CABINET
9th SEPTEMBER 2025

TREASURY MANAGEMENT ANNUAL REPORT AND OUTTURN PRUDENTIAL INDICATORS 2024/25

Responsible Cabinet Member -
Councillor Mandy Porter, Resources Portfolio

Responsible Director -
Elizabeth Davison, Executive Director - Resources and Governance

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SUMMARY REPORT

Purpose of the Report

1. This report provides important information regarding the regulation and management of the Council's borrowing, investments and cash-flow. It is a requirement of the Council's reporting procedures and by regulations issued under the Local Government Act 2003 to produce an annual treasury management review that covers treasury activity for 2024/25. The report also seeks approval of the Prudential Indicators results for 2024/25 in accordance with the Prudential Code.

Summary

2. The financial year 2024/25 was yet another unprecedented year with regards to treasury management. With the Ukraine conflict continuing, events in the Middle East, cost of living increases and inflation taking time to recover, the markets have been quite cautious. Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates. The bank rate peaked at 5.25% at the start of the year, but the initial expectation of significant rate reductions did not transpire, primarily because inflation concerns remained elevated. Forecasts were too optimistic from a rate reduction perspective, but more recently the forecasts from November 2024 onwards look more realistic. The market now expects the bank rate to fall to 3.75% by the end of December 2025. Although the returns for cash investments have remained favourable due to higher interest rates they remain below the cost of borrowing and these do decline at a much faster rate than the cost of borrowing.

3. During 2024/25 the Council complied with its legislative and regulatory requirements. The borrowing need (**Table 1**) was only increased for capital purposes.

4. At 31 March 2025 the Council's external debt was £172.738m which is £19.860m more than the previous year. This increase relates to the progression of various capital schemes and the rise in the costs of these schemes due to inflationary pressures. The average interest rate for borrowing increased from 2.65% in 2023/24 to 3.37% in 2024/25. Investments totalled £35.408m at 31 March 2025 (£31.136m at 31 March 2024) earning

interest of 4.94% on short term cash investments and 0.42% on Property Fund units net of costs.

5. Financing costs had an overspend of £0.324m mainly due to interest rates remaining higher for longer due to the economic climate. To offset this the Council has reduced borrowing as far as possible to minimise exposure to higher rates. Property fund dividend income has also decreased as the Lothbury property fund is wound up and its assets sold.

Recommendations

6. It is recommended that:

   (a) The outturn 2024/25 Prudential Indicators within this report and those in **Appendix 1** be noted.

   (b) The Treasury Management Annual Report for 2024/25 be noted.

   (c) This report to be forwarded to Council, in order for the 2024/25 Prudential Indicators to be noted.

Reasons

7. The recommendations are supported by the following reasons:

   (a) In order to comply with the Prudential Code for Capital Finance in Local Authorities.

   (b) To inform members of the Performance of the Treasury Management function.

   (c) To comply with the requirements of the Local Government Act 2003.

Elizabeth Davison
Executive Director of Resources and Governance

Background Papers
(i) Accounting Records
(ii) Annual Investment Strategy 2024/25
(iii) Prudential Indicators and Treasury Management Strategy Report 2024/25

Judith Murray: Extension 5204

Council Plan	The Council's Treasury Management Strategy contributes to all priorities outlined within the Council Plan.
Addressing inequalities	There is no impact as a result of this report.
Tackling Climate Change	There is no impact as a result of this report.
Efficient and effective use of resources	The Council's Treasury Management Strategy contributes towards the efficient and effective use of resources.
Health and Well Being	This report has no implications for the Council's Health and Well Being agenda.
S17 Crime and Disorder	This report has no implications for S 17 Crime and Disorder.
Wards Affected	All Wards.
Groups Affected	All Groups.
Budget and Policy Framework	This report must be considered by Council.
Key Decision	This is not an executive decision.
Urgent Decision	For the purposes of call in this report is not an urgent decision.
Impact on Looked After Children and Care Leavers	This report does not impact on Looked After Children or Care Leavers.

