

ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY 2024/25

Presented by the Head of Finance

EXECUTIVE SUMMARY

This report provides a summary of treasury management investment and borrowing activity during 2024/25.

RECOMMENDATIONS

- Members Note: (1) treasury management activity during 2024/25; and
- Members Approve: (2) where appropriate the setting up of new treasury investment accounts as set out in paragraph 27 of this report.

BACKGROUND

- 1 Treasury management is the management of the Authority's cash flows, banking, investment, and borrowing decisions and the effective control of the risks associated with those activities, with the aim of optimising performance/returns whilst minimising the associated risks.
- 2 This report looks at the Authority's performance over the past year.

ANNUAL PERFORMANCE

- 3 Treasury management activity is governed by the Authority's Treasury Management Policy, which has the aim of managing risk, avoiding volatility and optimising returns, while maintaining a high degree of accessibility from the accounts to enable the cash requirements of the Authority to be met. Members of the Authority last reviewed and approved the Treasury Management Policy in April 2021 (Paper A/4297/21).
- 4 The Authority has continued to refinance the capital investment on the Lee Valley Ice Centre Redevelopment from short-term borrowing; loans repayable within 24 months. The remainder of the capital programme has been funded from the Authority's accumulated cash balances.

- 5 The Authority's cash position is reviewed on a daily basis and funds are invested or withdrawn as necessary in order to minimise the level of un-invested cash/bank overdraft.
- 6 During the course of this year around 260 transactions have been completed, mainly through the Special Interest Bearing Account (SIBA) of the Authority's current bankers (Nat West).
- 7 Short term investments have ranged in size from £10,000 to £2.2m; and from periods of one day to three months. Interest earned in 2024/25 will total **£365,000**.
- 8 At year end the Authority had total cash reserves of £9.1m, of which £4.2m was held in instant access accounts (with Nat West and Santander), and £4.9m as short term investments (with West Bromwich Building Society). The opening balance at 1 April 2024 was £15.1m, although this was artificially high due to holding an additional £5m in borrowing pending a loan repayment in early April 2024.

2024/25 INVESTMENT PORTFOLIO

9 Short to Medium Term Investments

The Authority uses an investment firm (Tullet Prebon) to invest funds, in line with the Treasury Management Policy in the short to medium term (up to 2 years) at the best achievable rate. We also have access to treasury advice from Arlingclose if required, via our Service Level Agreement (SLA) with London Borough of Enfield for provision of S151 services.

The sums invested during 2024/25 were:

Investment	Average Amount £m	Interest Earned £000s	Interest Rate Range
Principality BS	£2.1m	£111	4.85% - 5.23%
West Brom BS	£1.8m	£176	4.38% - 5.10%

At 31 March 2025 the balance with West Brom was £4.9m. Principality Building Society have withdrawn from the wholesale money markets with our last investment with them maturing in December 2024. Currently all investment funds are being held at West Brom, although this is now nearing our Treasury Management Policy limit of £5m, as explained further below.

10 Day to Day Investments

These are managed on a day to day basis with the Authority's bankers, Nat West. Surplus funds are moved on a day to day basis between the current account and a SIBA, currently achieving a rate of up to 1.90%. The balance on the account at 31 March 2025 was £4.1m.

- 11 Whilst the Treasury Management Policy recommends keeping the balance at any one institute to a maximum of £5m, it does allow for cashflow requirement for it to exceed this level. On seven occasions during 2024/25 (2023/24 15 occasions) the Authority exceeded its limit of £5m held at any one institution. On these occasions this was either due to cash flow timing, relating to cash holding

pending borrowing repayments, or payment of large purchase invoices. The average period above this level was 4 days, with the range between 1 and 10 days.

INVESTMENT PERFORMANCE 2024/25

- 12 During 2024/25, the Authority's bank accounts and investments achieved the following average interest rates.

