

AUDIT COMMITTEE

8 JULY 2025

Subject Heading:	Annual Treasury Management Report 2024/25
SLT Lead:	Kathy Freeman Strategic Director of Resources and S151 Officer
Report Author and contact details:	Tony Piggott Treasury Manager 01708 434 368 Tony.piggott@havering.gov.uk
Policy context:	This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the prudential and treasury indicators for 2024/25. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management,("the CIPFA TM code") and the CIPFA Prudential Code for Capital Finance in Local Authorities, ("the Prudential Code")
Financial summary:	The Treasury Strategy supports the Authority's Budget strategy.

The subject matter of this report deals with the following Council Objectives

People – Supporting our residents to stay safe and well	x
Place – A great place to Live, Work and Enjoy	x
Resources – Enabling a resident-focused and resilient Council	x

SUMMARY

The CIPFA TM Code requires that authorities report on the performance of the treasury management function to Full Council at least twice per year (mid-year and at year-end).

The Authority's Treasury Management Strategy Statement (TMSS) 2024/25 was approved by Full Council in March 2024. This backward looking report covers the delivery of the TMSS for 2024/25.

The Authority borrowed and invested substantial sums of money and is potentially exposed to financial risk from loss of invested funds and the revenue impact from changing interest rates. This report covers activity on treasury managed investments and borrowings and the associated monitoring and control.

RECOMMENDATIONS

- To note the content of treasury management activities and performance against targets for the financial year 2024-25 as detailed in the report.

KEY HIGHLIGHTS

- Investment income from treasury investments received for 2024/25 was £4.2m
- Interest payable as a result of debt for 2024/25 was £16.6m
- The Authority's long term debt is fixed at an average rate of 3.70%.
- During the period December 2024 through to March 2025 new 1 year PWLB loans were taken totalling £293m at an average rate of 4.55% to refinance maturing debt of £118m and to finance historic capital spend.
- During the year treasury exceeded its Investment benchmark of 3 month SONIA @4.82% delivering a yield of 5.26%, (+0.44%)
- During 2024/25 this Authority's treasury activities remained within the treasury limits and prudential indicators set out in the TMSS.

REPORT DETAIL

1. Background

1.1. Introduction

This Authority 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 TM 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 Authority should receive the following reports:

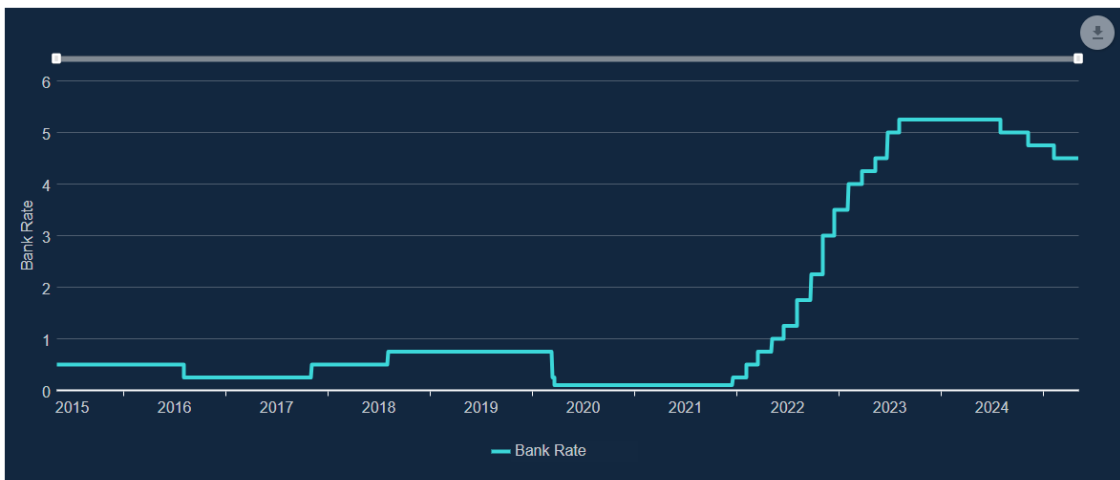
- An annual treasury strategy in advance of the year (Council in March 2025)
- A mid-year, (minimum), treasury update report (Audit Committee 3 December 2024)
- An annual review following the end of the year describing the activity compared to the strategy, (this report).

