AUDIT & GOVERNANCE COMMITTEE

DATE	17 July 2025
REPORT OF	Guy Lonsdale, S151 Officer
SUBJECT	Treasury Outturn 2024-25
STATUS	Open

CONTRIBUTION TO OUR AIMS

Effective treasury management will provide support towards the achievement of Council Plan aims and objectives. Treasury management is an integral part of the Council's finances providing for cash flow management and financing of capital schemes. It therefore underpins all the Council's aims.

EXECUTIVE SUMMARY

The report contains details of treasury management arrangements, activity and performance during the 2024-25 financial year.

During the period covered, 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	2024-25 Approved Budget £'m	H1 2024-25 £'m	2024-25 Outturn £'m
Capital Expenditure	**125.5**	**19.0**	**63.6**
Capital Financing Requirement	**246.5**	**225.3**	**232.5**
Authorised Borrowing Limit	**260.0**	**260.0**	**260.0**
Operational Boundary	**230.0**	**230.0**	**230.0**
External Borrowing	**212.6**	**162.0**	**188.9**
Investments >365 days	**21.0**	**0.0**	**0.0**

RECOMMENDATIONS

Audit & Governance Committee is requested to:

1) Consider the content of the report and make any recommendations to Cabinet as necessary in respect of treasury management activity during 2024-25.

REASONS FOR DECISION

The Council's treasury management activity is guided by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year with interim updates on performance against Prudential Indicators reported quarterly. We therefore report in full after Quarter 2 (this Report) and year end with Prudential Indicators being reported additionally after Quarters 1 and 3 in the Council Plan Resources and Finance Report.

1. BACKGROUND AND ISSUES

1.1. CIPFA has defined treasury management as:

The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

1.2. The Treasury Management Strategy Statement (TMSS) for 2024-25 was developed in consultation with our treasury management advisors, Link Asset Services Ltd. This statement also incorporates the Investment Strategy.

1.3 Whilst the Council has appointed advisors to support effective treasury management arrangements, the Council is ultimately responsible for its treasury decisions and activity. No treasury activity is without risk. The successful identification, monitoring and control of risk is therefore an important and integral element of treasury management activities.

1.4 The Council has nominated the Audit & Governance Committee as responsible for ensuring effective scrutiny of the treasury management arrangements.

1.5 Key points to note with specific regard to Treasury activity:

- Entering 2024-25, period end borrowing levels were forecast to be around £212.6m. Actual borrowing at year end stood at £189m (£23.6m lower than forecast). This was primarily due to slippage of schemes within the Capital Programme, although this was temporarily offset by a proactive strategy to reduce some of our built-up internal borrowing position and carry more cash over financial year end to prioritise liquidity and prepare for a potential LOBO Call in April. As investment rates remained elevated the marginal cost of carry on this temporary debt was easily managed within budget. Ultimately, the LOBO was not called and, as loans were only taken on a short-term basis, £6m was repaid in April and a further £10m during May 2025.

- Overall Treasury delivered an outturn position £3.2m below budget for the year.

- Whilst borrowing costs are expected to rise going forward they continue to be projected at below 10% of overall Net Budgets, an important indicator of prudence and affordability.

- During 2024-25:

    - UK interest rates continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2024/25 against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, war in the Middle East and President Trump's 'America First' agenda.
    - Following a very shallow technical recession in the second half of 2023 in the UK, the domestic economy had started to perform better in Q1 2024 and at year end the UK economy as a whole expanded by around 0.7% for the full year.
    - The UK experienced fluctuations in its inflation rates during the period. The Consumer Prices Index (CPI) started the year at 3.2%, fell gradually to 1.7% by September, before increasing again as private sector wages remained high and positive base effects of energy costs dropped out. By period end CPI was back at 3.4%.

- A small amount (£0.225m) of long-term debt was repaid early during the period as the Authority sought to take advantage of peak rates to exit its more expensive historic debt (priced at 6%+) as efficiently as possible. Further debt rescheduling will continue to be considered if it can deliver (net) long-term savings.

- The continuation of restrictive policy by the Bank of England as it sought to contain inflation, with a peak Base rate of 5.25% over the Summer, led to strong investment returns but also meant that borrowing remained significantly more expensive than our portfolio average rate. As a result, a strategy of deferring long-term commitment through use of reserves and short-term borrowing arrangements was adopted.

