

Treasury Management Annual Report 2024/25

Telford & Wrekin Council

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Treasury Management Annual Report 2024/25

Purpose

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

During 2024/25 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year,
- a mid-year, (minimum), treasury update report, and
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

In addition, the Council has received updates on treasury management indicators and prudential indicators as part of the regular financial monitoring.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council 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 Audit Committee before they were reported to the full Council. Member training on treasury management issues was provided on 29 January 2025 in order to support members' scrutiny role.

Executive Summary

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, with comparators, are as follows:

Prudential and treasury indicators	31.3.24 Actual (£'000)	2024/25 Original (£'000)	31.3.25 Actual (£'000)
Capital Expenditure			
• Total	83,485	179,758	87,173
Capital Financing Requirement:			
• Total	555,727	671,600	604,910
• Less Other Long-Term Liabilities	(44,547)	(41,200)	(41,170)
• Loans CFR	511,180	630,400	563,740
Gross borrowing			
• External Debt	371,324	493,700	434,903
Treasury Investments			
• Longer than 1 year	0	0	0
• Under 1 year	17,868	15,000	22,062
• Total	17,868	15,000	22,062
Net borrowing			
• Total	353,456	478,700	412,841
Borrowing Limits (Debt)			
• Authorised	495,000	655,000	655,000
• Operational	475,000	635,000	635,000

Other prudential and treasury indicators are to be found in the main body of this report.

The Bank of England has implemented a cut-hold-cut-hold pattern throughout 2024/25 with Bank Rate reductions of 0.25% occurring in August, November and February, bringing the headline rate down from 5.25% to 4.5%. The Bank of England sprung no surprises in their March meeting, leaving Bank Rate unchanged at 4.5%, but suggested that further reductions would be gradual.

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

It should be noted that borrowing can only be undertaken to fund capital investment and not to support the revenue budget which supports the delivery of most Council services. The Director of Finance, People and IDT also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

The capital investment generates assets for the Council and the total value of assets held, excluding Infrastructure Assets, at 31 March 2025 was £663.4m some £228.5m greater than debt outstanding. In addition, the Council also holds £239.8m of Infrastructure Assets.

Introduction and Background

This report summarises the following:-

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

1. The Council's Capital Expenditure and Financing

The Council 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 Council'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.

Capital Expenditure (£'000)	31.3.24 Actual	2024/25 Original	31.3.25 Actual
General Fund Service	65,748	105,865	39,769
Housing Investment Programme (NuPlace Ltd)	9,073	40,700	26,722
Property Investment Portfolio	7,038	31,421	18,251
Telford Land Deal	1,626	1,812	2,431
Capital Programme Expenditure	83,485	179,788	87,173
Financed in year from Government Grants, Capital Receipts, Revenue Contribution & External sources	45,118	61,925	42,918
Unfinanced capital expenditure (Borrowing)	38,367	117,863	44,255

2. The Council's Overall Borrowing Need

The Council's underlying need to borrow for 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. 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 Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury team

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.

Reducing the CFR – 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 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 Council's 2024/25 MRP Policy, (as required by Ministry of Housing, Communities & Local Government (MHCLG) Guidance), was approved as part of the Treasury Management Strategy Report for 2024/25 on 29 February 2024.

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

CFR (£'000): <i>General Fund</i>	31.3.24 Actual	2024/25 Original	31.3.25 Actual
General Funded Service	416,316	456,459	443,069
Housing Investment Programme (NuPlace Ltd)	71,070	115,026	93,110
Property Investment Portfolio	64,541	96,315	64,931
Solar Farm	3,800	3,800	3,800
Closing balance	555,727	671,600	604,910
Less Other Long Term Liabilities	(44,547)	(41,200)	(41,170)
Loans CFR	511,180	630,400	563,740

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 Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator would allow for some flexibility to borrow in advance of the Council's immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31.3.24 Actual (£'000)	2024/25 Original (£'000)	31.3.25 Actual (£'000)
Gross borrowing position (external debt)	371,324	420,312	426,508
Loans CFR	511,180	630,400	563,740
(Under) / over funding of CFR	(139,856)	(210,088)	(137,232)

The authorised limit - the authorised limit is the “affordable borrowing limit” required by section 3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2024/25 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are 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. See Appendix A for comparators.

