

**TREASURY MANAGEMENT – REVIEW OF PERFORMANCE 2024/2025**

**Report of the Director of Finance**

**1 Purpose of the Report**

- 1.1 To report on the Treasury Management borrowing and investment performance for 2024/2025.

**2 Description of Decision (Recommendation)**

- 2.1 The Committee is requested to note the Treasury Management performance for 2024/2025.

**3 Introduction**

- 3.1 This report sets out the annual borrowing and investment performance for the financial year 2024/2025 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by Council on 28 February 2024. The Treasury Management Strategy comprises the approved Council strategy for borrowing and its policies for managing its investments (which give priority to the security and liquidity of the funds over yield of those investments).
- 3.2 The Treasury Management Policy Statement and Strategy complied with best practice, including the Ministry of Housing, Communities and Local Government's 'Statutory Guidance on Local Government Investments' updated in February 2018 and also incorporates the recommendations included in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, updated in December 2017.

**4 Review of Performance 2024/2025**

**Summary**

- 4.1 The performance of the Council's Treasury Management function continues to maximise financial savings. The average interest rate of the Council's borrowing at 2.81% is low and the Council's treasury management advisor reports this compares favourably with their other local authority clients, as does the 4.97% rate of return achieved on investments.
- 4.2 In May 2024 following discussions with MUFG Corporate Markets, the Council's treasury advisor, the decision was taken to repay £19.5m of long-term debt from

existing cash balances as the repayment terms were considered favourable to the Council and offered significant savings.

- 4.3 The ongoing conflict between Russia and the Ukraine, Gaza and Israel and heightened tensions between China, Taiwan and the United States alongside other geopolitical factors including President Trump's introduction/extension of tariffs and global responses have all impacted on financial markets and account for high levels of volatility.

#### **Borrowing Strategy and Performance – 2024/2025**

- 4.4 The basis of the agreed Borrowing Strategy was to:
- continuously monitor prevailing interest rates and forecasts;
  - secure long-term funds to meet the Council's future borrowing requirement when market conditions were favourable;
  - use a benchmark financing rate of 5.00% for long-term borrowing (i.e. all borrowing for a period of one year or more); and
  - take advantage of debt rescheduling opportunities as appropriate.
- 4.5 The Borrowing Strategy was reviewed by this Committee in July and September 2024 and February 2025 and was updated where necessary to reflect changing circumstances. The Borrowing Strategy for 2024/2025 was based upon internal expertise, supplemented with market data, market information and leading economic forecasts provided by the Council's treasury management adviser, MUFG Corporate Markets.
- 4.6 The strategy for 2024/2025 was to adopt a pragmatic and flexible approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 5.00% for long-term borrowing was set for 2024/2025 in light of the views prevalent at the time the Treasury Management policy was set in February 2024.
- 4.7 The view at the time of drafting the Treasury Management Policy and Strategy was that the Bank of England (BoE) Base Rate had peaked at 5.25% and would fall to 4.75% by September 2024 with further gradual falls to 3.00% by September 2025. The Base Rate started in April 2024 at 5.25% but the forecast reductions were later than expected as the Bank of England's Monetary Policy Committee (MPC) sought to combat persistent inflationary pressures and return headline Consumer Prices Index (CPI) to its 2% target. The MPC announced further stepped decreases of 0.25% to the Base Rate in August and November 2024 and then in February 2025 taking the rate to 4.50% where it remained at the end of 2024-2025.
- 4.8 The CPI measure of inflation rose by 2.3% in the year to April 2024 and briefly dipped to 1.7% in the year to September 2024 before gradually rising to 2.6% by March 2025. This reflects persistent inflationary pressures, including wage growth, increases in the Ofgem energy price cap, post-Brexit trade frictions and global factors linked to geopolitical tensions.