- Higher investment returns, even with our cautious approach, has generated surplus income (above budget) of £1m during the period, income which is available to fund frontline services. Underspend on borrowing provided another £2.2m for distribution.

- The Treasury Management Strategy covers the Council's treasury aims and principles. The Council also considers direct 'commercial' investments from time-to-time with the aim of generating financial return. Although reference is made to these types of investments in the TMSS' these transactions are guided and limited by the Capital Strategy document.

2. RISKS AND OPPORTUNITIES

2.1 No Treasury activity is without risk. Specific risks include, but are not limited to, Counterparty Credit Risk (the risk of an investment not being repaid), liquidity risk (the risk that the Authority does not have its funds in the right place, at the right time and in the right amount to make it's payments as they fall due), interest rate risk (the risk that future rate movements have a revenue implication for the Authority) and reputational risk (see Section 4 below).

2.2 The attached Appendices define our approach toward mitigating these risks.

2.3 Treasury is an Authority-wide function and its environmental sustainability and equalities implications are the same as for the Council itself.

2.4 The Authority will have regard to the environmental and equality activities of its Counterparties (where reported) but

- Prioritises Security, Liquidity and Yield,
- Recognises that as large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and such exposures are small parts of their overall business.
- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Authority's capacity to mitigate risk through diversification.

2.5 **General Data Protection Regulation 2018** – Relationships with external providers covered by the Treasury management Practices are governed by and operated in accordance with the act.

3. OTHER OPTIONS CONSIDERED

3.1 These were set out on Page 29 of the Treasury Management Strategy Statement.

4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

4.1 As you would expect, with large sums of public money involved, any treasury activity carries a high degree of reputational risk. Any losses have not just financial but also significant, ongoing resource implications for the Council.

5. FINANCIAL CONSIDERATIONS

5.1 As set out in the Appendices.

6. CHILDREN AND YOUNG PEOPLE IMPLICATIONS

6.1. As an Authority-wide corporate function, the immediate impacts of day-to-day Treasury operations on children and young people are the same as for the Council as a whole. However, certain Treasury decisions, most notably those relating to Long-Term Borrowing transactions, will place a greater burden on younger residents, over time, relevant to other demographics. In a similar way, the benefits arising from capital schemes funded by this borrowing will accrue to the advantage of younger residents, as has been the case for all previous generations, and will continue to be in future.

7. CLIMATE CHANGE, NATURE RECOVERY AND ENVIRONMENTAL IMPLICATIONS

7.1 In line with the Authority's declaration of a Climate Emergency, the S151 Officer will aim to assess and monitor, not just Environmental but all, Environmental, Social and Governance (ESG) factors when selecting investment options. Full assessment is however restricted by the fact that, at the time of writing, there is no consistent rating framework with which to measure and benchmark specific counterparty ESG metrics. Until this market data gap is fully resolved, our approach to managing the risks associated with the Environmental activities of our Counterparties is as follows:-:-

- As the Ratings Agencies headline ratings on our Counterparties now incorporate ESG risk assessments alongside more traditional financial risk metrics and so provide both an holistic risk measure and a proxy for ESG 'scoring' in the absence of anything more robust

- The Council will continue to Prioritise Security, Liquidity and Yield, in that order

- The Council recognises that as large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result climate change considerations are an increasingly important and heavily scrutinised part of their overall business.

- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Authority's capacity to mitigate risk through diversification.

- The Council notes that bonds issued by Supranational institutions offer strong ESG credentials, combined with the explicit underwriting support of all major developed countries. This results in excellent ratings (typically AA+

- AAA) being applied. As such, the Council actively seeks exposure to these assets (commensurate with its investment horizon) and in doing so, contributes to market liquidity and therefore capital raising abilities of these bodies who then deploy that capital in ESG positive schemes.

8. FINANCIAL IMPLICATIONS

8.1 As set out in the appendix.

9. MONITORING COMMENTS

9.1 In the opinion of the author, this report does not contain recommended changes to policy or resources (people, finance or physical assets). As a result no monitoring comments have been sought from the Council's Monitoring Officer (Chief Legal Officer) or AD People and OD.