MAIN REPORT

Information and Analysis

8. This report summarises:

    (a) Capital expenditure and financing for 2024/25
    (b) The Council's overall borrowing need
    (c) Treasury position at 31 March 2025
    (d) Prudential indicators and compliance issues
    (e) The economic background for 2024/25
    (f) A summary of the Treasury Management Strategy agreed for 2024/25
    (g) Treasury Management activity during 2024/25
    (h) Performance and risk benchmarking

9. Throughout this report a number of technical terms are used, a glossary of terms can be found at the end of this report.

The Council's Capital Expenditure and Financing 2024/25

10. The Council undertakes capital expenditure on long term assets, which is financed either:

    (a) Immediately through capital receipts, capital grants, contributions and from revenue; or

    (b) If insufficient financing is available, by borrowing.

11. 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. The wider treasury activities also include managing the Council's cash flow, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost and then optimise performance.

12. Capital Expenditure forms one of the prudential indicators that are used to regulate treasury activity. Table 1 shows total capital expenditure and how this was financed, compared with what was expected to be spent and how this would have been financed. Actual expenditure was £16.982m less than planned, mostly down to slippage in the HRA, and some Towns Fund initiatives. As some of the HRA expenditure was to be financed by borrowing this has led to a decrease in borrowing needed of £10.220m.

Table 1 – Capital Expenditure and Financing

	2023/24	2024/25		
	Outturn £m	Revised Estimate £m	Outturn £m	Variance £m
General Fund Capital Expenditure	39.361	20.876	24.086	3.210
HRA Capital Expenditure	13.753	43.032	21.998	(21.044)
Loans to Joint Ventures etc	7.450	5.738	6.590	0.852
Total Capital Expenditure	**60.564**	**69.646**	**52.664**	**(16.982)**
Resourced by:				
Capital Receipts GF	2.491	0.887	3.145	2.258
Capital receipts Housing	0.000	0.000	2.663	2.663
JV Loans Repaid	0.500	1.000	3.820	2.820
Capital Grants	36.996	16.319	12.179	(4.140)
Capital Contributions	0.261	0.000	0.437	0.437
Revenue Contributions - GF	1.167	0.651	1.403	0.752
Investment Fund - Housing	0.000	0.000	0.000	0.000
Revenue Contributions - HRA	8.003	25.007	13.455	(11.552)
Total Resources	**49.418**	**43.864**	**37.102**	**(6.762)**
Borrowing needed to finance expenditure	**11.146**	**25.782**	**15.562**	**(10.220)**

The Council's Overall Borrowing Need

13. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). The figure is a gauge for the Council's debt position. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents 2024/25 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources.

14. Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the government, through Public Works Loan Board (PWLB), or the money markets) or utilising temporary cash resources within the Council.

15. The Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account borrowing need, (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

16. The total CFR can be reduced each year through a Voluntary Revenue Provision (VRP) or by the application of additional capital financing resources (such as unapplied capital receipts).

17. The Council's CFR for the year is shown in Table 2 and represents a key prudential indicator. The CFR outturn for 2024/25 is £247.613m which is £0.348m higher than approved due to an increase in estimated JV loan repayment of £2.820m and an increase in the borrowing requirement for Right of Use Assets. Right of Use Assets are a new statutory requirement and the extent to which this affected the CFR was not fully known until the Statement of Accounts was completed.

Table 2 - Capital Financing Requirement

	2023/24	2024/25		
	Outturn £m	**Approved Indicator £m**	**31 March Actual £m**	**Variance £m**
Opening Balance	228.659	233.973	233.973	0.000
Add Capital Expenditure financed by borrowing	11.645	19.078	19.382	0.304
Right of Use Assets	0.00	1.000	4.020	3.020
Less repayment of JV loans	(0.500)	(1.000)	(3.820)	(2.820)
Less MRP/VRP GF	(4.299)	(4.254)	(4.417)	(0.163)
Less MRP/VRP Housing	(0.426)	(0.426)	(0.426)	0.000
Less MRP/VRP PFI	(1.106)	(1.106)	(1.099)	0.007
Closing balance	**233.973**	**247.265**	**247.613**	**0.348**

Treasury Position at 31 March 2025

18. Whilst the measure of the Council's underlying need to borrow is the CFR, the Executive Director of Resources and Governance can manage the Council's actual borrowing position by:

    (a) Borrowing to the CFR level; or

    (b) Choosing to utilise some temporary cash flows instead of borrowing ("under borrowing"); or

    (c) Borrowing for future increases in CFR (borrowing in advance of need, the "over borrowed" amount can be invested).