Account	Period of Investment	Average Interest Rate Achieved During 2023/24	Average Interest Rate Achieved During 2024/25
		%	%
Nat West SIBA	On-Call	1.53	1.67
Santander	On-Call	3.08	3.03
Principality BS	1-3 months	4.80	5.14
West Bromwich BS	1-3 months	4.77	4.83
Weighted Average		3.67	3.50

- 13 The Authority's weighted average rate of investment return for 2024/25 was 3.50% with total investment income of **£365,000**, significantly above the budget of £200,000. The annual return was higher than budget due to both the higher than forecast interest rates throughout the year, along with a much higher than forecast cash holding. However, it is not proposed to set a target rate of return for future years, although the budget for 2025/26 is set at £200,000, but for officers to continue to utilise cash reserves and manage cash flow with regard to reducing costs related to borrowing, rather than looking to maximise investment returns.
- 14 The Bank of England base rate has reduced three times throughout 2024/25 as the rate of inflation falls. At 1 April 2024 it was 5.25%, but this was reduced by 0.25% in August and November 2024, and February 2025, and it was 4.50% at 31 March 2025. The Bank of England Monetary Policy Committee (MPC) most recently met on 8 May 2025 where they voted to reduce the Base Rate by 0.25% to 4.25%.

In their most recent Monetary Policy Report of May 2025, the Bank of England stated that "Progress on disinflation in domestic price and wage pressures is generally continuing. Twelve-month CPI inflation fell to 2.6% in March from 2.8% in February, close to expectations in the February Report. Although indicators of pay growth remain elevated, a significant slowing is still expected over the rest of the year. Wholesale energy prices have fallen back since the February Report. Previous increases in energy prices are still likely to drive up CPI inflation from April onwards, to 3.5% for 2025 Q3. Inflation is expected to fall back thereafter."

BORROWING PERFORMANCE 2024/25

- 15 Members agreed the redevelopment of Lee Valley Ice Centre would be funded from external borrowing. The approved strategy is for a mix of short-term, up to 24 months, and longer term borrowing with the focus currently only on short-term borrowing due to the high interest rates that are associated with long term loans, and the impact of that on future revenue budgets.
- 16 During the initial build period from 2021 the Authority utilised its own cash reserves to reduce the initial borrowing costs. We have since been able to

access Local Authority and Public Works Loans Board (PWLB) lending, as well as utilising £5m of capital receipt from the disposal of Mile and Langley Nursery in 2023. We had borrowing of £23m at 31 March 2025.

- 17 The borrowing during 2024/25 is profiled below.

Loans Repaid

Lender	Amount	Rate	Loan Period
West Midlands CA	£10m	3.30%	Repaid April 2024
West Midlands CA	£5m	4.40%	Repaid Sept 2024
West Midlands CA	£5m	4.30%	Repaid Dec 2024
Public Works Loans Board	£5m	4.22%	Repaid Dec 2023

New Borrowing

Lender	Amount	Rate	Loan Period
Public Works Loans Board	£8m	5.23%	Apr 24 – Apr 26
Public Works Loans Board	£5m	4.66%	Sept 24 – Sept 26
Public Works Loans Board	£5m	4.99%	Dec 24 – Dec 26

- 18 The total borrowing costs accrued in 2024/25, including both interest payable and brokerage costs are **£1.12million**.

OUTLOOK FOR 2025/26

- 19 Whilst inflation is slowly falling, interest rates do still remain high, which presents a number of challenges and uncertainties over the coming year.

We continue to see an increase in general costs, and whilst we do have certainties in some areas through fixed contract prices (e.g.: Grounds Maintenance, Utilities), there continues to be increases elsewhere.

Coupled with a slowdown in economic growth and increase in costs of all commodities, this may result in less income flow to the Authority. This will continue to be reported to Members on a regular basis at the quarterly Revenue and Capital Outturn reporting cycle. Our current Medium Term Financial Plan forecasts a reduction in cash held by the 31 March 2026 to a level around £7m.

Whilst this is a lower level than is ideal, it does represent full coverage of our unallocated general, and earmarked revenue, reserves. As highlighted in the Annual Capital Budget (Paper A/4362/25), we do not have the cash capacity to cover all reserves. With the necessity to cash back general reserves, as well as the cash-flow need to cover short-term liabilities, this means that the majority of capital resources are not currently directly cash backed.

The implication of this is that with the exception of low value, or short-term, quick return of investment, projects, we would only be able to fund a capital programme with one of external borrowing, external grant funding, or new capital receipts.

- 20 From a Treasury Management perspective, there are both pros and cons to this. On the positive side, the higher than forecast borrowing rates have in turn resulted in an increase in investment income. However, with potentially less cash to invest, the monetary value will be reduced.
- 21 The increase in rates also impact the lending rates and the Authority is in a position where it currently needs to borrow £23m to fund the Lee Valley Ice

Centre redevelopment. Current Public Works Loans Board (PWLB) long-term interest rates have increased to around 6.00% for a 40 year Equal Instalment of Principal (EIP) loan, although the 2-year deals that we are currently utilising were 4.45% on 8 May 2025. We are in a position where we do not need to refinance the Lee Valley Ice Centre loans until April 2026, and we will continue to monitor rates in the meantime.