10. BACKGROUND PAPERS

10.1 CIPFA Treasury Management Code and Guidance Notes

10.2 Treasury Management Strategy Statement 2024-25

10.3 Capital Strategy Statement 2024-25

11. CONTACT OFFICER(S)

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Guy Lonsdale,
Section 151 Officer

Appendix 1

Treasury Outturn Report 2024/25

Contents

Abbreviations Used In This Report

- **BoE:** the Bank of England (see also MPC below)
- **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.
- **Gilts:** gilts are bonds issued by the UK Government to borrow money on the financial markets. The yields on Gilts are (usually) fixed and so 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.
- **LOBO:** a loan carrying provision for the lender to periodically amend the interest rate applicable. If the lender chooses to exercise this option, the borrower then receives the secondary option to choose to repay the loan without penalty.
- **DLUHC:** the Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England.
- **MPC:** the Monetary Policy Committee of the Bank of England, which meets eight times a year, to determine monetary policy by setting the official interest rate in the UK, (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).
- **PWLB:** Public Works Loan Board – the section within H.M. Treasury which provides loans to local authorities to finance capital expenditure.
- **RPI/CPI:** the Retail Price Index (RPI) is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. The main difference between RPI and Consumer Price Index (CPI) is in the way that housing costs are treated. RPI is often higher than CPI for these reasons.
- **S151 Officer:** an Officer appointed under section 151 of the Local Government Act to carry out the duties of 'Responsible Financial Officer' as defined by CIPFA
- **SONIA:** the Sterling Overnight Index Average. Generally, a set of indices across varying time periods, for those benchmarking their investments.
- **TMSS:** the annual treasury management strategy statement that all local authorities are required to submit for approval by the full council before the start of each financial year.

Key Messages:

All investment and borrowing transactions were in line with the Approved 2024-25 Treasury Strategy.

There were no in-year policy changes to the TMSS; the details in this report update the outturn position set against the updated economic environment and budgetary changes already approved.

Our central case at the start of the year was for base rates, having peaked at 5.25% to fall gradually through the year to around 4.25%, although we flagged the high degree of uncertainty attached. Rates ultimately reached 4.5% by period end.

This report covers Treasury and its related financial transactions. A Capital Strategy is reported separately covering non-treasury related investments.

S151 Officer Overview

The Council operates a balanced budget, which broadly means cash raised during the year will meet its non-capital expenditure, however there will always be timing differences in how funds are received, and expenses settled. A fundamental element of treasury management is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties and reflect suitable liquidity levels before considering optimising investment return.

Our 2024-25 Treasury Strategy was constructed to allow the Council to appropriately manage risks related to both borrowing and investments. Our approach, once again, stood up well to rapidly evolving financial circumstances, particularly as relating to interest rate rises, which surpassed our initial expectations. Strong investment returns allowed the Treasury function to generate £1.4m of income to support frontline services all while taking lower overall risk than our peers. Interest paid on debts of £6.2m also came in under budget.

Managing circumstances a standard deviation or two beyond that expected is a key determinant of successful Treasury Management delivery. The role of Treasury Management at North East Lincolnshire Council is to ensure those occurrences do not endanger the larger mission of the Authority.

Beyond that high level brief, the main functions of Treasury can be divided into 4 main parts:-

1. The arrangement of funding for the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending plans as they fall due. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
2. Safeguarding surplus funds – investing the Council's funds in line with the principles of Security, Liquidity and Yield priority.
3. Day-to-day cash flow management – ensuring the Authority has funds available in the right place, at the right time, in the right size to meet its payment obligations as they fall due.
4. Horizon scanning of financial data and market intelligence and sharing this with the wider organisation as appropriate.

In an elevated rate environment, we have focussed on shorter term borrowing, seeking to 'ride out' the cycle before locking in loan costs for the long-term. At the time of writing, longer term rates had started to decline from their recent peak levels, but we continue to monitor rate paths and adapt our borrowing strategy implementation to best meet the requirements of the Authority's plans as they are rolled out.

Guy Lonsdale, S151 Officer

June 2025

Key Messages:

No Treasury activity is without risk. These risks include, but are not limited to, Credit Risk, Liquidity Risk, Interest Rate Risk, Inflation Risk and Reputational Risk.

The Council uses in-house knowledge, advisors (MUFG Corporate Services), treasury management software (Treasury Live) and the CIPFA Treasury Management Code to manage these risks.

Scrutiny of Treasury activity is undertaken by Audit and Governance Committee and reported twice-yearly to Full Council. In accordance with the most recent Code revisions, updates on Prudential Indicators are also be provided as part of quarterly budget update Reports.

Introduction and External Context

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021) to provide a review of treasury management activities and the actual prudential and treasury indicators for 2024/25. This report references the most recent Revisions to the Code and 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).

