

|                          |                                                                                                                     |
|--------------------------|---------------------------------------------------------------------------------------------------------------------|
| From:                    | Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services<br>Interim Corporate Director - Finance |
| To:                      | Governance and Audit Committee – 03 July 2025                                                                       |
| Subject:                 | Treasury Management Outturn 2024-25                                                                                 |
| Classification:          | Unrestricted                                                                                                        |
| Future Pathway of report | County Council                                                                                                      |

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**Summary:** This report provides an overview of Treasury Management activity in 2024-25 and developments in 2025-26.

**Recommendation:** The Committee is asked to endorse this report and recommend that it is submitted to County Council.

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## 1. Introduction

- 1.1 This report covers Treasury Management activity in 2024-25 and developments in 2025-26 up to the date of this report.
- 1.2 If agreed by the Committee, this report will be presented to County Council.
- 1.3 The Council's Treasury Management Strategy for 2024-25 was approved by the County Council on 19 February 2024.
- 1.4 The Council has both 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. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy. This report covers treasury activity and the associated monitoring and control of risk.
- 1.5 Treasury risk management at the Council is conducted within the framework of CIPFA's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.6 The Council has nominated the Governance & Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

## 2. External context

2.1 **Economic background:** The following economic commentary has been provided by the Council's retained treasury advisor, MUFG Corporate Markets.

### UK Economy

- a) *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.*
- b) *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).*
- c) *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.*
- d) *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                 |
|--------------------------|-------------------------|--------------------------|--------------------|
| <b>Bank Rate</b>         | 4.50%                   | 2.5%                     | 4.25%-4.5%         |
| <b>GDP</b>               | 0.1%q/q Q4<br>(1.1%y/y) | +0.1%q/q Q4<br>(0.7%y/y) | 2.4% Q4 Annualised |
| <b>Inflation</b>         | 2.8%y/y (Feb)           | 2.3%y/y (Feb)            | 2.8%y/y (Feb)      |
| <b>Unemployment Rate</b> | 4.4% (Jan)              | 6.2% (Jan)               | 4.1% (Feb)         |

- e) *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%.*

- f) *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.*
- g) *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%.*
- h) *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.*

### **3. Local context**

- 3.1 At 31 March 2025 the Council had borrowings of £732.56m and investments of £475.01m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These are shown in the following table.

## Balance Sheet Analysis - 31 March 2025



- 3.2 The Council followed its strategy to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low. This strategy is regularly reviewed with the Council's treasury advisors taking account of capital spending plans and available cash resources.
- 3.3 The treasury management position on 31 March 2025 and the change during the year is shown in the following table.

|                           | 31-Mar-24     | 2024-25        | 31-Mar-25     | 31-Mar-25            |
|---------------------------|---------------|----------------|---------------|----------------------|
|                           | Balance<br>£m | Movement<br>£m | Balance<br>£m | Average<br>Rate<br>% |
| Long-term borrowing       | 771.89        | -39.33         | 732.56        | 4.36                 |
| <b>Total borrowing</b>    | <b>771.89</b> | <b>-39.33</b>  | <b>732.56</b> | <b>4.36</b>          |
| Long-term investments     | 280.07        | 24.07          | 304.14        | 4.57                 |
| Short-term investments    | 44.37         | -6.48          | 37.89         | 4.25                 |
| Cash and cash equivalents | 128.91        | 4.07           | 132.98        | 4.53                 |
| <b>Total investments</b>  | <b>453.35</b> | <b>21.66</b>   | <b>475.01</b> | <b>4.53</b>          |
| <b>Net borrowing</b>      | <b>318.54</b> | <b>-60.99</b>  | <b>257.55</b> |                      |

## 4 Borrowing Update

- 4.1 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities

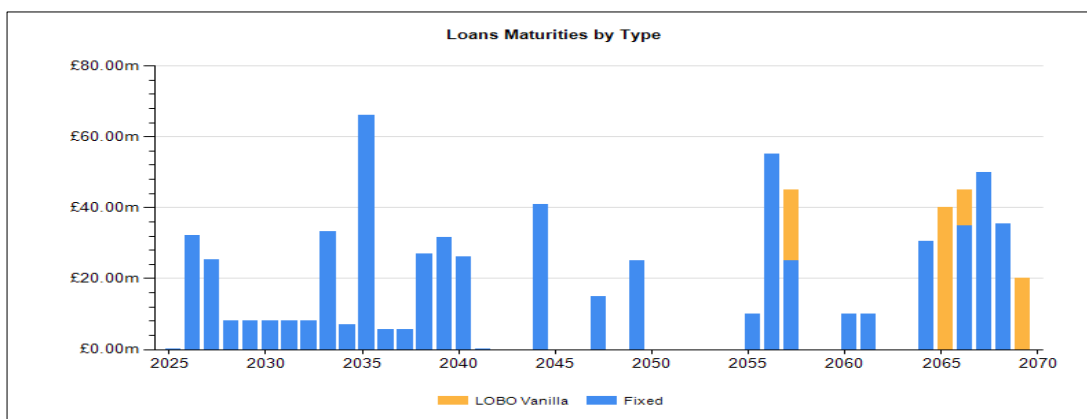
planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

