year was:

Borrowing and Investment Position	31-Mar-25		31-Mar-24	
	Principal £'000	Average Rate (full year)	Principal £'000	Average Rate (full year)
Borrowing Position				
Fixed Interest Rate Debt	105,067	3.28%	107,742	3.21%
Variable Interest Rate Debt	-	N/A	-	N/A
Total Debt (borrowing) *	**105,067**	**3.28%**	**107,742**	**3.21%**
Capital Financing Requirement (borrowing only)	154,853	N/A	149,781	N/A
Over/(under) borrowing	**(49,786)**	**N/A**	**(42,039)**	**N/A**
Investment Position				
Fixed Interest Investments	3,000	4.55%	9,000	5.65%
Variable Interest Investments	16,127	4.53%	8,543	5.30%
Total Investments **	**19,127**	**4.53%**	**17,543**	**5.47%**
Net Borrowing Position	**85,940**		**90,199**	

* Excludes local Bonds & Mortgages and other long-term liabilities (e.g. finance leases)
** The interest rate given differs from the interest rate given in Paragraph 4.4 of the main report because the rates above are for investments held at 31 March whereas the average rate of investment is for investments held during 2024/25.

4.4 The total debt position also includes other long-term liabilities such as finance leases and embedded leases within service contracts. The total debt position at 31st March 2025 was £107.286 million as shown below:

Indicator 5 - External Borrowing	31 March 2025 Actual £'000	31 March 2025 Revised Estimate £'000	31 March 2024 Actual £'000
Gross borrowing	105,067	105,067	107,742
Other long-term liabilities	2,219	0	0
Total External debt	**107,286**	**105,067**	**107,742**

The Council repaid a Local Authority loan of £2.0m upon maturity along with principal repayments on its EIP and Annuity loans. The increase in Other long-term liabilities is a result of the introduction of IFRS16 (Leases) from April 2024 whereby all leases are now accounted for on the balance sheet.

The borrowing portfolio at 31st March 2025 is shown below.

Borrowing Type	Lender	Outstanding Loans	No Of Loans	Ave Rate %
Market Loans	Barclays	10,000,000	4	4.27%
PWLB	PWLB	95,067,615	32	3.18%
Total / Ave Rate		**105,067,615**	**36**	**3.28%**

4.5 The maturity structure of the debt portfolio was as follows:

Indicator 13 - Maturity Structure of fixed borrowing	31 March 2025 Actual £'000	31 March 2025 Actual %	31 March 2024 Actual £'000
Under 12 months	1,578	2%	2,675
12 months and within 24 months	686	1%	1,578
24 months and within 5 years	9,552	9%	7,073
5 years and within 10 years	15,552	15%	15,433
10 years and above	77,700	74%	80,983
Total	**105,068**	**100%**	**107,742**

4.6 The maturity structure of the investment portfolio was as follows:

Investment Maturity Structure	31 March 2025 Actual £'000	31 March 2024 Actual £'000
Longer than 1 year	0	0
Under 1 year	19,127	17,543
Total	**19,127**	**17,543**

5. The Strategy for 2025/26

5.1 The Council's overall core borrowing objectives are:

- To reduce the revenue costs of debt in line with the targets set for the Chief Finance Officer by Council (see local indicators).
- To manage the Council's debt maturity profile, leaving no one future year with a high level of repayments that might cause problems in re-borrowing.
- To effect funding at the cheapest cost commensurate with future risk.
- To forecast average future interest rates and borrow accordingly i.e. short term/variable when rates are 'high', long term/fixed when rates are 'low'.
- To monitor and review the level of variable rate loans in order to take greater advantage of interest rate movements.
- To proactively reschedule debt in order to take advantage of potential savings as interest rates change. Each rescheduling exercise will be considered in terms of the effect of premiums and discounts on the General Fund and the Housing Revenue Account.

To manage the day-to-day cash flow of the Authority in order to, where possible, negate the need for short-term borrowing. However, short-term borrowing will be incurred, if it is deemed prudent to take advantage of good investment rates.

6. Actual Debt Management Activity during 2024/25

6.1 Borrowing

6.1.1 No additional borrowing was taken out during 2024/25; a Local Authority loan of £2.0m was repaid upon maturity and was not replaced. In addition, principal repayments of £0.675m were paid as planned relating the Council's EIP and annuity loans.

6.1.2 The average rate achieved for borrowing (excluding finance and embedded leases) in 2024/25 was 3.22%, which compares favourably to the target of 3.65%. The average rate has remained low due to an increase in internal borrowing whilst interest rates are high.

