Appendix A

Treasury Management 2024-25 Annual Report

Introduction

The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve, as a minimum, treasury management semi-annual and annual outturn reports.

This report includes the requirement in the 2021 Code, mandatory from 1st April 2023, of reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the Authority's normal revenue and capital monitoring report.

The Authority's treasury management strategy for 2024/25 was approved at Council on 28th February 2024. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

External Context

Economic background: Both the UK and US elected new governments during the period, whose policy decisions impacted the economic outlook. The Chancellor of the Exchequer delivered her Spring Statement in March 2025, following her Budget in October 2024. Based on the plans announced, the Office for Budget Responsibility downgraded its predictions for UK growth in 2025 to 1% from 2%. However, it upgraded its predictions for the four subsequent years. Inflation predictions for 2025 were pushed up, to 3.2% from 2.6%, before seen as falling back to target in 2027. The market reaction to the Spring Statement was more muted compared to the Budget, with very recent market turbulence being driven more by US trade policy decisions and President Trump.

After revising its interest rate forecast in November following the Budget, the council's treasury management advisor, Arlingclose, maintained its stance that Bank Rate will fall to 3.75% in 2025.

UK annual Consumer Price Index (CPI) inflation continued to stay above the 2% Bank of England (BoE) target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices at 2.8% in February 2025, down from 3.0% in the previous month and below expectations. Core CPI also remained elevated, falling slightly in February to 3.5% from 3.7% in January, just below expectations for 3.6% but higher than the last three months of the calendar year.

The UK economy Gross Domestic Product (GDP) grew by 0.1% between October and December 2024, unrevised from the initial estimate. This was an improvement on the zero growth in the previous quarter, but down from the 0.4% growth between April and June 2024. Of the monthly GDP figures, the economy was estimated to have contracted by 0.1% in January, worse than expectations for a 0.1% gain.

The labour market continued to cool, but the ONS data still require treating with caution. Recent data showed the unemployment rate rose to 4.4% (3mth/year) in the three months to January 2025 while the economic inactivity rate fell again to 21.5%. The ONS reported pay growth over the same three-month period at 5.9% for regular earnings (excluding bonuses) and 5.8% for total earnings.

The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.5% at its March 2025 meeting, having reduced it in February. This follows earlier 0.25% cuts in November and August 2024 from the 5.25% peak. At the March MPC meeting, members voted 8-1 to maintain Bank Rate at 4.5%, with the one dissenter preferring another 25 basis points cut. The meeting minutes implied a slightly more hawkish tilt compared to February when two MPC members wanted a 50bps cut. In the minutes, the Bank also upgraded its Q1 2025 GDP forecast to around 0.25% from the previous estimate of 0.1%.

The February Monetary Policy Report (MPR) showed the BoE expected GDP growth in 2025 to be significantly weaker compared to the November MPR. GDP is forecast to rise by 0.1% in Q1 2025, less than the previous estimate of 0.4%. Four-quarter GDP growth is expected to pick up from the middle of 2025, to over 1.5% by the end of the forecast period. The outlook for CPI inflation showed it remaining above the MPC's 2% target throughout 2025. It is expected to hit around 3.5% by June before peaking at 3.7% in Q3 and then easing towards the end of the year, but staying above the 2% target. The unemployment rate was expected to rise steadily to around 4.75% by the end of the forecast horizon, above the assumed medium-term equilibrium unemployment rate of 4.5%.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would continue to fall throughout 2025. From the cuts in August and November 2024 and February 2025, which took Bank Rate to 4.50%, May is considered the likely month for the next reduction, with other cuts following in line with MPR months to take Bank Rate down to around 3.75% by the end of 2025.

The US Federal Reserve paused its cutting cycle in the first three months of 2025, having reduced the Fed Funds Rate by 0.25% to a range of 4.25%-4.50% in December, the third cut in succession. Fed policymakers noted uncertainty around the economic outlook but were anticipating around 0.50% of further cuts in the policy rate in 2025. Economic growth continued to rise at a reasonable pace, expanding at an annualised rate of 2.4% in Q4 2024 while inflation remained elevated over the period. However, growth is now expected to weaken by more than previously expected in 2025, to 1.7% from 2.1%. The uncertainty that President Trump has brought both before and since his inauguration in January is expected to continue.

The European Central Bank (ECB) continued its rate cutting cycle over the period, reducing its three key policy rates by another 0.25% in March, acknowledging that monetary policy is becoming meaningfully less restrictive. Euro zone inflation has decreased steadily in 2025, falling to 2.2% in March, the lowest level since November 2024. Over the current calendar year, inflation is expected to average 2.3%. GDP growth stagnated in the last quarter of the 2024 calendar year, after expanding by 0.4% in the previous quarter. For 2025, economic growth forecasts were revised downwards to 0.9%.

