Open Agenda

Council Assembly

Wednesday 9 July 2025
7.00 pm
Council Offices, 160 Tooley Street, London SE1 2QH

Supplemental Agenda No. 1

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Date: 1 July 2025

Agenda Item 7.2

Meeting Name:	Council Assembly
Date:	9 July 2025
Report title:	Treasury Management – Outturn 2024-25
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	N/A
From:	Strategic Director of Resources

RECOMMENDATION

1. That Council Assembly note the 2024-25 treasury management annual outturn report and in particular:

   - the update on the economic background.

   - that all treasury management activity was undertaken in compliance with the 2024-25 approved treasury management strategy and the council's prudential indicators for 2024-25, attached at appendix A.

   - that the balance outstanding on all external debt as at 31 March 2025 was £1,159m.

   - that the balance on investments as at 31 March 2025 stood at £53m.

BACKGROUND INFORMATION

2. In compliance with the Local Government Act 2003, the council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice (the Code). The Code requires local authorities to prepare an annual treasury management strategy and, as a minimum, formally report to council assembly on their treasury activities and arrangements at mid-year and after the financial year- end.

3. The Code defines treasury management activities as:

   "The management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks."

4. The 2024-25 treasury management strategy was approved by council assembly in February 2024. Under financial delegation, all executive, managerial and operational decisions are the responsibility of the Strategic Director of Resources.

5. The purpose of this report is to present the council's annual treasury management outturn for 2024-25 in accordance with the Code.

6. Treasury management comprises managing the council's borrowing to ensure funding for the council's capital programme is at optimal cost. There is also the management of investing surplus cash balances, arising from the daily operations of the council and to obtain an optimal return while prioritising the security of capital and liquidity.

7. The council is exposed to market and regulatory risks. The risks include potential losses from investments and increased borrowing costs from changing interest rates. The successful identification, monitoring and control of risk remain central to the council's treasury management strategy.

8. Treasury management includes the management of corporate banking services. The council holds its banking services contract with NatWest. This contract expires in September 2025.

KEY ISSUES FOR CONSIDERATION

Economic Background: April 2024 to March 2025

Economy

9. Over the past year, the UK economy has been significantly impacted by persistent inflation, and a variety of macroeconomic events that have generated considerable market volatility.

10. The UK economy avoided a deep recession, although economic pressures remained pronounced for households, businesses, and the public sector.

11. Global trade conditions produced higher import costs particularly for energy and food and these factors contributed to higher cost of living for households and a cautious business environment limiting the pace of recovery.

Inflation and Interest Rates

12. Inflation, after easing slightly in early 2024, rose in the latter half of the year, with the consumer price index (CPI) reaching around 3.0% in January 2025 and closing the year at 2.6%.

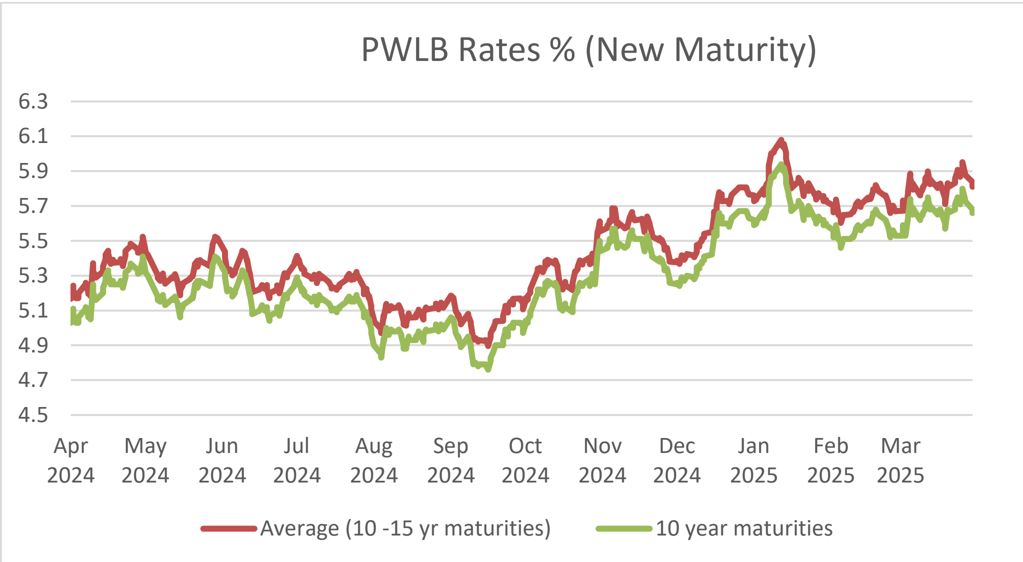
13. Sluggish economic growth and high inflation limited the Monetary Policy

