Appendix A

North Norfolk District Council

# Annual Treasury Management Outturn Report 2024/25

# Contents

# Annual Treasury Management Review 2024/25

## Purpose

This Authority 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) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

For the financial year 2024/25, to comply with reporting requirements, Full Council has been provided with the following reports:

- An annual treasury strategy in advance of the year (Council 21 February 2024).
- A mid-year treasury update report (Council 19 February 2025).
- An annual review following the end of the year describing the activity compared to the strategy (this report).

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by members.

This Authority confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Overview & Scrutiny Committee, before they were reported to the Full Council.

## Executive Summary

During 2024/25, the Authority complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

| Prudential and treasury indicators | 31 March 2024 Actual (£m) | 2024/25 Forecast (£m) | 31 March 2025 Actual (£m) |
|---|---|---|---|
| Capital Expenditure | 13.766 | 39.622 | 25.724 |
| **Capital Financing Requirement:** | **17.474** | **20.198** | **18.379** |
| Short-term Borrowing (under 1 year) | 6.700 | 0.000 | 2.000 |
| Long-term Borrowing (over 1 year) | 5.000 | 5.000 | 5.000 |
| **Total External Debt** | **11.700** | **5.000** | **7.000** |
| Short-term Investments (under 1 year) | 2.010 | 8.000 | 5.317 |
| Long-term Investments (over 1 year) | 20.000 | 22.581 | 20.000 |
| Non-Treasury Investments (Housing Loans) | 2.144 | 2.229 | 1.853 |
| **Total Investments** | **24.154** | **32.810** | **27.170** |
| **Net Borrowing/(Investments)** | **(12.454)** | **(27.810)** | **(20.170)** |

Other prudential and treasury indicators are to be found in the main body of this report. The Section 151 Officer also, confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached.

## Recommendations

The Authority is recommended to:

1. Approve the actual 2024/25 prudential and treasury indicators in this report
2. Note the annual treasury management report for 2024/25

## Introduction and Background

This report summarises the following:

- Capital activity during the year
- Impact of this activity on the Authority's underlying indebtedness (the Capital Financing Requirement)
- The actual prudential and treasury indicators
- Overall treasury position identifying how the Authority has borrowed in relation to this indebtedness, and the impact on investment balances
- Summary of interest rate movements in the year
- Detailed debt activity
- Detailed investment activity

## 1. The Authority's Capital Expenditure and Financing

The Authority undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Authority's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

| General Fund | 31 March 2024 Actual (£m) | 2024/25 Budget (£m) | 31 March 2025 Actual (£m) |
|---|---|---|---|
| **Capital expenditure** | **13.766** | **39.622** | **25.724** |
| Capital Receipts | 0.470 | 3.311 | 0.936 |
| Grants | 7.846 | 27.812 | 21.502 |
| Contributions | 1.035 | 2.783 | 1.064 |
| Reserves | 1.455 | 2.448 | 1.060 |
| Revenue Contribution to Capital (RCCO) | 0.100 | 0.000 | 0.000 |
| **Total Financed in year** | **10.906** | **39.622** | **25.724** |
| **Unfinanced capital expenditure (Borrowing)** | **(2.860)** | **(3.268)** | **(1.162)** |

## 2. The Authority's Overall Borrowing Need

The Authority's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Authority's indebtedness. It represents the 2024/25 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Authority's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Authority'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 or utilising temporary cash resources within the Authority.

**Reducing the CFR –** the Authority'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 Authority 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 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.

The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Authority's 2024/25 MRP Policy (as required by MHCLG Guidance) was approved as part of the Treasury Management Strategy Report for 2024/25 on 21 February 2024.

The Authority's CFR for the year is shown below, and represents a key prudential indicator. It includes leasing schemes on the balance sheet, which increase the Authority's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

| CFR: General Fund | 31 March 2024 Actual (£m) | 2024/25 Budget | 31 March 2025 Actual (£m) |
|---|---|---|---|
| **Opening balance** | 15.111 | 17.474 | 17.474 |
| **Add unfinanced capital expenditure (as above)** | 2.860 | 3.267 | 1.162 |
| **Add Finance Leases *** | 0.000 | 0.000 | 0.310 |
| **Less MRP** | (0.497) | (0.543) | (0.507) |
| **Less Finance Lease repayments** | 0.000 | 0.000 | (0.060) |
| **Closing balance** | **17.474** | **20.198** | **18.379** |

**Includes reclassified leases due to introduction of IFRS 16 (see note 8D for explanation of the new standard).*

The authority has made no voluntary application of capital receipts (VRP) in 2024/25.

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

**Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allows the Authority some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Authority's gross borrowing position against the CFR, and demonstrates compliance with this prudential indicator.

| CFR vs Gross Borrowing Indicator £m | 31.3.24 Actual | 2024/25 Budget | 31.3.25 Actual |
|---|---|---|---|
| **Gross borrowing position** | 11.700 | 5.000 | 7.000 |
| **CFR** | 17.474 | 20.198 | 18.379 |
| **Under / (over) funding of CFR** | **5.774** | **15.198** | **11.379** |

**The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Authority does not have the power to borrow above this level. The table below demonstrates that during 2024/25 the Authority has maintained gross borrowing within its authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Authority during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

**Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

| Treasury Limits Indicator (£m) | 2024/25 |
|---|---|
| Authorised limit | 50.000 |
| **Maximum gross borrowing position during the year** | **12.052** |
| Operational boundary | 15.000 |
| **Average gross borrowing position** | **6.147** |

The above table shows that the maximum borrowing undertaken by the authority did not exceed the authorised limit. It also shows that the average borrowing position was below the operational boundary.