## 5 Borrowing Strategy During the Period

- 5.1 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.
- 5.2 At 31 March 2025 the Council held £732.56m of loans as part of its strategy for funding previous capital programmes. No net new borrowing was undertaken in the year and £39.33m of existing loans were allowed to mature / repay without replacement.
- 5.3 Interest rates rose over the year in both the long and short term, with rates at the end of March around 0.70% - 0.80% higher than those at the beginning of April. The PWLB 10-year maturity certainty rate stood at 5.48% at 31 March 2025, 20 years at 5.95% and 30 years at 6.01%.
- 5.4 The Council continues to hold LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. Rising interest rates increases the likelihood of a lender exercising their option although no banks exercised their option during the period.
- 5.5 The Council's borrowing activity in 2024-25 is as follows:

|                        | 31/03/2024    | 2024-25       | 31/03/2025    | 31/03/2025   | 31/03/2025                  |
|------------------------|---------------|---------------|---------------|--------------|-----------------------------|
|                        | Balance       | Movement      | Balance       | Average Rate | Value Weighted Average Life |
|                        | £m            | £m            | £m            | %            | yrs                         |
| PWLB Loan              | 456.26        | -27.71        | 428.55        | 4.33%        | 14.64                       |
| Banks (LOBO)           | 90.00         | 0.00          | 90.00         | 4.15%        | 38.88                       |
| Banks (Fixed Term)     | 216.10        | -10.00        | 206.10        | 4.56%        | 38.27                       |
| Streetlighting project | 9.53          | -1.62         | 7.91          | 2.88%        | 15.49                       |
| <b>Total borrowing</b> | <b>771.89</b> | <b>-39.33</b> | <b>732.56</b> | <b>4.36%</b> | <b>24.27</b>                |

- 5.6 The maturity profile of the Council's outstanding debt at 31 March 2025 was as follows:



## 6 Treasury Investment Activity

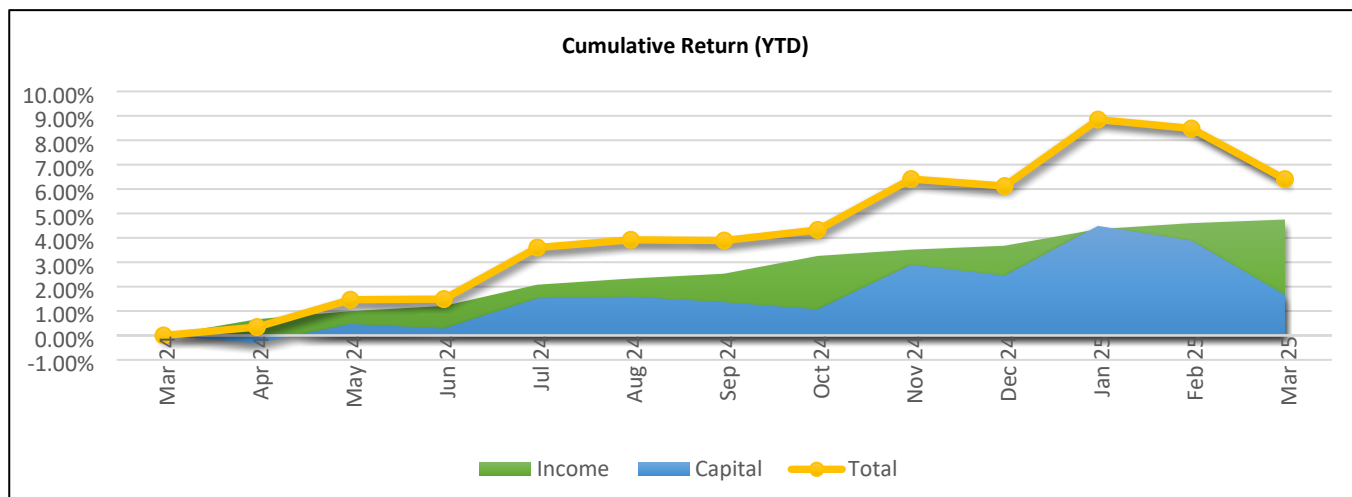
- 6.1 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that represents balances that need to be invested until the cash is required for use in the course of business.
- 6.2 The Council holds significant invested funds representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balance ranged between £393.00m and £622.82m due to timing differences between income and expenditure.
- 6.3 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 6.4 Bank Rate decreased from 5.25% at the beginning of the year to 4.50% at the end of March 2025. Short-dated cash rates, which had ranged between 5.16% - 5.19% at the beginning of April, dropped by around 0.74% for Overnight/7-day maturities and 0.84% for 3/6-month maturities.
- 6.5 The Council continues to hold significant cash balances in money market funds as well as in bank call accounts which have same day availability. This liquid cash was diversified over several counterparties and money market funds to manage both credit and liquidity risks.
- 6.6 During the year the Council loaned £9.29m to the no use empty loans programme. At 31 March 2025, the Council had loans outstanding totalling £21.97m to the programme now achieving a return of 3.63% which is available to fund general services. A £15.11m net increase in covered bonds in the year brings the total bond portfolio up to £103.34m. These instruments are negotiable and have the benefit of collateral cover.

