Annual Treasury Management Review 2024/25

Pendle Borough Council

DATE 17 JULY 2025

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Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2024/25. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2024/25 the minimum reporting requirements were that the Full Council and the Executive Committee should receive the following reports:

- an annual treasury strategy statement (TMSS) in advance of the year. The TMSS was reported and approved by Full Council on 21st March 2024.
- a mid-year treasury update report. The mid-year treasury update report was reported to the Executive Committee on 12th November 2024.
- an annual review following the end of the year describing the activity compared to the strategy, (this report).

In addition, as delegated by Full Council, the Accounts and Audit Committee has received quarterly treasury management update reports during the year.

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.

No Member training on treasury management issues was undertaken during the year on 2024-25. However, in order to continue to support members' scrutiny role as and when required, ad hoc training sessions are carried out by the Council's treasury management advisors, MUFG (LINK Group).

Executive Summary

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

Prudential and treasury indicators	**31.3.24 Actual £000's**	**31.3.25 Actual £000's**
Capital expenditure	7,228	14,195
Capital Financing Requirement	20,961	22,569
Gross borrowing (LT debt & Other LT liabilities)	19,456	18,417
External debt	**19,359**	**18,359**
Investments (> 1 year)	0	0
Investments (< 1 year)	31,750	33,100
Net borrowing	**(12,391)**	**(14,741)**

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

Recommendations

The Council is recommended to:

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

Introduction and Background

This report summarises the following:-

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

1. The Council's Capital Expenditure and Financing

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

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

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

General Fund	**31.3.24 Actual £000's**	**31.3.25 Actual £000's**
Capital expenditure	7,228	14,195
Financed in year	6,952	14,195
Unfinanced capital expenditure	**276**	**0**

2. The Council's Overall Borrowing Need

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

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need, (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

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

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

The Council's CFR for the year is shown below, and represents a key prudential indicator.

CFR: General Fund	31.3.24 Actual £000's	31.3.25 Actual £000's
Opening balance	21,151	20,961
Adjustment to carried balance of Long Term Debt Balance		(12)
Capital investment	7,279	15,385
Less - Sources of Finance	(6,961)	(13,143)
Less - MRP/VRP*	(508)	(622)
Less PFI & finance lease repayments	0	0
Closing balance	**20,961**	**22,569**

** Includes voluntary application of capital receipts*

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

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

	31.3.24 Actual £000's	**31.3.25 Actual £000's**
Gross borrowing position	19,456	18,417
CFR	20,961	22,569
Over / (under) funding of CFR	**(1,505)**	**(4,152)**

As the table indicates, the Council is in a 'under' borrowed position as of 31st March 2025. This is in line with expectations but does require future monitoring. **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2024/25 the Council has maintained gross borrowing within its authorised limit.

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

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

	2024/25 £000's
Authorised limit*	30,500
Maximum gross borrowing position during the year	30,500
Operational boundary	28,500
Average gross borrowing position	18,417
Financing costs as a proportion of net revenue stream	5.20%

(*) Since the authorised limit is based on gross borrowing, this show gross maximum borrowing for the year. The authorised limit also allows for any potential overdraft position as this will be counted against the overall borrowing, and provides headroom for rescheduling, (i.e., borrowing in advance of repayment).

3. **Treasury Position as of 31st March 2025**

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

DEBT PORTFOLIO	31.3.24 Principal £000's	Rate/ Return	Average Life yrs	31.3.25 Principal £000's	Rate/ Return	Average Life yrs
Fixed rate funding:						
PWLB	19,359	2.89%	24	18,359	2.82%	25
Other long-term liabilities	97			58*		
Total debt	**19,456**			**18,417**		
CFR	**20,961**			**22,569**		
Over / (under) borrowing	**(1,505)**			**(4,152)**		
Total investments	**31,750**	**5.00%**	**All <1yr**	**33,100**	**4.89%**	**All <1yr**

(*) borrowing from Charities (Internal Borrowing). The debt is based on the principal value of mainly loans outstanding and does not include accrued interest.