19. The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting and through officer activity detailed in the Council's Treasury Management Practices.

20. The Council's total debt outstanding at 31st March 2025 was £172.738m. In addition to this, a liability of £9.932m relating to the PFI scheme and Right of Use Assets brings the total to £182.670m. The Council's revised CFR position was estimated to be £247.265m, however, the actual out turn position was £247.613m. When comparing this to borrowing of £182.670m this meant that the Council was "under borrowed" by £64.943m. This "under borrowed" amount was financed by internal borrowing which means that the amount that could have been invested externally was reduced to cover this. The reduced under borrowed position still has the dual effect of reducing costs to the MTFP because borrowing costs are generally greater than investment returns and it reduces counterparty risk by reducing our exposure to banks and other financial institutions.

21. The treasury position at 31 March 2025, including investments compared with the previous year is shown in table 3 below.

Table 3 – Summary of Borrowing and Investments

Treasury Position	31 March 2024		31 March 2025	
	Principal £m	**Average Rate %**	**Principal £m**	**Net Annualised Average Rate %**
General Debt - Fixed Rate Debt, Market and Public Works Loan Board (PWLB)	127.878	2.65%	147.738	3.37%
Property Fund Borrowing	25.000	2.60%	25.000	3.70%
Total Debt	**152.878**	**2.61%**	**172.738**	**3.41%**
Cashflow Investments up to 6 months	6.370	5.09%	10.090	4.94%
Capital Investments over 6 months	0.000	0.00%	0.000	0.00%
Property Fund Investment - net of costs	24.766	0.65%	25.318	0.42%
Total Investments	**31.136**		**35.408**	
Net borrowing position	**121.742**		**137.330**	

Prudential Indicators and Compliance Issues

22. Some prudential indicators provide an overview while others are specific limits on treasury activity. These indicators are shown below:

23. **Gross Borrowing and the CFR –** in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital

needs in 2024/25. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 4 – Gross Borrowing Compared with CFR

	31 March 2024 Actual £m	31 March 2025 Approved Indicator £m	31 March 2025 Actual £m
Gross Borrowing Position	**152.878**	**171.411**	**172.738**
PFI and Right of Use Asset	**7.011**	**7.912**	**9.932**
Total	**159.889**	**179.323**	**182.670**
CFR	**233.973**	**247.265**	**247.613**
(Under)/over funding of CFR	**(74.087)**	**(67.942)**	**(64.943)**

24. **The Authorised Limit –** The Authorised Limit is the "Affordable Borrowing Limit" required by section 3 of the Local Government Act 2003. The Council does not have power to borrow above this level.

25. **The Operational Boundary –** The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are both acceptable, subject to the Authorised Limit not being breached.

26. **Actual financing costs as a proportion of net revenue expenditure -** 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 expenditure. The actual for this indicator has risen from the previous year due to an increase in the Financing costs outturn.

Table 5 – Key Prudential Indicators

	Actual 2023/24 £m	Original Approved Limits 2024/25 £m	Revised Approved Limits 2024/25 £m	Actual Total Liabilities Borrowing + PFI/ ROU Assets 2024/25 Maximum £m
Approved Indicator – Authorised Limit	**245.675**	**273.111**	**259.628**	**259.994**
Approved Indicator – Operational Boundary	**159.889**	**183.973**	**179.323**	**182.670**
Financing costs as a percentage of net revenue expenditure	**4.47%**	**4.16%**	**4.10%**	**3.91%**

27. At 31 March 2025 the total liabilities were £172.738m which is below both the approved Authorised Limit and the approved Operational Boundary. The Operational Boundary is the point at which we expect borrowing to be, but it can be lower or higher. Borrowing cannot exceed the Authorised Limit.

