Annual Treasury Management Review 2024/25

Maldon District Council
July 2025

Contents

Annual Treasury Management Review 2024/25

Purpose

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

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

- an annual treasury strategy in advance of the year (Full Council - February 2024)
- a mid-year, (minimum), treasury update report (Strategy & Resources Committee – November 2024)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

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

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Strategy and Resources Committee before they were reported to Council. Member training on treasury management issues is undertaken for each set of elected members.

Executive Summary

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

Overall capital expenditure in the year was substantially impacted by the cost of replacement waste vehicles (£3.9m), achieved slightly below budget. Other significant schemes included works funded through the Disabled Facilities Grant (£665k), the purchase of Stephens House (£540k), a range of schemes funded through the Rural England Prosperity Fund (£409k)and the Play Galleon in Prom Park (£226k), and the Burnham on Crouch Pontoon (£106k)

Prudential and treasury indicators	31.3.24 Actual £000	31.3.25 Actual £000
Capital expenditure	928	6,913
Capital Financing Requirement (including leases):	44	32
External debt including leases	44	32
Investments • Longer than 1 year • Under 1 year • Total	5,000 19,500 24,500	5,000 16,000 21,000
Net Investment	24,456	20,968

Other prudential and treasury indicators are to be found in the main body of this report. The Chief Finance Officer confirms that the borrowing limit, (the authorised limit), was not breached.

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.

£m General Fund	31.3.25 Actual	31.3.25 Actual
Capital expenditure	928	6,913
Financed in year	884	2,985
Unfinanced capital expenditure	**44**	**3,973**

2. The Council's Overall Borrowing Need

A Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). 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, (e.g. the Government, through the Public Works Loan Board – PWLB - or from commercial banks), or via temporary cash resources within the Council.

Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. (This is different to the treasury management arrangements which ensure that cash is available to meet capital commitments – 'liquidity'). External debt can 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 by Full Council as part of the Treasury Management Strategy Report for 2024/25 in February 2024.

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

CFR (£m): General Fund	2023/24 Actual	2024/25 Actual
Opening CFR	**226**	**44**
Capital Expenditure	928	6,913
Total	**1,154**	**6,957**
Financed by:		
MRP	226	12
External sources (Government & Other Grants)	679	2,467
Capital Receipts	194	506
Revenue Contribution	11	0
Total Financing	**1,110**	**2,985**
Closing CFR	**44**	**3,973**

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 (2024/25) 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 in 2024/25. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31.3.25 Actual	31.3.25 Budget	31.3.25 Actual
Gross borrowing position	£0.044m	£0.000m	£0.032m
CFR	£0.044m	£0.000m	£0.032m
Under / over funding of CFR	£0.000m	£0.000m	£0.000m

The CFR in the table above reflects outstanding amount of a Hire Purchase agreement with John Deere (2023/24)

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
Authorised limit	£16.5m
Maximum gross external debt position during the year	£0.032m
Operational boundary	£7.0m
Average gross external debt position	Nil
Financing costs as a proportion of net revenue stream	Nil

3. Treasury Position as of 31st March 2025

The Council's treasury management debt and investment position is organised by the treasury management activities led by the finance team. Guiding priorities are liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities ('yield'). 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. They are subject to review via both internal and external audit.

INVESTMENT PORTFOLIO	31.3.24 Actual £000	31.3.24 Actual %	31.3.25 Actual £000	31.3.25 Actual %
Treasury investments				
Banks	2,658	10.6%	4,159	21.7%
Building societies - rated	2,000	7.9%	2,000	10.4%
Building societies – unrated	0	0.0%	0	0
Local authorities	6,000	23.8%	0	0
DMADF (H M Treasury)	0	0.0%	0	0
Total managed in-house	**10,658**	**42.4%**	**6,159**	**32.1%**
Bond funds	2,000	7.9%	2,000	10.4%
Property funds	3,000	11.9%	3,000	15.7%
Cash fund managers	9,500	37.8%	8,000	41.8%
Total managed externally	**14,500**	**57.6%**	**13,000**	**67.9%**
TOTAL TREASURY INVESTMENTS	**25,158**	**100%**	**19,159**	**100%**

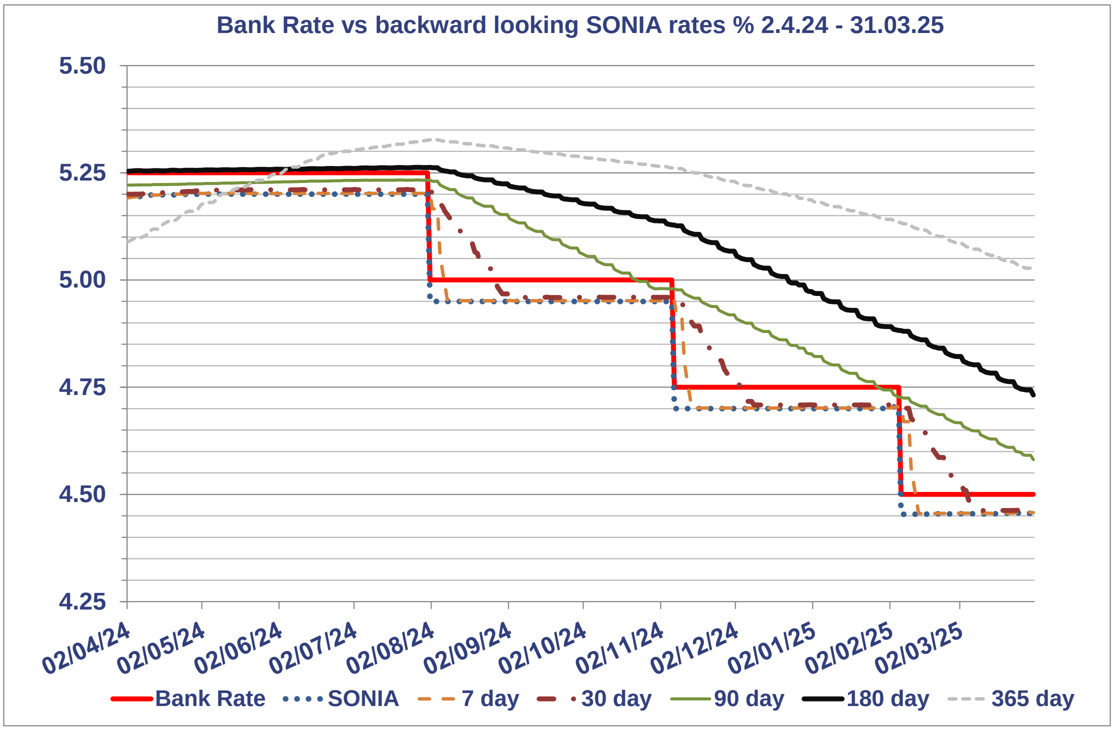
The maturity structure of the investment portfolio was as follows:

	31.3.24 Actual £000	31.3.25 Actual £000
Investments		
Longer than 1 year	5,000	5,000
Up to 1 year	19,500	16,000
Total	**24,500**	**21,000**

4. The Strategy for 2024/25

4.1 Investment strategy and control of interest rate risk

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



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

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 in excess of 5% for all periods ranging from 1 month to 12 months in the spring of 2024 but by March 2025 deposit rates were some 0.75% - 1% lower. Where liquidity requirements were not a drain on day-to-day investment choices, extending duration through the use of "laddered investments" paid off.

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

4.2 Borrowing strategy

No specific external borrowing had been planned for at the time of approving the Treasury and Capital Strategies in February 2024. Interest rate forecasts are provided by Link Group to inform the Council what the cost of borrowing is likely to be should borrowing become necessary.

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

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

5. Investment Outturn

The investment activity during the year was within the approved strategy, and the Council had no liquidity concerns.

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 (£m)	31.3.24	31.3.25
Balances	7.260	8.636
Earmarked reserves	**4.932**	**6.569**
Provisions	**0.100**	**0.100**
Usable capital receipts	**1.445**	**0.997**

Total	13.737	16.302

Investments held by the Council

- The Council maintained an average balance of £27.294m of investment funds.
- The invested funds earned an average rate of return of 3.98%.
- This compares with a budget assumption of £25m investment balances earning an average rate of 3%.
- Total investment income was £1.449m compared to a budget of £0.750m.

Investments held by fund managers

The Council uses 5 external fund managers to invest part of its cash balances. The performance of the managers against the benchmark return was:

Fund Manager	Investments Held (£m)	Average Return (%)	Benchmark (%) *
Federated	£3.000	6	3.0
Goldman Sachs	£0.000	5	3.0
Deutsche	£5000	5	3.0
CCLA	£3.000	5	3.0
Ninety One	£2.000	5	3.0

This compares with a budgeted 2024/25 assumption of average investment balances of £25m at 3% investment return. Performance during the year has been better than estimated when setting the budget, as investment balances were maintained at a higher level and interest rates were increased and held higher by the Bank of England than anticipated.

6. The Economy and Interest Rates

UK Economy

UK inflation proved 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).

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.

7. Other Issues

1. IFRS 9 fair value of investments
English authorities: Following the consultation undertaken by the Department of Levelling Up, Housing and Communities [DLUHC] 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 2025. 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.

The Council has 2 Pooled Funds that are valued at Fair Value at 31 March each year.

Fund	***Invested Amount £000***	***Fair Value £000***	***Capital Gain/(Loss) £000***
CCLA - Lamit Property fund	3,000	2,764	(236)
Ninety One (INVESTEC) - Diversified Income Fund	2,000	1,748	(252)
Total	5,000	4,512	(488)

Both pooled funds are lower in fair value than the amounts originally invested. This means that had they been redeemed on 31 March the investment market would have dictated that the Council will have only received £4.512m instead of the £5m invested. A statutory over-ride means this loss will not be charged to the Council's Comprehensive Income and Expenditure account. The statutory over-rise remains in existence until 31 March 2025. After that point there is a risk that any loss in value would impact negatively on the General Fund reserve is that override is lifted. Conversely, an increase in value would be a positive impact on the General Fund. This is being monitored closely.

These investments are still held as long-term investments and the nature of them mean their values rise above the invested amount and fall below frequently over time. E.g. On 31 March 2022 they were valued at £5.223m. Also, Investment returns on these funds are received every year. In the last financial year £233k was received. These pooled funds are very unlikely to be needed on short notice by the Council, so the timing of divesting from these investments can be strategically decided for the greatest benefit for the Council.

Appendix A: Investment Portfolio

Investments held as at 31st March 2024:

	31-Mar-25 Actual Portfolio £m
Treasury investments:	
UK Banks - Natwest - Barclays	 2 2
Building societies (unsecured) - Nationwide	 2
Certificate Deposit	0
Money Market Funds - Federated - Deutsche	 3 5
Local Authorities	
Other Financial Intermediaries - CCLA Lamit - Ninety One	 3 2
Debt management office	0
Total treasury investments	**19**

ABBREVIATIONS USED IN THIS REPORT

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

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

CPI: consumer price index – the official measure of inflation adopted as a common standard by 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.

DLUHC: the Department for Levelling Up, Housing and Communities - 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

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.

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 authority).

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

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

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.