This report covers the following:

- An economic review for the 2024/25 financial year;
- A summary of the Council's capital expenditure, as set out in the Capital Strategy, and performance against its prudential indicators;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- A review of the Council's treasury investments during 2024/25;
- A review of the Council's borrowing strategy for 2024/25;
- A review of any debt rescheduling undertaken during 2024/25;
- A review of compliance with Treasury and Prudential Limits for 2024/25.

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 allow prior scrutiny of this treasury management report by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during 2024/25 to support members' scrutiny role.

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

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Introduction and External Context

Key Messages:

The Council has taken a cautious approach to investing but is also fully appreciative that the external risk environment looks very different to that which has existed for the last decade or so. Elevated inflation reduces our spending power and rising rates, although positive for investments, have a more significant cost impact on future borrowing.

Bank Rate in the UK started the year at 5.25% before dropping gradually with quarterly cuts from August to end the year at 4.5%.

As of June 2025, our advisors, MUFG are forecasting further reductions in Bank Rate from Q3 2025, although the picture remains uncertain in terms of path for inflation, the labour market and the path for growth.

The UK experienced fluctuations in its inflation rates during the period. The Consumer Prices Index (CPI) started the year at 3.2%, fell gradually to 1.7% by September, before increasing again as private sector wages remained high and positive base effects of energy costs dropped out. By period end CPI was back at 3.4%.

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, The Bank of England will continue to be cautious and Bank Rate reductions are expected to be gradual. Bank Rate currently stands at 4.25%, 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 Authority does not typically have sufficient surplus cash balances to be able to place deposits for more than around six months to earn higher rates from longer deposits. In the rising rate environment seen in recent years, this has had the beneficial effect of enabling the Authority to capture uplifts in rates more quickly. Once rates start to fall, and often prior to that once lower rates are anticipated, it will mean our return falls equally quickly.

Investment balances were around typical levels for much of the period although were raised in Q4 as a tactical move to insulate the Authority from an increasingly illiquid Local Authority lending market and in preparation for a potential LOBO loan call in April 2025 (another LOBO having been called and repaid without penalty in December 2024)

While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

Key Messages:

The Treasury Management Strategy Statement, (TMSS), for 2024/25 was approved by this Council in February 2024. No changes were considered necessary during the year despite elevated rates and volatile inflation.

The Authority has an increasing CFR over the next four years due to the capital programme, and as investments reduce will need to borrow up to £114m over the next few years.

The Authority has adopted a cautious approach whereby investments are weighted heavily toward low counterparty risk, resulting in relatively low returns compared to borrowing rates.

Local Context

The Treasury Management Strategy Statement, (TMSS), for 2024/25 was approved by this Council on 22 February 2024.

There were no in-year policy changes to the TMSS – pleasing to note in the face of challenging economic circumstances; the Strategy did its job in protecting public funds whilst allowing sufficient flexibility to cope with exceptional operational demands.

Gross borrowing and the CFR - to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council must 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 plus the estimates of any additional capital financing requirement for the current and next two financial years. This confirms that the Council is not borrowing to support revenue expenditure.

The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this Prudential Indicator and we are on target to achieve the original forecast.

	31 March 2024 Principal	Rate/ Return	Average Life yrs		31 March 2025 Principal	Rate/ Return	Average Life yrs
Total debt	*£160.2m*	*3.72%*	*24.4*		*£188.9m*	*4.05%*	*17.8*
Capital Financing Requirement (CFR)	*£211.6m*				*£232.5m*		
Over / (under) borrowing	*(£51.4m)*				*(£43.6m)*		
Total investments	*£11.9m*	*5.15%*	*0.07*		*£31.2m*	*4.44%*	*0.07*
Net debt	£148.3m				£157.7m		

The Authority aims to utilise both internal borrowing and short-term borrowing to defer more expensive long-term borrowing and maintain a lower credit risk exposure.

Borrowing Strategy

The first key control over the treasury activity is the CFR, a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if such borrowing proves prudent, meets the CFR criteria above and after due evaluation is believed to represent a Value for Money proposition.

	2024/25 Outturn Original Estimate £m	Mid-year Position 30.9.2024 £m	2024/25 Final Position £m
Borrowing	160.2	151.8	188.9
Other Long Term liabilities (IFRS 16 Lease values)	0.0	4.0	7.8
Total debt	160.2	155.8	195.7
CFR (year end position)	211.6		232.5

A breakdown of our debt portfolio by type as at period end is shown below:-

Type of Loan	Amount	% of Portfolio
PWLB Fixed	£94.1m	50%
LOBO	£11.0m	6%
Market Fixed	£42.3m	22%
Short-term Fixed	£41.5m	22%
Variable Rate	£0.0m	0%
Total	£188.9m	

Key Messages:

When undertaking new borrowing the Council will review both the source and tenure of loans it seeks to take.