28. A further four prudential indicators are detailed in **Appendix 1**.

Economic Background for 2024/25

29. A summary of the general economic conditions that have prevailed through 2024/25 provided by MUFG, the Council's treasury management advisors is attached at **Appendix 2.**

Summary of the Treasury Management Strategy agreed for 2024/25

30. The revised Prudential Indicators anticipated that during 2024/25 the Council would need to borrow £25.782m to finance part of its capital programme, whereas the actual outturn figure was £15.562m. The reason for this change is slippage on housing schemes which will now be progressed into 2025/26.

31. The Annual Investment Strategy stated that the use of specified (usually less than one year) and non-specified (usually more than one year) investments would be carefully balanced to ensure that the Council has appropriate liquidity for its operational needs. In the normal course of the Council's business it is expected that both specified and non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

32. Longer term instruments (greater than one year from inception to repayment) will only be used where the Council's liquidity requirements are safeguarded. An estimate of long term investments (over one year) were included in the report on the Prudential Indicators update these were as follows £50m for 2023/24 and £50m for 2024/25. No other investments of over one year duration have been made during 2024/25.

Treasury Management Activity during 2024/25

Borrowing Strategy

33. During 2024/25, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the CFR), 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 borrowing rates were higher than investment returns.

34. The Council has sought to minimise the taking of long-term borrowing at elevated interest rate levels and has focused on a policy of internal and temporary borrowing as appropriate whilst rates remain high.

35. 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.

36. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years (see table 6 below). 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.

Table 6 – net borrowing

	Market Loans (incl. other Local Authorities)			Total
	Amount £m	Length of Loan	Interest Rate %	£m
New Loans Taken				
	5.000	11 months	5.30%	
	10.000	1 year	4.90%	
	2.000	9 months	4.80%	
	5.000	10 months	4.95%	
	5.000	9 months	4.85%	
	5.000	7 months	5.70%	
	10.000	1 year	4.47%	
	5.000	1 year	4.41	
Total New Loans				47.000
Loans Repaid				
	(2.000)	3 months	6.00%	
	(5.000)	3 months	6.75%	
	(3.000)	4 months	6.00%	
	(5.000)	1 year	5.25%	
	(2.000)	6 months	5.30%	
	(5.000)	6 months	5.30%	
	(5.000)	6 months	5.20%	
				(27.000)
Total New Borrowing				20.000

37. **Summary of Debt Transactions –** The consolidated rate of interest increased from 2.65% to 3.37% due to increased interest rates in the market.

Investment Position

38. **Investment Policy –** the Council's investment policy for 2024/25 is governed by the MHCLG Guidance which has been implemented in the annual investment strategy for 2024/25 approved by Special Council on 15 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.).

39. The investment activity during the year conformed to the approved Strategy and the Council had no liquidity difficulties.

40. Investment returns remained robust throughout 2024/25 with the bank rate reducing steadily throughout the course of the financial year (three 0.25% rate cuts in total). The headline rate has reduced from 5.25% at the start of the year to 4.5% in March 2025.

41. Looking back to 2024/25 returns in excess of 5% for 1-12 month deposits were achievable but this decreased to around the 4-4.25% by the end of the financial year.

42. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

43. Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

44. Investments held by the Council consist of temporary surplus balances, capital receipts and other funds. Cash balances are invested on a daily basis to maximise the benefit of temporary surplus funds. These include investments in Money Market Funds, the Government's Debt Management Office, other local authorities and bank short term notice accounts. Short term investments of up to a year earned interest of £779k on an average balance of £15.782m which equated to an annual average interest rate of 4.94%.

45. The Council also has longer term investments which consist of the property funds and the returns are shown below in **Table 7**.

46. The Council has received its share of the distributions of funds from the Lothbury Fund as and when assets are sold. Distributions which the Council have received to date have been invested in the UBS Triton Property fund. The investment of future distributions will be decided as and when they are received, in consideration of the best investment opportunities and the Council's financial position at the date of receipt.

47. As reported in the Council's Prudential Indicators and Treasury Management Strategy Report 2025/26 Hermes Federated were looking into a potential merger with another larger property fund. The Council awaits the decision on that merger and will report the outcome during 2025/26.