The maturity structure of the debt portfolio was as follows:

	31.3.24 Actual £000's	2024/25 original limits £000's	31.3.25 Actual £000's
Under 12 months	1,000	1,000	1,500
12 months and within 24 months	1,500	1,500	
24 months and within 5 years			1,500
5 years and within 10 years	4,000	4,000	2,500
10 years and within 20 years	12,859	12,859	12,859

The Council's investment portfolio as of 31st March 2025 is shown in the table below:

INVESTMENT PORTFOLIO	31.3.24 Actual £000's	31.3.24 Actual %	31.3.25 Actual £000's	31.3.25 Actual %
Treasury investments				
Banks	3,000	9.45%	3,000	
Building Societies - rated	0	0.00%	0	0.00%
Local Authorities	4,950	15.59%	4,850	
DMADF (H M Treasury)	20,800	65.51%	22,250	
CCLA (Public Sector Deposit Fund)	3,000	9.45%	3,000	
TOTAL TREASURY INVESTMENTS	**31,750**	**100%**	**33,100**	**100%**

All investments were for up to one year.

4. The Strategy for 2024/25

The Council's Treasury Management Strategy for 2024/25 was approved at the Council meeting on 21st March 2024.

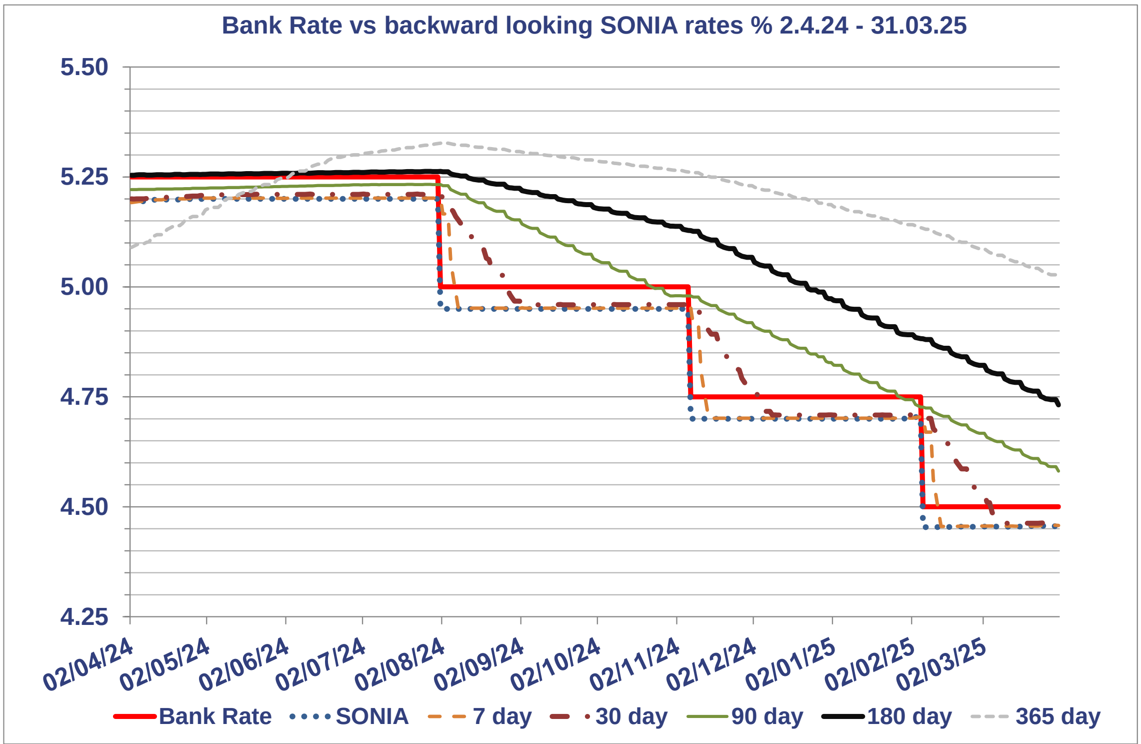
There have been no changes to the strategy during the year.

4.1 Investment strategy and control of interest rate risk

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

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

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



Investment returns remained robust throughout 2024/25 with Bank Rate reducing steadily through the course of the financial year (three 0.25% rate cuts in total), and even at the end of March the yield curve was still relatively flat, which might be considered unusual as further Bank Rate cuts were expected in 2025/26.