	2024/25
Maximum gross borrowing position during the year	426,508
Authorised limit (Borrowing)	655,000
Operational boundary (Borrowing)	635,000
Financing costs as a proportion of net revenue stream	8.73%

3. Treasury Position at 31 March 2025

The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2024/25 the Council's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

DEBT PORTFOLIO	31.3.24 Principal (£'000)	Interest Rate %	31.3.25 Principal (£'000)	Interest Rate %	Movement in Principal (£'000)
Fixed rate funding:					
- PWLB	244,549	2.65%	251,693	3.13%	7,144
- Municipal Loans	246	2.10%	178	2.10%	(68)
- Market	40,000	4.17%	35,000	4.15%	(5,000)
Variable rate funding:					

- Temporary	86,529	4.68%	148,032	5.13%	61,503
Total debt	371,324	3.39%	434,903	3.85%	63,579
Loans CFR	511,180		563,740		52,560
Over / (under) borrowing	(139,856)		(128,837)		11,019
Total investments	17,868		22,062		4,194
Net debt	353,456		412,841		59,385

The maturity structure of the debt portfolio was as follows:

	31.3.24 Actual		2024/25 original limits %		31.3.25 Actual	
	(£'000)	%	Lower	Upper	(£'000)	%
Under 12 months	134,829	36.3	0.0	70.0	187,257	43.1
12 months and within 24 months	18,119	4.9	0.0	30.0	34,062	7.8
24 months and within 5 years	35,053	9.4	0.0	50.0	36,787	8.5
5 years and within 10 years	48,802	13.1	0.0	75.0	55,725	12.8
Maturing in more than 10 years*	134,521	36.3	25.0	100.0	121,072	27.8
Total Borrowing	371,324	100.0			434,903	100.0

* this includes £35m Lenders Option Borrowers Options (LOBO) loans that are potentially callable at certain points before the maturity date.

INVESTMENT PORTFOLIO	31.3.24 Actual (£'000)	31.3.24 Actual Split %	31.3.25 Actual (£'000)	31.3.25 Actual Split %
Treasury investments				
Banks (inc. in transit)	3,188	17.8	3,482	15.7
DMADF (H M Treasury)	9,700	54.3	13,600	62.6
Money Market Funds	4,980	27.9	4,980	22.6
Total managed in house	17,868	100.0	22,062	100.0
Total managed externally	0	0.0	0	0.0
Total Treasury Investments	17,868	100.0	22,062	100.0

The maturity structure of the investment portfolio was as follows:

	31.3.24 Actual	2024/25 Budget	31.3.25 Actual
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	£000	£000	£000
Investments			
Longer than 1 year	0	0	0
Up to 1 year	17,868	15,000	22,062
Total	17,868	15,000	22,062

4. 2024/25 Treasury Strategy

4.1 2024/25 Borrowing Strategy

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.