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 Authority's policies previously approved by Members.

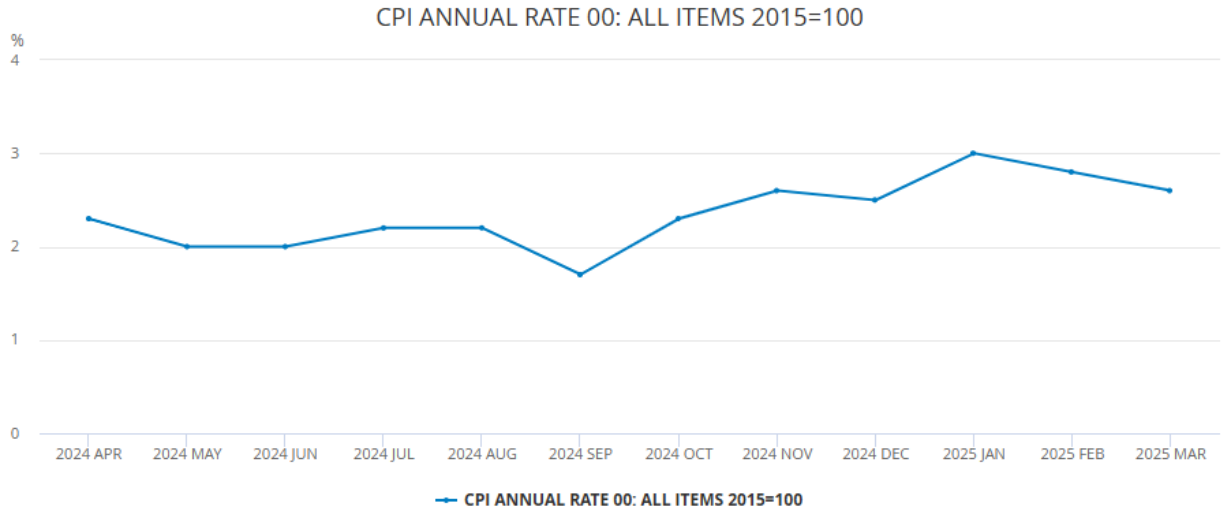
1.2. Economic

The Bank of England (BoE) Monetary Policy Committee (MPC) Started easing monetary policy, cutting the Bank Rate in stepped reductions of 0.25% from 5.25% in April 2024 to 4.50% by the end of the financial year, see chart below.