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

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

Looking back to 2024/25, investors were able to achieve returns more than 5% for all periods ranging from 1 month to 12 months in the spring of 2024 but by March 2025 deposit rates were some 0.75% - 1% lower. Where liquidity requirements were not a drain on day-to-day investment choices, extending duration using "laddered investments" paid off.

That is not to say that investment choices were straight-forward. Concerns over rising inflation after the Autumn Statement in October led to reduced expectations for Bank Rate to fall. Indeed, the CPI measure of inflation is expected to reach c3.75% by the autumn of 2025, which could provide for some presentational issues for a Bank whose primary mandate is to ensure inflation is close to 2% on a two-to-three-year timeframe. At the end of March, only two further rate cuts were priced into the market for 2025 (4% at December 2025). A week later and sentiment has changed dramatically in the wake of the equity market sell-off to the extent that markets now expect three Bank Rate reductions between May and December 2025 (Bank Rate to fall to 3.75%).

4.2 Borrowing strategy and control of interest rate risk

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 although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2025 and 2026 in the light of economic growth concerns and the eventual dampening of inflation. The Council has sought to minimise the taking on of long-term borrowing at elevated levels (>5%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<5 years) as appropriate.

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

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

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

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

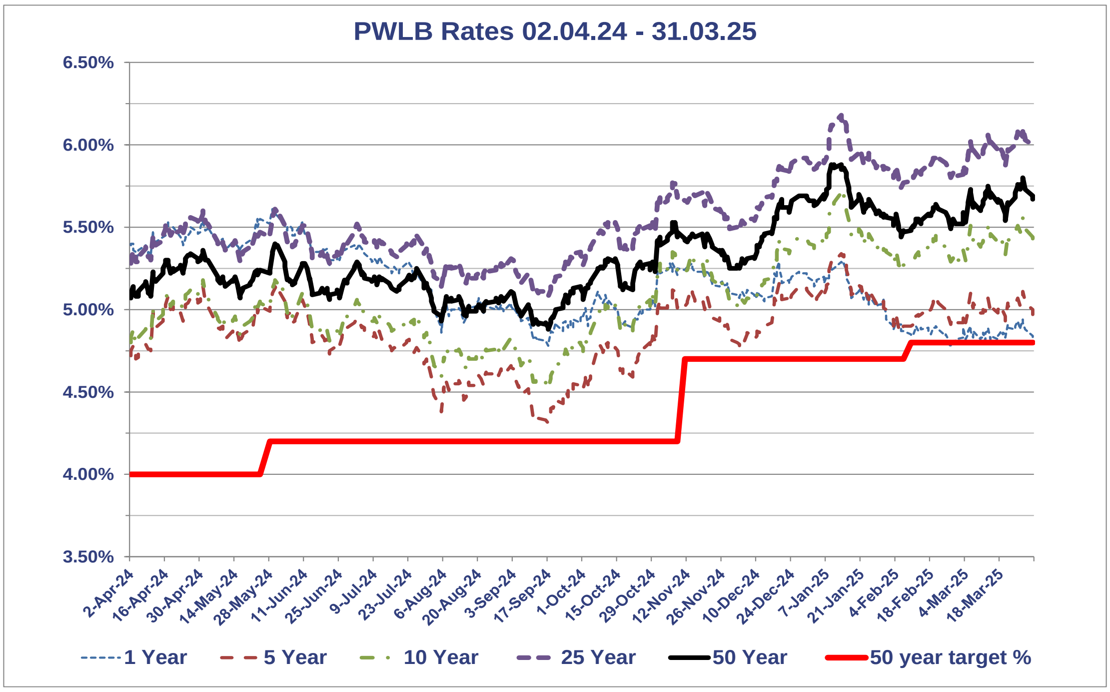
At the start of April 2025, following the introduction of President Trump's trade tariffs policies, the market now expects Bank Rate to fall to 3.75% by the end of December 2025, pulling down the 5- and 10-year parts of the curve too.