## 3. Treasury Position as of 31 March 2025

The Authority'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 detailed in the summary, and through officer activity detailed in the Authority's Treasury Management Practices.

At the end of 2024/25, the Authority 's treasury position, (excluding borrowing by finance leases) was as follows:

| DEBT PORTFOLIO | 31 March 24 Principal (£m) | Rate/ Return (%) | Average Duration (Days) | 31 March 25 Principal (£m) | Average Rate/Return (£m) | Average period (Days) |
|---|---|---|---|---|---|---|
| **Fixed rate funding, short-term borrowing:** | | | | | | |
| Local Authority Borrowing | 5.000 | 4.93 | 110 | 2.000 | 5.44 | 34 |
| Police Authority Borrowing | 0.000 | 4.55 | 85 | 0.000 | 0.00 | 0 |
| Fire Authority Borrowing | 0.000 | 0.00 | 0 | 0.000 | 0.00 | 0 |
| Pension Fund Borrowing | 1.700 | 5.63 | 37 | 0.000 | 5.55 | 32 |
| Housing Authority Borrowing | 0.000 | 0.00 | 0 | 0.000 | 0.00 | 0 |
| **Fixed rate funding, long-term borrowing:** | | | | | | |
| PWLB | 5.000 | 5.39 | 393 | 5.000 | 5.39 | 28 |
| **Total debt** | **11.700** | **5.09** | **156** | **7.000** | **5.43** | **31** |
| **CFR** | **17.474** | | | **18.379** | | |
| **Over / (under) borrowing** | **(5.774)** | | | **(11.379)** | | |
| **Total investments** | **24.154** | **4.81** | | **27.171** | **4.95%** | |
| **Net debt** | **(18.380)** | | | **(15.792)** | | |

The maturity structure of the debt portfolio was as follows:

| Debt Comparison | 31 March 2024 Actual (£m) | 31 March 2025 Actual (£m) |
|---|---|---|
| Under 12 months | 6.700 | 2.000 |
| 12 months and within 24 months | 5.000 | 5.000 |
| 24 months and within 5 years | 0.000 | 0.000 |
| 5 years and within 10 years | 0.000 | 0.000 |
| 10 years and within 20 years | 0.000 | 0.000 |
| 20 years and within 30 years | 0.000 | 0.000 |
| 30 years and within 40 years | 0.000 | 0.000 |
| 40 years and within 50 years | 0.000 | 0.000 |
| **Total Borrowing** | **11.700** | **7.000** |
| Authorised Limit | 50.000 | 50.000 |
| **Borrowing Limit Exceeded?** | **No** | **No** |

During 2023/24 the Council has secured a £5m long-term loan with the PWLB (Central Government Public Works Loans Board) running from the 27 March 2024 to 28 April 2025, secured at an interest rate of 5.39%.

The Treasury has identified that at any point of time, the Council had a £5m minimum borrowing requirement per year, for the last three financial years. Any extra borrowing above this sum was only required on a short-term basis caused by the timing differences between the Council's expenditure and sources of income (cash flow).

To avoid interest rate risk, a PWLB long-term loan was secured instead of renewing short-term borrowing on an ad-hoc basis. Relying on short-term borrowing throughout the financial year leaves the Council vulnerable to fluctuations in the economy and subsequent unknown interest rate hikes. The loan was secured for one year only, to allow for a potential decrease in interest rates at the end of 2024/25 and avoid locking the Council into a long-term loan with a high fixed rate of interest. Interest rates have been declining in 24/25 as forecasted by the Treasury and the Council's Treasury Advisors and this downwards interest rate trend is expected to continue into 25/26.

Overall, the Council's borrowing requirement has decreased by £4.7m at the financial year end. This is from increased efforts put towards management of the Council's cashflow, payment run processing and appropriate financing of the Council's capital programme by accountants and managers (limiting use of forward-funding projects etc.)

Subsequent to the year end, the Council agreed a further PWLB loan for £5m in April 2025 for a period of 1 year. This will also be reflected in the 2025/26 Treasury Management reporting.

The Council's investment portfolio was as follows:

| INVESTMENT PORTFOLIO | 31 March 2024 Actual (£m) | 31 March 2024 Percentage of Portfolio | 31 March 2025 Actual (£m) | 31 March 2025 Percentage of Portfolio |
|---|---|---|---|---|
| **Treasury investments** | | | | |
| Money Market Funds | 2.010 | 8% | 5.317 | 19% |
| **Total managed in house** | **2.010** | **8%** | **5.317** | **19%** |
| Strategic Bond Funds | 5.000 | 21% | 5.000 | 18% |
| Equity Income Funds | 4.000 | 17% | 4.000 | 15% |
| Property Funds | 5.000 | 21% | 5.000 | 18% |
| Multi-Asset Income Funds | 6.000 | 24% | 6.000 | 21% |
| **Total managed externally** | **20.000** | **83%** | **20.000** | **72%** |
| **TOTAL TREASURY INVESTMENTS** | **22.010** | **91%** | **25.317** | **91%** |
| **Non-Treasury investments** | | | | |
| LN0001 – Broadland Housing | 1.885 | 6% | 1.615 | 6% |
| LN0002 – Homes for Wells | 0.150 | 1% | 0.133 | 1% |
| LN0003 – Homes for Wells | 0.042 | 1% | 0.041 | 1% |
| LN0004 – Homes for Wells | 0.067 | 1% | 0.064 | 1% |
| **TOTAL NON-TREASURY INVESTMENTS** | **2.144** | **9%** | **1.853** | **9%** |
| **TOTAL ALL INVESTMENTS** | **24.154** | **100%** | **27.170** | **100%** |