Financial markets: Financial market sentiment was reasonably positive over most of the period, but economic, financial and geopolitical issues meant the trend of market volatility remained. In the latter part of the period, volatility increased and bond yields started to fall following a January peak, as the economic uncertainty around likely US trade policy impacted financial markets. Yields in the UK and US started to diverge in the last month of the period, with the former rising around concerns over the fiscal implications on the UK government from weaker growth, business sentiment and higher rates, while the latter started falling on potential recession fears due to the unpredictable nature of policy announcements by the US President and their potential impact.

The 10-year UK benchmark gilt yield started the period at 3.94% and ended at 4.69%, having reached a low of 3.76% in September and a high of 4.90% in January in between. While the 20-year gilt started at 4.40% and ended at 5.22%, hitting a low of 4.27% in September and a high of 5.40% in January. The Sterling Overnight Rate (SONIA) averaged 4.90% over the period.

The period in question ended shortly before US President Donald Trump announced his package of 'reciprocal tariffs', the immediate aftermath of which saw stock prices and government bond yields falling and introduced further uncertainty over the economic outlook.

Credit review: In October, Arlingclose revised its advised recommended maximum unsecured duration limit on most banks on its counterparty list to six months. Duration advice for the remaining five institutions, including the newly added Lloyds Bank Corporate Markets, was kept to a maximum of 100 days. This advice remained in place at the end of the period.

Fitch revised the outlook on Commonwealth Bank of Australia (CBA) to positive from stable while affirming its long-term rating at AA-, citing its consistent strong earnings and profitability.

Other than CBA, the last three months of the period were relatively quiet on the bank credit rating front, with a small number of updates issued for a number of lenders not on the Arlingclose recommended counterparty list.

On local authorities, S&P assigned a BBB+ to Warrington Council, having previously withdrawn its rating earlier in 2024, and also withdrew its rating for Lancashire County Council due to the council deciding to stop maintaining a credit rating. However, it still holds a rating with Fitch and Moody's. Moody's withdrew its rating of Cornwall Council after it chose to no longer maintain a rating.

Credit default swap prices generally trended lower over the period but did start to rise modestly in March, but not to any levels considered concerning. Once again, price volatility over the period remained generally more muted compared to previous periods.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

Local Context

On 31st March 2025, the Authority had net [borrowing / investments] of £[X]m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.24 Actual £m	**31.3.25 Actual £m**
General Fund CFR	60.1	61.8
Less: *Other debt liabilities	-	-
External borrowing**	53.6	64.5
Internal (over) borrowing	6.5	(2.7)
Less: Balance sheet resources	(34.0)	(32.2)
Net borrowing	**19.6**	**32.3**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt
** shows only loans to which the Authority is committed and excludes optional refinancing

The treasury management position at 31st March and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.24 Balance £m	Movement £m	31.3.25 Balance £m	31.3.25 Rate %
Long-term borrowing				
- PWLB	(1.5)	-	(1.5)	8.875%
- LOBOs	-	-	-	-
- Other	-	-	-	-
Short-term borrowing	(52.1)	(10.9)	(63.0)	5.275%
Total borrowing	**(53.6)**	**(10.9)**	**(64.5)**	
Long-term investments*	23.0	(7.9)	15.1	3.61%
Short-term investments	6.5	(3.6)	2.9	**
Cash and cash equivalents	4.2	17.1	21.3	5.07%
Total investments	**33.7**	**5.6**	**39.3**	
Net borrowing	**(19.9)**	**5.3**	**(25.2)**	

** Long-term investments includes balance of property fund not yet being wound down, shareholding in Millstream Property Company and long term loans to Herts Building Control and Millstream Property Company.*

***Balance of 2nd property fund being wound down.*

Short term borrowing increased to ensure cash liquidity around the major project spend, at year end, including the new waste vehicles and bins, originally estimated to be spent end of March 2025 but delayed to 2025/26, funds were invested to reduce the cost of carry, to a minimum.

Borrowing Strategy and Activity

As outlined in the treasury strategy, the Authority’s chief objective when borrowing has been to strike an appropriate risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority’s long-term plans change being a secondary objective. The Authority’s borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. During the majority of the period short term interest rates have been higher than long term interest rates.

After substantial rises in interest rates since 2021 many central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields were volatile but have increased overall during the period. Much of the increase has been in response to market concerns that policies introduced by the Labour government will be inflationary and lead to higher levels of government borrowing. The election of Donald Trump in the US in November is also expected to lead to inflationary trade policies.

