

THE VALE OF GLAMORGAN COUNCIL

COUNCIL: 29<sup>TH</sup> SEPTEMBER, 2025

REFERENCE FROM GOVERNANCE AND AUDIT COMMITTEE: 21<sup>ST</sup> JULY, 2025

“222 ANNUAL TREASURY MANAGEMENT REPORT 2024/25 (REF) –

The reference from Cabinet of 3<sup>rd</sup> July, 2025 as contained within the agenda was presented by the Head of Finance / Section 151 Officer.

The report discussed compliance with prudential indicators and Treasury limits as set out in the Annual Treasury Strategy, designed to ensure that all Local Authority borrowing was prudent, sustainable and affordable.

The Council managed its investments in-house or with those institutions which met the minimum credit rating criteria and were included on the approved lending list as laid out in the investment strategy

Having considered the report, it was

RESOLVED – T H A T the Annual Report on Treasury Management 2024/25 be noted and the report be referred to Full Council for approval.

Reason for decision

Having regard to the contents of the report and discussions at the meeting.”

Attached as Appendix – Reference to Governance and Audit Committee: 21<sup>st</sup> July, 2025

THE VALE OF GLAMORGAN COUNCIL

GOVERNANCE AND AUDIT COMMITTEE: 21<sup>ST</sup> JULY, 2025

REFERENCE FROM CABINET: 3<sup>RD</sup> JULY, 2025

**“C41            ANNUAL TREASURY MANAGEMENT REPORT 2024/25 (EL/PR)  
(SCRUTINY – RESOURCES SCRUTINY) –**

The Leader presented the annual review report to Cabinet on Treasury Management 2024/25.

The report discussed compliance with prudential indicators and Treasury limits as set out in the Annual Treasury Strategy, designed to ensure that all Local Authority borrowing was prudent, sustainable and affordable.

The Council managed its investments in-house or with those institutions which met the minimum credit rating criteria and were included on the approved lending list as laid out in the investment strategy.

The report was proposed to be referred to the Governance and Audit Committee before going on to Full Council for final consideration and approval.

This was a matter for Executive decision.

Cabinet, having considered the report and all the issues and implications contained therein

RESOLVED – T H A T the annual report on Treasury Management 2024/25 be endorsed and that the report be referred to Governance and Audit Committee for review and to Full Council for approval.

Reason for decision

To accept and refer the report to the Governance and Audit Committee which has oversight of the Treasury arrangements and Full Council as required by regulation.

Attached as Appendix – Report to Cabinet: 3<sup>rd</sup> July, 2025

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| Meeting of:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <b>Cabinet</b>                                                                                   |
| Date of Meeting:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>Thursday, 03 July 2025</b>                                                                    |
| Relevant Scrutiny Committee:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b>Resources</b>                                                                                 |
| Report Title:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <b>Annual Treasury Management Report 2024/25</b>                                                 |
| Purpose of Report:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | To present to Cabinet the annual review report on Treasury Management 2024/25                    |
| Report Owner:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Executive Leader and Cabinet Member for Performance and Resources                                |
| Responsible Officer:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Head of Finance / Section 151 Officer                                                            |
| Elected Member and Officer Consultation:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | This report does not require Ward Member consultation.                                           |
| Policy Framework:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | This is a matter for Executive decision by Cabinet and for referral to Full Council for Approval |
| <p><b>Executive Summary:</b></p> <p>The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2024/25. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code), the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the Welsh Government (WG) revised guide on Local Government Investments (April 2010).</p> <p>During 2024/25, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year are to be found in the main body of this report including the Authorised Limit, Operational Boundary.</p> <p>The Council's prudential indicators have been revised to include the additional long term liabilities brought onto the Council's balance sheet with the introduction and implementation IFRS16 Leasing from April 2024. The new standard attempts to quantify the additional debt that the Council commits to when it enters into leasing agreements. The Council implemented the leasing standard during 2024/25 and as at 31st March, 2025 the other long term liability relating to leasing is £2.922M.</p> <p>The revised revenue cost is now represented by Minimum Revenue Position and Interest for the leased assets now on the Balance Sheet. As these leases were previously off Balance Sheet and fully charged to revenue, there is no impact on bottom line revenue outturn position</p> |                                                                                                  |

The Council reviewed the Minimum Revenue Provision (MRP) policy set out in the 2024/25 Strategy. Two reports were taken to the Governance and Audit Committee on 21st October, 2024 and 16th December, 2024. The amendments were recommended for approval by Cabinet in January 2025 and approved by Full Council on 10th March, 2025.

The Council's borrowing requirement increased £3.364M in 2024/25 giving a total Capital Financing Requirement of £202.156M on 31st March, 2025. At the same date, the Council held £169.851M of Gross External Borrowing and other longer term debt liability of £2.922M. The Council was therefore under borrowed by £29.383M as of 31st March, 2025.

The Head of Finance confirms that borrowing was only undertaken for capital purposes and the statutory borrowing limits (the Authorised and Operational limits), were not breached.

The Council's External Borrowing was well within the Authorised Limit and Operational Boundary set for 2024/25.

The Council has where possible been self-financing new capital expenditure and maturing debt. However, available balances and reserves are now practically exhausted, and the Council is now starting to borrow externally from the Public Works Loan Board (PWLB). Due to current high borrowing costs, the Council is borrowing shorter term (up to 7 years) as rates are forecast to fall during this period.

