MEETING:	**GOVERNANCE AND AUDIT COMMITTEE**
DATE:	**11 SEPTEMBER 2025**
TITLE:	**TREASURY MANAGEMENT 2024/25**
PURPOSE:	**CIPFA's Code of Practice requires that a report on the results of the Council's actual treasury management is produced.**
RECOMMENDATION:	**RECEIVE THE REPORT FOR INFORMATION**
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Executive Summary

During the 2024/25 financial year the Council's treasury management activity remained within the limits originally set and total interest received on deposits was £2.5m which was below the budgeted level of £2.7m. There were no defaults by institutions in which the Council had deposited money.

1. Introduction

The Council's Treasury Management Strategy for 2024/25 was approved at Full Council on 7th March 2024.

The Council 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 are therefore central to the Council's Treasury Management Strategy.

This report compares the actual performance against the strategy for the financial year 2024/25 and fulfils the Council's legal obligation under the Local Government Act 2003 to have regard for both the CIPFA Code and the Welsh Government's Investment Guidance.

2. 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.

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. 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. The base rate is expected to reach 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.

3. Year End Position

Balance Sheet Summary

At 31 March 2025 the Council had net investments of £53m arising from its revenue and capital activities. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The movements are summarised in the following table:

	31.3.24 Actual £m	**2024/25 Movement £m**	**31.3.25 Actual £m**
CFR	174	6	180
Less: Other debt liabilities	(1)	(5)	(6)
Borrowing CFR	**173**	**1**	**174**
Less: Usable reserves	(128)	(10)	(138)
Less: Working capital	(85)	(4)	(89)
Net borrowing/ (investment)	**(40)**	**(13)**	**(53)**

The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

Treasury Management Summary

	31.3.24 Balance £m	2024/25 Movement £m	31.3.25 Balance £m
Long- term borrowing	94.0	(3.9)	90.1
Short-term borrowing	6.9	(2.9)	4.0
PFI	1.0	4.5	5.5
Total borrowing	**101.9**	**(2.3)**	**99.6**
Short-term investments	(97.6)	10.7	(86.9)
Cash and cash equivalents	(43.9)	(22.1)	(66.0)
Total investments	**(141.5)**	**(11.4)**	**(152.9)**
Net borrowing/ (investment)	**(39.6)**	**(13.7)**	**(53.3)**

4. Borrowing Activity

At 31st March 2025, the Council held £94.1m of loans, a decrease of £6.8m on the previous year, as part of its strategy for funding previous years' capital programmes.

The debt interest paid in 2024/25 was £5.3 million on an average debt portfolio of £99.2 million at an average interest rate of 5.37%.

The year-end borrowing position and the year-on-year change is summarised in the following table:

	31.3.24 Balance £m	2024/25 Movement £m	31.3.25 Balance £m	31.3.25 Rate %	31.3.25 WAM* years
PWLB	83.4	(6.6)	76.8	5.6	17.0
Bank (Fixed term)	16.2	0.0	16.2	4.2	53.4
Other	1.3	(0.2)	1.1	0.0	2.7
Total borrowing	**100.9**	**(6.8)**	**94.1**		

*Weighted average maturity

The Council's main objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with a secondary objective of flexibility to renegotiate loans should the Council's long-term plans change. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer- term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. 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 4.8% 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 the short- term borrowing from other local authorities closely tracked Base rate at around 5.00% - 5.25%. However from late 2023 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 Council. 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 Council has no plans to invest primarily for financial return.

No new long-term borrowing was undertaken in 2024/25, with existing loans maturing without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregoing investment income) and reduce overall treasury risk.

5. 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 Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances have ranged between £106.8 million and £235.8 million.

Treasury Investment Position

	31.3.24 Balance £m	2024/25 Movement £m	31.3.25 Balance £m	31.3.25 Rate %	31.3.25 WAM* days
Banks & building societies (unsecured)	5.9	0.1	6.0	4.5	29.3
Local Authorities	81.0	(56.0)	25.0	5.8	48.8
Money Market Funds	43.0	22.0	65.0	4.5	1.0
Debt Management Office	0.0	45.0	45.0	4.5	3.2
Pooled Funds	11.6	0.3	11.9	6.0	365+
Total investments	**141.5**	**11.4**	**152.9**		

*Weighted average maturity

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the optimum rate of return or yield. The Council'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.

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 4.45% and 5.29%.

£11.9m of the Council's investments are held in externally managed strategic pooled equity, bond and property funds where short-term liquidity is a lesser consideration, and the objectives instead are regular revenue income and long- term price stability. These funds generated an income return of 5.95% which is used to support services in year, and an unrealised capital gain of £0.3m in this financial year. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued stability in meeting the Council's medium to long term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years but with the confidence that over a three-to five year period total returns will exceed cash interest.

Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Income Rate of Return
31.03.2024	5.30	A+	38%	36	5.59%
31.03.2025	**4.67**	**A+**	**50%**	**22**	**4.82%**
Similar LAs	**3.92**	**AA-**	**30%**	**105**	**4.53%**
All LAs	**4.77**	**A+**	**64%**	**8**	**4.65%**

*Weighted average maturity

6. Compliance Report

The section 151 officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practic and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in the following tables:

Debt Limits

	2024/25 Maximum	31.3.25 Actual	2024/25 Operational Boundary	2024/25 Authorised Limit	Complied
Borrowing	£100.9m	£94.1m	£190m	£200m	✓

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.

Investment Limits

	2024/25 Maximum	31.3.25 Actual	2024/25 Limit	Complied
The UK Government	£71.7m	£45m	Unlimited	✓
Local authorities & other government entities	£5m	£5m	£10m	✓
Secured investments	£0m	£0m	£10m	✓
Banks (unsecured)	£5m	£5m	£5m	✓
Building societies (unsecured)	£0m	£0m	£5m	✓
Registered providers (unsecured)	£0m	£0m	£5m	✓
Money Market Funds	£10m	£10m	£10m	✓
Strategic pooled funds	£5m	£5m	£10m	✓
Real estate investment trusts	£0m	£0m	£10m	✓
Other investments	£0m	£0m	£5m	✓

7. Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators:

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the time-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment and taking the arithmetic average, weighted by the length of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.25 Actual	2024/25 Target	Complied
Portfolio average credit score	4.67	A score of 6 or lower	✓

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	31.3.25 Actual	2024/25 Target	Complied
Total cash available within 3 months	£141.0m	£10m	✓

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates was:

	31.3.25 Actual	2024/25 Limit	Complied
Upper limit on one year revenue impact of a 1% rise in interest rates	£1,301,900	£2,290,000	✓
Upper limit on one year revenue impact of a 1% fall in interest rates	£1,301,900	£2,290,000	✓

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

	31.3.25 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	4.27%	25%	0%	✓
12 months and within 24 months	4.83%	25%	0%	✓
24 months and within 5 years	3.04%	50%	0%	✓
5 years and within 10 years	25.19%	75%	0%	✓
10 years and above	62.68%	100%	0%	✓

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.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2024/25	2025/26	2026/27
Actual principal invested beyond year end	£13m	£0	£0
Limit on principal invested beyond year end	£40m	£20m	£20m
Complied	✓	✓	✓

8. Recommendation

To receive the report.