At 31/03/2025 the Authority owed £189m in loans, (up £29m on 2024) as a result of funding previous years' capital programmes. Some of this increase was of a short-term tactical nature and net debt increased by a far smaller £9m.

The current borrowing portfolio remains long-term and fixed weighted. Whilst this provides certainty of cost it can restrict flexibility to restructure debts as plans and finances change. However, £235k of higher rate loans (avg 6.8%) were repaid in May to take advantage of the effect prevailing rates had on premiums . Full details were provided in H1 2024-25 Report.

Borrowing Strategy (continued 2)

Key Messages:

Affordability and the "cost of carry" remained strong influences on the Authority's borrowing strategy. As interest rates are likely to remain relatively high for the time being the Authority determined it was largely more cost effective in the short-term to use its own funds to defer borrowing where possible.

Borrowing short-term from other local authorities provides a useful source of funding below current long-term rates and with the ability to exit loans within a reasonable timeframe.

Importantly however, whilst the above represents the default strategy, there always remains a risk of higher rates in the future. As such, the Authority continues to assess longer term options.

- During 2024/25, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns are typically below borrowing rates and minimising counterparty risk on placing investments also needed to be considered.

- The policy of avoiding/delaying new long-term borrowing by running down cash balances and using short-term loans available from other local authorities, has served well over the last few years. However, this has been kept under review to avoid incurring higher borrowing costs in the future when this Authority may no longer be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt. No long-term borrowing was arranged during the period, but several new short-term loans were obtained from the Local Authority lending market during 2024/25 (see P11 for details).

- It is anticipated that further borrowing will be undertaken during the 2025/26 financial year.

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

- where there was a significant perceived risk of a sharp FALL in long and short term rates, (e.g. due to a marked increased risk of recession or 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.

- where there was a significant risk of a sharp RISE in long and short term rates, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, 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 future.

Key Messages:

The Authority's traditional source of long-term borrowing is the Public Works Loan Board (part of HM Treasury).

The rate at which the Authority can borrow is determined by the 'Gilt Market' (the Government's own primary source of borrowing) and fluctuates with market conditions. On top of this 'base rate' PWLB apply a margin, typically 0.8% for NELC.

Longer term rates continued at elevated levels during 2024-25 due to macro-economic and geo-political issues with longer term rates moving higher in the second half of the year. Volatility also remained a regular feature across many financial markets as participants struggled to judge future policy direction.

Borrowing Strategy (continued 3)

PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields (see below). The main influences on gilt yields are Bank Rate projections, issuance and investor demand, inflation expectations and movements in US treasury yields. Consequently, borrowing trended toward being more 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 UK Government borrowing will need to be funded during 2025.

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 3.4% y/y (May), but from there was expected to fall back to around 3% by the end of the financial year 2025-26.

PWLB Guidance includes provision for denying access to PWLB borrowing for any local authority which has purchased assets primarily for yield in its capital programme.

The current margins over gilt yields 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 60bps (G+60bps)

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%.

At year end the future direction of travel was finely balanced, even though short-term rates were expected to decline gradually as and when inflation subsides. Longer-term rates appear more heavily influenced by macro-economic and geo-political issues combined with supply-demand dynamics.

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, so expects to retain access to PWLB.

Borrowing Strategy (continued 4)

Key Messages:

A number of loans were agreed during 2024-25 as we sought to defer long-term borrowing during a period of continuing elevated rates.

The table across provides details of each loan and shows how rates moved during the period.

In the local authority market, rates reflected liquidity issues with many regular lenders reducing their exposure on the back of a combination of Section 114 Notices issued in the sector, Schools SEND Funding Formula issues removing capacity and competitive rates available elsewhere.