The Council borrowed £38.000M with maturity dates ranging from 1 year to 7 years during 2024/25. Of this amount £36.000M was borrowed from the Public Works Loan Board (PWLB) and £2.000M from a Local Authority (LA).

Of the borrowing undertaken £24.000M was in support of capital expenditure for the Housing Revenue Account (HRA). These s loans were subject to a 60-basis point deduction from the standard interest rate.

The Council financed new Capital Expenditure of £3.446M from internal borrowing and £3.537M from prudential borrowing.

The Council prematurely repaid the Lenders Option/ Borrowers Option (LOBO) loan for £4.000M on 27th August, 2024 as there was an option to repay without penalty.

The Council's debt portfolio as of 31st March, 2025 was as follows:

| Debt Portfolio                                          | 31st March 2025 |
|---------------------------------------------------------|-----------------|
|                                                         | Principal       |
|                                                         | £M              |
| Public Works Loan Board (PWLB)                          | 165.952         |
| Concessionary Loans                                     | 0.500           |
| Town Centre Loans                                       | 0.550           |
| Salix Loans                                             | 0.849           |
| Local Authority Borrowing                               | 2.000           |
| <b>Total Debt Excluding Other Long Term Liabilities</b> | <b>169.851</b>  |
| Other Long Term Liabilities                             | 2.922           |
| <b>Total Debt Including Other Long Term Liabilities</b> | <b>172.773</b>  |

The Council spent £65.508M during 2024/25 and most of that was financed by Capital Grant, S106 and Reserves.

The Council held investments of £17.190M on 31st March, 2025.

The Councils Council's investment portfolio as of 31st March, 2025 was as follows:

| Investment Portfolio                     | 31st March 2025 |
|------------------------------------------|-----------------|
|                                          | Principal       |
|                                          | £M              |
| Debt Management Account Deposit Facility | 5.625           |
| Local Authorities                        | 2.000           |
| Federated Hermes Money Market Fund       | 6.050           |
| CCLA Money Market Fund                   | 3.150           |
| Lloyds Instant Access Deposit Account    | 0.365           |
| <b>Total Investments</b>                 | <b>17.190</b>   |

The Bank of England interest rate peaked at 5.25% in August 2023. During 2024/25 this rate was cut three times to 4.50%. There has been a further cut in May 2025 to 4.25% and further cuts are forecast later in the year.

As a result of the falling investment rates available in the market throughout 2024/25, coupled with a reduction in investment balances, investment returns have decreased significantly from £3.476M in 2023/24 to £1.586M in 2024/2025 whereas interest payable on debt (excluding internal interest) has increased from £6.333M in 2023/24 to £6.594M in 24/2025.

However, investment interest rates declined at a lot slower pace than originally forecast and therefore the estimated investment income was greater than originally budgeted for. In addition, external borrowing fell well below the original forecasts mainly due to Capital Programme slippage hence borrowing costs were a lot lower than budgeted. Consequently, financing costs as a proportion of net revenue stream for both Council tax and Housing Rents fall below the 2024/2025 originally budgeted amount.

## **Recommendation**

1. That Cabinet accepts the annual report on Treasury Management 2024/25 and that the report be referred to Governance and Audit Committee for review and to Full Council for approval.

## **Reason for Recommendation**

1. To accept and refer the report to the Governance and Audit Committee which has oversight of the Treasury arrangements and Full Council as required by regulation.

## **1. Background**

- 1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2024/25. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code), the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the Welsh Government (WG) revised guide on Local Government Investments (April 2010).
- 1.2 During 2024/25 the reporting requirements were that Full Council should receive the following reports:
  - An Annual Treasury Strategy in advance of the year (Council 6th March, 2024, Minute no. 893).
  - A Mid-year Treasury Update Report (Council 2nd December, 2024).
  - An Annual Review Report comparing actual activity to the strategy (this report).
- 1.3 The Quarter 1 monitoring was received by Cabinet on 5th September, 2024 (Minute no. C109).
- 1.4 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities This Council confirms that it has complied with this requirement under the Code and has given prior scrutiny to all the above treasury management reports before they were reported to the Full Council. Member training on treasury management issues was undertaken on 17th February, 2025 to support Members' scrutiny role.
- 1.5 This annual outturn Treasury Management Report covers.
  - The Economy/Interest rates in 2024/25
  - The Strategy for 2024/25
  - Compliance with Treasury Limits and Prudential Indicators
  - The Borrowing Outturn for 2024/25
  - The Investment Outturn for 2024/25

## The Economy and Interest Rates 2024/25

### UK Economy

- 1.6** The following information has been prepared by the Authority's Treasury Management Advisors MUFG Corporate Markets; a division of MUFG Pension and Market Services and sets out the changing conditions under which Treasury Management operations were carried out.
- 1.7** UK inflation has proved somewhat stubborn throughout 2024/25. Having started the financial year at 2.3% year on year in April 2024, the Consumer Price Index (CPI) measure of inflation briefly dipped to 1.7% year on year in September 2024 before picking up pace again in the latter months. The February 2025 data showed CPI rising by 2.8% year on year and there is a very strong likelihood that this figure will increase to at least 3.5% by the Autumn of 2025.
- 1.8** Against this backdrop, together with the continued lack of progress in ending the Russian invasion of Ukraine and the potentially negative implications for global growth because of the implementation of US tariff policies, Bank Rate reductions have been limited. The Bank Rate currently stands at 4.25%, despite the Office for Budget Responsibility reducing its 2025 Gross Domestic Product (GDP) forecast for the UK economy to only 1% (previously 2% in October 2024).
- 1.9** Borrowing became increasingly expensive in 2024/25. Gilt yields rose significantly in the wake of the Chancellor's Autumn Statement in October 2024 and the loosening of fiscal policy and have remained elevated ever since. Dampened growth expectations have stoked market fears that increased levels of borrowing will need to be funded during 2025.
- 1.10** The table below provides a snapshot of the conundrum facing central banks: While inflationary 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.

