

<b>Bath &amp; North East Somerset Council</b>	
MEETING	<b>Audit Committee</b>
MEETING DATE:	<b>24<sup>th</sup> September 2025</b>
TITLE:	<b>Treasury Management Outturn Report 2024/25</b>
WARD:	All
<b>AN OPEN PUBLIC ITEM</b>	
<p><b>List of attachments to this report:</b></p> <p><b>Appendix 1</b> – Performance Against Prudential Indicators</p> <p><b>Appendix 2</b> – The Council’s Investment Position on 31<sup>st</sup> March 2025</p> <p><b>Appendix 3</b> – Average monthly rate of return for 2024/25</p> <p><b>Appendix 4</b> – The Council’s External Borrowing Position on 31<sup>st</sup> March 2025</p> <p><b>Appendix 5</b> – Arlingclose’s Economic &amp; Market Review Q4 of 2024/25</p> <p><b>Appendix 6</b> – Interest &amp; Capital Financing Budget Monitoring 2024/25</p> <p><b>Appendix 7</b> – Summary Guide to Credit Ratings</p> <p><b>Appendix 8</b> – Extract from Treasury Management Risk Register</p>	

## **1 THE ISSUE**

- 1.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy’s Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code), which requires the Council to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and approve an annual report within six months after the end of each financial year.
- 1.2 This report gives details of performance against the Council’s Treasury Management Strategy for 2024/25.

## **2 RECOMMENDATION**

The Audit Committee agrees that;

- 2.1 The Treasury Management Report to 31<sup>st</sup> March 2025, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.
- 2.2 The Treasury Management Indicators to 31<sup>st</sup> March 2025 are noted.

### 3 THE REPORT

#### Summary

- 3.1 The Council approved the 2024/25 Treasury Management Strategy at its meeting in February 2024. The Council ended the year with total borrowing of £275.7m and total investments of £32.6m
- 3.2 The Council's Treasury Management Indicators for 2024/25 were agreed by Council in February 2024 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.
- 3.3 The actual average rate of return on operational investments for the period 1<sup>st</sup> April 2024 – 31<sup>st</sup> March 2025 is 4.96%, which is 0.12% above the 7 Day SONIA benchmark rate of 4.84%. For the same period, strategic investments earned 4.25% which was in line the budgeted return of 4.25%.
- 3.4 The Council's revenue budget for interest & capital financing costs for 2024/25 was £1.071m under budget. This is mainly due to higher return on investments as a result of interest rates being higher for longer than anticipated at budget setting, and also a saving on Minimum Revenue Provision (MRP) due to capital spend reprofiling. The breakdown of the 2024/25 revenue budget for interest and capital financing, and the year-end position, is included in **Appendix 6**.

#### Economic Overview

- 3.5 The Council's Treasury Management Advisor's economic and market review for the 2024/25 is included in **Appendix 5**. The main headlines are as follows:
  - Interest Rates, the Bank of England reduced the Bank Rate from 5.25% to 4.50% in 2024/25 with cuts at its August, November and March Meetings.
  - UK CPI inflation decelerated to 2.6% in March 2025 from 2.8% in February, and broadly in line with expectations. The inflation rate is expected to increase through early to mid-2025/26 before dropping towards the end of the financial year.
  - The UK economy rebounded sharply in Q4 2024/25, with GDP expanding 0.7% compared to the prior quarter. Despite the strong quarterly growth, the economic environment remains challenging; the year-on-year GDP growth rate was only 1.3%.
  - Gilt yields continued to be volatile with the 10-year UK benchmark gilt rising from 3.94% to peak at 4.90% in January 2025 and a low of 3.76% in September before ending the year at 4.69%.
  - The 7-day average SONIA (Sterling Overnight rate) for the first nine months of 2024/25 is 4.84%. This is the benchmark rate used by the council for non-strategic investments.
  - Following the March 2025 budget the Office for Budget Responsibility downgraded its predictions for UK growth to 1% for 2025 (from 2%). At the same time predictions for Inflation in 2025 was pushed up to 3.2% from 2.6%.
  - The Council's Treasury Management Advisor, Arlingclose, maintained its stance that Bank rate will fall to 3.75% in 2025

## Borrowing

- 3.6 The Council's external borrowing as of 31<sup>st</sup> March 2025 totalled £275.71m and is detailed in **Appendix 4**. The summary of the movement in borrowing during the quarter and for the full financial year is shown in the following table:

Borrowing Portfolio Movements	Quarter 4 2024/25 £m	Financial Year 2024/25 £m
Balance as of 1 <sup>st</sup> April 2024		246.010
Balance as of 31 <sup>st</sup> December 2024	266.954	
New Loans Taken	10.000	50.000
Maturity Loan Repayments	0	(15.000)
PWLB Annuity Loan principal repayments	(1.240)	(5.296)
Balance as of 31 <sup>st</sup> March 2025	275.714	275.714

- 3.7 During the year, the Council took out £50m in new short-term loans at an average rate of 5.22%. This includes £10m to cashflow the annual pension contribution prepayment in April, £30m in to maintain the liquidity indicator level, and £10m of borrowing to replace maturing loans.
- 3.8 £15m of the new borrowing was taken in November and December 2024, when market rates were at a low point in the curve before we would have been required to take borrowing for liquidity purposes. As a result, the budget for interest payable was exceeded by £144k. However, additional investment interest of £191k was earned from this strategy, so overall the budget impact was an additional income of £47k.
- 3.9 The Council's Loans Capital Financing Requirement (CFR) as at 31<sup>st</sup> March 2025 was £373.0m. This represents the Council's underlying need to borrow to finance capital expenditure and demonstrates that the borrowing taken to date relates to funding historical capital spend.
- 3.10 The difference between the CFR and the current borrowing of £275.7m represents re-investment of the internal balances including reserves, reducing the in-year borrowing costs in excess of the potential investment returns.
- 3.11 The Liability Benchmark in **Appendix 1** illustrates the current borrowing and current and projected CFR and liability benchmark. The benchmark is lower than the CFR as it recognises the Council's ability to internally borrow to fund capital and therefore shows the optimum level of borrowing for the council that minimises risks and costs of borrowing. At the 31<sup>st</sup> March 2025 borrowing is almost in line with the benchmark and as we look forward borrowing, is projected to fall below the benchmark. This funding gap can be used as a guide to the optimal amount and length of borrowing required in the future to minimise interest rate and credit risk.
- 3.12 Following Local Government Reorganisation in 1996, Avon County Council's residual debt is administered by Bristol City Council. All successor Unitary Authorities make an annual contribution to principal and interest repayment, for which there is a provision in the Council's revenue budget. The amount of residual

debt outstanding as of 31<sup>st</sup> March 2025 apportioned to Bath & North East Somerset Council is £9.277m. Since this borrowing is managed by an external body and treated in the Council's Statement of Accounts as a deferred liability, it is not included in the borrowing figures referred to in paragraph 3.6.