The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the period and 5.42% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.71%. Rates for 20-year maturity loans ranged from 5.01% to 6.14% during the period, and 50-year maturity loans from 4.88% to 5.88%.

For the majority of the year the cost of short-term borrowing from other local authorities closely tracked Base Rate at around 5.00% - 5.25%. However, from late 2024 rates began to rise, peaking at around 6% in February and March 2025.

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Authority has no new plans to borrow to invest primarily for financial return.

The Authority currently holds £4.3m in commercial investments plus a further £11m currently being marketed for sale that were primarily purchased for financial return prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the Authority will review the options for exiting these investments.

Loans Portfolio: At 31st March 2025 the Authority held £64.5m of loans, an increase of £11.9m from 31st March 2024, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31st March 2025 are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.24 Balance £m	**Net Movement £m**	**31.3.25 Balance £m**	**31.3.25 Weighted Average Rate %**	**31.4.25 Weighted Average Maturity**
Public Works Loan Board (long-term)	1.5	-	1.5	8.875%	30yrs
Public Works Loan Board (short-term)	15.0	35.0	50.0	4.85%	15mths
Local authorities (short-term)	37.1	(24.1)	13.0	5.70%	4mths
Total borrowing	**53.6**	**10.9**	**64.5**		

The Authority's short-term borrowing has continued to increase, as entering into any longer-term debt is on hold, due to long term PWLB interest rates remaining high. The average rate on the Authority's short-term PWLB loans of £50m, as at 31st March 2025 was 4.85%, this compares with 5.37% on the £15m loans held 12 months ago.

PWLB loans have a minimum maturity of 1 year. The authority uses inter local authority borrowing for loans less than 1 year. Rates are usually inflated at year end, due to higher demand for short term cash around this time. The two local authority loans held at 31st March 2025 had an agreed rate of 5.70%, this compares with rates of up to 6.90% on short term loans, entered into, at similar time, year ending 31st March 2024.

Loans restructuring: The authority did not enter into any long-term loan restructuring in the year ended 31st March 2025, but continues to review the position with its treasury advisory service, Arlingclose.

<u>Other Debt Activity</u>

The authority did not enter into any other debt activity, other than those listed above. It is undertaking a review of its assets, to identify surplus assets for potential sale, receipts from sales produce capital receipts, which can be used to fund the ongoing capital programme and it is hoped, reduce current debt levels.

Treasury Investment Activity

The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £21m and £42m , including property funds, due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.24 Balance £m	**Net Movement £m**	**31.3.25 Balance £m**	**31.3.25 Income Return %**	**31.3.25 Weighted Average Maturity days**
Banks & building societies (unsecured)	5.1	4.4	9.5	4.34%	Call
Local authorities and other govt entities	-	7.0	7.0	6.275%	1 mth
Money Market Funds	5.6	(0.8)	4.8	4.66%	Call
Property Funds	17.8	(5.0)	12.8	3.61%	N/A
Total investments	**28.5**	**5.6**	**34.1**		

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

Bank Rate reduced from 5.25% to 5.00% in August 2024, again to 4.75% in November 2024 and again to 4.5% in February 2025 with short term interest rates largely being around these levels. The rates on DMADF deposits ranged between 4.45% and 5.20% and money market rates between 4.66% and 5.17.

Externally Managed Pooled Funds: As at 31st March 2025, £12.8m of the Authority's investments was invested in externally managed strategic pooled property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of 3.61%, which is used to support services in year.

In financial markets the 2024/25 year was characterised by overall positive equity market performance, market volatility, elevated global yields, central bank interest rate cuts and uncertainties surrounding the impact of UK and European fiscal policy and particularly US President Donald Trump's tariff plans.

For UK and US government bonds, yields declined (and therefore prices rose) until September but then moved higher following the UK budget and strong US economic data. Government bond yields were then generally dragged upwards (prices down) globally by US market movements, given the uncertain trade policy outlook of Donald Trump's administration. Announcements of increased defence spending by governments in Europe and fiscal concerns in the UK saw yields spiking in January before easing somewhat, despite some divergence.

US, UK & European stock markets hit highs in early 2025 but started to decline towards the very end of the period, particularly in the US, reflecting investor concerns over escalating trade tensions and economic uncertainty. The FTSE All Share index was higher at the end of the 12-month period at 4,623 on 31/03/2025 versus 4,324 on 01/04/24. The MSCI All Countries World Index was higher at 3,629 on 31/03/2025 versus 3,425 on 01/04/24.

Having had a challenging time since 2022, UK commercial property generally experienced a recovery during the period, with improved investment activity, capital values stabilising or improving, particularly towards the end of the period, and income remaining relatively robust.