Table 1 – Economic Indicators

|                              | UK                                                    | Eurozone                                               | US                                |
|------------------------------|-------------------------------------------------------|--------------------------------------------------------|-----------------------------------|
| <b>Bank Rate</b>             | 4.50%                                                 | 2.50%                                                  | 4.25-4.50%                        |
| <b>GDP</b>                   | 0.1% quarter/quarter<br>Quarter 4<br>(1.1% year/year) | +0.1% quarter/quarter<br>Quarter 4<br>(0.7% year/year) | 2.4% Quarter 4<br>Annualised      |
| <b>Inflation</b>             | 2.8% year/year<br>(February 2025)                     | 2.3 year/year (February<br>2025)                       | 2.8% year/year<br>(February 2025) |
| <b>Unemployment<br/>Rate</b> | 4.4% (January 2025)                                   | 6.2% (February 2025)                                   | 4.1% (February<br>2024)           |

- 1.11** At their March 2025 meeting the Bank of England left Bank Rate unchanged at 4.50% 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 2025 meeting, the stance was more to tighten monetary policy. This suggests that as inflation rises later in the year the Bank will cut rates even more slowly. Therefore, although a series of rate cuts over the next year or so is expected, it does not contradict the Bank taking “a gradual and careful” approach to cutting rates,
- 1.12** However, a tepid economy will probably reduce inflation further ahead and prompt the Bank to cut at regular intervals and the initial impact of the US tariff policies in April 2025 on the financial markets underpin the consensus that the Bank will eventually reduce rates to 3.50%.
- 1.13** 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% year on year. The Monetary Policy Committee (MPC) would prefer a more sustainable level of circa 3.5%.

#### **US Economy**

- 1.14** Despite the markets willing the Federal Open Market Committee (FOMC) to cut rates by 100 basis points as they did in 2024 it is likely the Federal Funds Rate will remain at 4.25% to 4.5% until inflation is under control and/or the US economy looks like it may head into recession because of US tariff policies. Inflation is close to 3% and annualised growth for Quarter 4 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.

#### **Eurozone Economy**

- 1.15** 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 turnaround in economic prosperity.
- 1.16** With GDP currently below 1% in the Eurozone, the European Central Bank (ECB) is likely to continue to cut rates, even though 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.

#### **Treasury Management Strategy 2024/25**

- 1.17** During 2024/25 inflationary pressures following the fallout from the Russian Invasion of Ukraine, the Israeli invasion of Gaza and Cost of Living Crisis continued to have a significant impact on the Council's treasury management activities.

- 1.18** Investment returns remained robust throughout 2024/25 with Bank Rate reducing steadily through the course of the financial year (three 0.25% rate cuts in total). At the end of March 2025, the yield curve was still relatively flat, which was considered unusual as further Bank Rate cuts were expected in 2025/26.
- 1.19** Bank Rate reductions of 0.25% occurred in August 2024, November 2024 and February 2025, bringing the headline rate down from 5.25% to 4.5%. Each of the Bank Rate cuts occurred in the same month as the Bank of England publishes its Quarterly Monetary Policy Report, therein providing a clarity over the timing of potential future rate cuts.
- 1.20** The MPC cut the Bank rate by a further 0.25% in May 2025 reducing the headline rate to 4.25%.
- 1.21** As of early April 2025, market sentiment has been heavily influenced by the US wide-ranging trade tariffs policy. Commentators anticipate a growing risk of a US recession during 2025/26 whilst UK Gross Domestic Product (GDP) is projected by the Office for Budget Responsibility to remain tepid, possibly achieving 1% GDP growth in the same period.
- 1.22** During 2024/25, investors with a wide range of counterparties were able to achieve returns of more than 5% for all periods ranging from 1 month to 12 months in the spring of 2024 but by March 2025 deposit rates were some 0.75% to 1% lower. Where liquidity requirements were not a drain on day-to-day investment choices, extending duration using “laddered investments” paid off.
- 1.23** However, investment choices were not straight-forward. Concerns over rising inflation after the Autumn Statement in October 2024 led to reduced expectations for the Bank Rate to fall. The CPI measure of inflation is expected to reach circa 3.75% by the autumn of 2025, which could provide for some presentational issues for a Bank whose primary mandate is to ensure inflation is close to 2% on a two-to-three-year timeframe. At the end of March, only two further rate cuts were priced into the market for 2025 (4% at December 2025). A week later and sentiment has changed dramatically in the wake of the equity market sell-off to the extent that markets now expect three Bank Rate reductions between May and December 2025 where Bank rate is forecast to fall to 3.75%.
- 1.24** The Council’s annual Treasury Management and Investment Strategy for 2024/25 was written in February 2024 against a backdrop of bank rates in the range of 5.25% in April 2024 falling to 3.75% by March 2025. Rates did not follow the path originally forecast and revised quarterly forecast rates for 2024/25 can be found at Appendix 1. The spread of interest rates throughout 2024/25 can also be found at in the same Appendix.
- 1.25** The upward sloping yield curve that prevailed at the beginning of 2024/2025 moved to a negative yield by year end and has meant that Local Authorities have continued to be faced with the challenge of the proactive investment of surplus cash. This has emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and “laddering” deposits on a rolling basis to where possible lock in the investment rates before they were cut.