## Investments

- 3.13 As demonstrated by the liability benchmark in **Appendix 1**, the Council expects to be a long-term borrower, and new treasury investments are therefore primarily made to manage day to day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and maintain stable investment income over the medium to long term.
- 3.14 On 31<sup>st</sup> March 2025, the Council had £32.6m in investments, with £22.6m in short term liquid investments and £10.0m in externally managed strategic funds. The balance of deposits is set out in the charts in this **Appendix 2**, along with the equivalent for the previous quarter and year for comparison.
- 3.15 **Appendix 3** details the investment performance, showing the average rate of interest earned over this period, which are made up as follows:

Investment Type	Average Investment Return
Money Market Funds (MMF)	4.96%
Call Accounts	4.46%
Fixed Deposits	5.17%
<b>Operational Investments Total</b>	<b>4.96%</b>
CCLA Local Authorities Property Fund	4.25%
FP Foresight UK Infrastructure Income Fund	4.25%
VT Gravis Clean Energy Income Fund	4.23%
<b>Strategic Investments Total</b>	<b>4.25%</b>

- 3.16 In 2024/25 the Council earned 4.96% from Operational investments, which is 0.12% above the 7-day SONIA benchmark Rate of 4.84%, and 4.25% from Strategic Fund investments in line with the budgeted rate of 4.25%.
- 3.17 The Council holds £10.0m invested in externally managed strategic pooled funds, where the objectives are regular revenue income and long-term price stability. These investments were made with the knowledge that there is a risk that capital value could move both up and down on a frequent basis and are intended to be held over a long period of time.

The strategic pooled fund investments include £5m in Environmental Social and Governance (ESG) focused funds, and £5m in a property fund, as listed below.

- £5m CCLA Local Authorities Property Fund.
- £3m FP Foresight UK Infrastructure Income Fund.
- £2m VT Gravis Clean Energy Income Fund.

In the current economic environment of high interest rates, weak growth and global uncertainty, the value of bonds and property have fallen significantly, and early signs of a recovery in capital values in the first six months of 2024/25 have reversed in the

last three months following the new US administration's trade policy, with the value of the strategic investments haven fallen to £7.553m, £143k below the 31 March 2024 total of £7.696m. This movement is shown in the table below:

	<b>CCLA Local Authorities Property Fund</b>	<b>FP Foresight UK Infrastructure Income Fund</b>	<b>VT Gravis Clean Energy Income Fund</b>	<b>Total</b>
Historic Cost	5,000,000	3,000,000	2,000,000	<b>10,000,000</b>
<b>2024/25</b>				
Fair Value at 31/03/2025	4,253,634	2,072,300	1,227,138	<b>7,553,072</b>
In Year % Value Lost / (Gained)	(1.82)%	4.64%	8.84%	<b>1.87%</b>
Cumulative % Value Lost / (Gained)	14.93%	30.92%	38.64%	<b>24.47%</b>
<b>2023/24</b>				
Fair Value at 31/03/2024	4,177,465	2,173,120	1,346,161	<b>7,696,746</b>
In Year % Value Lost / (Gained)	3.81%	15.99%	27.32%	<b>12.36%</b>
Cumulative % Value Lost / (Gained)	16.45%	27.56%	32.69%	<b>23.03%</b>

On 3<sup>rd</sup> April 2025, the Government announced that it was extending the statutory override for legacy investments held at 31<sup>st</sup> March 2025 until 2028/29. As a result, this change in valuation does not currently have an impact on the revenue account or usable reserves with gains/losses instead going to an unusable reserve. The Council has in place a Capital Financing Reserve which can be used to mitigate any future impacts should the statutory override be removed.

3.18 Regarding the Council's Property Fund investment, the commercial property market improved marginally in 2024/25. Somewhat lower interest rates and higher transaction volumes as higher yields boosted demand recovered helped stabilise the market. The industrial and retail warehousing sectors remained strong, but retail and secondary office sectors remained weak.

3.19 Regarding the Council's Infrastructure and Clean Energy Funds, policy uncertainty, particularly arising out of the US but also UK governments, and high interest rates particularly affected investor sentiment, prompting falling share prices in the second half of the financial year. Outflows from listed real assets towards higher-yielding fixed income investments and cash continued.

Despite the challenging environment, the funds' underlying portfolio companies have continued to deliver on dividend targets and the funds' dividend distributions per share have been relatively steady in the face of market turbulence. Many companies in the funds' portfolios, which focus on clean energy, decarbonisation and the building of digital and social infrastructure, continue to benefit from long-term contracted revenue streams, some with a high degree of inflation linkage.

### **Budget Implications**

3.20 The Council's revenue budget outturn for interest & capital financing costs for 2024/25 was £1.071m under budget. This is mainly due to higher return on

investments as a result of interest rates being higher for longer than anticipated at budget setting, and also a saving on Minimum Revenue Provision (MRP) due to capital spend reprofiling. The breakdown of the 2024/25 revenue budget for interest and capital financing, and the year-end position, is included in **Appendix 6**.

## **4 STATUTORY CONSIDERATIONS**

4.1 This report is for information only.

## **5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

5.1 The financial implications are contained within the body of the report.

## **6 RISK MANAGEMENT**

6.1 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment and borrowing advice is provided by our Treasury Management consultants, Arlingclose.

6.2 The CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Audit Committee carries out this scrutiny.

6.3 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year. An extract from the risk register, detailing how the top risks are managed, is included as **Appendix 8**.