The maturity structure of the investment portfolio was as follows:

| COUNTERPARTY / INVESTMENT | Redemption Period | Investment Value 31 March 2025 (£m) |
|---|---|---|
| Aberdeen Standard / MMF | CALL | 1.960 |
| Blackrock / MMF | CALL | 2.127 |
| DWS / MMF | CALL | 0.000 |
| Federated Investors (UK) LLP / MMF | CALL | 1.230 |
| Goldman Sachs / MMF | CALL | 0.000 |
| Invesco AIM / MMF | CALL | 0.000 |
| CCLA (UK) Public Sector Deposit Fund / MMF | CALL | 0.000 |
| CCLA / Local Authorities Mutual Investment Trust | T + 6 months | 5.000 |
| M&G Securities / UK Income Distribution Fund | T + 3 days | 2.000 |
| Ninety-One / Diversified Income Fund | T + 3 days | 3.000 |
| Schroder Unit Trusts / Income Maximiser Fund | T + 4 days | 2.000 |
| Threadneedle / Strategic Bond Fund | T + 4 days | 3.000 |
| M&G Securities / Strategic Corporate Bond Fund | T + 3 days | 2.000 |
| Aegon Asset Management / Diversified Income Fund | T + 3 days | 3.000 |
| Broadland Housing (Housing Loan) | FIXED (Long-term loan) | 1.615 |
| Homes for Wells (Housing Loan) | FIXED (Long-term loan) | 0.238 |
| **TOTAL** | | **27.170** |

The Council has seven same day Money Market Fund (MMF) accounts which can be used to invest/redeem surplus cash around its daily cash requirements. For these MMF's there is no gain/loss on principal invested, they are secure but consequently provide a lower interest rate than alternative types of investment. Typically, interest rates match the current Bank of England Monetary Policy Committee set base rate or are slightly below. The cash balances invested in these counterparties fluctuate daily between £0.5m and £20m, the above table shows the balances at the outturn position.

The Council finished the year with seven investments in Pooled funds. These are intended for long-term investing to generate a higher interest return that the Council MMFs. The principal invested in Pooled Funds is more at risk than with MMFs as they are subject to gains/loss on fair value (change in sale price).

The Council has only invested in counterparties approved by its treasury advisors with thorough credit rating checks. All the Council's Pooled Fund investments are income funds, not accumulating funds.

The Council currently has four outstanding loans with Housing Associations (loans issued to support the provision of affordable housing in the district). These loans are agreed at the PWLB central government borrowing rate to ensure the Council is not funding private businesses at a cost to the authority.

To support the above investment portfolio, the below table summarises the interest earnt on the average amounts of the Council's investments during the last two financial years. The purpose of this table is to give members an idea of the rate of return on the Council's portfolio for each type of investment.

| INVESTMENT INTEREST (£m) | 31 March 2024 | | | 31 March 2025 | | |
|---|---|---|---|---|---|---|
| | Average Amount Invested | Interest Earnt (£m) | Average interest rate | Average Amount Invested | Interest Earnt (£m) | Average interest rate |
| Money Market Funds | 7.242 | 0.359 | 4.96% | 5.722 | 0.262 | 4.58% |
| **Total managed in house** | **7.242** | **0.359** | **4.96%** | **5.722** | **0.262** | **4.58%** |
| Short-Dated Bond Funds | 0.923 | 0.029 | 3.12% | 0.000 | 0.000 | 0.00% |
| Strategic Bond Funds | 5.000 | 0.195 | 3.70% | 5.000 | 0.196 | 3.93% |
| Equity Income Funds | 5.426 | 0.292 | 5.38% | 4.000 | 0.222 | 5.54% |
| Property Funds | 5.000 | 0.307 | 6.13% | 5.000 | 0.317 | 6.34% |
| Multi-Asset Income Funds | 6.000 | 0.301 | 4.62% | 6.000 | 0.303 | 5.04% |
| **Total managed externally (Pooled Funds)** | **22.349** | **1.124** | **5.03%** | **20.000** | **1.038** | **5.19%** |
| **TOTAL TREASURY INVESTMENTS** | **29.591** | **1.483** | **5.01%** | **25.722** | **1.300** | **5.05%** |

| Non-Treasury Investments (£m) | 31 March 2024 | | | 31 March 2025 | | |
|---|---|---|---|---|---|---|
| | Actual Amount Invested | Interest Earnt (£m) | Loan interest rate | Actual Amount Invested | Interest Earnt (£m) | Loan interest rate |
| LN0001 - Broadland Housing Association | 1.885 | 0.080 | 3.80% | 1.615 | 0.069 | 3.80% |
| LN0002 - Homes for Wells | 0.150 | 0.005 | 3.00% | 0.133 | 0.005 | 3.00% |
| LN0003 – Homes for Wells | 0.042 | 0.000 | 5.50% | 0.041 | 0.002 | 5.50% |
| LN0004 – Homes for Wells | 0.067 | 0.000 | 5.50% | 0.064 | 0.004 | 5.50% |
| **Total Loans** | **2.144** | **0.085** | **3.95%** | **2.144** | **0.080** | **3.95%** |

The Council currently only issues loans to Housing Providers as part of the Corporate Plan objective to provide affordable housing in North Norfolk. No other forms of loans have been issued. Consequently, the aim of these loans is not to provide a financial return to the Council. The interest rate of these loans is agreed at the central government PWLB rate. This is to ensure that the Council is not potentially borrowing money in the future to fund private businesses or paying borrowing interest on to fund.