- 1.26** A full breakdown of these investment returns is detailed later in this report.
- 1.27** Funds available for investment continued to be placed with the Debt Management Office (DMO), other Local Authorities, Money Market Funds (MMFS) and the Lloyds Instant Access Deposit Account. No investments were placed with and Treasury Bills as the other investment tools available offered more favourable rates of return and low risk.
- 1.28** Money Market Funds (MMFs) were still the most beneficial investment tool during 2024/25 as not only did they permit instant access to the funds invested, the rates of return were also calculated daily and moved simultaneously with the upward movement in interest rates. Since rates have been cut some money market fund rates have remained competitive and are currently achieving a yield more than Bank Rate.
- 1.29** The Section 151 Officer continued to adopt a cautious approach with respect to treasury management investment operations. The Council's primary objectives for the management of its investments is to give priority to the security and liquidity of its funds before seeking the best rate of return.
- 1.30** Investment balances have continued to be 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 especially when borrowing rates elevated. However, available balances and reserves are now practically exhausted, and the Council are now borrowing externally from the Public Works Loan Board (PWLb). Due to current high borrowing costs, the Council is borrowing shorter term (up to 7 years) in a hope that rates will fall during this period. The spread of PWLB rates throughout 2024/25 can be found at Appendix 1.
- 1.31** The Council's primary objective for the management of its debt is to ensure its long-term affordability. It has been the Council's policy to borrow from the Public Works Loan Board at long term fixed rates of interest. Borrowing long term with fixed interest rates provides certainty to the budget setting process. This policy will be resumed as soon as PWLB rates fall from their current inflated levels.
- 1.32** External borrowing was undertaken to finance capital expenditure for both General Fund Account (GF) and the Housing Revenue Account (HRA). HRA loans were subject to a 60-basis point deduction from the standard interest rate.
- 1.33** The Section 151 Officer advises that all treasury management activity undertaken during the financial year complied with the approved strategy, the CIPFA Code of Practice, and the relevant legislative provisions.

## **2. Key Issues for Consideration**

### **The Council's Capital Expenditure and Financing**

- 2.1** The Council undertakes Capital Expenditure on long term assets. These activities may either be financed immediately through capital or revenue resources e.g., capital receipts, capital grants etc. Alternatively, the activities can give rise to a

borrowing need which would create an increase in the Council's Capital Financing Requirement (CFR).

- 2.2** The Treasury Strategy for 2024/25 was set assuming planned expenditure of £112.344M split (£73.599M General Fund and £38.745M HRA). The final budget for 2024/25 is £83.232M (£49.606M General Fund and £33.626M HRA). Capital Outturn is £65.508M, a variance of £17.724M which is largely due to significant slippage. Slippage of £14.329M has been requested £7.410M for General Fund and £6.919M for HRA.

- 2.3** The table below shows the Council's capital expenditure and how it is financed.

**Table 2 - In Year Movement in Capital Financing Requirement**

|                                                                         | <b>2024/25</b>      | <b>2024/25</b> | <b>2024/25</b> |
|-------------------------------------------------------------------------|---------------------|----------------|----------------|
|                                                                         | <b>General Fund</b> | <b>HRA</b>     | <b>Total</b>   |
|                                                                         | <b>£M</b>           | <b>£M</b>      | <b>£M</b>      |
| Total Capital Expenditure                                               | 38.801              | 26.707         | 65.508         |
| Leasing Adjustments                                                     | 3.720               | 0              | 3.720          |
| Total Adjusted Capital Expenditure and Adjustments                      | 42.521              | 26.707         | 69.228         |
| Financed in Year                                                        | (35.355)            | (23.170)       | (58.525)       |
| Minimum Revenue Provision                                               | (4.226)             | (1.734)        | (5.960)        |
| Other Long Term Liabilities<br>Minimum Revenue Provision                | (0.799)             | 0              | (0.799)        |
| Voluntary Revenue Provision                                             | (0.580)             | 0.000          | (0.580)        |
| Movement in Capital Finance Requirement/Unfinanced Capital Expenditure* | <b>1.561</b>        | <b>1.803</b>   | <b>3.364</b>   |

\*This is capital expenditure that will be funded by a reduction in the Council's borrowing requirement.

### **The Council's Overall Borrowing Need**

- 2.4** The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend.
- 2.5** Part of the Council's treasury activity 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 the Public Works Loan Board [PWLb], or the money markets), or utilising temporary cash resources within the Council.

- 2.6** The Council's 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 General Fund and Housing Revenue Account (HRA) borrowing need. 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.
- 2.7** The Council's 2024/25 MRP Policy, (as required by Welsh Government), was approved as part of the Treasury Management Strategy Report 2024/25 by Full Council on 6th March 2024 Minute No 893. A Council may also make Voluntary Revenue Provision payments if they wish to do so, in addition to the MRP requirement.
- 2.8** During 2024/25 the Council reviewed the Minimum Revenue Provision (MRP) policy originally set out in the 2024/25 Strategy. Two reports were taken to the Governance and Audit Committee on 21st October 2024 and 6th January 2025. An amendment was recommended for approval by Cabinet in January 2025 and approved by Full Council on 10th March 2025. Originally for supported capital expenditure the Council operated the "Asset Life" Method when calculating MRP, by charging the expenditure over the expected useful life of the average assets' lives (40 years) of the (Non HRA) Council Assets in equal instalments, starting in the year after the asset becomes operational. This was amended to 50 years for 2024/25.