Official Bank Rate

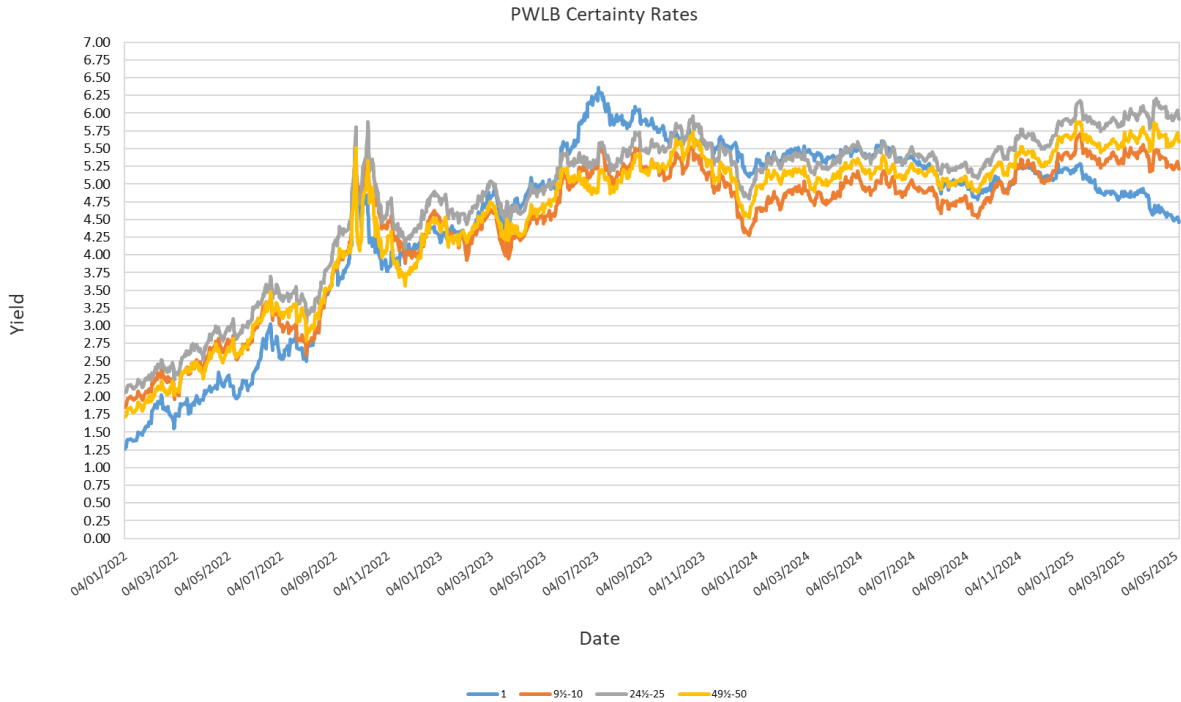


UK Inflation as measured by the CPI was range bound during the year starting at 2.3% and reaching a low of 1.7% in September 2024 before moving higher ending the financial year at 2.6%, slight above the (BoE) target rate of 2%, see chart below.



UK Gilt yields (which drive PWLB interest rates) were mixed during the year, with short term yields falling as the bank rate was reduced, whilst longer term rates increased due to global uncertainties, tariffs geopolitics and the deterioration in government finances, see chart below.

Graph 1: PWLB Rates 2022/25



Treasury Management Summary

1.3 The treasury management activity in year is shown in table 1 below:

Table 1: Treasury management summary as at 31 March 2025

	01.04.24		31.03.25	2024-25	2024-25	2024-25
	Opening Balance	Movement	Closing Balance	Interest	Average Balance	Weighted Average Rate
	£m	£m	£m	£m	£m	%
LONG-TERM BORROWING						
PWLB	425.124	175.000	600.124	15.793	448.516	3.52%
LOBO	7.000	0.000	7.000	0.252	7.000	3.60%
Short-term borrowing	20.264	-19.792	0.472	0.568	11.532	4.92%
Total borrowing	452.388	155.208	607.596	16.613	467.048	3.56%
INVESTMENTS						
Short-term investments	71.000	46.000	117.000	4.253	80.841	5.26%
Total investments	71.000	46.000	117.000	4.253	80.841	5.26%
Net position	381.388	109.208	490.596	12.360		

2. Borrowing strategy

2.1 Table 2 sets out the change in the Authority's Capital Financing Requirement (CFR) in 2024/25 – this measures how the Authority's underlying borrowing need has changed in year as a result of activity on its approved capital programme and how it has been financed. The Authority's capital finance budget includes provision to fund the capital programme's expected borrowing requirement from new long term fixed rate debt.

Table 2: CFR and its financing 2024/25

	01/04/24 Actual £m	31/03/25 Budget £m	31/03/25 Actual £m
GF CFR	221	320	286
HRA CFR	397	529	431
Total CFR	618	849	717
Financed by:			
External Long Term Debt	433	617	607
External Short Term Debt	20	0	0
Internally Borrowed Cash Position	165	232	110

- 2.2 The short term strategy involved using the Authority's cash balances to fund the 2024/25 borrowing requirement in the capital programme. In addition 1 year borrowing for the HRA was entered into between December 2024 & March 2025 totalling £293m.
- 2.3 The Authority's debt portfolio as at 31st March 2025 is fixed at an average rate of 3.70% with an average duration of 12.6 years.
- 2.4 The S151 officer balanced the need to minimise the costs from funding the CFR by using internal cash balances and defer the drawdown of more expensive long term debt against the protection it offers in reducing interest rate risk and stabilising capital finance costs in the budget strategy. Slippage on the capital programme in 2024/25 has meant the Authority's cash balances have remained higher than planned. This strategy of deferring long term borrowing resulted in significant savings in the 2024/25 capital finance budget as detailed in table 3 below. This strategy may need to be reviewed should interest rates remain higher for longer.