Table 7 – Longer Term 6 months to 5 years - Property Funds

	Original Budget 2024/25	Actual 2024/25
Daily average level of Investments	**£24.766m**	**£25.318m**
Interest earned (gross)	**1.086m**	**1.032m**
Average Rate of Return on Investment Interest earned (gross)	**4.38%**	**4.08%**
Average Rate of Return on Investment (net of costs)	**0.65%**	**0.42%**

Performance and Risk Benchmarking

48. A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance.

49. The following reports the current position against the benchmarks originally approved.

50. Security – The Council's maximum security risk benchmarks for the current portfolio of investments, when compared to historic default tables was set as follows:

    0.077% historic risk of default when compared to the whole portfolio

51. **Table 8** shows that there has been a fluctuation in the historic levels of default over the year although still well below the benchmark. This is mainly due to some longer term investments actually being made for shorter terms i.e. up to six months rather than one year as these investments were a better fit with how the Council was expecting to utilise investments. It also shows more emphasis being placed on counterparties with a higher credit rating.

52. The investment portfolio was maintained within this overall benchmark during this year as shown in **Table 8**.

Table 8

Maximum	Benchmark 2024/25	Actual June 2024	Actual October 2024	Actual December 2024	Actual March 2025
Year 1	0.077%	0.004%	0.005%	0.005%	0.000%

53. The counterparties that we use are all high rated therefore our actual risk of default based on the ratings attached to counterparties is virtually nil.

54. Liquidity – In respect of this area the Council set liquidity facilities/benchmark to maintain

(a) Bank Overdraft £0.100M

(b) Liquid short term deposits of at least £3.000M available within a week's notice.

(c) Weighted Average Life benchmark is expected to be 146 days with a maximum of one year.

55. Liquidity arrangements have been adequate for the year to date as shown in **Table 9**.

Table 9

	Benchmark	Actual June 2024	Actual October 2024	Actual December 2024	Actual March 2025
Weighted Average life	**146 days to 1 year**	**92 days**	**71 days**	**117 days**	**0 days**

56. The figures are for the whole portfolio of cash flow investments deposited with Money Market funds on a call basis (i.e. can be drawn on without notice) as well as call accounts that include a certain amount of notice required to recall the funds.

57. Money Market Funds do not have a Weighted Average Life as they are on a call basis. During the latter part of the year the Council held it's surplus cash in Money Market Funds as the rates for these were on par (sometimes even better) than short term investments, hence there is no Weighted Average Life in March 2025.

58. Yield - In respect of this area performance indicators relating to interest rates for borrowing and investments were set with reference to comparative interest rates. For borrowing, the indicator is the average rate paid during the year compared with the previous year. Investment rates are compared with a representative set of comparative rates.

Risk

59. The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:-

(a) 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.

(b) 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 (although no restrictions were made in 2024/25).

(c) Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act.

(d) The SI requires the Council to undertake any borrowing activity with regard to the CIFPA Prudential Code for Capital Finance in Local Authorities.

(e) The SI also requires the Council to operate the overall treasury function with regard to the CIPFA code of Practice for Treasury Management in Public Services.

(f) Under the Act the Department of Levelling Up, Housing & Communities has issued Investment Guidance to structure and regulate the Council's investment activities.

(g) 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. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

60. The Councils Treasury Management function has complied with all of the 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.

61. Officers of the Council are aware of the risks of passive management of the treasury portfolio and, with the support of Link Group, the Council's advisers, have proactively managed the debt and investments over the year.

Treasury Management Budget

62. There are three main elements within the Treasury Management Budget:-

(a) Long Term capital investments including Property Funds which earns interest and dividends, this comprises of the Council's revenue and capital balances, unused capital receipts, reserves and provisions.

(b) Cash flow interest earned – the authority has consistently had positive cash flow. Unlike long term capital investments it does not represent any particular sum but it is the consequence of many different influences such as receipts of grants, the relationship between debtors and creditors, cashing of cheques and payments to suppliers.

(c) Debt servicing costs – This is the principal and interest costs on the Council's long term debt to finance the capital programme.