### **Gross Borrowing and the Capital Financing Requirement (CFR)**

- 2.9** 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 CFR for the current year (2024/25) and the next two financial years. The Council has fully complied with this prudential indicator in 2024/25.
- 2.10** The table below highlights the Council's Gross External Borrowing position against the CFR.

Table 3 – Borrowing against the CFR

|                                              | <b>31 March 2024</b> | <b>31 March 2025</b>  | <b>31 March 2025</b> |
|----------------------------------------------|----------------------|-----------------------|----------------------|
|                                              | <b>Actual</b>        | <b>Revised Budget</b> | <b>Actual</b>        |
|                                              | <b>£M</b>            | <b>£M</b>             | <b>£M</b>            |
| CFR General Fund Exc. Leasing                | 118.465              | 118.400               | 117.100              |
| CFR General Fund Other Long Term Liabilities | 0                    | 5.835                 | 2.921                |

|                                       |               |               |               |
|---------------------------------------|---------------|---------------|---------------|
| CFR HRA                               | 80.327        | 96.557        | 82.135        |
| Total CFR                             | 198.792       | 220.792       | 202.156       |
| <b>Gross External Borrowing Loans</b> | (143.312)     | (162.554)     | (169.851)     |
| <b>Other Long Term Liabilities</b>    | 0             | (4.515)       | (2.921)       |
| Under/(Over) Borrowing of CFR         | <b>55.480</b> | <b>53.723</b> | <b>29.383</b> |

- 2.11** The table above shows that from April 2024 to March 2025 there was an increase in the total loans raised to finance the capital expenditure after providing for the Minimum Revenue Provision (MRP). The amount outstanding fell well below the 2024/25 estimate. This was mainly due to the slippage of capital programme into 2025/26 and future years. Consequently, total external borrowing also fell well below the 2024/25 estimate as firstly there was less new capital expenditure to finance and secondly, where possible this expenditure was funded from reserves and balances in the context of high interest rates for external borrowing. In addition, maturing external debt was also partly refinanced from internal borrowing due to the unfavourable markets rates prevailing. This internal borrowing position will not be able to be maintained in the Medium Term as reserve balances have reduced significantly and therefore external funding will need to be sought as borrowing rates start to fall.

**2.12 The Authorised Limit**

The Authorised Limit is the affordable borrowing limit required by Section 3 of the Local Government Act 2003. Once it has been set, the Council does not have the power to borrow above this level.

**2.13 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 above the boundary is acceptable subject to the Authorised Limit not being breached.

- 2.14** The Council's performance against the above indicators in 2024/25 is set out in the table below.

**2.15 Authorised Limit / Operation Boundary v Gross Borrowing**

Table 4 – Borrowing Limits

|                                          | <b>2024/25</b> |
|------------------------------------------|----------------|
|                                          | <b>£M</b>      |
| Authorised Limit                         | <b>265.394</b> |
| Maximum Gross Borrowing Position in Year | 173.316        |
| Operational Boundary                     | <b>244.170</b> |
| Average Gross Borrowing Position         | 154.785        |

## 2.16 Actual Financing Costs as a Proportion of Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and long-term obligation costs net of investment income) against the net revenue stream.

## 2.17 Financing Costs as a proportion of Net Revenue Stream

Table 6 – Financing Proportions

|                | Non HRA (Council Tax) | HRA (Rents)  |
|----------------|-----------------------|--------------|
|                | %                     | %            |
| 2024/25 Budget | 2.92                  | 20.57        |
| 2024/25 Actual | <b>2.34</b>           | <b>20.10</b> |

## Treasury Position

- 2.18** The Council's treasury management debt and investment position is organised by the treasury management service 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.

- 2.19** At the beginning and the end of 2024/25, the Council's treasury position was as follows. Longer-term liabilities have not been included in this calculation.

Table 7 – Debt Portfolio

| Debt Portfolio               | 31st March 2024 |              | 31st March 2025 |              |
|------------------------------|-----------------|--------------|-----------------|--------------|
|                              | Principal       | Rate Payable | Principal       | Rate Payable |
|                              | £M              | %            | £M              | %            |
| <b>Fixed Rate Funding</b>    |                 |              |                 |              |
| PWLB                         | 137.076         | 4.382        | 165.952         | 4.382        |
| Local Authority Loans        | 0.000           | 0.000        | 2.000           | 4.650        |
| Concessionary Loans          | 0.500           | 0.000        | 0.500           | 0.000        |
| Town Centre Loans            | 0.550           | 0.000        | 0.550           | 0.000        |
| Salix Loans                  | 1.186           | 0.000        | 0.849           | 0.000        |
| <b>Variable Rate Funding</b> |                 |              |                 |              |
| Market Loans                 | 4.000           | 4.500        | 0.000           | 0.000        |
| <b>Loan Debt</b>             | <b>143.312</b>  |              | <b>169.851</b>  |              |
| Other Long-Term Liabilities  | 0               |              | 2.922           |              |
| Total Debt                   | 143.312         |              | 172.773         |              |
| CFR                          | (198.792)       |              | (202.156)       |              |

|                                   |                 |  |                 |  |
|-----------------------------------|-----------------|--|-----------------|--|
| <b>Over/(Under)<br/>Borrowing</b> | <b>(55.480)</b> |  | <b>(29.383)</b> |  |
|-----------------------------------|-----------------|--|-----------------|--|