## **7 EQUALITIES**

7.1 As this report contains performance information for noting only, an Equality Impact Assessment is not considered necessary.

## **8 CLIMATE CHANGE**

8.1 The Council will continue to avoid any direct treasury management investments in fossil fuel related companies and will engage with its advisors to explore and assess the potential for any future investment opportunities in funds with a Renewable Energy & Sustainability focus as these products continue to be developed by the market in response to the Climate & Nature Emergency agenda.

8.2 An ESG section has been included the Treasury Management Strategy document for 2024/25, with the treasury team monitoring investment options permitted under the new guidelines.

8.3 The Council holds £5m in longer term investments, split across two ESG focussed Strategic Funds, as detailed under 3.17.

## **9 OTHER OPTIONS CONSIDERED**

9.1 None

## 10 CONSULTATION

10.1 Consultation has been carried out with the Cabinet Member for Resources, Section 151 Officer and Monitoring Officer.

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<b>Background papers</b>	<i>2024/25 Treasury Management &amp; Investment Strategy</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

## APPENDIX 1

### Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

#### 1. Treasury Borrowing limits

These limits include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over & above the operational limit for unusual cash movements.

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

The Operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements. This level also factors in the proposed approach to use internal cash-flow and future capital receipts as the preferred financing method for the capital programme.

	2024/25 Prudential Indicator	Actual as of 31 <sup>st</sup> March 2025
Operational boundary – borrowing.	£413m	£275.7m
Operational boundary – other long-term liabilities	£9m	£6.7m
<b>Operational boundary – TOTAL</b>	<b>£422m</b>	<b>£282.4m</b>
Authorised limit – borrowing.	£442m	£275.7m
Authorised limit – other long-term liabilities.	£9m	£6.7m
<b>Authorised limit – TOTAL</b>	<b>£451m</b>	<b>£282.4m</b>

#### 2. Security: Average Credit Rating\*

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. A summary guide to credit ratings is set out at **Appendix 7**.

	2024/25 Prudential Indicator	Actual as of 31 <sup>st</sup> March 2025
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AA+

\* The calculation excludes the strategic investment in the CCLA Local Authority Property Fund and ESG focussed Investment Funds, which are unrated.



### 3. Liquidity

The Authority 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.

Liquidity risk indicator	2024/25 Prudential Indicator	Minimum During year	Date of minimum
Minimum total Cash Available within 3 months	£15m	£15.3m	28-May-24

### 4. Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limit represents the maximum one-year revenue impact of a 1% rise or fall in interest rates.

	2024/25 Prudential Indicator	Actual as of 31 <sup>st</sup> March 2025
Upper limit on one-year revenue impact of a 1% rise in interest rates	+/- £1m	-£0.258m
Upper limit on one-year revenue impact of a 1% fall in interest rates	+/- £1m	£0.258m

The impact of this limit is that the Council should never be holding a maturity adjusted net debt / investment position on variable rates of more than £100m.

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates, which includes amounts which are maturing each year in PWLB annuity loans.

### 5. Maturity Structure of Current Borrowing

This indicator is set to control the Council's exposure to refinancing risk.

	Upper Limit	Lower Limit	Actual as of 31 <sup>st</sup> March 2025
	%	%	%
Under 12 months	50	Nil	25.55
12 months and within 24 months	50	Nil	2.03
24 months and within 5 years	75	Nil	10.05
5 years and within 10 years	75	Nil	19.32
10 years and within 25 years	100	Nil	23.40
Over 25 years	100	Nil	19.65

Time periods start on the first day of each financial year, with annuity loan repayments included in the year made not at the final payment date. The maturity date of borrowing is the earliest date that the lender can demand repayment. For LOBO's, this is shown at the date of maturity as the council would only consider repaying these loans if the lenders exercised their option to alter the interest rate.

## 6. Upper limit for total principal sums invested for over 364 days

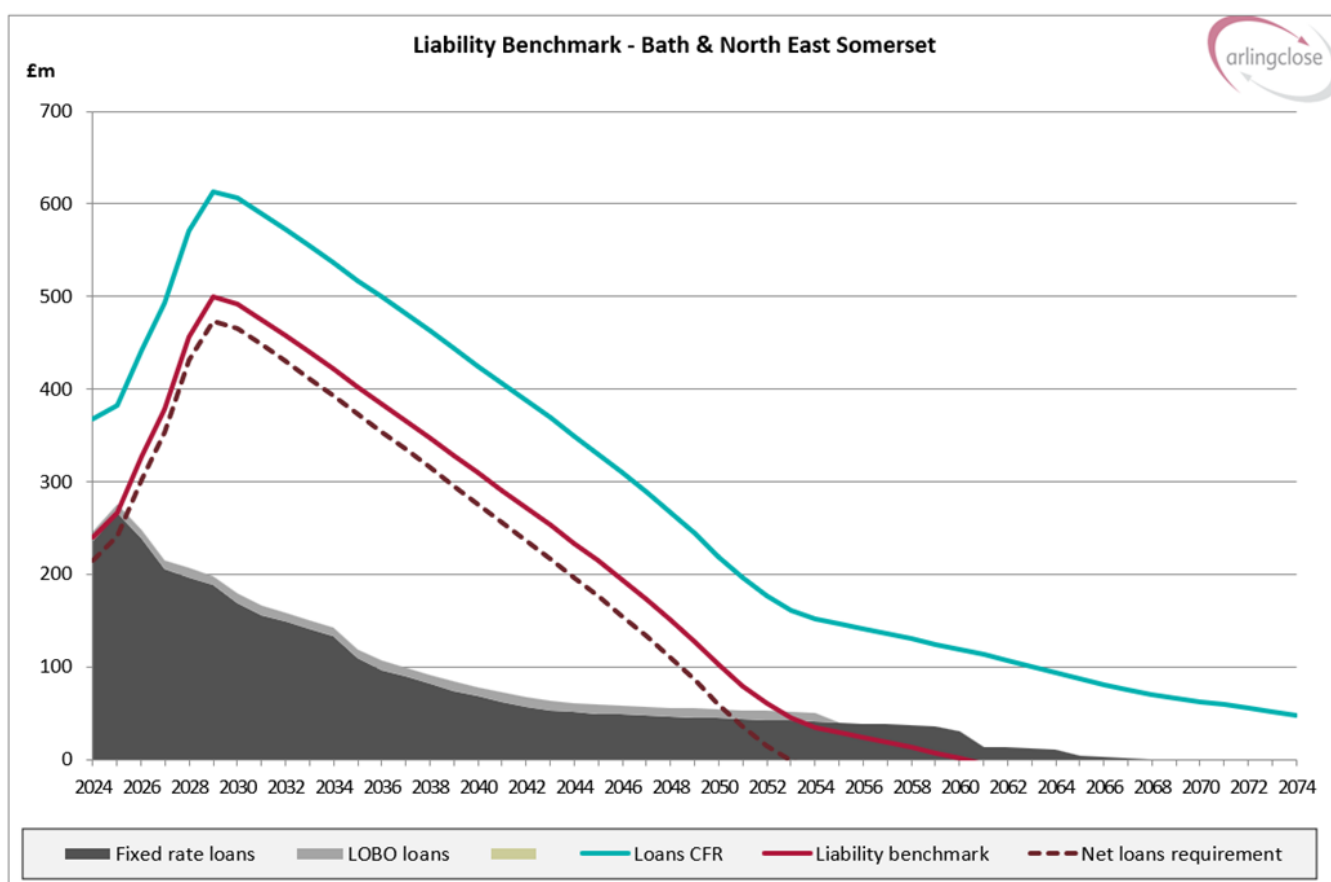
The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. This is done by setting a limit on the value of investments that at inception are for over 364 days or have no fixed maturity date and intended to be held for the medium to long term. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2024/25 Prudential Indicator	Actual as of 31 <sup>st</sup> March 2025
Limit on principal invested beyond 31 <sup>st</sup> March 2024	£50m	£10m*
Limit on principal invested beyond 31 <sup>st</sup> March 2025	£20m	£10m*
Limit on principal invested beyond 31 <sup>st</sup> March 2026	£10m	£10m*