Borrowing – the following loans were taken during the second half of the year: -

Counterparty	Start Date	Maturity Date	Amount	Rate
Crawley Borough Council	01/10/2024	30/09/2025	£5,000,000	4.75%
Middlesborough Council	11/11/2024	13/01/2025	£5,000,000	4.90%
Middlesborough Council	29/11/2024	02/01/2025	£5,000,000	4.80%
Babergh District Council	29/11/2024	28/02/2025	£2,000,000	4.90%
Mid-Suffolk District Council	29/11/2024	28/02/2025	£2,000,000	4.90%
Middlesborough Council	05/12/2024	20/02/2025	£5,000,000	4.90%
Blaenau Gwent County	06/12/2024	20/12/2024	£3,000,000	4.80%
PWLB	17/12/2024	16/12/2033	£10,000,000	4.83%
Middlesborough Council	13/01/2025	26/03/2025	£5,000,000	4.90%
Middlesborough Council	20/01/2025	16/04/2025	£5,000,000	5.60%
Middlesborough Council	30/01/2025	07/04/2025	£5,000,000	5.70%
Shropshire Fire & Rescue Service	05/02/2025	07/04/2025	£2,000,000	5.50%
Middlesborough Council	20/02/2025	25/04/2025	£5,000,000	5.55%
West Yorkshire Pension Fund	24/02/2025	24/06/2025	£5,000,000	5.55%
Middlesborough Council	04/03/2025	15/05/2025	£2,500,000	5.85%
PWLB	21/03/2025	21/03/2026	£10,000,000	4.82%
Middlesborough Council	26/03/2025	13/05/2025	£5,000,000	5.85%

The average rate payable on all debt outstanding at period end was 4.05%.

Key Messages:

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

£1.452m of income was generated from investment returns in the period. This income supports frontline services.

All other things being equal we would expect to see balances change each year by the amount of corporately funded capital expenditure less any new borrowing.

Investment Activity

The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held.

During 2024/25 total investment balances ranged between £14.3m and £50.3million. The average balance maintained was £29.6m (£3m lower than 2023/24) with a weighted average maturity of only 10 days. During the period, our target rate of SONIA averaged 4.90%. Our average rate achieved was very slightly lower at 4.88%.

Investment Policy – the Council's investment policy is governed by DLUHC guidance, which has been implemented in the annual investment strategy approved by the Council. Investment activity during the year conformed to the Investment Strategy for 2024/25 which aimed to reduce risk by;

- Setting value and term limits for counterparties based on Credit rating, available collateral and sector.
- Utilising data tools available via Treasury Live and MUFG to monitor risk.
- Ensuring a minimum level of liquidity was maintained to allow payments to be made as they fell due

The Council aims to achieve an adequate return (yield) on its investments commensurate with robust levels of security and liquidity. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs using our suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Creditworthiness – Credit metrics for the financial institutions we interact with have remained remarkably resilient throughout the post Covid pandemic period, even through the regional banks crisis in the US during 2023.

No changes to TMSS limits, or indeed (more restrictive) operational limits, were necessary during the period. In a post 'Bail-in' regulatory environment NELC seeks to largely avoid direct bank exposure.

Key Messages:

Counterparty credit quality is assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating for institutions considered as having "high credit quality" is A-); credit default swap prices, financial statements, and reports from quality financial news feeds.

Slightly higher than usual balance levels were maintained during the latter part of the year, to provide a buffer against reduced liquidity in the local authority lending market.

Investment Activity

Investments	Balance on 31/03/2024 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2025 £m	Avg Rate/Yield (%) and Avg Life (days)
UK Government: - DMADF - Treasury Bills	5.5 0.0	537.6 7.6	(521.9) (7.6)	21.2 0.0	4.86% 8 days 5.15% 71 days
Bonds issued by Multilateral Development Banks	0.0	0.0	(0.0)	0.0	N/A
Direct Unsecured Investments (call accounts, deposits) with financial institutions - rated A- or higher - rated below A-	0.6 -	46.0	(46.0)	0.6	3.93% at Call
Tradable Investments with Financial institutions Corporates (CDs) rated A- or higher	0.0	0.0	(0.0)	0.0	N/A
Money Market Funds	5.8	52.5	(48.9)	9.4	4.89% at Call
TOTAL INVESTMENTS	**11.9**	**643.7**	**(624.4)**	**31.2**	4.88% 11 days
Increase/ (Decrease) in Investments £m				19.3	

Given the increased risk and continued low returns from short-term unsecured bank investments, but having no funds available for longer-term investment, the Authority is unable to simply diversify into more secure and/or higher yielding asset classes such as repurchase agreements or covered bonds which are secured on financial assets. Eliminating Credit Risk by running down balances whilst still maintaining adequate liquidity therefore remains a key strand of operational activity.