Table 8 - Movement in Net Debt

|                   | <b>31st March<br/>2024</b> | <b>31st March 2025</b> | <b>Movement</b> |
|-------------------|----------------------------|------------------------|-----------------|
|                   | <b>£M</b>                  | <b>£M</b>              | <b>£M</b>       |
| Total Debt        | 143.312                    | 172.773                | 29.461          |
| Total Investments | (34.195)                   | (17.190)               | 17.005          |
| <b>Net Debt</b>   | <b>109.117</b>             | <b>155.583</b>         | <b>46.466</b>   |

### **Maturity Structure of Debt Portfolio**

- 2.20** The Maturity Structure of the Debt Portfolio (excluding accrued interest and accounting adjustments) is set out below.

Table 9 – Maturity Profile

| <b>Maturity Period</b>          | <b>2024/25</b>            | <b>2024/25</b> | <b>2024/24</b> |
|---------------------------------|---------------------------|----------------|----------------|
|                                 | <b>Revised<br/>Limits</b> | <b>Actual*</b> | <b>Actual</b>  |
|                                 | %                         | £M             | %              |
| Less than one year              | 20                        | 8.480          | 4.99           |
| Between one and two years       | 40                        | 9.460          | 5.57           |
| Between two and five years      | 40                        | 35.557         | 20.93          |
| Between five and ten years      | 40                        | 46.441         | 27.34          |
| Between ten and twenty years    | 100                       | 50.462         | 29.71          |
| Between twenty and thirty years | 100                       | 4.195          | 2.47           |
| Between thirty and forty years  | 100                       | 9.255          | 5.45           |
| Between forty and fifty years   | 100                       | 6.000          | 3.53           |
| <b>Total</b>                    |                           | <b>169.851</b> | <b>100.00</b>  |

- 2.21** The above table excludes the leasing liability and shows that the Council's debt portfolio has a good spread of maturities and that in each period the amount of maturing debt falls well within the percentages of total debt permitted within the treasury management approved strategy.

### **Borrowing Outturn 2024/25**

- 2.22** The total charges for interest and principal including for prudential borrowing during the year 2024/25 were £6.954M and £5.955M, respectively.
- 2.23** With the introduction of IFRS16 the total charges for principal and interest are £799k and £161k respectively for 2024/25. There were three new leasing additions in 2024/25 totalling £255k that relate to schools.

- 2.24** The Council raised two new loans in 2024/25. The first loan was to finance supported borrowing in the sum of £3.446M which was part of the Council's General Capital Funding for 2024/25. This was financed by internal borrowing. An average rate of interest from pooled loans was charged to reflect the use of capital resources. The second loan for £3.537M was prudentially borrowed to fund the Housing Revenue Account (HRA).
- 2.25** The Council externally borrowed £36.000M from the Public Works Loan Board (PWLb) and £2.000M from a Local Authority during 2024/25 to fund General Fund and HRA capital expenditure and to refinance maturing debt.
- 2.26** Loans borrowed from the Public Works Loan Board (PWLb) are intended to assist Local Authorities in meeting their long-term borrowing requirements.
- 2.27** During 2024/25 the Council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with external loan debt as cash supporting the Council's reserves, balances and cash flow were used as an interim measure. This avoided the cost of carry on any new long-term borrowing that was not immediately used to finance capital expenditure.
- 2.28** The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, these available cash balances and reserves have now been nearly exhausted, and most of the capital expenditure and the refinancing of maturing debt will be financed by external borrowing in 2025/26. The situation is being kept under review by the Section 151 Officer.
- 2.29** Market loans represent non PWLB loans. At the start of 2024/25, the Council held a Market loan to the value of £4.000M. This debt comprised of one Lenders Option/ Borrowers Option (LOBO) loan which would have matured on 23<sup>rd</sup>, February 2054. This loan was repaid on 27th August 2024 as the Council was given the option to repay without penalty.
- 2.30** The Concessionary Loan for £0.500M will now be repaid in 4 equal instalments the final instalment maturing in December 2029. This loan was advanced by Welsh Government and is interest free.
- 2.31** The Town Centre Loan for £0.550M is repayable on 31st March 2035. The loan is interest free and advanced by Welsh Government.
- 2.32** The loans advanced by Salix and Salix SEELS are to fund the street lighting energy reduction scheme and the installation of a new boiler at Stanwell Comprehensive School. These are repayable over 10 and 9.1 years in equal instalments. The loans are interest free funding.

#### **Borrowing In Advance of Need**

- 2.33** The Council is under borrowed on 31st March 2025 and has not borrowed in advance of its needs during 2024/25.

#### **Debt Rescheduling**

- 2.34** The Council did not undertake any rescheduling activities during 2024/25.

### Investment Outturn for 2024/25

- 2.35** All investment activity during 2024/25 conformed to the approved strategy and the Council managed not to experience any liquidity difficulties in year.