Committee (MPC) in implementing aggressive interest rate cuts, which further influenced the UK's lending costs. The Bank Rate was 5.25% at the beginning of 2024-25. The Bank Rate decreased in August 2024 and November 2024, during the financial year, to 5.0% and 4.75%, respectively. In February 2025 to close of the year, the bank rate decreased to 4.5%.

Gilt Rates and Public Works Loan Board (PWLB) Lending Rates

14. The Public Works Loan Board (PWLB) is the main provider of the council's loans. The council may seek to borrow short term loans from other public and local authorities. PWLB rates for local authorities are priced at a margin over gilts. General Fund (GF) is gilt interest rate plus eighty basis points (0.80%) and Housing Revenue fund (HRA) is gilt interest rate plus forty basis points (0.40%)

15. From April 2024 to March 2025, UK gilts saw significant fluctuations. Below details the lending rates over the year.



Borrowing Strategy and Debt Management

16. During the financial year, short-term borrowing was undertaken to manage liquidity requirements. These borrowings amounted to £95m, all of which were re-paid by the year end. Short-term loans are sourced from other local authorities.

17. Long-term loans were taken from the PWLB for the General Fund and Housing Revenue Account (HRA) in the second half of the financial year as the council's cash balances depleted, reducing the refinancing risk.

18. The council also raised £1.5m of long-term funding through the issuance of two tranches of green bonds, managed by Abundance Investment, to finance a wide range of innovative environmental initiatives designed to reduce waste, tackle climate change, and protect Southwark's green spaces. 2024-25 was the first year that this type of borrowing was

utilised and to date over £1.1m of the £1.5m total has been deployed across eight green projects, including: 21 new cycle hangers, 1,790 new efficient LED street lights on our highways and parks, two new Library of Things, new solar panels of Peckham Pulse Leisure Centre, and green upgrades at council schools, leisure centres, cemeteries and crematorium. The remaining funds will be deployed during 2025-26.

19. The council holds long-term loan balances with the Mayor's Energy Efficiency Fund (MEEF) which funded retrofit of district heating schemes across housing estates within the borough.

20. The tables below set out details of the council's external borrowing as at 31 March 2025.

21. Borrowing Position at Year End.

Financial year Ending	**31 March 2025**		**31 March 2024**	
	Amount £m	**weighted average rate (%)**	**Amount £m**	**weighted average rate (%)**
Short term loans	-	-	65	5.85
Long term loans	1,159	3.84	1,020	3.73
Total Debt	**1,159**	**3.84**	**1,085**	**3.75**

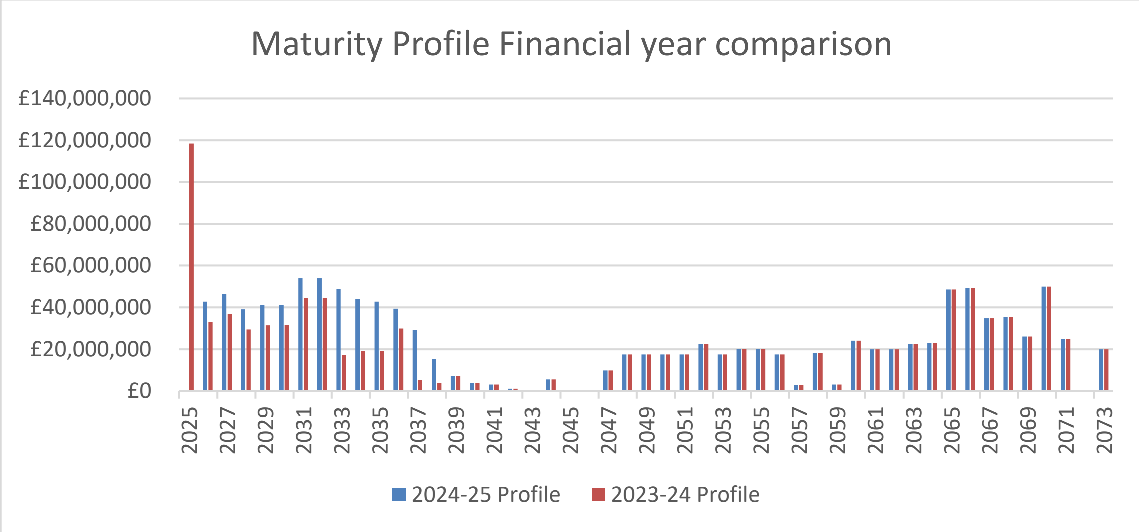
22. Borrowing Position at Year End by Counterparty