4.9 MUFG Corporate Markets originally expected a gradual fall in Public Works Loan Board (PWLB) rates over the course of 2024/2025, reflecting their view at the time that the Bank Rate had peaked at 5.25% and would then steadily fall. However, the continuing conflict in Ukraine and the crisis in the Middle East with Israel and Gaza alongside other geo-political tensions meant volatility in the financial markets continued. 50-year PWLB interest rates started the financial year in April 2024 at 5.07% (inclusive of the 0.20% discount available to local authorities) and fell to a low of 4.88% on 17<sup>th</sup> September 2024. From there rates rose to peak at 5.88% in January 2025 before falling back to end the financial year at 5.67%

4.10 The following table shows the average PWLB borrowing rates for each quarter in 2024/2025.

<b>2024/2025</b>	<b>Qtr 1 (Apr - June) %</b>	<b>Qtr 2 (July – Sept) %</b>	<b>Qtr 3 (Oct – Dec) %</b>	<b>Qtr 4 (Jan – Mar) %</b>
SONIA Overnight Rate	5.20	5.03	4.80	4.55
1 year	5.43*	5.06*	5.11*	4.96*
5 year	4.92*	4.61*	4.89*	5.04*
10 year	4.98*	4.78*	5.13*	5.42*
25 year	5.42*	5.28*	5.59*	5.93*
50 year	5.20*	5.08*	5.36*	5.64*

\* Rates take account of the 0.2% discount to PWLB rates available to eligible authorities.

4.11 Following discussions with the Council's economic advisors, the Council took advantage of favourable terms offered by the lender to repay £19.5m of long-term Lender's Option/Borrower's Option (LOBO) loans held with Barclays. The following table shows the three LOBOs that were repaid on 14 May 2024.

<b>Roll Over Dates</b>	<b>Lender</b>	<b>Amount £m</b>	<b>Rate %</b>	<b>Roll Over Periods</b>
21/04/2024 and 21/10/2024	Barclays	5.0	4.50	Every 6 months
14/08/2025 and 14/02/2026	Barclays	5.0	4.45	Every 3 years
10/06/2026 and 10/12/2026	Barclays	9.5	4.37	Every 3 years
<b>Total</b>		<b>19.5</b>		

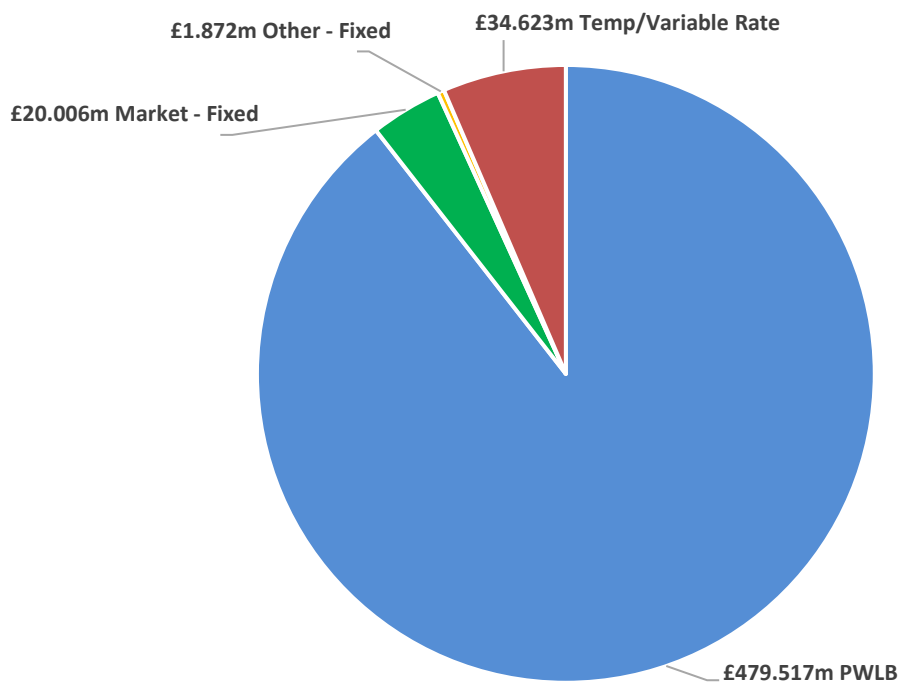
The above loans were repaid at a discounted value of £18,730,223.