The period in question ended shortly before US President Donald Trump announced his package of 'reciprocal tariffs', the immediate aftermath of which saw stock prices and government bond yields falling and introduced further uncertainty over the economic outlook.

The change in the Authority's funds' capital values and income return over the 12-month period to 31st March is shown in Table 4.

Income from the Authority's property funds greatly reduced from one fund, due to the winding down and asset sales to return principal sums to investors. The 2nd fund had announced it would to be wound down, but with a proposed merger to a pension fund. This had little impact on the rental distributions in 2024/25, due to fund not selling off major assets and wanting to generate good income returns to increase the success of the merger.

Statutory override: Further to consultations in April 2023 and December 2024 MHCLG wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. On the assumption that when published regulations follow this policy announcement, the statutory override will be extended up until the 1st April 2029 for investments already in place before 1st April 2024. The override will not apply to any new investments taken out on or after 1st April 2024. The Authority had set up a reserve to mitigate the impact of the statutory override not being extended.

Non-Treasury Investments

The definition of investments in the Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

The Authority held £5.2m of such investments.

- shareholding in subsidiaries £1.7m
- loans to subsidiaries £3.5m

These investments generated £0.146m of investment income for the Authority, representing a rate of return of 2.8%.

Treasury Performance

The Authority produced a favourable outturn totalling £1.1m, on interest payments on Loans and interest receivable on investments.

Table 5: Treasury Performance against Budget

	Original Budget 2024/25 £m	Outturn £m	Variance £m
Interest Payments on Loans	2.955	2.368	(0.587)
Interest & Investment Income	(1.200)	(1.730)	(0.530)
Total Saving			**(1.117)**

MRP Regulations

On 10th April 2024 amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP). The majority of the changes take effect from the 2025/26 financial year, although there is a requirement that for capital loans given on or after 7th May 2024 sufficient MRP must be charged so that the outstanding CFR in respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for that loan.

The regulations also require that local authorities cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets).

Compliance

The Director of Finance, Risk and Performance reports that all treasury management activities undertaken during the year complied fully with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 6 below.

Table 6: Investment Limits

	2024/25 Counterparty Maximum	31.3.25 Actual	2024/25 Sector Limit	Complied?
The UK Government	Unlimited	£19.6m	n/a	Yes
Local authorities & other government entities	£20m	**£10.0m**	**Unlimited**	Yes
Secured investments	**£20m**	**-**	**Unlimited**	Yes
Banks (unsecured)	**£20m**	**£10.0m**	**Unlimited**	Yes
Building societies (unsecured)	**£20m**	**£9.6m**	**£60m**	Yes
Registered providers (unsecured)	**£5m**	**-**	**£30m**	Yes

Money market funds	**£20m**	**£9.6m**	**Unlimited**	Yes
Strategic pooled funds	**£20m**	**£17.8m**	**£20m**	Yes
Real estate investment trusts	**n/a**	**-**	**n/a**	Yes
Other investments	**£1m**	**-**	**£5m**	Yes

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 7 below.

Table 7: Debt and the Authorised Limit and Operational Boundary

	2024/25 Maximum £m	**31.3.25 Actual £m**	**2024/25 Operational Boundary £m**	**2024/25 Authorised Limit £m**	**Complied?** Yes/No
Borrowing	63	63	75	150	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Treasury Management Prudential Indicators

As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

1. Liability Benchmark**:**
This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £5m required to manage day-to-day cash flow.

	31.3.24 Actual £m	**31.3.25 Actual £m**
Loans CFR	60.1	61.8
Less: Balance sheet resources	(34.0)	(32.2)
Net loans requirement	**25.1**	**29.6**
Plus: Liquidity allowance	10.0	5.0
Liability benchmark	**35.1**	**34.6**
Existing borrowing	**53.6**	**64.5**

Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk, but 98% of borrowing was short term, pending the return of property fund receipts and asset sales.

2. Maturity Structure of Borrowing**:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper Limit	Lower Limit	31.3.25 Actual	Complied?
Under 12 months	100%	0%	20%	Yes
12 months and within 24 months	100%	0%	78%	Yes
24 months and within 5 years	30%	0%	-	Yes
5 years and within 10 years	30%	0%	-	Yes
10 years and above	35%	0%	2%	Yes

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

3. Long-term Treasury Management Investments: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

	2024/25 £m	2025/26 £m	2026/27 £m	No fixed date £m
Limit on principal invested beyond year end	20.0	20.0	20.0	20.0
Actual principal invested beyond year end	15.1	6.0	6.0	6.0
Complied?	Yes	Yes	Yes	Yes

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.