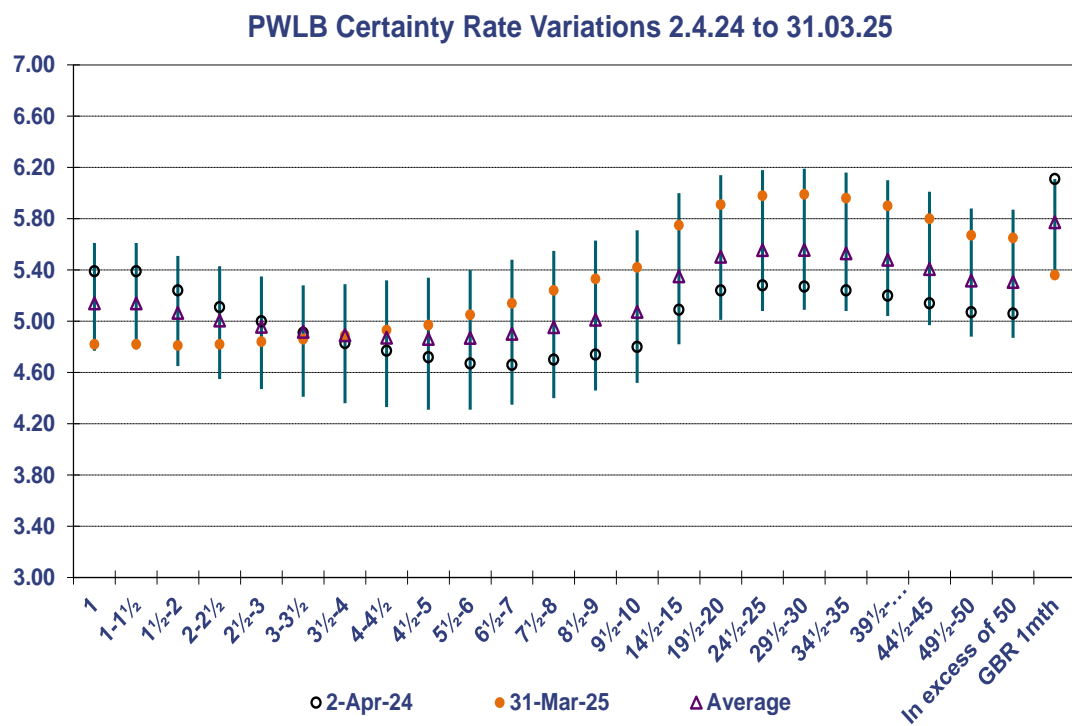
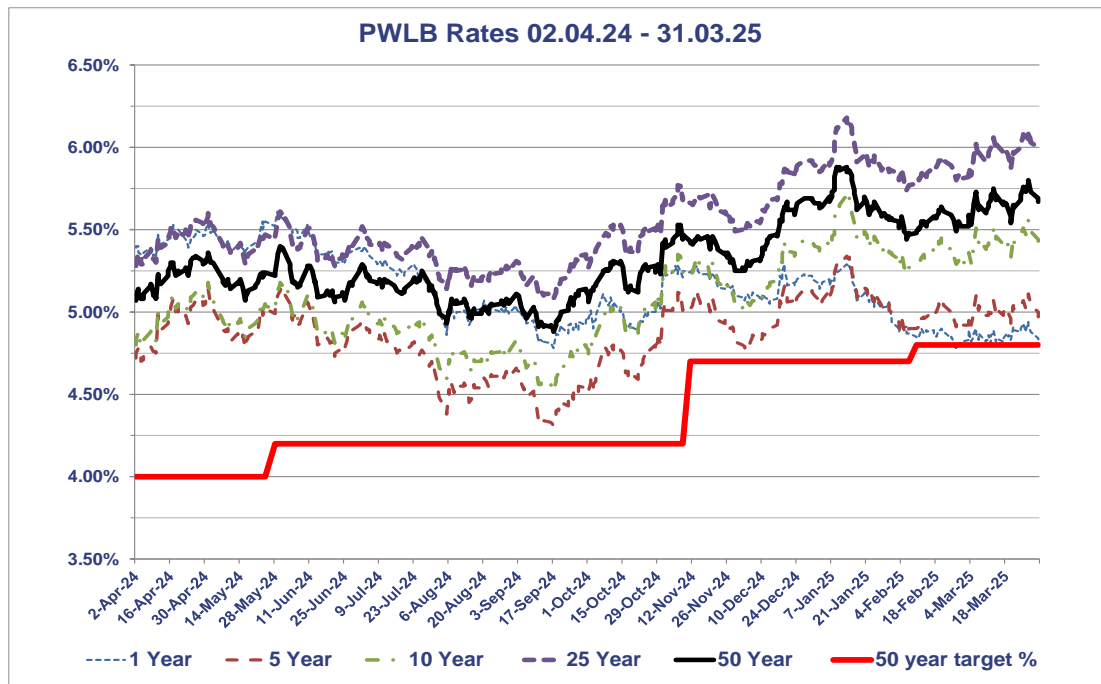
Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance, People & IDT therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks (*please adapt this outline to what you actually did in the year*):

- if it had been felt that there was a significant risk of a sharp FALL in long and short-term rates, (e.g., 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. 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.



HIGH/LOW/AVERAGE PWLB RATES FOR 2024/25

	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	17/09/2024	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: this means that central banks do not need to raise rates as much now 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 Fed, ECB 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% with the exception of 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.