\*The Council includes the CCLA LA Property Fund & two long term ESG focussed Investment Funds against this indicator as they are both held as Long-Term Strategic Investments.

## 7. Liability Benchmark

The liability benchmark is an important tool to help establish whether the Council is likely, to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.



As at 31<sup>st</sup> March 2025, there is very little difference between the actual borrowing (the grey slopes) and the Liability Benchmark (the solid red line) and both are well below the Capital

Financing Requirement which is the absolute maximum we can borrow for capital purposes. Looking forward the actual borrowing will fall below the liability benchmark and this funding gap can be used as a guide to the optimal amount and length of borrowing required to minimise interest rate and credit risk.

## APPENDIX 2

### The Council's Investment position on 31<sup>st</sup> March 2025

The term of investments is as follows:

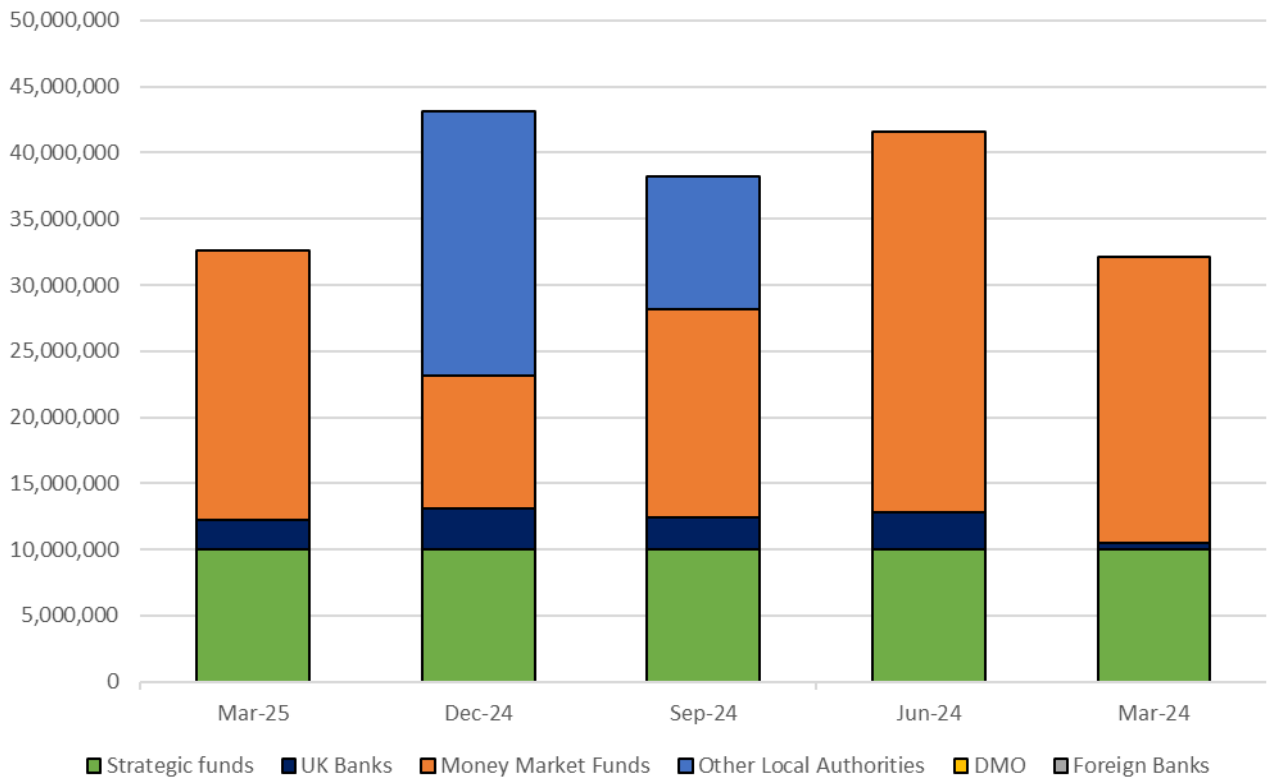
Term Remaining	Balance at 31 <sup>st</sup> March 2025	Comparator	
		Balance at 31 <sup>st</sup> December 2024	Balance at 31 <sup>st</sup> March 2024
	£m	£m	£m
Notice (instant access funds)	22.6	13.10	22.10
Up to 1 month	0.00	0.00	0.00
1 month to 3 months	0.00	20.00	0.00
3 months to 6 months	0.00	0.00	0.00
6 months to 12 months	0.00	0.00	0.00
Strategic Funds	10.00	10.00	10.00
<b>Total</b>	<b>32.60</b>	<b>43.10</b>	<b>32.10</b>