Borrowing Interest	31 March 2025 Actual £'000	31 March 2024 Actual £'000
Interest Payable on Borrowing		
- General Fund	1,263	1,322
- HRA	2,240	2,317
Total Interest payable on borrowing	**3,503**	**3,639**
Interest payable on finance leases	**0**	**0**
- General Fund	0	0
- HRA	0	0
Total Interest Payable on Borrowing	**0**	**0**

7. Prudential Indicators and Compliance Issues

7.1 Some of the required prudential indicators provide either an overview or specific limits on treasury activity. These are shown in the following paragraphs.

7.2 <u>External Borrowing and the CFR</u>

7.2.1 In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. The Prudential code stated that gross external borrowing should not, except in the short term, exceeded the CFR for 2024/25 plus the expected changes to the CFR over 2024/25 and 2025/26 from financing the capital programme. This indicator allows 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.

Indicator 6 - External Borrowing to Capital Financing Requirement	**31 March 2025 Actual £'000**	**31 March 2025 Revised Estimate £'000**	**31 March 2024 Actual £'000**
Debt as at 1 April	107,742	107,742	121,962
Change in debt	(456)	(2,675)	(14,220)
Actual Gross debt as at 31 March	**107,286**	**105,067**	**107,742**
Capital Financing Requirement	154,853	160,664	149,781
Under/(Over) Borrowing	**47,567**	**55,597**	**42,039**

7.3 <u>The Authorised Limit and Operational Boundary</u>

7.3.1 The Authorised Limit is the "Affordable Borrowing Limit" required by section 3 of the Local Government Act 2003. 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.

7.3.2 The Operational Boundary is the expected borrowing position of the Council during the year, and periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

7.3.3 The table below shows the highest borrowing position reached in the year (including temporary borrowing and other long-term liabilities) compared to the Authorised Limit and Operational Boundary.

Indicator 7 & 8 - Authorised Limit and Operational Boundary	**2024/25 £'000**
Authorised Limit (revised estimate)	121,290
Operational Boundary (revised estimate)	118,067
Maximum gross borrowing position during 2024/25	107,742
Average gross borrowing position during 2024/25	107,114
Minimum gross borrowing position during the year	105,068

7.4 <u>Actual financing costs as a proportion of net revenue stream</u>

7.4.1 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.

Indicators 9 & 10 - Ratio Financing Costs to Net Revenue Stream	**2024/25 Actual %**	**2024/25 Revised Estimate %**	**2023/24 Actual %**
General Fund	12.07%	12.05%	15.14%
HRA	29.01%	29.18%	30.44%

The reduction in financing costs as a % of net revenue stream in 2024/25 when compared with 2023/24, is due to the council letting debt mature rather than refinancing while interest rates are high, therefore carrying less debt and less interest paid.

8. Investment Position

8.1 The Council's investment policy is governed by DLUHC Guidance, which has been implemented in the Annual Investment Strategy approved by Council on 27th 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 Council had no liquidity difficulties.

8.2 The Council's longer-term cash balances comprise primarily revenue and capital resources, although these are influenced by cash flow considerations. The Council's core cash resources comprised as follows, and meet the expectations of the budget.

Balance Sheet Resources (draft)	31/03/2025 £'000	31/03/2024 £'000
General Fund		
Balances	3,173	2,245
Earmarked reserves	9,086	9,280
Capital Grants	275	275
Provisions	712	730
Usable capital receipts	1,649	1663
Total	**14,895**	**14,193**
HRA		
Balances	1,229	1,131
Major Repairs Reserve	22,959	23,737
Earmarked reserves	7,728	6,658
Usable capital receipts	8,168	6,339
Total	**40,084**	**37,865**
Total General Fund & HRA	**54,979**	**52,058**

Please note that at the time of writing the year end position is yet to be finalised and the balance sheet resources are draft, subject to approval of recommendations made in the outturn report.

8.3 Investments during the year have been in-line with limits below -

	2024/25 Limits
Indicator 11 - Upper Limit for Fixed Interest Rates	100%
Indicator 12 - Upper Limit for Variable Interest Rates	40%
Indicator 14 - Maximum Principal Sums Invested for longer than 365 days	£7m

9. Investments Held by the Council

9.1 The Council does not have the expertise or resources to actively use a wide range of investment products and therefore performance tends to be more stable but lower over the longer term than for professionally managed funds (whose performance may fluctuate more). The Council maintained an average balance of £25.313m and received an average return of 4.55%. A comparable performance indicator is SONIA overnight average rate (4.90%).

9.2 In 2024/25, £1.131m interest was earned on balances (£1.781m in 2023/24). This is £486km more than the £645k estimated in the Medium-Term Financial Strategy 2024-29. The analysis of this result is shown in the table below.