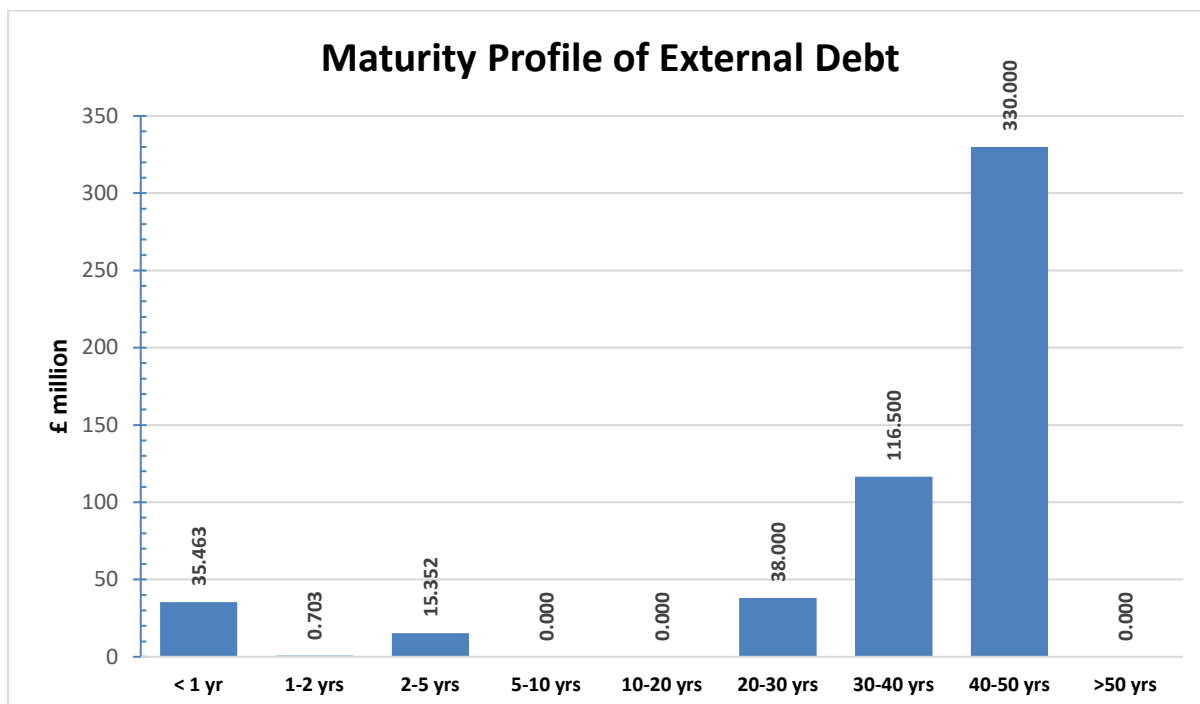
4.12 In line with discussions with the Council's economic advisors, and due to high levels of volatility in the financial markets, no new borrowing was taken out during the financial year. The Treasury Management team continues to closely monitor PWLB rates in line with future capital programme requirements.

4.13 The Treasury Management Strategy for 2024/2025 included provision for debt rescheduling, whilst accepting that because of the very low underlying rate of the Council's long-term debt it would be difficult to refinance long-term loans at interest rates lower than those already in place. As expected, rates have not been sufficiently favourable for debt rescheduling in 2024/2025.