Table 3: Capital finance outturn 2024/25

	GF £m	HRA £m	Total £m
Interest Payable			
Budget	6.6	8.3	14.9
Outturn	2.8	13.8	16.6
(Underspend) / Overspend	(3.8)	5.5	1.7
Interest Receivable			
Budget	(1.3)	(0.2)	(1.5)
Outturn	(4.2)	(0.0)	(4.2)
(Underspend) / Overspend	(2.9)	0.2	(2.7)
Net Interest (Underspend) / Overspend	(6.7)	5.7	(1.0)

- 2.5 **Debt Rescheduling**
The possibility of debt rescheduling was regularly discussed with our treasury adviser. The current PWLB rules on redemption remain prohibitive and costly.
- 2.6 **LOBO Loan**
The Authority holds a £7m LOBO (Lender Option, Buyer Option) loan with Danske Bank at a rate of 3.6%. Danske Bank has the option to propose an increase in the interest rate at set dates, while the Authority then has the option to either accept the new rate or to repay the loan at no additional cost. Danske Bank have indicated there is a very low probability they will alter the rate in the foreseeable

future, Officers will continue to monitor and liaise with Danske Bank going forward.

3. Investment strategy

- 3.1 The Authority's cash investments increased during the year as proceeds from PWLB issuance (£293m) were received to refinancing maturing debt of £118m and reduce the internal borrowing position as a result of historical capital spend. Investments increased from £71.0m to end the year at £117.0m, as shown in Table 4 below.
- 3.2 The Guidance on Local Government Investments in England gives priority to security and liquidity and yield in that order. Officers kept treasury investments in short-term instruments in 2024/25 less than 1 year so they could be used to fund the capital programme whilst maintaining a liquidity buffer of £40m as a contingency against any future credit crisis.

Table 4: Treasury investment activity 2024/25

	01.04.24		31.03.25	
	Opening Balance	Movement	Closing Balance	Closing Interest rate %
	£m	£m	£m	£m
Investments				
Local Authorities	55.000	25.000	80.000	5.54%
Debt Management Office (DMO)	16.000	21.000	37.000	4.45%
Total Investments	71.000	46.000	117.000	5.20%

4.0 Outstanding Investment position 31/3/25

Table 1.2 within Appendix A, details the authorities Investments breakdown by counterparty, amount and the percentage each investment represents as a part of the total investment portfolio.

5. Budgeted Income and Return

- 5.1 The authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below:

Table 6: Treasury investment performance 2024-25

	Benchmark Average 3 Month Sonia	Actual Weighted Rate of Return achieved	Over / (Under) Performance against benchmark
2024/2025	4.82%	5.26%	0.44%
2023/2024 (for comparison)	4.64%	5.04%	0.40%

6. Regulatory Changes

6.1 There were no regulatory changes in 2024-25.

7. Compliance with Treasury and Prudential Limits

7.1 During the year, the Authority has operated within the treasury limits and Prudential Indicators set out in the authority Treasury Management Strategy Statement and in compliance with the authority's Treasury Management Practices. An update on indicators and limits are reported in Appendix A of this report.

7.2 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.

IMPLICATIONS AND RISKS

Financial implications and risks:

The Authority uses MUFG corporate markets,(previously known as Link Asset Services), Treasury Solutions as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times. All decisions will be undertaken with regards to all available information, including, but not solely our treasury adviser.

Risk is inherent in all treasury activity. The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.

Treasury operations are undertaken by nominated officers as prescribed by the Treasury Management Policy Statement as approved by the Council.

Legal implications and risks:

There are no apparent legal implications or risks from noting this report.

Human Resources implications and risks:

There are no HR implications from this report

Equalities implications and risks:

There are no Equalities implications arising from this report.

The report has no direct equalities implications.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have 'due regard' to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, and sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

Health and Wellbeing implications and risks:

The Council is committed to improving the quality of life and wellbeing for all Havering employees and residents in respect of socio-economics and health determinants. Whilst there are no direct implications to the Council's workforce and residents health and wellbeing as a result of this report.