- 6.7 The Council's investments during the year are summarised in the table below and a detailed schedule of investments as at 31 March 2025 is in Appendix 1.

|                                | 31-Mar-24     | 2024-25      | 31-Mar-25     | 31-Mar-25      | 31-Mar-25             |
|--------------------------------|---------------|--------------|---------------|----------------|-----------------------|
|                                | Balance       | Movement     | Balance       | Rate of Return | Average Credit Rating |
|                                | £m            | £m           | £m            | %              |                       |
| Call Deposits (Banks)          | 13.60         | -3.60        | 10.00         | 3.70           | A+                    |
| Money Market Funds             | 128.91        | 4.07         | 132.98        | 4.53           | AAA                   |
| Covered Bonds                  | 88.22         | 15.11        | 103.34        | 4.52           | AAA                   |
| DMADF Deposits (DMO)           | 0.00          | 27.89        | 27.89         | 4.45           | AA-                   |
| Treasury Bills (UK Government) | 30.77         | -30.77       | 0.00          |                |                       |
| No Use Empty Loans             | 16.00         | 5.98         | 21.97         | 3.63           |                       |
| Equity                         | 1.30          | 0.00         | 1.30          |                |                       |
| <b>Internally Managed Cash</b> | <b>278.80</b> | <b>18.68</b> | <b>297.48</b> | <b>4.41</b>    | <b>AA+</b>            |
| <b>Strategic Pooled Funds</b>  | <b>174.55</b> | <b>2.98</b>  | <b>177.54</b> | <b>4.75</b>    |                       |
| <b>Total</b>                   | <b>453.35</b> | <b>21.66</b> | <b>475.01</b> | <b>4.53</b>    |                       |

## 7 Externally managed investments

- 7.1 The Council is invested in equity, multi-asset and property funds. Because the pooled funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed.
- 7.2 Although expected returns are higher over the long term than comparable short-term cash instruments, returns on pooled fund investments can be volatile from one year to the next, and therefore the Council only holds long term (strategic) cash balances in the strategic pooled funds' portfolio.
- 7.3 **Performance YTD.** The value of our holdings increased to £177.54m at the end of March 2025, showing an unrealised gain of £2.98m (1.66%) since the end of March 2024. The total return (comprised of both income and capital returns) on the pooled fund investments over the year since 31 March 2024 was £11.53m (6.41%), as shown in the table below.