	MTFS 2024-29 Budget £'000	Outturn 2024/25 £'000
Interest earned on Investments		
General fund	233	456
HRA	428	675
Total interest earned	**661**	**1,131**
Average balance invested in year	16,000	25,313
Average interest rate achieved	4.52%	4.55%

* The interest rate given differs from that given in Paragraph 4.3 of the main report because this is an average interest for the year whereas the interest rate given in paragraph 4.3 is a rate for balances at 31 March 2025.

9.3 The investment portfolio as at 31st March 2025 is shown below.

Investments	Principal £	Rate %	Investment Period (Days)
SMBC Bank International Plc	3,000,000	4.55	63
Total Fixed Short-term Investments	**3,000,000**		
Aberdeen Standard Liquidity Fund (Lux) - Sterling Fund (Class L1)	7,000,000	4.53	Call
BNP Paribas Insticash Sterling	2,127,000	4.52	Call
Federated Short-Term Sterling Prime Fund	7,000,000	4.53	Call
Total Money Market Fund Investments	**16,127,000**		
Total Investments / Average Rate	**19,127,000**	4.53	

9.4 The Economic Background for 2024/25 (Appendix C) sets out the economic conditions during this period. Below is MUFG's forecast for interest rates at 10th February 2025.

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

10. Risk Benchmarking

10.1 The regulatory framework also requires the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Security and liquidity benchmarks are used to assess the level of risk in the investment portfolio and whether sufficient liquidity is being maintained.

10.2 The following reports the current position against the benchmarks originally approved in the 2024/25 Treasury Management Strategy.

<u>Security</u>

- The Council's security risk for the portfolio as at 31st March 2025 is 0.006%, which compares with the 0.012% for the budgeted portfolio. This equates to a potential financial loss of £183 on the investment portfolio of £3m - £16.127m of the portfolio is not subject to historic counterparty risk information.
- Specified Investments are high security sterling investments (i.e. high credit quality) with a maturity of no more than one year. Non-specified investments are all other investments representing a potentially greater risk however the risk is still minimal due to the stringent controls over counterparty credit quality contained within the Investment Strategy. The 2024/25 strategy set a maximum limit of 75% of the portfolio to be held in non-specified investments. At 31st March 2025, 100% of the investment portfolio was held in specified investments. The Chief Finance Officer can report that the investment portfolio was maintained within this limit throughout the year.

<u>Liquidity</u>

In respect of this area the Council set liquidity benchmarks to maintain:

- Liquid short-term deposits of at least £5 million available with a week's notice.
- Weighted Average Life benchmark was expected to be 0.5 years (183 days).

The actual liquidity indicators at 31st March 2025 were as follows:

- Liquid short-term deposits of £16.127m million as at 31st March 2025.
- Weighted Average Life of the investment portfolio was 0.02 years (8 days).

10.3 Performance Indicators set for 2024/25

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury management function over the year. The Chief Finance Officer set 5 local indicators for 2024/25, which aim to add value and assist the understanding of the main prudential indicators. These indicators, detailed in Appendix B, are:

- Debt – Borrowing rate achieved against SONIA overnight average
- Investments – Investment rate achieved against SONIA overnight average
- Average rate of interest paid on the Councils Debt during the year – this will evaluate performance in managing the debt portfolio to release revenue savings
- The amount of interest on debt as a percentage of gross revenue expenditure.
- The ratio of net income from commercial and service investments to net revenue stream

11. Regulatory Framework, Risk and Performance

11.1 The Council’s treasury management activities are regulated by a variety of professional codes, statutes, and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken;
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM has issued Investment Guidance to structure and regulate the Council’s investment activities.

Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices.

11.2 The Council has complied with all of the above relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable, and sustainable, and its treasury practices demonstrate a low-risk approach.

11.3 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of MUFG, the Council’s advisers, has proactively managed its treasury position over the year. The Council has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio as the interest rates are predominantly fixed, utilising long-term loans.

11.4 Shorter-term variable rates and likely future movements in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

Appendix B

Local Treasury Management Indicators

Local Indicators	2024/25 Revised Estimate	2024/25 Actual	2023/24 Actual
1. Borrowing rate achieved (i.e. temporary borrowing of loans less then 1 year)	N/A	N/A	1.30%
2. Investment rate achieved against the SONIA rate	5.25%	4.55%	5.11%
3. Average rate of interest paid on Council debt during the year	3.26%	3.28%	3.21%
4. The amount of interest on debt as a percentage of gross revenue expenditure.	N/A	4.09%	3.16%
5. Net Income from Commercial and Service Investments to Net Revenue Stream	10.58%	10.02%	11.11%

*Indicator 4 movement partly relates to a change in calculation methodology

Appendix C

Economic Background for 2024/25

The following commentary on the economic conditions for 2024/25 is provided by MUFG, the Council's treasury management advisers.

UK Economy

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.

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.

USA Economy.

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.

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.

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.

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.