BACKGROUND PAPERS

None

Compliance Report

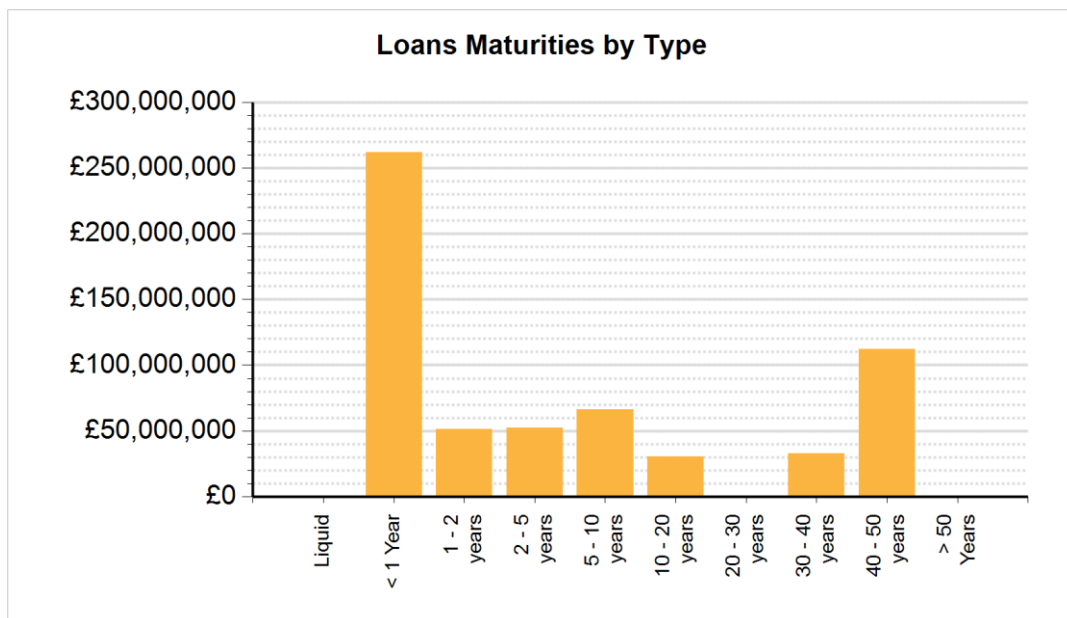
All treasury management activities undertaken during the financial year complied fully with the CIPFA Code of Practice and the authority's approved Treasury Management Strategy. Compliance with specific treasury limits is demonstrated in tables below.

1.1 Maturity Structure of Borrowing

- 1.1 This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 1: Loan maturity structure

	Upper	Lower	Actual
Under 12 months	50%	0%	43.14%
Above 12 months and within 24 months	60%	0%	8.48%
Above 24 months and within 5 years	80%	0%	8.64%
Above 5 years and within 10 years	100%	0%	10.88%
10 years and above	100%	0%	28.86%



Total			
Amount	% of Total	Rate	Duration
	0.00%		
£262,128,706	43.14%	4.50%	0.88 years
£51,524,800	8.48%	4.28%	1.32 years
£52,511,718	8.64%	3.26%	3.93 years
£66,099,200	10.88%	3.32%	7.50 years
£30,172,009	4.97%	3.51%	17.01 years
£200,444	0.03%	4.92%	21.02 years
£32,959,855	5.42%	5.03%	31.63 years
£112,000,000	18.43%	1.66%	45.42 years
	0.00%		
£607,596,731	100.00%	3.70%	12.59 years

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. The average duration of the debt portfolio is 12.6 years.