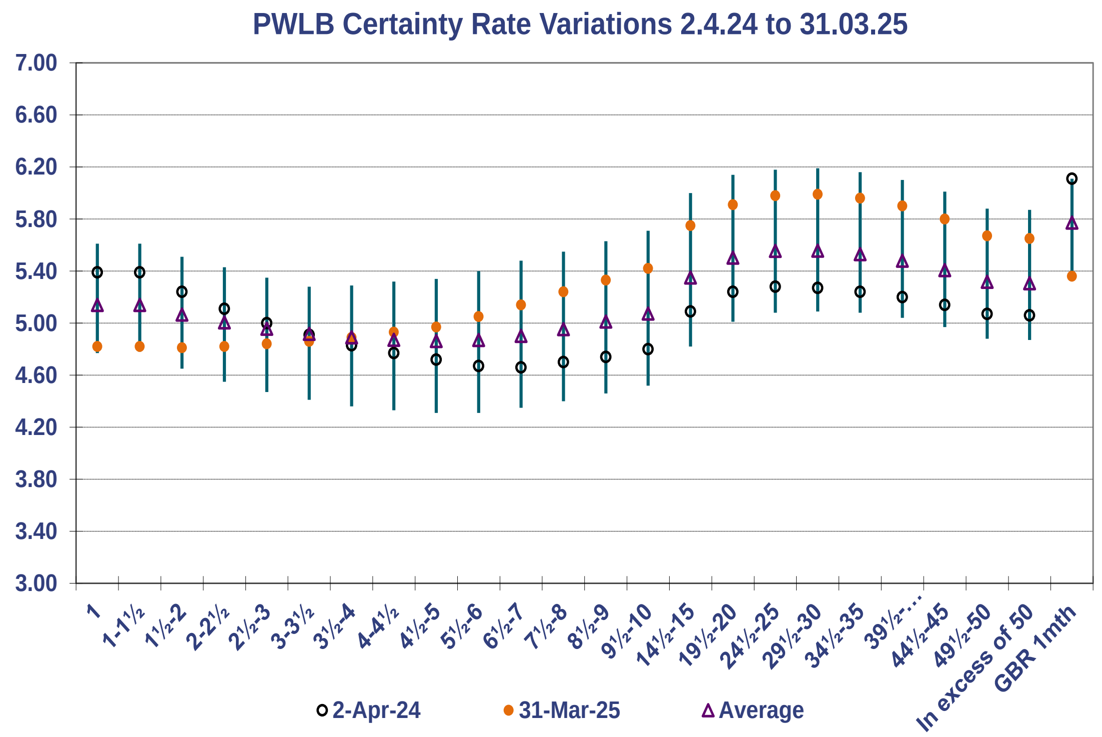
This should provide an opportunity for greater certainty to be added to the debt portfolio, although a significant fall in inflation will be required to underpin any material movement lower in the longer part of the curve.

Forecasts at the time of approval of the treasury management strategy report for 2024/25 (February 2024) and how interest rate forecasts changed during 2024/25 (latest February 2025) were as follows:

MUFG Corporate Markets Interest Rate View 05.02.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

MUFG Corporate Markets Interest Rate View 10.02.25													
	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28
BANK RATE	4.50	4.25	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.50	4.30	4.30	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.50	3.50	3.50
6 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.60
5 yr PWLB	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.40	4.30	4.20	4.20	4.10	4.00
10 yr PWLB	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.50	4.50	4.40	4.40
25 yr PWLB	5.80	5.70	5.60	5.50	5.40	5.30	5.20	5.10	5.00	5.00	4.90	4.90	4.80
50 yr PWLB	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.60	4.50





HIGH/LOW/AVERAGE PWLB RATES FOR 2024/25

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.77%	4.31%	4.52%	5.08%	4.88%
Date	26/02/2025	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.34%	5.71%	6.18%	5.88%
Date	29/05/2024	13/01/2025	13/01/2025	13/01/2025	09/01/2025
Average	5.14%	4.86%	5.07%	5.56%	5.32%
Spread	0.84%	1.03%	1.19%	1.10%	1.00%

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

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

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

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

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

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

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

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

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

5. Borrowing Outturn

Borrowing
Due to the elevated cost of borrowing long-term, no borrowing was undertaken during the year.

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.

Rescheduling
No rescheduling was done during the year as the approximate 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Repayments
On 31st March 2025, the Council repaid £1.0m at a rate of 4.16% with no breakage costs.