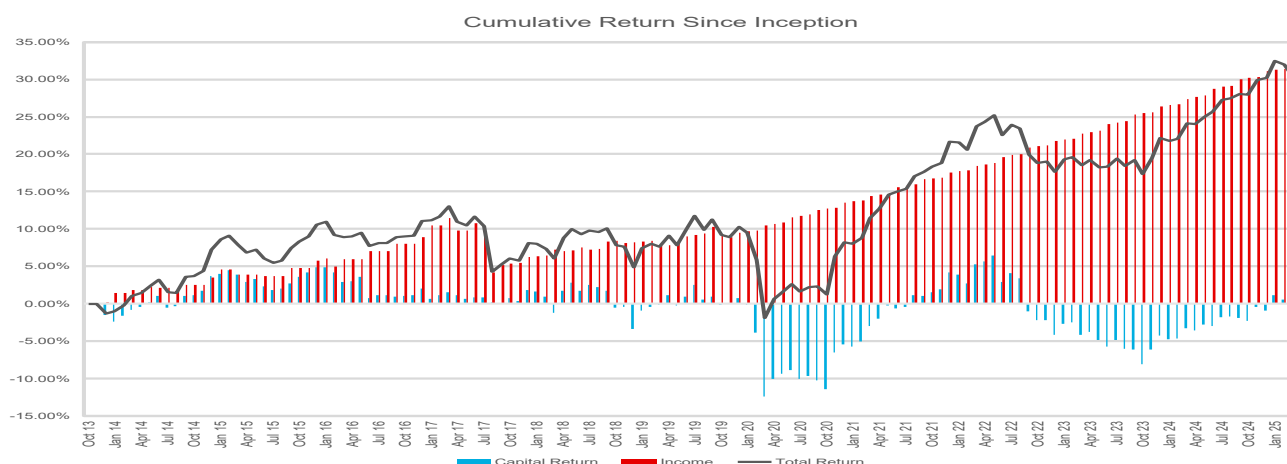
7.4 The market value of the pooled fund investments as at 31 March 2025 compared to the position as at 31 March 2024 is shown in the table below.

|                                               |               | 31-Mar-24     | 2024-25     | 31-Mar-25     | 31-Mar-25        |             |
|-----------------------------------------------|---------------|---------------|-------------|---------------|------------------|-------------|
| Investment Fund                               | Book cost     | Market Value  | Movement    | Market Value  | 12 months return |             |
|                                               |               |               |             |               | Income           | Total       |
|                                               | £m            | £m            | £m          | £m            | %                | %           |
| CCLA LAMIT Property Fund                      | 60.00         | 54.22         | 1.04        | 55.26         | 4.72             | 6.46        |
| CCLA Cautious Multi-Asset Fund (formerly DIF) | 5.00          | 4.95          | -0.27       | 4.69          | 3.23             | -2.12       |
| Pyrford Global Total Return Sterling Fund     | 5.00          | 5.35          | 0.13        | 5.48          | 3.11             | 5.67        |
| Fidelity Global Multi Asset Income Fund       | 25.00         | 22.96         | -0.60       | 22.36         | 4.41             | 2.01        |
| Ninety-One (Investec) Diversified Income Fund | 10.00         | 9.10          | -0.02       | 9.08          | 4.54             | 4.29        |
| Aegon (KAMES) Diversified Monthly Income Fund | 20.00         | 18.71         | -0.13       | 18.58         | 5.47             | 4.81        |
| M&G Global Dividend Fund                      | 10.00         | 15.06         | 1.22        | 16.29         | 5.08             | 17.31       |
| Schroders Income Maximiser Fund               | 25.00         | 20.47         | 1.41        | 21.88         | 5.86             | 11.50       |
| Threadneedle Global Equity Fund               | 10.00         | 13.02         | -0.27       | 12.75         | 3.42             | 0.68        |
| Threadneedle UK Equity Income Fund L          | 10.00         | 10.70         | 0.47        | 11.18         | 4.36             | 9.10        |
| <b>Total Externally Managed Investments</b>   | <b>180.00</b> | <b>174.55</b> | <b>2.98</b> | <b>177.54</b> | <b>4.75</b>      | <b>6.41</b> |

7.5 **Performance since inception:** KCC initially invested in pooled funds in 2013. By the end of March 2025 they had achieved a total income return of £57.89m, 32.09%, with a fall in the capital value of the portfolio of £2.50m, -1.39%. Total returns since inception have been far in excess of the returns available from cash over the same period and these instruments are an effective way of managing the Council's longer



term cash balances. The following chart tracks the returns earned on the pooled funds over the period from inception.



- 7.6 IFRS 9 Statutory Override:** Under the current accounting requirements governing local authorities, movements in the fair value of pooled fund investments are removed from the general fund and recognised on the Council's balance sheet. This effectively ensures the impact of volatility in the capital value of such investments does not affect the annual revenue outturn. However, the relevant accounting provision (known as the "IFRS 9 statutory override") is temporary in nature and is now due to expire on 31 March 2029 (for legacy investments only) and therefore (in the absence of any future regulatory changes), the Council will begin to recognise movements in the fair value of pooled fund investments from 2029/30, including the cumulative position to date (whilst any new investments would be subject to compliance immediately). Given the uncertainty surrounding the impact of the expiry of the override, the Council recognises this risk on the Budget Risk Register.