1.2 Investment portfolio position as at 31/3/25

Class	Start / Purchase Date	Maturity Date	Counterparty	Rate	Principal O/S (£)
Deposit	31/03/25	01/04/25	DMADF (Debt Management Account Deposit Facility)	4.4500%	37,000,000.00
Deposit	28/03/25	08/04/25	West Mercia Police and Crime Commissioner	6.0000%	37,000,000.00
Deposit	31/01/25	30/04/25	Blackpool Council	5.7000%	37,000,000.00
Deposit	20/01/25	20/05/25	Reading Borough Council	5.3500%	37,000,000.00
Deposit	22/11/24	22/05/25	Central Bedfordshire Council	5.2500%	37,000,000.00
Deposit	27/02/25	27/05/25	Uttlesford District Council	5.8500%	37,000,000.00
Deposit	21/11/24	02/06/25	Uttlesford District Council	5.2000%	37,000,000.00
Deposit	07/02/25	09/06/25	South Yorkshire Fire and Rescue Authority	5.8000%	37,000,000.00
Deposit	29/11/24	27/06/25	Hertfordshire Police and Crime Commissioner	5.2500%	37,000,000.00
Deposit	29/11/24	27/06/25	Suffolk County Council	5.3500%	37,000,000.00
Deposit	06/01/25	07/07/25	Broxbourne Borough Council	5.3000%	37,000,000.00
Deposit	27/12/24	07/07/25	Warwickshire Police and Crime Commissioner	5.6500%	37,000,000.00
Deposit	20/01/25	21/07/25	London Borough of Hillingdon	5.5000%	37,000,000.00
Deposit	29/01/25	29/07/25	Leicestershire Police and Crime Commissioner	5.8000%	37,000,000.00
Deposit	10/02/25	11/08/25	Isle of Wight Council	5.8000%	37,000,000.00
Deposit	14/02/25	14/08/25	Bradford Metropolitan Borough Council	5.8000%	37,000,000.00
Deposit	06/01/25	29/08/25	Eastleigh Borough Council	5.2000%	37,000,000.00
Deposit	24/12/24	24/09/25	Fife Council	5.7000%	37,000,000.00
Deposit Total					117,000,000.00

Counterparty Name	Amount	%
DMADF (Debt Management Account Deposit Facility)	£37,000,000	31.62%
South Yorkshire Fire and Rescue Authority	£5,000,000	4.27%
Reading Borough Council	£5,000,000	4.27%
Isle of Wight Council	£5,000,000	4.27%
Warwickshire Police and Crime Commissioner	£5,000,000	4.27%
Bradford Metropolitan Borough Council	£5,000,000	4.27%
Central Bedfordshire Council	£5,000,000	4.27%
Eastleigh Borough Council	£5,000,000	4.27%
Hertfordshire Police and Crime Commissioner	£5,000,000	4.27%
Fife Council	£5,000,000	4.27%
West Mercia Police and Crime Commissioner	£5,000,000	4.27%
Blackpool Council	£5,000,000	4.27%
Leicestershire Police and Crime Commissioner	£5,000,000	4.27%
Suffolk County Council	£5,000,000	4.27%
Broxbourne Borough Council	£5,000,000	4.27%
London Borough of Hillingdon	£5,000,000	4.27%
Uttlesford District Council	£5,000,000	4.27%

Country	Deal Ref	Amount	%
UK		£117,000,000	100.00%
	Total	£117,000,000	

1.3 Principal Sums Invested for Periods Longer than 364 days

- 1.3.1 The purpose of this indicator is to control the authority's exposure to the risk of incurring losses by seeking early repayment of its investments.
- 1.3.2 The limits set in the 2024/25 treasury management strategy in comparison to the quarter one is set below. It is the authority's policy to classify investments with maturities exceeding one year as Long term investments.

Table 2: Investments for periods longer than 364 days

	2024/25 Limit	2024/25 Actual
Limit on principal invested beyond year end	£50m	£0m

1.4 Security Treasury Indicator

- 1.4.1 The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. The Credit rating agency Standard & Poor is used to determine credit ratings and deposits with local authorities and other similar organisations are deemed to be equivalent to deposits with the UK government.

Table 3: Security Treasury Indicator

	2024/25 Target	31/3/25 Actual
Portfolio average credit rating	A+	AA

1.5 Gross Debt and the Capital Financing Requirement (CFR)

- 1.5.1 In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence. The estimates below are based on those set out in the approved TMSS 2024/25.

Table 4: Gross debt and the CFR at 31st March 2025

	31/3/25 Actual £m	31/03/26 Estimate £m	31/03/27 Estimate £m	31/03/28 Estimate £m
Long-term External Debt	607	885	1,235	1,527
Short-term External Debt	0	0	0	0
Total Debt	607	885	1,235	1,527
Capital Financing Requirement	717	992	1,323	1,586
Internal Borrowing	110	107	88	59

- 1.5.2 Total debt is expected to remain below the CFR. Officers will draw down long term debt when conditions merit it. Actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt as below.