The Bank of England is also continuing on a process of Quantitative Tightening (QT). The Bank's original £895bn stock of gilt and corporate bonds will gradually be sold back into the market over several years (currently c£623bn). The impact this policy will have on the market pricing of gilts, while issuance is still markedly increasing, and very high in historic terms, is an unknown at the time of writing.

4.2 2024/25 Treasury Investment Strategy

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), and even at the end of March the yield curve was still relatively flat, which might be considered unusual as further Bank Rate cuts were expected in 2025/26.

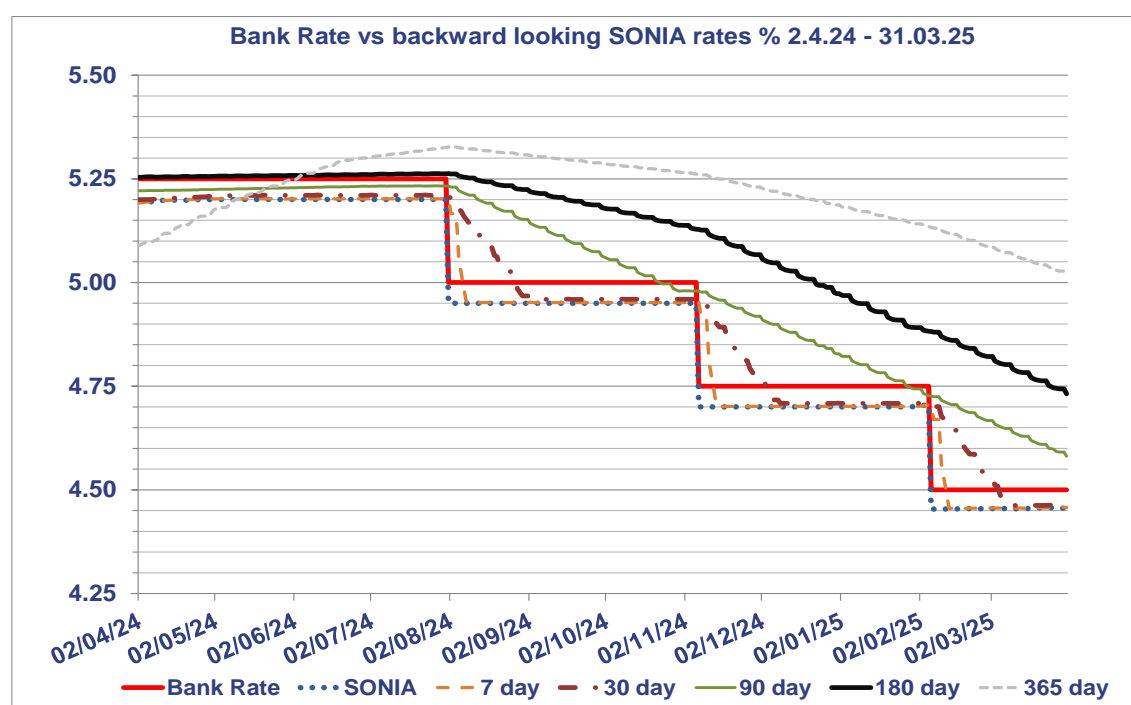
Bank Rate reductions of 0.25% occurred in August, November and February, bringing the headline rate down from 5.25% to 4.5%. Each of the Bank Rate cuts occurred in the same month as the Bank of England publishes its Quarterly Monetary Policy Report, therein providing a clarity over the timing of potential future rate cuts.

As of early April 2025, market sentiment has been heavily influenced of late by President Trump's wide-ranging trade tariffs policy. Commentators anticipate a growing risk of a US recession, whilst UK GDP is projected by the Office for Budget Responsibility to remain tepid, perhaps achieving 1% GDP growth in 2025/26.

Looking back to 2024/25, investors were able to achieve returns in excess of 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% - 1% lower. Where liquidity requirements were not a drain on day-to-day investment choices, extending duration through the use of "laddered investments" paid off.

That is not to say that investment choices were straight-forward. Concerns over rising inflation after the Autumn Statement in October led to reduced expectations for Bank Rate to fall. Indeed, the CPI measure of inflation is expected to reach c3.75% 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 (Bank Rate to fall to 3.75%).