The investment figure is made up as follows:

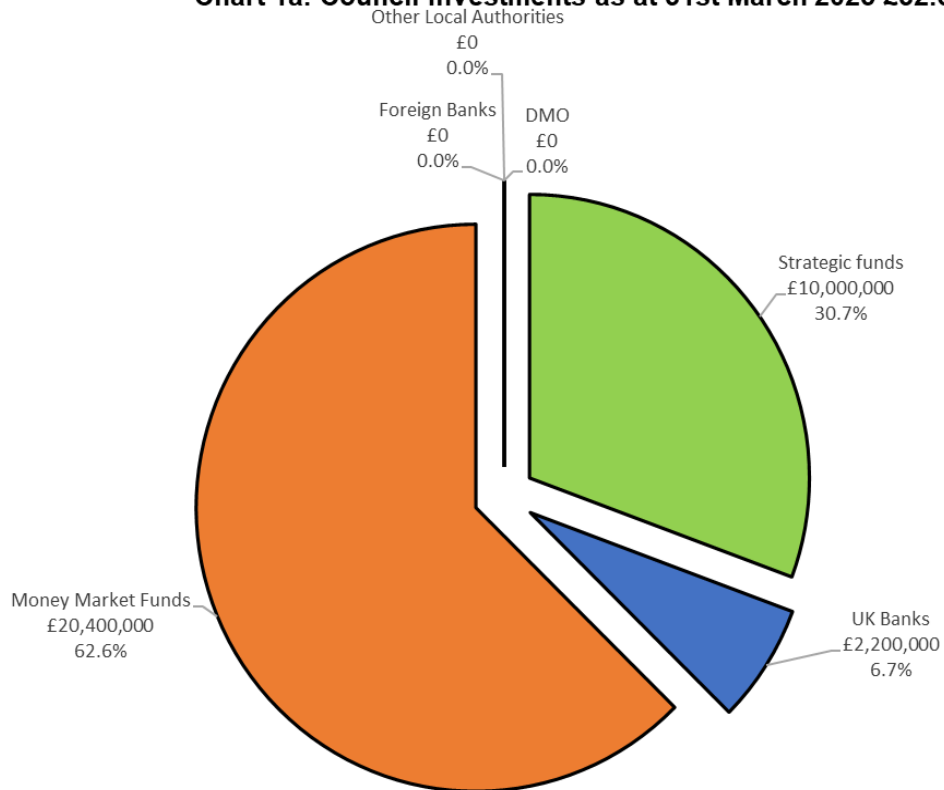
	Balance at 31 <sup>st</sup> March 2025	Comparator	
		Balance at 31 <sup>st</sup> December 2024	Balance at 31 <sup>st</sup> March 2024
	£m	£m	£m
B&NES Council	29.77	39.13	29.95
Schools	2.83	3.97	2.15
<b>Total</b>	<b>32.60</b>	<b>43.10</b>	<b>32.10</b>

The Council had a total average net positive balance of £47.38m during the period April 2024 to March 2025.

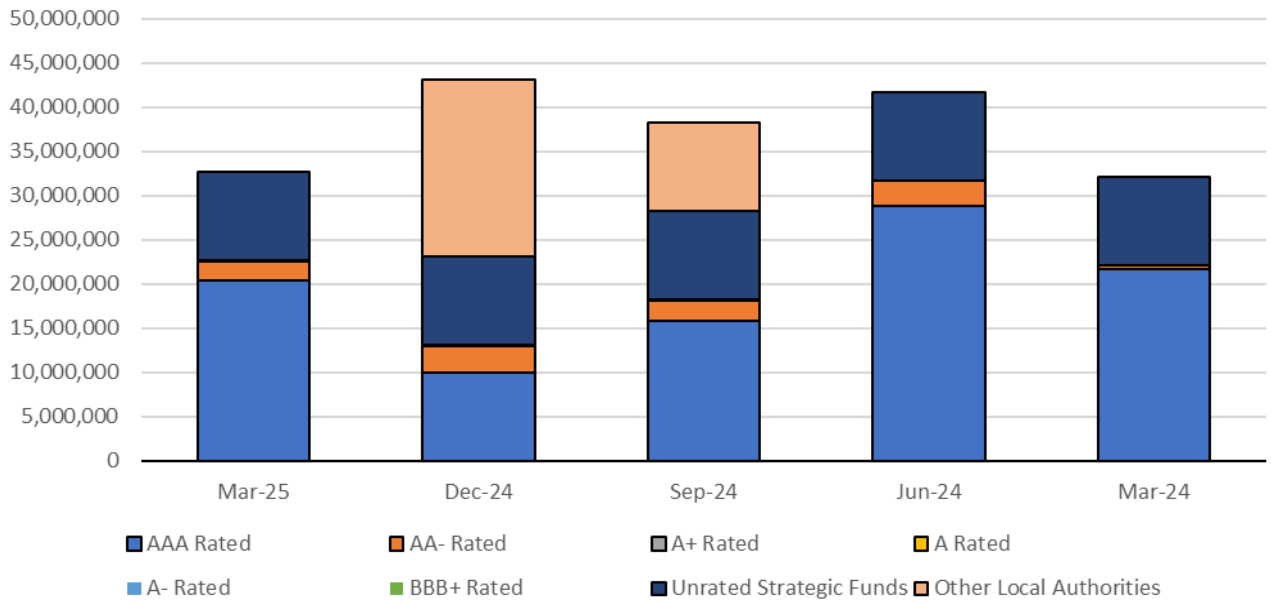
**Chart 1: Council Investment Balances**