1.6 Operational Boundary for External Debt

- 1.6.1 The operational boundary is based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. These limits may be reviewed as part of mid-year TMSS report in the event of a change in the interest rate outlook and the decision is made to fund the increase in CFR from external debt.

Table 5: Operational Boundary

Operational Boundary	2024/25 Limit £m	31/3/25 Actual £m
Borrowing	900	607
Other Long-Term Liabilities	10	9
Total	910	616

1.7 Authorised Limit for External Debt

- 1.7.1 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the authority can legally borrow. The authorised limit provides headroom over and above the operational boundary for unusual cash movements

Table 6: Authorised limit for external debt

Authorised Limit	2024/25 Limit £m	31/3/25 Actual £m
Borrowing	950	607
Other Long-Term Liabilities	10	9
Total	960	616

Glossary of Terms

Appendix B

A bond is a debt instrument in which an investor lends money for a specified period of time at a fixed rate of interest. The issuing entity could be corporate, financial or government.

A floating rate note (FRN) is a money market instrument with a Floating/variable rate of interest, which re-fixes over a reference rate, for example 3 month LIBOR.

Bail in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings. A **bail-in** is the opposite of a **bail-out**, which involves the rescue of a financial institution by external parties, typically governments using taxpayer's money.

Borrowing Requirements The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.

Capital Financing Requirement (CFR) Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.

Certificates of deposit (CDs) are a negotiable form of fixed deposit, ranked pari passu with fixed deposits. The difference is that you are not obligated to hold the CD to maturity, you can realise the cash by selling in the secondary market.

Coupon is the total amount of interest a security will pay. The coupon period depends on the security. A CD will often pay interest at maturity, while a bond may pay semi-annually or annually and an FRN will most likely pay every 3 months.

Covered bond Covered bonds are conventional bonds (fixed or floating) issued by financial institutions, that are backed by a separate group of loans, usually prime residential mortgages. This lowers the creditor's exposure to default risk, enhancing the credit. This is why the issue is usually rated AAA, higher than the rating given to the issuer reduces exposure to bail-in risk.

Counterparties Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMFs.

CPIH (Consumer Prices Index including owner occupiers' housing costs) The new additional measure of consumer price inflation including a measure of owner occupiers' housing costs (OOH). CPI inflation measure excludes housing costs.

CPI (Consumer Prices Index) this measure excludes housing costs.

Credit Default Swap (CDS) A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.

Credit rating A measure of the credit worthiness of a borrower. A credit rating can be assigned to country, organisation or specific debt issue/ financial obligation. There are a number of credit ratings agencies but the main 3 are Standard & Poor's, Fitch or Moody's.

Credit Watch A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.

DMO (Debt Management Office) a department in the treasury where deposits can be placed with the government.

Interest Rate Exposures A measure of the proportion of money invested and what impact movements in the financial markets would have on them.

LOBO Loan (Lender Option, Buyer Option) loan, the lender who has the option to propose an increase in the interest rate at set dates, while the borrower has the option to either accept the new rate or to repay the loan at no additional cost.

Market Loans Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.

MIFID is the Markets in Financial Instruments Directive. A European Union Directive.

Minimum Revenue Provision (MRP) This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.

Money Market Fund (MMF) A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.

Monetary Policy Committee (MPC) is a committee of the [Bank of England](#), which meets for three and a half days, eight times a year, to decide the official [interest rate](#) in the [United Kingdom](#) (the [Bank of England Base Rate](#)).

Principal is the total amount being borrowed or lent.

PWLB Loan, (Public Works Loan Board),The PWLB lending facility is operated by the UK Debt Management Office (DMO) on behalf of HM Treasury and provides loans to local authorities, and other specified bodies, from the National Loans Fund, operating within a policy framework set by HM Treasury.

SONIA sterling overnight interest average rate, the average rate at which banks offer funds in the overnight sterling market.

Spread is the difference between the buy and sell price of a security. It can also be the gap, usually in basis points, between the yield of a security and the benchmark security.

Treasury bills (T-bills) are UK government rated, short-dated form of Government debt, issued by the Debt Management Office (DMO) via a weekly tender. T-bills are normally issued for one, three or six month duration