The non-treasury investments (housing loans) are amortised loans where an element of principal and interest is repaid at agreed instalment dates. This allows the lender to repay the loan over time, lowering interest costs towards the end of the loan duration (the interest is calculated based on the most recent ending balance of the loan at each repayment interval). This approach allows for clearer financial reporting and risk management for both the borrower and the Council.

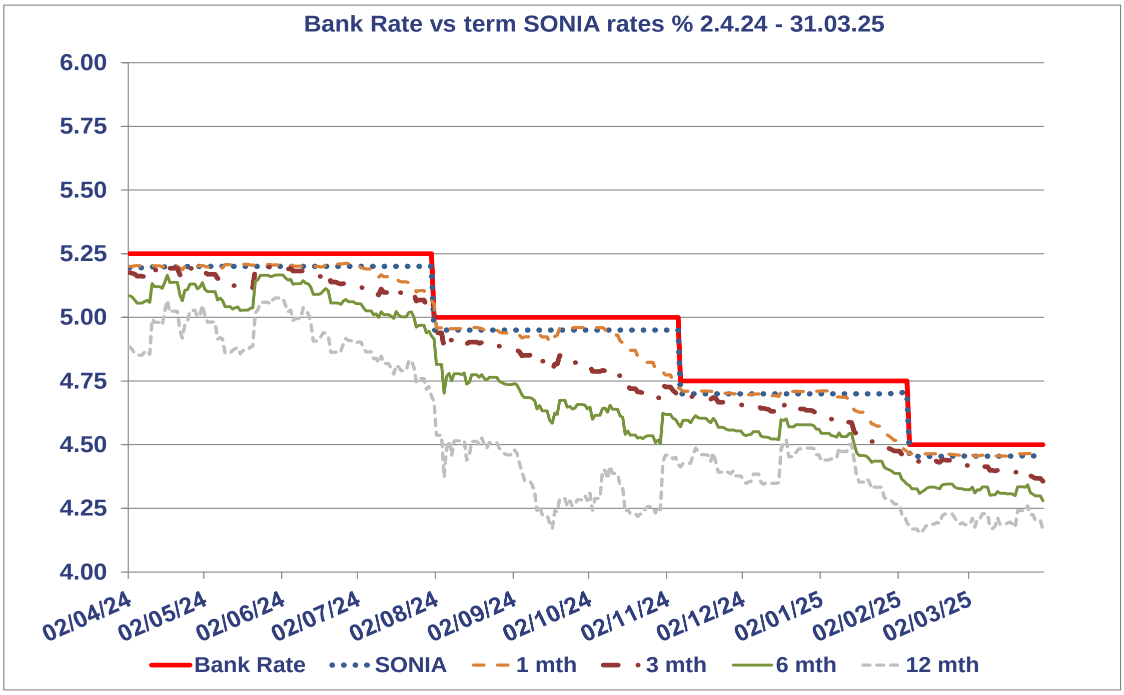
## 4. **The Strategy for 2024/25**

The Treasury strategy for managing the Council's interest rate risk was to continue its PWLB loan of £5m (long-term borrowing) to reduce the authorities need to take out continuous short-term borrowing. This in turn reduced the interest rate risk to the authority. If the cashflow requirement identified an additional borrowing need beyond the £5m loan, it was policy to only take out short-term borrowing for the shortest possible duration to minimise any unplanned additional borrowing interest costs to the authority.

This process has been followed throughout the year and has led to a greater ability to forecast year end borrowing costs, which has in turn allowed the Authority to accurately forecast the required year-end funding required to meet external borrowing costs throughout the financial year.