Table 10 - Changes to the Treasury Management Budget 2024/25

	£m	£m
Original Treasury Management Budget		**3.547**
Debt		
Movements in interest payable on debt	**0.374**	
Investments		
Movements in investment income	**(0.104)**	
Movements in property fund dividend	**0.054**	
Outturn Treasury Management Budget 2024/25		**3.871**

63. The estimated reduction in the interest rates payable on debt was far slower to materialise than originally estimated. Interest rates have remained higher for longer due to economic factors beyond the Council's control and therefore interest payable was more than originally forecast. The Council has also increased its level of debt which has increased interest payable.

64. The Council have been able to take advantage of the higher interest rates by investing any surplus cash and have therefore been able to partially offset the increased interest payable by an increase in interest receivable.

65. The decrease in property fund dividend is due to the termination of the Lothbury Property Fund and the decreased level of dividends as assets are sold.

Conclusion

66. The Council's treasury management activity during 2024/25 has been carried out in accordance with Council Policy and within legal limits. The financial year has remained very volatile with interest rates not falling as quickly as expected leading to pressures on the treasury management budget. Interest rates cuts are expected to be gradual over 2025/26 with any real reduction in rates not expected to take place until the latter part of the financial year.

Outcome of Consultation

67. No formal consultation has been undertaken regarding this report.

Appendix 1

Additional Prudential Indicators not reported in the body of the report.

		2023/24 Actual	2024/25 Approved Indicator	2024/25 Outturn
1	**limits on fixed interest rates**	**79%**	**100%**	**70%**
2	**limits on variable interest rates**	**21%**	**40%**	**30%**
3	**Maturity structure of fixed interest rate borrowing (upper Limit)**			
	Under 12 months	**21%**	**40%**	**30%**
	12 months to 2 years	**21%**	**50%**	**30%**
	2 years to 5 years	**26%**	**60%**	**39%**
	5 years to 10 years	**31%**	**80%**	**40%**
	10 years and above	**100%**	**100%**	**100%**
4	**Maximum Principal funds invested greater than 364 days**	**£50m**	**£50m**	**£50m**

Appendix 2

The Economy and Interest Rates

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 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.

EU. 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.

Other Issues

Throughout this report Right of Use Assets are referred to. The adoption of IFRS 16 – Leases became mandatory for all local authorities from 1st April 2024. It requires lessees to recognise most leases on their balance sheet, whereas the previous standard (IAS17) allowed for these leases to be treated as operating leases and therefore off-balance sheet.

The effect of IFRS 16 is to bring leases on balance sheet as our own assets and this therefore impacts on the Capital Finance Requirement (CFR) as there is an obligation to fund these assets. As payments are made this obligation decreases through the MRP contribution and reduces the balance on the CFR.

Glossary of Terms

Capital Financing Requirement (CFR)	This is the Councils underlying need to borrow which can be traced back to the Councils Balance Sheet and the value of the Councils assets which have yet to be paid for.
Minimum Revenue Provision (MRP)	Monies set aside from the revenue budget to repay accumulated debt.
Call	Investments that can be returned without a period of notice
Counterparty	Institutions, Banks etc. that with make investments or take out loans with.
Specified Investments	Investments in Banks and Building Societies with a high credit rating for periods of less than 1 year
Non-Specified Investments	Investments in un-rated Building Societies and any investments in Banks and Building Societies for more than 1 year.
Operational Liquidity	Working Cash flow
Authorised Limit	Maximum amount of borrowing that could be taken in total.
Operational Boundary	The expected amount of borrowing assumed in total.
PWLB	Public Works Loan Board. The Governments lending body to Local Authorities
Discount	Amount payable by the PWLB when loans are repaid if the current loan rate is less than the rate borne by the original debt
Yield Curve	Is a graph that shows the relationship between the interest rate paid and length of time to repayment of a loan.
Gilts	Government Borrowing Bonds
SONIA	The Sterling Overnight Index Average – generally a replacement set of indices (for LIBID) for those benchmarking their investments.
Spreads	The difference between the highest rate of interest and the lowest rate of interest earned/charged on any one particular maturity period i.e. 1 year, 2 year 5 year etc.
LIBID	London Interbank Bid Rate. The average rate at which a bank is willing to borrow from another bank.

LIBOR	London Interbank Offer Rate. The average rate at which a bank is willing to lend to another bank. LIBOR is always higher than the corresponding bid rate and the difference between the two rates is known as the spread.