Key Messages:

Figuratively the Authority's risk profile remained steady during the year, (with a narrow set of counterparties our risk profile primarily moves with UK sovereign rating where there were no changes during the period).

Investment Activity (continued 1)

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating
31/03/2024	2.63	AA
30/06/2023	2.66	AA
30/09/2023	2.85	AA
31/12/2023	3.45	AA
31/03/2025	3.13	AA

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

The Table above is a useful way to simply quantify the overall risk taken during the period covered. It does have its limitations, however. The Authority maintains several Money Market Fund (MMF) accounts for daily liquidity. These funds take deposits from NELC and other corporates and lends them out to banks and other financial institutions. Because the on-lent monies are distributed across c40-50 banks the funds are considered well diversified and Ratings Agencies grant them an MMF specific AAA rating. The sector is highly regulated and rules are in place to protect investors. Some of these rules mean that should only a handful of banks be unable to repay their loans or should there be a 'run' on the funds in times of market stress, the Authority could be 'locked out' of accessing its deposits or, in the worst case, lose a portion of its invested amount (known as a 'haircut'). These characteristics lead us to closely monitor the Funds and take swift action whenever necessary to protect taxpayer funds.

Key Messages:

In an environment where direct unsecured bank deposits present uncompensated, increased risk NELC has sought to avoid this imbalance by utilising UK Government based investments and diversified funds.

Ultimately, we seek to minimise counterparty risk by limiting our cash levels whilst still maintaining adequate liquidity.

There were 3 operational breaches of the limits set in the TMSS. Two were due to third-party external factors beyond our control and no cost was incurred by the Authority. The last was due to internal error and resulted in a small interest margin cost. Procedures have been amended to avoid a repeat.

Investment Activity (continued 2)

Benchmarking

- Comparisons are made to other Authorities using the Treasury Live database which looks at over £7Bn of local Authority investments. As at the outturn date this shows that compared to other Authorities:-
  - NELC hold less cash. Average balance £30m vs £81m average for the Group
  - NELC invest for shorter periods. Only 7 days vs 120 days on average across the Group
  - NELC take less risk than the Group collectively.
  - NELC Deliver above average return. 4.44% vs 4.23% average return for the Group

- The above shows how the Council has been able to take advantage of rising rates quickly due to its shorter average investment term. NELC is of the view that, in a post Bail-in environment elimination of credit risk through lower balances is worth potential lower overall return. To ensure this strategy does not replace credit risk with liquidity risk NELC maintains a liquid balance at least £10m.

- We monitor performance against data on 80 other Authorities' activity (as summarised above) monthly. In 2022 Audit and Governance Committee requested that we obtain some additional specific data on what Unitary Authorities (like NELC), are investing in, to ensure we are not 'missing out' on anything those 'peers' are doing. Data was shared with us (confidentially and anonymised) by our Advisors, Link Asset Services. Within this narrower grouping the only different activity being those who lent (sometimes long-term) to other Authorities. We have reviewed the data and considered LA lending but for the time being the S151 Officer has taken the decision not to do so.

Operational Breaches

- There were 3 breaches of limits set within the TMSS during the period.

1. (No fault breach) In October proceeds of a property sale were not received until after the cut off time for onward investment with counterparties. We had no alternative other than to hold the funds in Barclays overnight and re-invest the following day. No loss resulted.
2. In December, a two-week investment for £4.5m was made with DMO, however, this left us with a forward liquidity position below £10m prior to maturity. A short-term loan of £3m was immediately secured to maintain adequate liquidity levels and processes adapted to prevent any recurrence
3. (No fault breach) In February another Authority sent £5m to us in error. As these funds were received late in the day, after staff had left the office, the funds remained in our Barclays account overnight and were returned to a grateful Authority the following morning.

Key Messages:

The Authority confirms compliance with its Prudential Indicators for 2024/25, which were set in February 2024 as part of the Authority's Treasury Management Strategy Statement.

Compliance with Prudential Indicators

Treasury Management Indicators
The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2024/25	2025/26	226/27
Upper limit on fixed interest rate exposure	£300m	£310m	£320m
Actual*	£136m*	£190m	£205m
Upper limit on variable interest rate exposure	£90m	£90m	£90m
Actual*	£42m*	£45m (est)	£45m (est)

*= Peak position for 2024/25

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

	Upper	Lower	Actual
Under 12 months	70%	10%	32%
12 months and within 24 months	30%	0%	2%
24 months and within 5 years	30%	0%	6%
5 years and within 10 years	30%	0%	10%
10 years and within 20 years	30%	0%	8%
20 years and within 30 years	50%	0%	21%
Over 30 years	75%	10%	21%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Key Messages:

For 2024/25 a minimum cash level of £10m was targeted.