- 22 The budget for 2025/26 which was approved by Members in January (Paper A/4360/25) set an investment income budget of **£200,000**. With the current levels of interest rates, coupled with forecast cash holdings we are expecting to be able to achieve returns of around this.

The budget for interest costs in relation to borrowing was set at **£1.152m**, which is based on loans outstanding at 1 April 2025, and due to no requirement to refinance in year, this will be the outturn position for 2025/26.

- 23 Officers continue to monitor both short and long-term lending rates to be able to make the best Treasury decisions for the Authority.

ENVIRONMENTAL IMPLICATIONS

- 24 There are no environmental implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

- 25 These are dealt with in the main body of the report.
- 26 The Annual Investment Strategy forms one part of the wider Capital Strategy, along with the Treasury Management Strategy, Prudential Indicators, Minimum Revenue Provision Statement, as well as the Revenue and Capital Budgets. These were approved by Members at Authority in January 2025 (Paper A/4361/25).
- 27 As set out in paragraph 10, the Authority exceeded its Treasury Management policy limit of £5m on seven occasions. Rather than amend the policy to increase this limit, it is recommended that further investment accounts be created as and when required. Currently there are only two active accounts, with Principality Building Society and West Bromwich Building Society, although it is unlikely we will invest with Principality due to their exiting the markets. We did not set up any new accounts in 2024/25.

The Treasury Management Policy allows for investment at any UK based Clearing Bank, or one of the top seven rated UK Building Societies. To facilitate the setting up of these, most institutes require a specific board minute agreeing to this.

Based on current cashflow forecast, the £5m limit with West Brom is expected to be breached in August 2025. Therefore, it is recommended that Member approve, where appropriate, the opening of new investment accounts as per the Treasury Management policy, with the approval to do so to last until the relevant Treasury Management Activity paper in May 2026, where Members can then consider options again. Officers will report any new accounts opened before then, within the quarterly Revenue Outturn reports.

HUMAN RESOURCE IMPLICATIONS

- 28 There are no human resource implications arising directly from the recommendations in this report.

LEGAL IMPLICATIONS

- 29 There are no legal implications arising directly from the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

- 30 The risk of investment is considered within the existing Treasury Management Policy. The Authority tries to minimise risk by capping the total investment with any one financial institution to £5m, subject to allowance to exceed this limit for cashflow purposes, and limiting investments to UK clearing banks and the top seven building societies or where the building society assets exceed £10 billion.
- 31 The current Treasury Management Policy was last approved by Members in April 2021 (Paper A/4297/21) and is due for review again by April 2026.

Treasury Management is audited by the internal auditors to ensure procedures and investment decisions comply with the Policy and Investment Strategy approved by Members. The audit was last conducted in January 2021, and the internal auditors provided a “substantial assurance” rating. A new review was undertaken in February 2025, and we are currently awaiting the conclusion of this audit and the issue of the auditor’s report.

The work carried out by the internal auditors will also be tested by the external auditors.

EQUALITY IMPLICATIONS

- 32 There are no equality implications arising directly from the recommendations in this report.

Author: Keith Kellard, 01992 709 864, kkellard@leevalleypark.org.uk

BACKGROUND REPORTS

CIPFA “Treasury Management in the Public Services Code of Practice & 2021 Cross Sectoral Guidance Notes”

PREVIOUS COMMITTEE REPORTS

Authority	A/4361/25	Capital Strategy 2024/25 to 2028/29	23 January 2025
Executive	E/855/24	Annual Report on Treasury Management Activity 2023/24	23 May 2024
Executive	E/811/23	Annual Report on Treasury Management Activity 2022/23	25 May 2023
Executive	E/765/22	Annual Report on Treasury Management Activity 2021/22	26 May 2022
Authority	A/4297/21	Treasury Management Policy	29 April 2021

LIST OF ABBREVIATIONS

SIBA	Special Interest Bearing Account
PWLB	Public Works Loans Board
EIP	Equal Instalment of Principal
SLA	Service Level Agreement