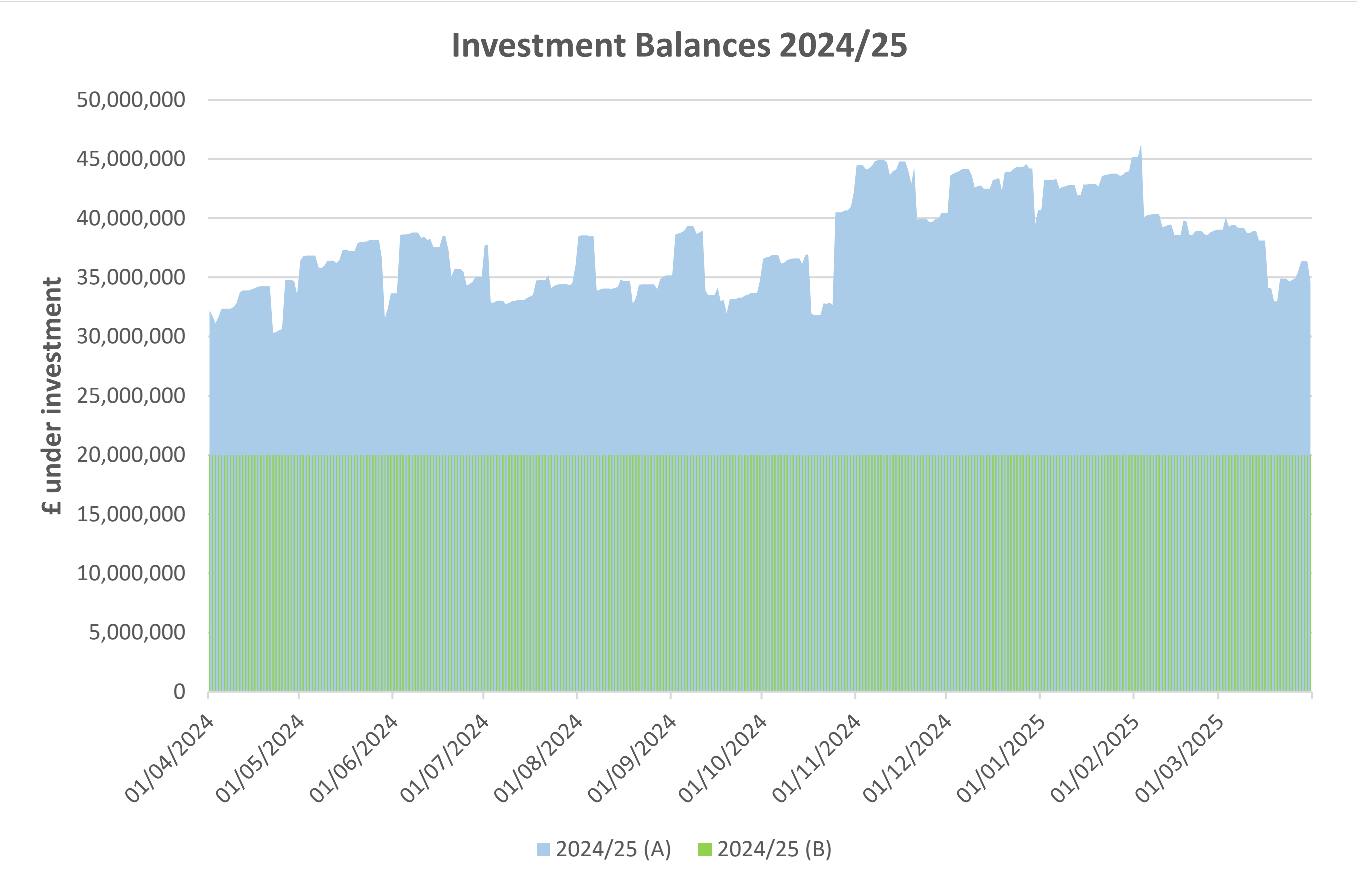
Summary of debt transactions
Due to the repayment above, management of the debt portfolio resulted in a fall in the average interest rate of the Council's debt marginally from 2.89% to 2.82%, representing net General Fund savings of £42,000.

6. Investment Outturn

Investment Policy – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 21st March 2024. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

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

The graph below shows the actual daily balance of investments during the year:



There have been no changes in control of credit risk or investment policy since the original treasury management strategy report for 2024/25.