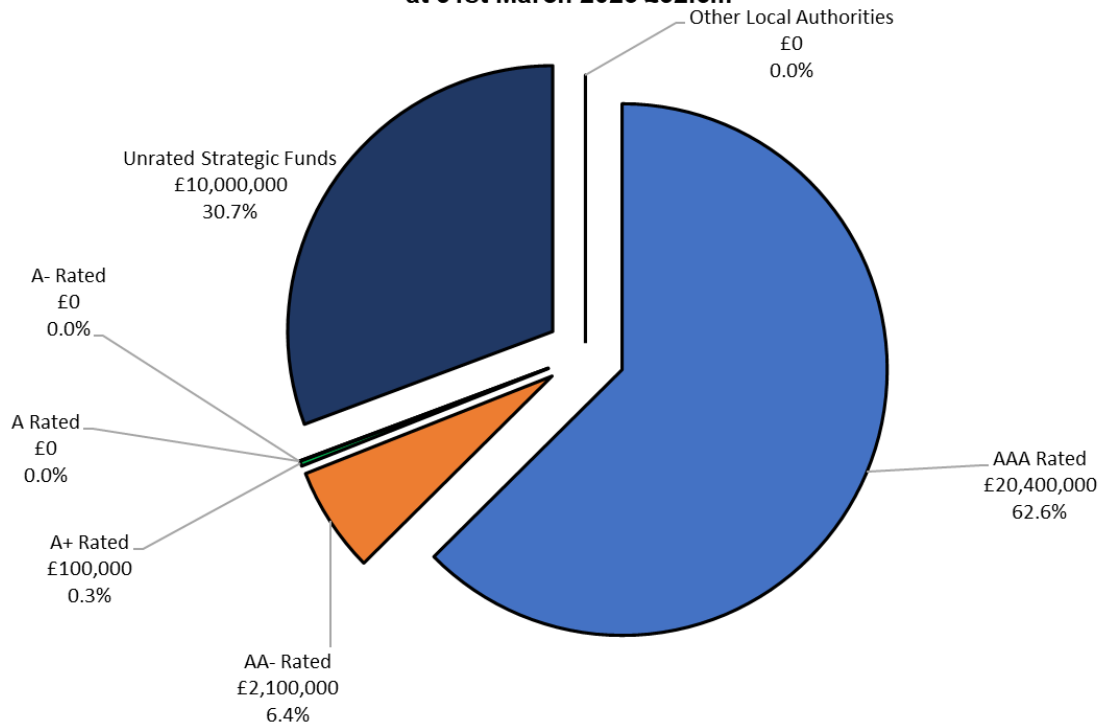
**Chart 1a: Council Investments as at 31st March 2025 £32.6m**



**Chart 2: Council Investments Per Lowest Equivalent Long Term Credit Rating**



**Chart 2a: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 31st March 2025 £32.6m**



## APPENDIX 3

### Operational investment return

	Average rate of interest earned	Benchmark = Average 7 Day SONIA rate	Performance against Benchmark
April 2024	5.21%	5.15%	0.06%
May 2024	5.20%	5.16%	0.04%
June 2024	5.19%	5.16%	0.03%
July 2024	5.13%	5.14%	-0.01%
August 2024	5.07%	4.91%	0.16%
September 2024	5.01%	4.90%	0.11%
October 2024	4.98%	4.88%	0.10%
November 2024	4.85%	4.68%	0.17%
December 2024	4.88%	4.66%	0.22%
January 2025	4.87%	4.65%	0.22%
February 2025	4.82%	4.42%	0.40%
March 2025	4.45%	4.40%	0.05%
<b>Average</b>	<b>4.96%</b>	<b>4.84%</b>	<b>0.12%</b>

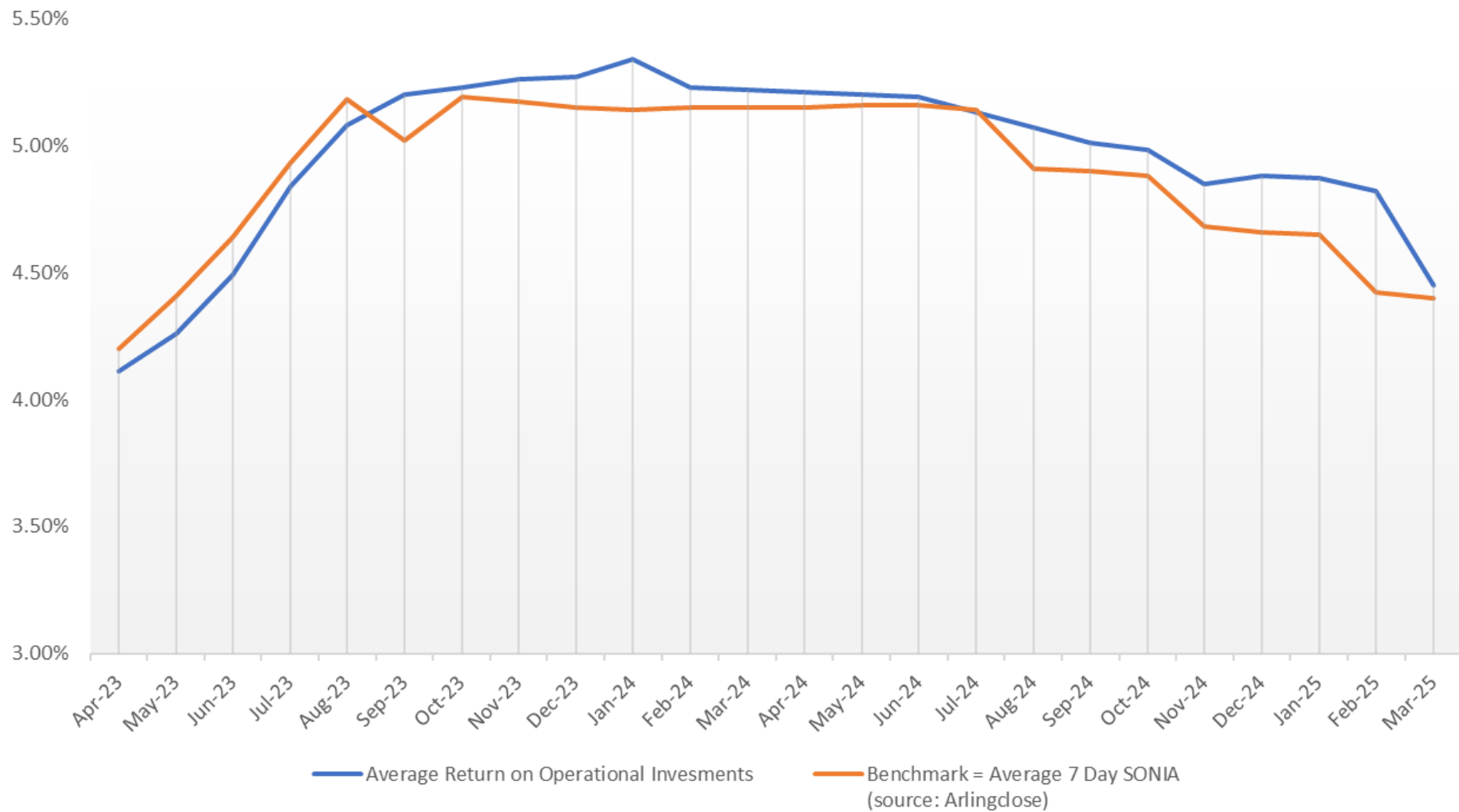
For comparison, the average rate of return on investments in 2023/24 was as follows:

	Average rate of interest earned	Benchmark = Average 7 Day SONIA rate	Performance against Benchmark
April 2023	4.11%	4.20%	-0.09%
May 2023	4.26%	4.41%	-0.15%
June 2023	4.49%	4.64%	-0.15%
July 2023	4.84%	4.93%	-0.09%
August 2023	5.08%	5.18%	-0.10%
September 2023	5.20%	5.02%	0.18%
October 2023	5.23%	5.19%	0.04%
November 2023	5.26%	5.17%	0.09%
December 2023	5.27%	5.15%	0.12%
January 2024	5.34%	5.14%	0.20%
February 2024	5.23%	5.15%	0.08%
March 2024	5.22%	5.15%	0.07%
<b>Average</b>	<b>4.96%</b>	<b>4.94%</b>	<b>0.02%</b>

### Strategic investment return

The actual average return for strategic investments is 4.25% against a budgeted return of 4.25%. In 2023/24 the average return was 4.43%

## Average Return on Operational Investments 2023/4 & 2024/25 compared to Benchmark





## APPENDIX 4

### Council's External Borrowing on 31<sup>st</sup> March 2025

Lender	Amount outstanding @ 31st December 2024 £	Change in Quarter £	Amount outstanding @ 31st March 2025 £	Start date	End date	Interest rate
<b>Long term</b>						
PWLB489142	10,000,000	-	10,000,000	15/10/2004	15/10/2034	4.75%
PWLB497233	5,000,000	-	5,000,000	12/05/2010	15/08/2035	4.55%
PWLB497234	5,000,000	-	5,000,000	12/05/2010	15/02/2060	4.53%
PWLB498834	5,000,000	-	5,000,000	05/08/2011	15/02/2031	4.86%
PWLB498835	10,000,000	-	10,000,000	05/08/2011	15/08/2029	4.80%
PWLB498836	15,000,000	-	15,000,000	05/08/2011	15/02/2061	4.96%
PWLB503684	5,300,000	-	5,300,000	29/01/2015	08/04/2034	2.62%
PWLB503685	5,000,000	-	5,000,000	29/01/2015	08/10/2064	2.92%
PWLB505122	14,467,029	-	14,467,029	20/06/2016	20/06/2041	2.36%
PWLB508126	7,939,165	-	7,939,165	06/12/2018	20/06/2043	2.38%
PWLB508202	9,305,271	-	9,305,271	12/12/2018	20/06/2068	2.59%
PWLB508224	3,955,770	-	3,955,770	13/12/2018	20/06/2043	2.25%
PWLB505744	7,214,782	(203,063)	7,011,719	24/02/2017	15/08/2039	2.28%
PWLB505966	7,564,781	(177,409)	7,387,372	04/04/2017	15/02/2042	2.26%
PWLB506052	6,428,055	(150,886)	6,277,170	08/05/2017	15/02/2042	2.25%
PWLB506255	6,438,746	-	6,438,746	10/08/2017	10/04/2067	2.64%
PWLB506729	7,760,411	-	7,760,411	13/12/2017	10/10/2042	2.35%
PWLB506995	7,798,282	-	7,798,282	06/03/2018	10/10/2042	2.52%
PWLB506996	8,311,135	-	8,311,135	06/03/2018	10/10/2047	2.62%
PWLB507749	8,117,138	(169,518)	7,947,620	10/09/2018	20/07/2043	2.42%
PWLB508485	18,796,618	(117,841)	18,678,776	11/02/2019	20/07/2068	2.52%
PWLB509840	8,268,870	(179,848)	8,089,023	04/09/2019	20/07/2044	1.40%
PWLB677322	4,767,232	-	4,767,232	22/11/2023	22/11/2038	4.88%
PWLB687799	4,756,280	-	4,756,280	29/12/2023	29/12/2038	4.28%
PWLB700594	9,763,755	(241,608)	9,522,146	09/02/2024	09/02/2039	4.54%

Lender	Amount outstanding @ 31st December 2024 £	Change in Quarter £	Amount outstanding @ 31st March 2025 £	Start date	End date	Interest rate
KBC Bank N.V *	5,000,000	-	5,000,000	08/10/2004	08/10/2054	4.50%
KBC Bank N.V *	5,000,000	-	5,000,000	08/10/2004	08/10/2054	4.50%
<b>Medium term</b>						
PWLB711937	10,000,000	-	10,000,000	15/03/2024	30/04/2025	5.42%
PWLB713077	5,000,000	-	5,000,000	20/03/2024	30/04/2025	5.37%
PWLB715777	5,000,000	-	5,000,000	28/03/2024	30/04/2025	5.34%
West of England Combined Authority	5,000,000	-	5,000,000	26/04/2024	25/04/2025	5.25%
South Oxfordshire DC	5,000,000	-	5,000,000	26/04/2024	25/04/2025	5.25%
West of England Combined Authority	5,000,000	-	5,000,000	30/04/2024	29/04/2025	5.35%
Portsmouth C.C.	5,000,000	-	5,000,000	08/05/2024	07/05/2025	5.35%
Tunbridge Wells B.C.	5,000,000	-	5,000,000	14/11/2024	14/11/2025	4.85%
PWLB781146	10,000,000	-	10,000,000	09/12/2024	09/12/2025	5.09%
North Yorkshire Council	-	5,000,000	5,000,000	26/03/2025	25/03/2026	4.75%
Halton Borough Council	-	5,000,000	5,000,000	21/03/2025	20/06/2025	6.00%
<b>Total Borrowing</b>	<b>266,953,319</b>	<b>8,759,827</b>	<b>275,713,146</b>			

\*All LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have reverted to the variable rate of 4.50%. The lender has the option to change the interest rate at 6 monthly intervals. Should the lender use the option to change the rate, then at this point the borrower has the option to repay the loan without penalty.