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

5. Borrowing Outturn

Treasury Borrowing – During the year 6 new PWLB loans were raised totalling £55.0m. Maturities or repayments of principal on EIP and Annuity Loans totalled £47.9m

Borrowing - loans were drawn to fund the net unfinanced capital expenditure and naturally maturing debt.

The loans drawn were:

Lender	Date Raised	Principal	Type	Interest Rate*	Duration
PWLB	19/09/2024**	£5.0m	Fixed Interest Rate – EIP	4.32%	11.5 years
PWLB	06/12/2024**	£10.0m	Fixed Interest Rate – EIP	4.82%	10 years
PWLB	28/02/2025	£10.0m	Fixed Interest Rate – Maturity	5.08%	1 year
PWLB	05/03/2025	£10.0m	Fixed Interest Rate – Maturity	5.00%	1.5 years
PWLB	19/03/2025	£10.0m	Fixed Interest Rate – Maturity	5.01%	1 year
PWLB	26/03/2025	£10.0m	Fixed Interest Rate – Maturity	5.05%	1.5 years

*This compares with a budget assumption of borrowing at an interest rate of 5.0% for 2024/25 and 4.8% 2025/26.

**loans included in 2024/25 Treasury Update Report presented to Audit Committee 29 January 2025

£270.0m of temporary loans (364 days or fewer) were raised, renewed or replaced in order to fund short-term cash flow requirements. Interest rates have ranged from 4.7% and 5.55%. The outstanding temporary borrowing at 31 March 2025 was £148.0m.

Borrowing in advance of need

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

Early Repayments or Rescheduling

During 2024/25 no rescheduling of debt has taken place as market conditions have not been favourable, however the scope for opportunities is regularly monitored.

In September 2024, FMS Wertmanagement exercised their option under the conditions of the Lender Option Borrower Option (LOBO) Loan. The Council had the option to repay the loan (£5m principal) or accept the interest rate increase requested by the lender, 7.41% an increase from 4.45% on the original loan secured. Following consultation with MUFG, the Council's external Treasury Management Advisor, the LOBO was repaid.

Debt Performance

As highlighted in Section 3 the average interest rate for borrowing rose slightly over the course of the year from 3.39% to 3.85% as the cost of replacing temporary loans increased.

6. Treasury Investment Outturn

Investment Policy – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 29 February 2025. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies.

In line with the approved Treasury Management Prudential Indicator, the Council can place up to £15.0m with any Counterparty, with the exception of the DMADF which is Government backed and therefore considered to be very secure so no limit is placed on investments. At 31 March 2025 the greatest exposure with a single counterparty was £13.6m (62.6% of the portfolio) with the DMADF.

The Council has operated within the Treasury Limits and Prudential Indicators set.

The Council is guided by its Treasury advisers in assessing investments.

Investments held by the Council

- The Council maintained an average daily balance of £39.97m of internally managed funds.
- The internally managed funds earned an average rate of return of 4.91%
- The comparable performance indicator is the average SONIA rate, which was 4.90%
- The majority of the portfolio is held within the Government's secure Debt Management Office for security, in line with the strategy, which pays slightly lower than market average interest rates.

Investments (£'000)	31.3.24	31.3.25
Cash Investments	17,868	22,062

At the 31 March 2025 the Council's total usable reserves were £107.2m, which has supported the overall cash flow position and the level of internal borrowing.

7. 2024/25 Overall Outturn

Overall, a net benefit of £1.084m was made against budget for the year. The sound overall position has resulted from a mix of cash flow benefits plus the reprofiling of capital spend into future years.

8. Debt on Disaggregation

The Council makes an annual contribution towards Shropshire Council costs on pre disaggregation debt (i.e. pre unitary inception). The contribution in 2024/25 was £1.082m which included interest at an average of 4.6%. The rate of interest paid on this is managed by Shropshire Council and is considerably higher than the rate payable by Telford & Wrekin Council on its borrowing.

9. Leasing

Each year the Council arranges leases for assets such as vehicles, computers and equipment. This helps spread the cost over a number of years in line with the anticipated life of the equipment.