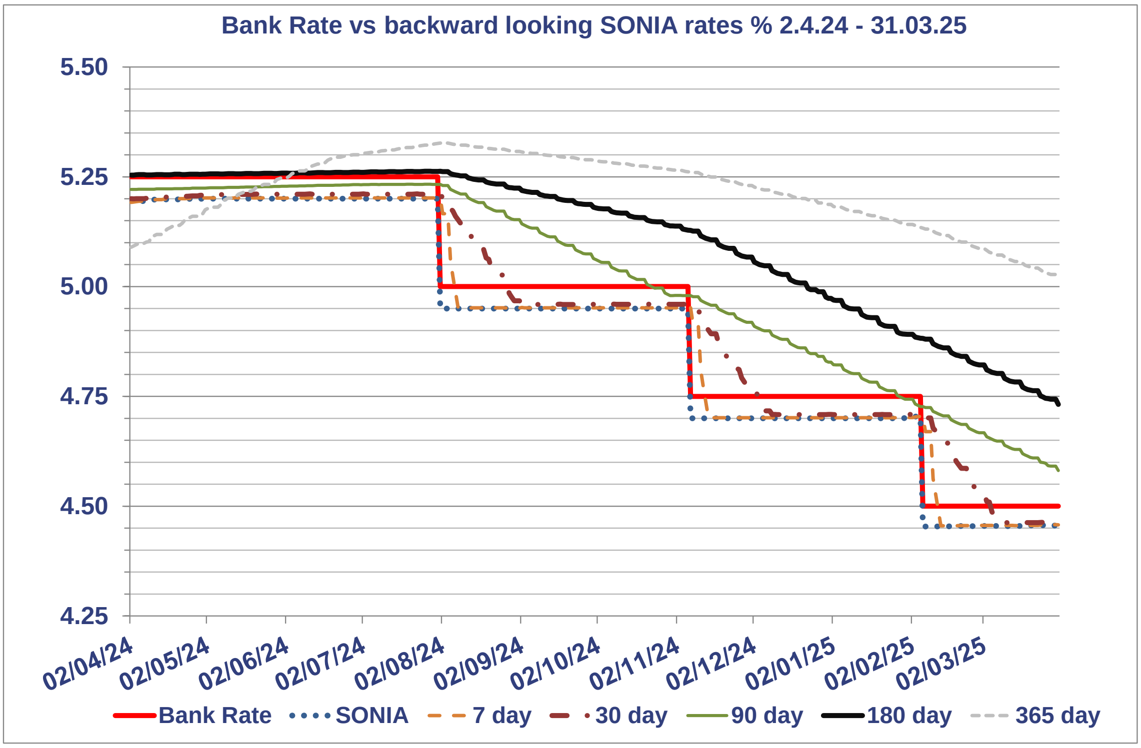
### 4.1 Investment strategy and control of interest rate risk

**Investment Benchmarking Data – Sterling Overnight Index Averages (Term) 2024/25**




| FINANCIAL YEAR TO QUARTER ENDED 31/03/2025 | | | | | | |
|---|---|---|---|---|---|---|
| | Bank Rate | SONIA | 1 month | 3 months | 6 months | 12 months |
| High | 5.25 | 5.20 | 5.21 | 5.20 | 5.17 | 5.08 |
| High Date | 02/04/2024 | 03/05/2024 | 27/06/2024 | 17/04/2024 | 31/05/2024 | 30/05/2024 |
| Low | 4.50 | 4.45 | 4.45 | 4.36 | 4.28 | 4.15 |
| Low Date | 06/02/2025 | 12/02/2025 | 04/03/2025 | 31/03/2025 | 31/03/2025 | 10/02/2025 |
| Average | 4.95 | 4.90 | 4.88 | 4.82 | 4.72 | 4.54 |
| Spread | 0.75 | 0.75 | 0.76 | 0.85 | 0.89 | 0.93 |

**Investment Benchmarking Data – Sterling Overnight Index Averages (Backward-looking) 2024/25**




| FINANCIAL YEAR TO QUARTER ENDED 31/03/2025 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Bank Rate | SONIA | 7 day | 30 day | 90 day | 180 day | 365 day |
| High | 5.25 | 5.20 | 5.20 | 5.21 | 5.23 | 5.26 | 5.33 |
| High Date | 02/04/2024 | 03/05/2024 | 13/05/2024 | 26/06/2024 | 26/07/2024 | 26/07/2024 | 01/08/2024 |
| Low | 4.50 | 4.45 | 4.46 | 4.46 | 4.58 | 4.73 | 5.02 |
| Low Date | 06/02/2025 | 12/02/2025 | 13/02/2025 | 12/03/2025 | 31/03/2025 | 31/03/2025 | 31/03/2025 |
| Average | 4.95 | 4.90 | 4.91 | 4.94 | 5.02 | 5.11 | 5.22 |
| Spread | 0.75 | 0.75 | 0.75 | 0.75 | 0.65 | 0.53 | 0.30 |

### 4.2 Borrowing strategy and control of interest rate risk

During 2024/25, the Authority maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2025 and 2026 in the light of economic growth concerns and the eventual dampening of inflation. The Authority has sought to minimise the taking on of long-term borrowing at elevated levels (>5%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<5 years) as appropriate.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Treasury therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- If it had been felt that there was a significant risk of a sharp FALL in long and short-term rates (for instance, due to a marked increase of risks around a relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- If it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, perhaps arising from the stickiness of inflation in the major developed economies, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

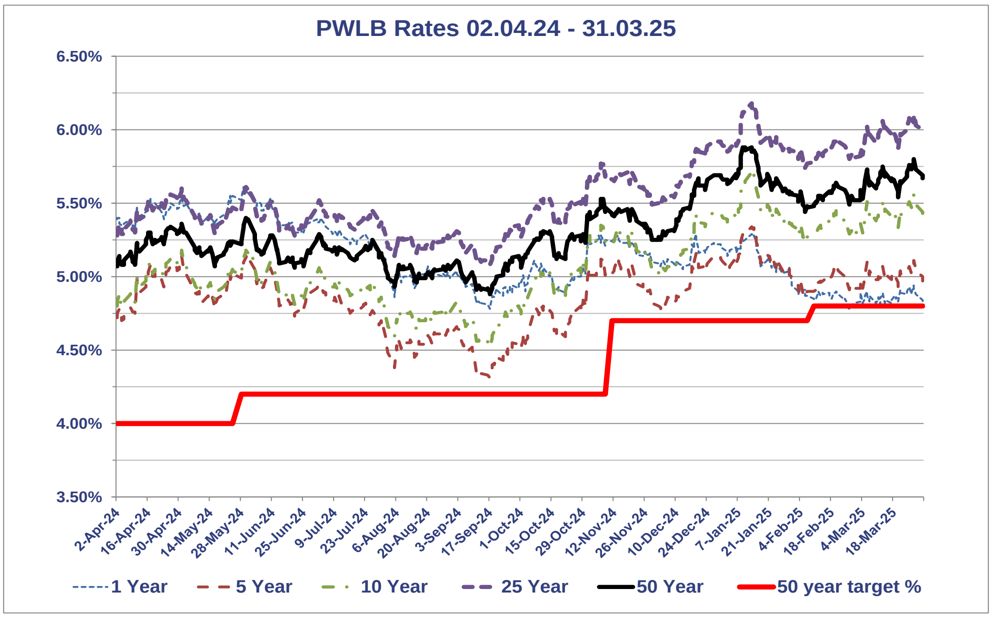
Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2024/25. The Bank Rate did peak at 5.25% as anticipated, but the initial expectation of significant rate reductions did not transpire, primarily because inflation concerns remained elevated. Forecasts were too optimistic from a rate reduction perspective, but more recently the forecasts, updated from November 2024 onwards, look more realistic.