4.14 The Council's borrowing portfolio position at 31 March 2025 is set out below.

<b>Borrowing Summary at: 31 March 2025</b>			
	<u>Principal</u>	<u>Interest</u>	<u>Ave rate %</u>
<b><u>Fixed</u></b>			
PWLB	479,516,667	12,472,271	2.60
Market - Fixed	20,006,059	876,978	4.38
Other - Fixed	1,872,006	3,304	0.18
	<u>501,394,731</u>	<u>13,352,553</u>	<u>2.66</u>
<b><u>Variable</u></b>			
Temporary/Other - Variable	34,622,972	1,695,828	4.90
	<u>34,622,972</u>	<u>1,695,828</u>	<u>4.90</u>
<b>TOTAL BORROWING:</b>	<b><u>536,017,703</u></b>	<b><u>15,048,381</u></b>	<b><u>2.81</u></b>
<b>TOTAL INVESTMENTS:</b> (All Managed In-house)	<b><u>70,875,944</u></b>		
<b>NET POSITION:</b>	<b><u>(465,141,759)</u></b>		





4.15 The Council had a net borrowing position of £465.142m representing the difference between gross debt and total investments. The net borrowing position is expected to widen (increase) further over the next few years as the Council will need to take out additional borrowing to fund its capital programme.

#### Prudential Indicators – 2024/2025

4.16 All external borrowing and investments undertaken in 2024/2025 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all other Prudential Indicators as follows:

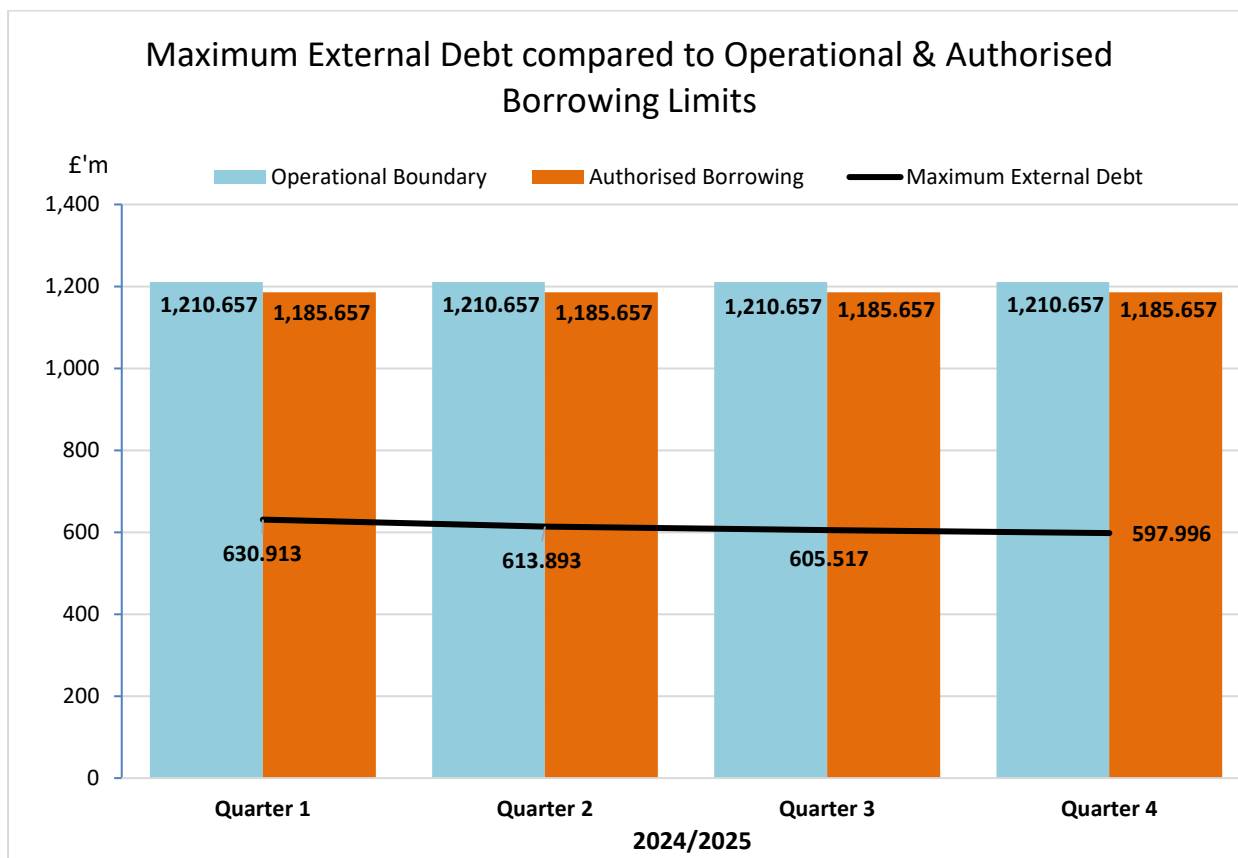
4.17 The statutory limit under section 3(1) of the Local Government Act 2003 (known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2024/2025 as follows:

	<b>£m</b>
Borrowing	1,065.080
Other Long-Term Liabilities	<u>145.577</u>
Total	<u>1,210.657</u>

The Operational Boundary for External Debt for 2024/2025 was set as follows:

	<b>£m</b>
Borrowing	1,040.080
Other Long-Term Liabilities	<u>145.577</u>
Total	<u>1,185.657</u>

The Council's maximum external debt in respect of borrowing in 2024/2025 was £630.913m and is within the borrowing limits set by both of these indicators.



4.18 The table below shows that all other Treasury Management Prudential Indicators have also been complied with:

Prudential Indicators	2024/2025 (Maximum)	
	Limit	Actual
<b>P9 Maturity Pattern</b>	Upper Limit	
Under 12 months	50%	10.38%
12 months and within 24 months	60%	0.13%
24 months and within 5 years	80%	2.85%
5 years plus	100%	92.25%
A lower limit of 0% for all periods		
<b>P10 Upper limit for total principal sums invested for over 365 days</b>	£75.0m	0

## 5 Investment Strategy and Performance - 2024/2025

5.1 The Investment Strategy for 2024/2025 was approved by Council on 28 February 2024. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

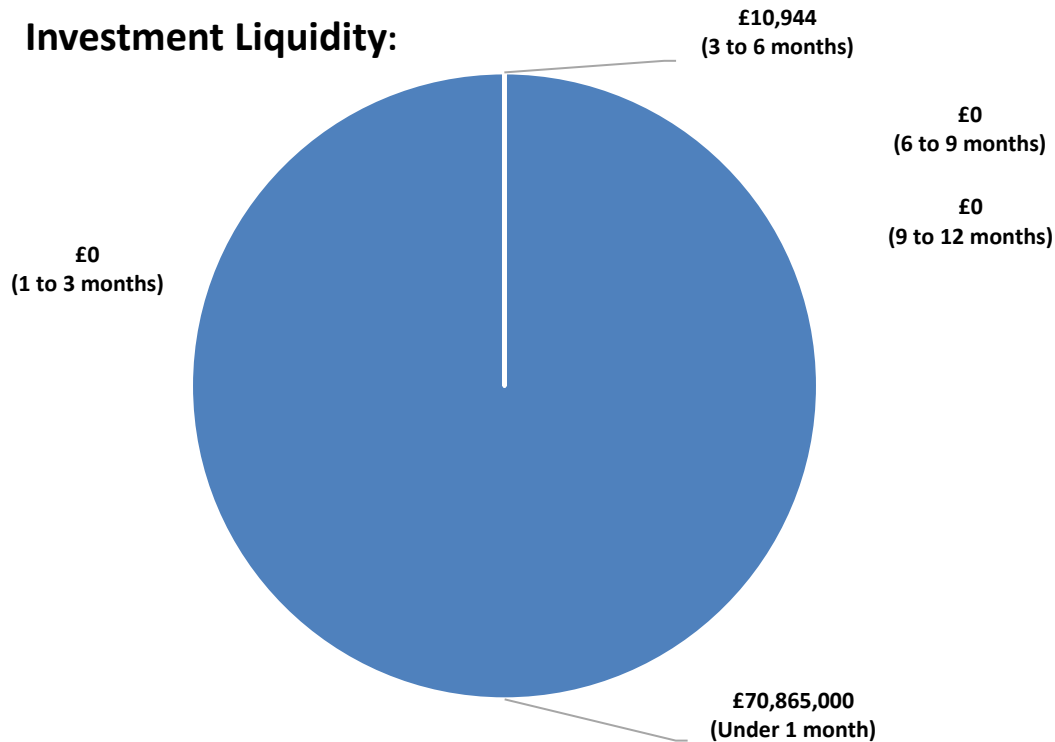
- (A) The **security** of capital;
- (B) The **liquidity** of its investments and then
- (C) The Council aims to achieve the **optimum yield** on its investments, but this is commensurate with the proper levels of security and liquidity.