The "Change in Quarter" movement on some of the PWLB loans reflects that these loans have an annuity repayment profile, so repayments of principal are made on a 6 monthly basis throughout the life of the loans.

## **APPENDIX 5: Arlingclose Economic & Market Review**

**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 2.6% in March 2025, down from 2.8% in the previous month and below expectations. Core CPI also remained elevated, falling slightly in March to 3.4% from 3.5% in February, in line with expectations. Inflation rates are expected to rise sharply at the start of the new financial year.

The UK economy Gross Domestic Product (GDP) grew by 0.7% between January and March 2025, recovering from growth of just 0.1% in the prior quarter. The annual growth rate was just 1.3% in Q4 2024/25, indicating that the UK economic backdrop remains challenging.

The labour market continued to cool, but the ONS data still require treating with caution. Recent data showed the unemployment rate rose to 4.5% (3mth/year) in the three months to February 2025 while the economic inactivity rate fell again to 21.4%. The ONS reported pay growth over the same three-month period at 5.6% for regular earnings (excluding bonuses) and 5.5% for total earnings.

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

The February Monetary Policy Report (MPR) showed the BoE expected GDP growth in 2025 to be significantly weaker compared to the November MPR. GDP is forecast to rise by 0.1% in Q1 2025, less than the previous estimate of 0.4%. Four-quarter GDP growth is expected to pick up from the middle of 2025, to over 1.5% by the end of the forecast period. The outlook for CPI inflation showed it remaining above the MPC's 2% target

throughout 2025. It is expected to hit around 3.5% by June before peaking at 3.7% in Q3 and then easing towards the end of the year, but staying above the 2% target. The unemployment rate was expected to rise steadily to around 4.75% by the end of the forecast horizon, above the assumed medium-term equilibrium unemployment rate of 4.5%.

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

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

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

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

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

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

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

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

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

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

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

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

## APPENDIX 6

### Interest & Capital Financing Costs – Budget Monitoring 2024/25

April 2024 to March 2025	YEAR END POSITION			ADV/FAV
	Budgeted Spend or (Income) £'000	Actual Spend or (Income) £'000	Actual over or (under) spend £'000	
<b>Interest &amp; Capital Financing</b>				
- Debt Costs	9,303	9,482	179	ADV
- Internal Repayment of Loan Charges	(16,725)	(16,729)	(4)	FAV
- Ex Avon Debt Costs	860	890	30	ADV
- Minimum Revenue Provision (MRP)	11,947	11,145	(802)	FAV
- Interest on Balances	(1,485)	(1,958)	(473)	FAV
<b>Total</b>	<b>3,900</b>	<b>2,829</b>	<b>(1,071)</b>	<b>FAV</b>

## APPENDIX 7

### Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan, or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicates an issuer that has entered into bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, or which has otherwise ceased business.

## APPENDIX 8

### Extract from Treasury Management Risk Register – Top Risks

	Risk Nr	Description	Current Risk Score										This Period	Trend			Management Action	
			Likelihood					Impact						Periods Ago				
			1	2	3	4	5	1	2	3	4	5			1	2		3
			L	M	H		L	M	H									
1	R06	Inflation Risk The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.			3							4		12	12	12	Liaise with Chief Finance Officer to ensure Inflation both current and projected forms part of the medium term financial planning framework.	
2	R09	Legal & Regulatory Risk - Changes Risk that regulatory changes are not planned for and adversely impact the Council's budget and or ability to borrow				4					3			12	12	12	Read, respond and calculate the impact of Local Government accounting, investment and capital financing / borrowing consultations have on treasury management. Plan for the implementation of new regulations, conditions and accounting treatment	
3	R04	Interest Rate Risk The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately			3						3			9	9	9	Monitor interest rates on a monthly basis and compare with budget to determine impact on Council finances and report through monthly Treasury Dashboard. Report implication of interest rate changes to Cabinet as part of quarterly Treasury Management Performance Report. Explore alternative potential investment products following new freedoms - including corporate bonds, gilts, Certificate of Deposits etc. Discussion with our treasury advisors on any new borrowing in terms of duration and timing given the current volatility in the gilt market and PWLB interest rates.	
4	R07	Refinancing Risk The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.			3						3			9	9	6	6	When deciding on the duration of new borrowing consider existing debt maturity profile before submitting an approval to Chief Finance Officer on the new borrowing. Consult with treasury Advisor Arlingclose with regards to risks in the lending market and consider their guidance when making refinancing decisions Complete Annual PWLB certainty rate return and any other returns that provide a discounted lending rate. Maintain a relationship with at least 2 brokers in order to ensure that the council avoids the risk of accepting terms which are not in line with prevailing market conditions.
5	R01	Credit & Counterparty Risk - Default Risk The risk of failure by a third party to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.		2								4		8	8	8	8	Complete annual review of Counterparty List with external advisors to feed into Treasury Management Strategy. Regular review of counterparty financial standing through use of credit ratings, credit default swap rates and national press coverage and liaison with Chief Finance Officer and external advisors to consider any issues / change in circumstances of counterparties.
6	R08	Legal & Regulatory Risk - Acting Outside Powers The risk that the organisation itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.		2								4		8	8	8	8	Obtain independent review of the council's strategy and policies to ensure compliance with the CIPFA Code of Practice on Treasury Management Local Authorities (Capital Finance and Accounting) (England) Regulations, Local Government Act and any other regulation or guidance as specified by the Secretary of State. Stay on top of Government and CIPFA consultations on Treasury and Capital Financing regulations.