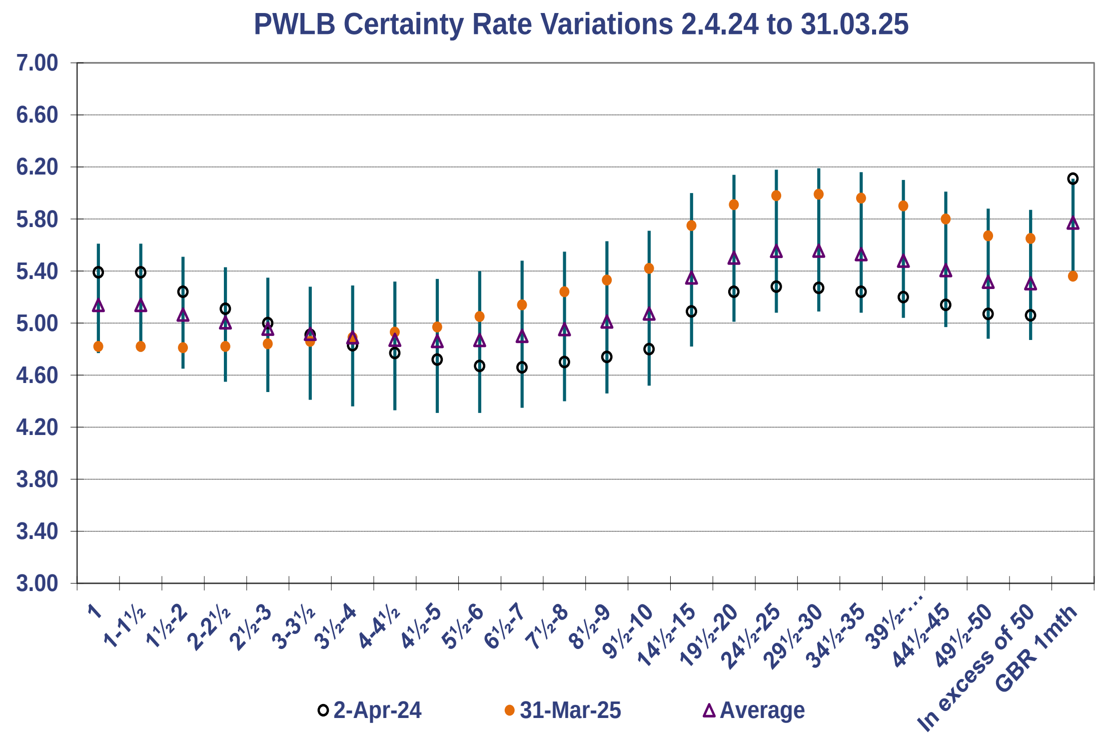
At the start of April 2025, following the introduction of President Trump's trade tariffs policies, the market now expects Bank Rate to fall to 3.75% by the end of December 2025, pulling down the 5- and 10-year parts of the curve too.

This should provide an opportunity for greater certainty to be added to the debt portfolio, although a significant fall in inflation will be required to underpin any material movement lower in the longer part of the curve.

Forecasts at the time of approval of the treasury management strategy report for 2024/25 were as follows:

| MUFG Corporate Markets Interest Rate View 05.02.24 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 |
| 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 average 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 average earnings | 5.20 | 5.10 | 4.60 | 4.10 | 3.70 | 3.30 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 |
| 12 month average earnings | 5.00 | 4.90 | 4.40 | 3.90 | 3.60 | 3.20 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | 3.20 | 3.20 |
| 5 year 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 |
| 10 year 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 |
| 15 year 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 |
| 20 year PWLB | 5.00 | 4.90 | 4.70 | 4.60 | 4.40 | 4.20 | 4.10 | 4.00 | 4.00 | 4.00 | 3.90 | 3.90 | 3.90 |






## HIGH/LOW/AVERAGE PWLB RATES FOR 2024/25

| MUFG Corporate Markets Interest Rate View 05.02.24 | | | | | |
|---|---|---|---|---|---|
| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
| Low | 4.77 | 4.31 | 4.52 | 5.08 | 4.88 |
| date | 26/02/2025 | 17/09/204 | 17/09/2024 | 17/09/2024 | 17/09/2024 |
| High | 5.61 | 5.34 | 5.71 | 6.18 | 5.88 |
| Date | 29/05/2024 | 13/01/2025 | 13/01/2025 | 13/01/2025 | 09/01/2025 |
| Average | 5.14 | 4.86 | 5.07 | 5.56 | 5.32 |
| Spread | 0.84 | 1.03 | 1.19 | 1.10 | 1.00 |

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. Therefore, central banks do not need to raise rates as much, to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative, on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post Covid, then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the Federal Reserve System, European Central Bank and Bank of England are all being challenged by levels of persistent inflation that are exacerbated by tight labour markets and high wage increases relative to what central banks believe to be sustainable.