The level of risk taken on investments was well within permitted boundaries as set in the treasury Management Strategy.

Compliance with Prudential Indicators (contd.)

Principal Sums Invested for Periods Longer than 365 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. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£21m	£21m	£21m
Actual	£0m	£0m	£0m

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit rating	A	AA

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.

	Target	Actual (Low)
Total cash available within 1 month	£10m	£14m

The Actual figure quoted above is the actual lowest liquidity position, the reason a breach was reported above (p15) is that we monitor liquidity 7 days forward. On that occasion the loan and additional unexpected funds were received that meant the £10m minimum wasn't breached even though at a point in time it was expected to be.

Key Messages:

Borrowing remains comfortably below control levels as we continue to leverage internal borrowing support for the Capital Programme.

Borrowing levels were projected to be £212m at the end of 2024/25 when the TMSS was set in February 2024. The actual position as at 31.3.2025 was £189m. The difference was represented by delayed capital spend at the period end and was expected to be required to fund the revised Capital Programme during 2025/26.

Compliance with Prudential Indicators (contd.)

Other Prudential Indicators

The following prudential indicators are relevant to the treasury function as they concern limits on borrowing and the adoption of the CIPFA Treasury Management Code.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely, i.e., prudent, but not worst-case scenario for external debt.

Operational Boundary	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Borrowing	£230m	£250m	£260m	£270m
Other long-term liabilities	£30m	£20m	£20m	£20m
Boundary for Total Debt	£260m	£270m	£280m	£290m

Authorised Limit for External Debt: The authorised limit is "affordable borrowing limit" required by s3 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 maintained gross borrowing well within its authorised limit and will continue to do so.

Authorised Limit	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Borrowing Limit	£260m	£280m	£300m	£310m
Other long-term liabilities	£40m	£30m	£30m	£30m
Total Debt Limit	£300m	£310m	£330m	£340m
Actual/projected Peak Debt levels	£189m	£196m (est)	£225m (est)	£234m (est)

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition in February 2022.

Key Messages:

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

The Authority confirms compliance with its Capital Finance Prudential Indicators for 2024/25, which were set in February 2024 as part of the Authority's Treasury Management Strategy Statement.

Changes to the 2025/26 (and later programmes) may occur as these are progressed in the coming months.

Compliance with Capital Finance Prudential Indicators

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

The Authority's planned capital expenditure and financing as at 31.3.2025 may be summarised as follows.

Capital Expenditure and Financing	2024/25 Original £m	2024/25 Changes £m	2024/25 Outturn £m	2025/26 Estimate £m	2026/27 Estimate £m	2028/29 Estimate £m
Total Expenditure	125.5	(61.9)	63.6	126.6	42.9	22.9
Capital Receipts	12.0	(4.3)	7.7	2.2	2.2	0.0
Government Grants	71.7	(37.9)	33.8	19.9	0.2	0.0
Ring-fenced External Funding	0.7	1.1	1.8	62.1	0.7	0.5
Borrowing	41.0	(20.6)	20.4	42.4	39.8	22.4
Total Financing	125.5	(61.9)	63.6	126.6	42.9	22.9

Key Messages:

The table across shows how much of the Council's budget was/is expected to be needed to service its debt, including repayments and interest.

The percentage of the Council's income required to service its net debt in 2024/25 came in below projections due to a combination of slippage in the capital programme and much higher than anticipated income from investments due to higher market rates.

Compliance with Capital Finance Prudential Indicators (contd.)

Ratio of Financing Costs to Net Revenue Stream

This is a voluntary indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the Council's entire revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2024/25 Original Estimate %	2024/25 Outturn %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %
General Fund	7.84	5.73	8.83%	9.73%	9.86%

The percentage of the Council's income required to service its net debt came in below 2024/25 projections due to a combination of slippage in the capital programme and a much higher than anticipated income from investments due to the availability of higher market rates.

There are a range of factors that affect these future estimates, some internal, such as what our capital investment delivers, and others external, such as the impact of interest rate changes. All future borrowing must be in accordance with prudential borrowing principles and be affordable, sustainable and prudent.