During 2024/25 the follow lease arrangement were entered into -

Draw Down Date	Purpose	Length / Type	Lessor	Value
September 2024	Gym equipment & flooring and video wall	5 year Finance Lease	DLL Leasing	£44,391
November 2024	John Deere Mower	5 year Finance Lease	JCB	£68,595

10. The Economy and Interest Rates

10.1 UK Economy

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

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

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

The 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 3¼% in Q3. And while in February it said "inflation is expected to fall back thereafter to around the 2% target", this time it just said it would "fall back thereafter". That may be a sign that the Bank is getting a bit more worried about the "persistence in domestic wages and prices, including from second-round effects". Accordingly, although we expect a series of rate cuts over the next year or so, that does not contradict the Bank taking "a gradual and careful" approach to cutting rates, but a tepid economy will probably reduce inflation further ahead and prompt the Bank to cut at regular intervals.

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

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

10.2 USA Economy

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

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

10.3 EZ Economy

The Eurozone economy has struggled throughout 2024 and is flat lining at present, although there is the promise of substantial expenditure on German defence/infrastructure over the coming years, which would see a fiscal loosening. France has struggled against

a difficult political backdrop, but with a large budget deficit it is difficult to see any turn-around in economic hopes in the near-term.

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

Appendix Ai: Prudential and treasury indicators

1. PRUDENTIAL INDICATORS	2023/24	2024/25	2024/25
	actual	original	actual
	£'000	£'000	£'000
Capital Expenditure	83,485	179,788	87,173
Ratio of financing costs to net revenue stream	6.66%	8.54%	8.73%
Gross borrowing requirement General Fund brought forward 1 April	347,221	350,700	371,324
carried forward 31 March	371,324	375,800	434,903
in year borrowing requirement	24,103	25,100	63,579
Loans CFR	511,180	630,400	563,740
Annual change in Loans CFR	38,381	119,220	52,560

2. TREASURY MANAGEMENT INDICATORS	2023/24	2024/25	2024/25
	actual	original	actual
	£'000	£'000	£'000
Authorised Limit for external debt - borrowing	565,000	655,000	655,000
other long term liabilities	54,000	54,000	54,000
TOTAL	619,000	709,000	709,000
Operational Boundary for external debt - borrowing	545,000	635,000	635,000
other long term liabilities	50,000	50,000	50,000
TOTAL	595,000	685,000	685,000
Actual external debt	371,324	375,800	434,903

Maturity structure of fixed rate borrowing during 2024/25	Lower limit	Upper limit	31.03.25 Actual
Under 12 months	0.0%	70.0%	43.1%
12 months and within 24 months	0.0%	30.0%	7.8%
24 months and within 5 years	0.0%	50.0%	8.5%
5 years and within 10 years	0.0%	75.0%	12.8%
10 years and above	25.0%	100.0%	27.8%
Maturity structure of investments during 2024/25	Lower limit	Upper limit	31.03.25 Actual
Longer than 1 year	0.0%	95.0%	0.0%
Up to 1 year	0.0%	100.0%	100.0%

Credit risk indicator	31.03.24 Actual	2023/24 Target	31.03.25 Actual
Portfolio average credit score	1.71	6 or lower	1.63

Target – 6 or lower is equivalent to a credit rating of 'A' or higher

ABBREVIATIONS USED IN THIS REPORT

CE: Capital Economics – is the economics consultancy that provides MUFG Corporate Markets Treasury Limited with independent economic forecasts, briefings and research.

CFR: capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

ECB: European Central Bank - the central bank for the Eurozone

EIP: Equal Instalments of Principal – a type of loan where each payment includes an equal amount in respect of loan principal. Therefore the interest due with each payment reduces as the principal is eroded

EU: European Union

EZ: Eurozone -those countries in the EU which use the euro as their currency

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

LOBO: Lender's Option Borrower's Option – a long-term loan where the lender has the option to propose an increase in the interest rate on pre-determined dates. The borrower then has the option to either accept the new rate or repay the loan without penalty. LOBOs increase the borrowers interest rate risk, and the loan should therefore attract a lower rate of interest initially.

MHCLG: the Ministry of Housing, Communities and Local Government – the Government department that directs local authorities in England

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE/QT: quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

TMSS: the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).