Gilt yields have been volatile through 2024/25. Indeed, the low point for the financial year for many periods was reached in September 2024. Thereafter, and especially following the Autumn Statement, PWLB Certainty rates have remained elevated at between c5% - 6% apart from the slightly cheaper shorter dates.

At the close of 31 March 2025, the 1-year PWLB Certainty rate was 4.82% whilst the 25-year rate was 5.98% and the 50-year rate was 5.67%.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

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

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves lower.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

## 5. Borrowing Outturn

**Treasury Borrowing –** The following is a record of all borrowing undertaken by the authority in 2024/25 with the interest payable being a revenue expense to the Council.

| Lender | Principal £m | Interest Rate Type | Interest Rate % | Maturity days | Interest payable in 2024/25 (£) |
|---|---|---|---|---|---|
| Cambridgeshire & Peterborough Combined Authority | 5.000 | Fixed | 5.55 | 25 | 18,246.57 |
| Middlesbrough Borough Council Pension Fund | 1.700 | Fixed | 6.50 | 38 | 11,201.37 |
| Norfolk County Council | 0.352 | Fixed | 6.00 | 1 | 57.80 |
| London Borough of Havering Council | 3.500 | Fixed | 5.35 | 14 | 7,182.19 |
| Middlesbrough Borough Council Pension Fund | 5.900 | Fixed | 5.27 | 14 | 11,926.08 |
| Norfolk County Council | 1.800 | Fixed | 5.01 | 12 | 2,964.82 |
| Neath Talbort County Borough Council | 3.500 | Fixed | 5.00 | 7 | 3,356.16 |
| Causeway Coast and Glens Borough Council | 2.000 | Fixed | 6.35 | 31 | 5,915.07 |
| **Total** | | | **5.47** | | **60,850.06** |

**Borrowing in advance of need**
The Authority has not borrowed more than, or in advance of its needs, purely to profit from the investment of the extra sums borrowed.

**Rescheduling**
No debt rescheduling has been undertaken during the year as the approximate 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

**Early Repayments**
The Council did not make early repayment of any agreed loans during 2024/25.

## 6. Investment Outturn

**Investment Policy** – the Authority's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Authority. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties.

**Investments held by the Authority.**

- The Authority maintained an average balance of £27.170m of internally managed funds.
- The internally managed funds earned an average rate of return of 5.08%.
- The comparable performance indicator is the overnight (O/N) SONIA rate, which was 4.90% (see table below).
- This compares with a budget assumption of £33.797m investment balances earning an average rate of 5.52%.
- Total investment income was £1.380m compared to a budget of £1.866m, an adverse variance of £0.486m

| Returns: | % |
|---|---:|
| O/N SONIA | 4.8979 |
| O/N SONIA Compounded | 5.0195 |
| 1m fwd SONIA | 4.8783 |
| 1m fwd SONIA Compounded | 5.0231 |
| 3m fwd SONIA | 4.8181 |
| 3m fwd SONIA Compounded | 5.0258 |
| 6m fwd SONIA | 4.7182 |
| 6m fwd SONIA Compounded | 4.9254 |
| 7d back SONIA | 4.9080 |
| 7d backward SONIA Compounded | 5.0355 |
| 30d backward SONIA | 4.9401 |
| 30d backward SONIA Compounded | 5.0961 |
| 90d backward SONIA | 5.0151 |
| 90d backward SONIA Compounded | 5.2068 |
| 180d backward SONIA | 5.1110 |
| 180d backward SONIA Compounded | 5.3231 |
| 365d backward SONIA | 5.2188 |
| 365d backward SONIA Compounded | 5.0896 |

## 7. **The Economy and Interest Rates**

### UK Economy

UK inflation has proved somewhat stubborn throughout 2024/25. Having started the financial year at 2.3% year on year, the CPI measure of inflation briefly dipped to 1.7% year on year in September before picking up pace again in the latter months. The latest data shows CPI rising by 2.8% year on year February, but there is a strong likelihood that figure will increase to at least 3.5% by the Autumn of 2025.

Against that backdrop, and the continued lack of progress in ending the Russian invasion of Ukraine, as well as the potentially negative implications for global growth because of the implementation of US tariff policies by US President Trump in April 2025, Bank Rate reductions have been limited. The Bank Rate currently stands at 4.5%, despite the Office for Budget Responsibility reducing its 2025 GDP forecast for the UK economy to only 1% (previously 2% in October).

Moreover, borrowing has becoming increasingly expensive in 2024/25. Gilt yields rose significantly in the wake of the Chancellor's Autumn Statement, and the loosening of fiscal policy, and have remained elevated ever since, as dampened growth expectations and the minimal budget contingency (<£10bn) have stoked market fears that increased levels of borrowing will need to be funded during 2025.