### Internally Managed Investments

- 2.36** The Council manages its investments in house and can invest with those institutions which meet the minimum credit rating criteria and are included on the approved lending list as laid out in the investment strategy. The Council currently invests short term for a range of periods from overnight to 364 days, dependent on its cash flows, its interest rate view, and the interest rates/periods on offer. A laddering approach to investments was again taken in 2024/25.
- 2.37** Investment movements for 2024/25 are summarised as follows.

Table 10 – Investment Movements

| Investment Portfolio                     | Actual 31st March 2024 | Actual Return | Actual 31st March 2025 | Actual Return | Interest 2024/25 |
|------------------------------------------|------------------------|---------------|------------------------|---------------|------------------|
|                                          | £M                     | %             | £M                     | %             | £'000S           |
| Debt Management Account Deposit Facility | 0.000                  | 4.370         | 5.625                  | 4.87          | 0.233            |
| Local Authorities                        | 27.500                 | 4.830         | 2.000                  | 5.41          | 0.476            |
| Federated Hermes Money Market Fund       | 6.625                  | 5.050         | 6.050                  | 4.95          | 0.437            |
| CCLA Money Market Fund                   | 0.050                  | 4.910         | 3.150                  | 4.91          | 0.379            |
| Lloyds Instant Access Deposit Account    | 0.020                  | 0.880         | 0.365                  | 0.88          | 0.061            |
| <b>Total</b>                             | <b>34.195</b>          |               | <b>17.190</b>          |               | <b>1.586</b>     |

All interest amounts stated in the above table are inclusive of accrued interest.

- 2.38** Deposits placed with Local Authorities and the DMO were for periods between overnight and 364 days.
- 2.39** Deposits placed with Money Market Funds and the Lloyds Accounts had instant access and were drawn down when needed to meet the Council's financial commitments.
- 2.40** The Section 151 Officer will continue to keep the borrowing and investment strategies under review.

### **3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?**

- 3.1** The Treasury Management and Investment Strategy ensures that the financial plans of the Council are sustainable into the future and do not adversely impact on future generations.
- 3.2** The Treasury and Investment Strategy underpins the financial management of the Council and its ability to achieve its well-being objectives as set out in the Corporate Plan.

### **4. Climate Change and Nature Implications**

- 4.1** Councils and the UK Government are widely implemented on policy on the response the Climate change.
- 4.2** Money Market Funds selected by the Council regularly monitor the environmental, social and governance (ESG) risk management activities with whom they invest.

### **5. Resources and Legal Considerations**

#### **Financial**

- 5.1** Money is borrowed for capital purposes and interest is charged to revenue accounts.

#### **Employment**

- 5.2** There are no direct employment issues relating to this report

#### **Legal (Including Equalities)**

- 5.3** Compliance with the Local Government Act 2003 and CIPFA's "Code of Practice for Treasury Management in the Public Services" is mandatory.

### **6. Background Papers**

- 6.1** CIPFA's Code of Practice for Treasury Management in the Public Services" (2021 Edition), "The Prudential Code" (2021 Edition) and WG guidance on Local Authority investments.



# **Annual Treasury Management Report 2024/25**

## **Appendix 1**

## The UK Economy and Interest Rates 2024/25

### 1.24

Forecasts at the time of approval of the Treasury Management and Investment Strategy in March 2024.

| MUFG CORPORATE MARKETS INTEREST RATE VIEW 8 <sup>TH</sup> JANUARY 2024 |          |          |          |          |          |          |          |          |          |          |          |          |          |
|------------------------------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
|                                                                        | Mar-2024 | Jun-2024 | Sep-2024 | Dec-2024 | Mar-2025 | Jun-2025 | Sep-2025 | Dec-2025 | Mar-2026 | Jun-2026 | Sep-2026 | Dec-2026 | Mar-2027 |
| Bank Rate                                                              | 5.25     | 5.25     | 4.75     | 4.25     | 3.75     | 3.25     | 3.00     | 3.00     | 3.00     | 3.00     | 3.00     | 3.00     | 3.00     |
| 3-month Ave Earnings                                                   | 5.30     | 5.30     | 4.80     | 4.30     | 3.80     | 3.30     | 3.00     | 3.00     | 3.00     | 3.00     | 3.00     | 3.00     | 3.00     |
| 6-month Ave Earnings                                                   | 5.20     | 5.10     | 4.60     | 4.10     | 3.70     | 3.20     | 3.10     | 3.10     | 3.10     | 3.10     | 3.10     | 3.10     | 3.10     |
| 12-month Ave Earnings                                                  | 5.00     | 4.90     | 4.40     | 3.90     | 3.60     | 3.60     | 3.10     | 3.10     | 3.10     | 3.10     | 3.10     | 3.20     | 3.20     |
| 5yr PWLB                                                               | 4.50     | 4.40     | 4.30     | 4.20     | 4.10     | 4.00     | 3.80     | 3.70     | 3.60     | 3.60     | 3.50     | 3.50     | 3.50     |
| 10yr PWLB                                                              | 4.70     | 4.50     | 4.40     | 4.30     | 4.20     | 4.10     | 4.00     | 3.90     | 3.80     | 3.70     | 3.70     | 3.70     | 3.70     |
| 25yr PWLB                                                              | 5.20     | 5.10     | 4.90     | 4.80     | 4.60     | 4.40     | 4.30     | 4.20     | 4.20     | 4.10     | 4.10     | 4.10     | 4.10     |
| 50yr PWLB                                                              | 5.00     | 4.90     | 4.70     | 4.60     | 4.40     | 4.20     | 4.10     | 4.00     | 4.00     | 3.90     | 3.90     | 3.90     | 3.90     |