Resources – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31.3.24 £000's	31.3.25 £000's
Fund Balances & earmarked reserves	21,923	28,634
Provisions	935	1,002
Usable capital receipts	2,101	1,977
Working capital	14,509	14,425
Total	**39,468**	**46,038**

Investments held by the Council

- The Council maintained an average balance of £37.80m of internally managed funds (including funds retained in the Council's own bank account with Lloyds Bank).
- The internally managed funds earned an average rate of return of 4.89%. The range during the year was a low of 4.25% to a high of 5.28%.
- The comparable performance indicator is the average 7-day SONIA rate, which was 4.90%.
- Total investment income was £1.80m compared to a budget of £0.75m.

7. The Economy and Interest Rates

UK Economy

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

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

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

The table below provides a snapshot of the conundrum facing central banks: inflation pressures remain, labour markets are still relatively tight by historical comparisons, and central banks are also having to react to a fundamental re-ordering of economic and defence policies by the US administration.

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

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

Having said that, the Bank still thinks inflation will rise from 2.8% in February to 3¾% in Q3. And while in February it said "inflation is expected to fall back thereafter to around the 2% target", this time it just said it would "fall back thereafter". That may be a sign that the Bank is getting a bit more worried about the "persistence in domestic wages and prices, including from second-round effects". Accordingly, although we expect a series of rate cuts over the next year or so, that does not contradict the Bank taking "a gradual and careful" approach to cutting rates, but a tepid economy will probably reduce inflation further ahead and prompt the Bank to cut at regular intervals.

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

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

USA Economy

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

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

EZ Economy

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

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

8. Other Issues

Authorities may also want to provide information on any other extraordinary circumstances which arose in 2023/24 e.g., borrowing in advance of need, externalisation of internal borrowing etc. These are some suggestions you may wish to consider: -

A. IFRS 9 fair value of investments

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

Risk management will need to take account of the 2018/19 Accounting Code of Practice proposals for the valuation of investments. Whilst for many authorities, this may not be a significant issue, key considerations are included in our Technical Release, (TRA14, 29 August 2017), including:

- Expected credit loss model. Whilst this should not be material for vanilla treasury investments such as bank deposits, this is likely to be problematic for some funds e.g., property funds, (and also for non-treasury management investments dealt with in the capital strategy e.g., longer dated service investments, loans to third parties or loans to subsidiaries).
- The valuation of investments previously valued under the available for sale category e.g., equity related to the “commercialism” agenda, property funds, equity funds and similar, will be changed to **Fair Value through the Profit and Loss (FVPL).**

B. Non-treasury management investments.

As these may comprise a significant proportion of the total investment portfolio for some local authorities, and also account for a significant proportion of the total income generated by the whole investment portfolio, those local authorities may wish to consider writing some form of high-level summary report to include in, or append to, this annual treasury management review report, on non-treasury investments, so as to give members an overview of the whole investment portfolio.

Such a report could deal with significant purchases, their objectives, how they have been appraised, how they have been financed, and what powers were used to undertake these purchases.

On the other hand, some local authorities may feel that information on non-treasury investments is more suitable to include in the capital strategy reports and reviews.

C. Changes in risk appetite

The 2021 CIPFA codes and guidance notes have placed further importance on risk management. Where an Council changes its risk appetite e.g., for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members’ attention in treasury management update reports.

D. Counterparty limits

Clients may need to consider adding wording if they have amended their counterparty limits.

E. Sovereign limits

Clients may need to consider adding wording if they have amended their policy on minimum sovereign ratings. (We would suggest a policy of lending to UK banks and building societies plus banks in other countries with sovereign ratings of a minimum of AA-.)

F. IFRS 16

You may wish to add in some wording to explain that the implementation of IFRS16, bringing currently off-balance sheet leased assets onto the balance sheet, has taken effect in 2024/25.

ABBREVIATIONS USED IN THIS REPORT

This is an optional area which clients may wish to include in their report if they feel that members would appreciate having this list of abbreviations and definitions.

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

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

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

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

MHCLG: the Ministry for Housing, Communities and Local Government - the Government department that directs local authorities in England.

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

EU: European Union

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

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

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

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

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

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

HRA: housing revenue account.

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

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

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

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

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

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

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

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

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

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