The table below provides a snapshot of the conundrum facing central banks: inflation 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.

| | UK | Eurozone | US |
|---|---|---|---|
| **Bank Rate** | 4.50% | 2.5% | 4.25%-4.5% |
| **GDP** | 0.1%q/q Q4 (1.1%y/y) | +0.1%q/q Q4 (0.7%y/y) | 2.4% Q4 Annualised |
| **Inflation** | 2.8%y/y (Feb) | 2.3%y/y (Feb) | 2.8%y/y (Feb) |
| **Unemployment Rate** | 4.4% (Jan) | 6.2% (Jan) | 4.1% (Feb) |

The Bank of England sprung no surprises in their March meeting, leaving Bank Rate unchanged at 4.5% by a vote of 8-1, but suggesting further reductions would be gradual. The Bank of England was always going to continue its cut-hold-cut-hold pattern by leaving interest rates at 4.50% but, in the opposite of what happened at the February meeting, the vote was more hawkish than expected. This suggested that as inflation rises later in the year, the Bank cuts rates even slower, but the initial impact of President Trump's tariff policies in April 2025 on the financial markets underpin our view that the Bank will eventually reduce rates to 3.50%.

Having said that, the Bank still thinks inflation will rise from 2.8% in February to 3.75% in Q3. And while in February it said, "inflation is expected to fall back thereafter to around the 2% target", this time it just said it would "fall back thereafter". That may be a sign that the Bank is getting a bit more worried about the "persistence in domestic wages and prices, including from second-round effects". Accordingly, although we expect a series of rate cuts over the next year or so, that does not contradict the Bank taking "a gradual and careful" approach to cutting rates, but a tepid economy will probably reduce inflation further ahead and prompt the Bank to cut at regular intervals.

From a fiscal perspective, the increase in businesses' national insurance and national minimum wage costs from April 2025 is likely to prove a headwind, although in the near-term the Government's efforts to provide 300,000 new homes in each year of the current Parliament is likely to ensure building industry employees are well remunerated, as will the clamp-down on immigration and the generally high levels of sickness amongst the British workforce. Currently wages continue to increase at a rate close to 6% y/y. The MPC would prefer a more sustainable level of c3.5%.

As for equity markets, the FTSE 100 has recently fallen back to 7,700 having hit an all-time intra-day high 8,908 as recently as 3 March 2025. Pound Sterling has also endured a topsy-turvy time, hitting a peak of $1.34 before dropping to $1.22 in January and then reaching $1.27 in early April 2025.

**USA Economy**

Despite the markets willing the Federal Open Market Committee (FOMC) to repeat the rate cut medicine of 2024 (100 basis points in total), the Fed Chair, Jay Powell, has suggested that the Federal Reserve System Funds Rate will remain anchored at 4.25%-4.5% until inflation is under control, and/or the economy looks like it may head into recession as a consequence of President Trump's tariff policies.

Inflation is close to 3% and annualised growth for Q4 2024 was 2.4%. With unemployment just above 4%, and tax cuts in the pipeline, the FOMC is unlikely to be in a hurry to cut rates, at least for now.

**Eurozone Economy**

The Eurozone economy has struggled throughout 2024 and is flat lining at present, although there is the promise of substantial expenditure on German defence/infrastructure over the coming years, which would see a fiscal loosening. France has struggled against a difficult political backdrop, but with a large budget deficit it is difficult to see any turn-around in economic hopes in the near-term.

With GDP currently below 1% in the Eurozone, the European Central Bank (ECB) is likely to continue to cut rates, although the headline inflation rate is still above 2% (2.3% February 2025). Currently at 2.5%, a further reduction in the Deposit Rate to at least 2% is highly likely.

## 8. **Other Issues**

### A. IFRS 9 fair value of investments

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG) on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2029, except for any new pooled investments from 1st April 2024. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override for the Government to keep the override under review and to maintain a form of transparency.

This is beneficial to the authority. Previously the long-term Pooled Fund investments had a significant fair value gain, however during the COVID pandemic the values of almost all shares globally fell sharply in value during the difficult economic times. Although share prices have slowly recovered since, as at the end of 2024/25, the Council's long-term investments still have an overall fair value loss of £0.181m against a total value of £20m. Although this is not a huge value, if the IFRS 9 statutory override had not been extended to 2029, the authority would have been required to set aside a treasury reserve to the value of £0.181m which would have negatively impacted the year-end financial position.

### B. Changes in risk appetite

The Treasury has not changed its risk appetite during the year 2024/25. The focus of the treasury is to safeguard taxpayers' money by investing in low-risk counterparties and maintaining a diverse portfolio, and then secondly to generate a return on investments. All borrowing is undertaken at the lowest rates available.

### C. Counterparty limits

The counterparty limits have not changed during 2024/25 as set out in the Treasury Strategy 2024/25.

### D. IFRS 16

From 1st April 2024, a new International Financial Report Standard, IFRS 16, came into effect for Local Authorities. IFRS 16 introduces a new 'Right of Use' asset class to the balance sheet from 2024/25 and onward and recognises the corresponding lease liability. The standard was primarily intended to bring transparency to leases in the financial statements of companies, by reducing the number of off-balance sheet leases, to enable informed comparisons within business sectors.

The impact from the 1st Aril 2024, will mean any current or new operational leases, not exempt due to certain conditions, will now be recognised on the balance sheet as a 'Right of Use' asset with a corresponding lease liability. This has financial implications for the Council's Treasury Management Strategy, its Capital Programme and its Financial Statements.