5.2 At 31 March 2025, the funds managed by the Council's in-house team amounted to £70.876m and all investments complied with the Annual Investment Strategy.

### Investment Summary at 31 March 2025

Borrower	Duration	Amount of Loan	Rate (%)	Start Date	Maturity Date
<b>Call Accounts:</b>					
NatWest SIBA	Overnight	5,100,000	2.750		Call
Prime MMF	Overnight	16,020,000	4.530		Call
Aberdeen Liquidity Fund	Overnight	49,745,000	4.531		Call
Insight Liquidity Fund	Overnight	-	4.524		Call
Lloyds 95 Day Notice	95d Notice	10,944	4.510		95 day
<b>Sub-total:</b>		<b>70,875,944</b>			
<b>Fixed Term Deposits:</b>					
<b>Sub-total:</b>		-			
<b>TOTAL:</b>		<b>70,875,944</b>			

### Investment Liquidity:



5.3 The table below shows the return received on these investments compared with the benchmark SONIA (Sterling Overnight Index Average) rate, which the Council uses to assess its performance.

	2024/2025 Return %	2024/2025 Benchmark %
<b>In-house Managed Funds</b>	<b>4.97</b>	<b>4.90</b>

5.4 All investments placed in 2024/2025 have been made in accordance with the approved Investment Strategy and comply with the Criteria and the Approved Lending List approved by Council on 28 February 2024.

- 5.5 As reported during the year, investment rates available in the market have fallen during 2024/2025 following announcements by the Bank of England's Monetary Policy Committee (MPC) of stepped decreases of 0.25% to the Base Rate. Opening 2024/2025 at 5.25% the rate fell to 5.00% in August 2024, the first fall in the Base Rate since March 2020. Further reductions were announced in November 2024 and February 2025, taking the rate to 4.50% where it ended the financial year.

<b>Effective Date</b>	<b>BoE Base Rate %</b>
19 Mar 2020	0.10
3 Aug 2023	5.25
9 May 2024	5.25
20 Jun 2024	5.25
1 Aug 2024	5.00
19 Sep 2024	5.00
7 Nov 2024	4.75
19 Dec 2024	4.75
6 Feb 2025	4.50
20 Mar 2025	4.50

Historic Low  
Current peak

- 5.6 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the benefit of the Council. Against a backdrop of inflationary pressures linked to President Trump's decisions on trade tariffs and how nations respond, the ongoing conflict between Russia and the Ukraine, Gaza and Israel and heightened tensions between China, Taiwan and the United States together with other geopolitical factors are likely to have a continued global economic impact.
- 5.7 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, the Council continues to hold higher than normal levels of cash balances and advice from our Treasury Management advisers is to continue to restrict investments to shorter term periods.
- 5.8 As members will be aware, the regular updating of the Council's Authorised Lending List and Criteria is required in the light of financial institution mergers and changes in institutions' credit ratings. Changes made during 2024/2025 have been reported to members previously and the latest Lending List and Criteria are included in the Treasury Management First Quarterly Review 2025/2026 report appearing elsewhere on today's agenda for information.

## 6 Reason for Decision

- 6.1 To note the performance for 2024/2025.

## 7 Alternative Options

- 7.1 No alternatives are submitted for consideration.