## 8 Investment benchmarking at 31 March 2025

- 8.1 The Council's retained treasury advisor, MUFG Corporate Markets monitors the risk and return of some 228 local authority investment portfolios. The metrics over the 12 months to 31 March 2025 extracted from their quarterly investment benchmarking, per the table below, show that the risk within the Kent internally managed funds having been consistent throughout the 12-month period is in line with that of other local authorities. The income return has risen reflecting increased rates payable on our cash investments.

| Internally managed investments | Weighted Average Risk Score | Weighted Average Risk Rating | Weighted Average Time to Maturity (days) | Weighted Average Rate of Return (%) |
|--------------------------------|-----------------------------|------------------------------|------------------------------------------|-------------------------------------|
| Kent - 31.03.2024              | 1.14                        | AA+                          | 207                                      | 4.95                                |
| <b>Kent - 31.03.2025</b>       | <b>1.11</b>                 | <b>AA+</b>                   | <b>204</b>                               | <b>4.48</b>                         |
| English Counties (16)          | 1.88                        | AA+                          | 87                                       | 4.71                                |
| Population Average (228)       | 2.01                        | AA                           | 67                                       | 4.63                                |

## 9 Actual and forecast outturn

- 9.1 Outturn net debt costs are £1.88m lower than budget. Savings were made against budgeted borrowing interest costs as we did not undertake any new borrowing in 2024-25 and we made an early redemption of £10m Phoenix Life loan delivering a discount to book costs and a saving on interest costs. There was £0.45 unbudgeted contribution from UASC as well as £0.34m net increase in investment income.

## 10 Compliance

- 10.1 The Interim Corporate Director - Finance reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

## 11 Treasury Management Indicators

- 11.1 The Council measures and manages its exposures to treasury management risks using the following indicators:

- 11.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its internally managed 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. Unrated investments are assigned a score based on their perceived risk.

| Credit risk indicator           | Actual<br>31/03/2025 | Minimum |
|---------------------------------|----------------------|---------|
| Portfolio average credit rating | AA+                  | AA-     |

- 11.3 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

| Liquidity risk indicator             | Actual<br>31/03/2025 | Minimum |
|--------------------------------------|----------------------|---------|
| Total cash available within 3 months | £170.87m             | £100m   |

- 11.4 **Interest rate exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates was:

| Interest rate risk indicator                                  | Actual<br>31/03/2025 | Limit |
|---------------------------------------------------------------|----------------------|-------|
| One-year revenue impact of a 1% <u>rise</u> in interest rates | £2.74m               | £10m  |

|                                                               |         |       |
|---------------------------------------------------------------|---------|-------|
| One-year revenue impact of a 1% <u>fall</u> in interest rates | -£2.74m | -£10m |
|---------------------------------------------------------------|---------|-------|

**11.5 Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing were:

|                              | <b>Actual<br/>31/03/2025</b> | <b>Upper limit</b> | <b>Lower limit</b> |
|------------------------------|------------------------------|--------------------|--------------------|
| Under 12 months              | 3.28%                        | 100%               | 0%                 |
| 12 months and within 5 years | 2.32%                        | 50%                | 0%                 |
| 5 years and within 10 years  | 14.76%                       | 50%                | 0%                 |
| 10 years and within 20 years | 26.28%                       | 50%                | 0%                 |
| 20 years and within 40 years | 32.82%                       | 50%                | 0%                 |
| 40 years and longer          | 20.54%                       | 50%                | 0%                 |

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.

**11.6 Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

|                                             | <b>Actual</b>  | <b>Limit</b>   | <b>Limit</b>   | <b>Limit</b>         |
|---------------------------------------------|----------------|----------------|----------------|----------------------|
| <b>Price risk indicator</b>                 | <b>2025/26</b> | <b>2026/27</b> | <b>2027/28</b> | <b>No Fixed Date</b> |
| Limit on principal invested beyond year end | £150m          | £100m          | £50m           | £250m                |
| Actual as at 31 March 2025                  | £73.99m        | £13.28m        | £10.28m        | £200.81m             |

## **12 Recommendation**

Members are asked to endorse this report and recommend that it is submitted to Council.

## **Appendices**

Appendix 1 – Investments as at 31 March 2025

Appendix 2 – Glossary of Terms

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**19 June 2025**

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