## Treasury Management Strategy 2024/25

### 1.24

Interest rates forecast throughout 2024/25.

| MUFG CORPORATE MARKETS INTEREST RATE VIEW 5 <sup>TH</sup> FEBRUARY 2024 |          |          |          |          |          |          |          |          |          |          |          |          |          |
|-------------------------------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
|                                                                         | Mar-2024 | Jun-2024 | Sep-2024 | Dec-2024 | Mar-2025 | Jun-2025 | Sep-2025 | Dec-2025 | Mar-2026 | Jun-2026 | Sep-2026 | Dec-2026 | Mar-2027 |
| Bank Rate                                                               | 5.25     | 5.25     | 4.75     | 4.25     | 3.75     | 3.25     | 3.00     | 3.00     | 3.00     | 3.00     | 3.00     | 3.00     | 3.00     |
| 3-month Ave Earnings                                                    | 5.30     | 5.30     | 4.80     | 4.30     | 3.80     | 3.30     | 3.00     | 3.00     | 3.00     | 3.00     | 3.00     | 3.00     | 3.00     |
| 6-month Ave Earnings                                                    | 5.20     | 5.10     | 4.60     | 4.10     | 3.70     | 3.20     | 3.10     | 3.10     | 3.10     | 3.10     | 3.10     | 3.10     | 3.10     |
| 12-month Ave Earnings                                                   | 5.00     | 4.90     | 4.40     | 3.90     | 3.60     | 3.60     | 3.10     | 3.10     | 3.10     | 3.10     | 3.10     | 3.20     | 3.20     |
| 5yr PWLB                                                                | 4.50     | 4.40     | 4.30     | 4.20     | 4.10     | 4.00     | 3.80     | 3.70     | 3.60     | 3.60     | 3.50     | 3.50     | 3.50     |
| 10yr PWLB                                                               | 4.70     | 4.50     | 4.40     | 4.30     | 4.20     | 4.10     | 4.00     | 3.90     | 3.80     | 3.70     | 3.70     | 3.70     | 3.70     |
| 25yr PWLB                                                               | 5.20     | 5.10     | 4.90     | 4.80     | 4.60     | 4.40     | 4.30     | 4.20     | 4.20     | 4.10     | 4.10     | 4.10     | 4.10     |
| 50yr PWLB                                                               | 5.00     | 4.90     | 4.70     | 4.60     | 4.40     | 4.20     | 4.10     | 4.00     | 4.00     | 3.90     | 3.90     | 3.90     | 3.90     |



|                           |      |      |      |      |      |      |      |      |      |      |      |      |      |
|---------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| 6-month Average 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 Average 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 |
| 5yr 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 |
| 10yr 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 |
| 25yr 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 |
| 50yr 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 |

## 1.24

### Spread of Interest Rates 2024/25

|                  | Bank Rate | Sonia    | 7 Day    | 1 Month  | 3 Months | 6 Months | 12 Months |
|------------------|-----------|----------|----------|----------|----------|----------|-----------|
| <b>High</b>      | 5.25%     | 5.20%    | 5.20%    | 5.21%    | 5.23%    | 5.26%    | 5.33%     |
| <b>High Date</b> | 02/04/24  | 03/05/24 | 13/05/24 | 20/06/24 | 26/07/24 | 26/07/24 | 01/08/24  |
| <b>Low</b>       | 4.50%     | 4.45%    | 4.46%    | 4.46%    | 4.58%    | 4.73%    | 5.02%     |
| <b>Low Date</b>  | 06/02/25  | 12/02/25 | 13/02/25 | 12/03/25 | 31/03/25 | 31/03/25 | 31/03/25  |
| <b>Average</b>   | 4.95%     | 4.90%    | 4.91%    | 4.94%    | 5.02%    | 5.11%    | 5.22%     |
| <b>Spread</b>    | 0.75%     | 0.75%    | 0.74%    | 0.75%    | 0.65%    | 0.53%    | 0.30%     |

## 1.30

### Spread of PWLB Rates 2024/2025

|                  | 1 Year   | 5 Year   | 10 Year  | 25 Year  | 50 Year    |
|------------------|----------|----------|----------|----------|------------|
| <b>Low</b>       | 4.77%    | 4.31%    | 4.52%    | 5.08%    | 4.88%      |
| <b>Low Date</b>  | 26/02/25 | 17/09/24 | 17/09/24 | 17/09/24 | 17/09/2024 |
| <b>High</b>      | 5.61%    | 5.34%    | 5.71%    | 6.18%    | 5.88%      |
| <b>High Date</b> | 06/02/25 | 12/02/25 | 13/02/25 | 12/03/25 | 31/03/25   |
| <b>Average</b>   | 5.14%    | 4.86%    | 5.07%    | 5.56%    | 5.32%      |
| <b>Spread</b>    | 0.84%    | 1.03%    | 1.19%    | 1.10%    | 1.00%      |
|                  |          |          |          |          |            |

The current PWLB rates are set as margins over gilt yields as follows: -.

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate (GF)** is gilt plus 80 basis points (G+80bps)
- **PWLB Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)
- **PWLB Certainty Rate (HRA)** is gilt plus 40bps (G+40bps)