Financial year Ending	**31 March 2025 £m**	**31 March 2024 £m**
PWLB	1,152	1,014
MEEF	5.5	6
Abundance	1.5	-
Other local authorities	-	65
Total Debt	**1,159**	**1,085**

23. Borrowing Taken During Financial Year

Financial year	**2024-25 £m**	**2023-24 £m**
PWLB	192	115
MEEF	-	**-**
Abundance	1.5	**-**
Other local authorities	95	65
Total in year borrowing	**288.5**	**180**

24. The maturity profile of outstanding debt as at 31 March 2025 in comparison to the profile as at 31 March 2024 is shown in the chart below. This demonstrates the strategy to smooth the maturity profile and reduce refinancing risk by reducing short-term borrowing from £65m at the end of 2023-24 to a zero balance as at the end of 2024-25.



Provision for Repayment of Debt

25. Each year, the general fund sets aside sums, known as the minimum revenue provision (MRP), to reduce its borrowing liabilities. The increase detailed below arises as a consequence of changes to International Reporting Standard 16 (IFRS16) requiring additional MRP on previously excluded items.

Minimum Revenue Provision	2024-25 £m	2023-24 £m
	40.2	20.1

26. The HRA can voluntarily also set aside sums to reduce its borrowing liabilities. However, there were no additional sums set aside in 2024-25.

Investment Management

27. The Code defines 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 cash is required for use in the course of business.

28. Council cash that is not immediately required for current expenditure is invested in accordance with the Ministry of Housing, Communities and Local Government Guidance on Local Authority Investments (MHCLG Guidance). The MHCLG Guidance requires the council to create an annual investment strategy. The investment strategy was approved by council assembly in February 2024.

29. In accordance with MHCLG guidance, the council's investment objective is to preserve principal, provide liquidity and secure a reasonable return by striking an appropriate balance between risk and return, i.e., minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

30. Prior to 2023-24 council investments were managed both in-house and by two external fund managers, Alliance Bernstein and Aberdeen Standard Investments.

31. The external fund managers' objective was to invest over a longer term, across a range of investment instruments including UK government gilts, supranational bank bonds, and certificates of deposits and covered bonds issued by major banks/building societies, providing enhanced returns commensurate with the council's risk appetite.

32. In 2023-24, in consideration of the council's borrowing requirements, the decision was made to divest and wind down the external fund managers' portfolios. The approach taken was to deplete fund balances as quickly as possible while minimising losses. The performance benchmark was suspended during this period and full divestment was completed in September 2024.

33. Cash not immediately required in the short term is invested in five low-risk money market funds (MMF) and the UK Government Debt Management Account Deposit Facility (DMADF).

34. The table below sets out a breakdown of investments at the end of the year.

	31 March 2025		**31 March 2024**	
	Amount £m	**weighted average rate (%)**	**Amount £m**	**weighted average rate (%)**
Aberdeen Liquidity MMF	20.05	4.89	8.46	5.27
Blackrock ICS MMF	3.21	4.81	0.24	5.24
Federated Prime MMF	9.61	4.99	24.92	5.29
GS Sterling MMF	0.06	4.82	0.22	5.14
Northern Trust MMF	20.32	4.93	0.38	5.24
DMADF	-	4.75	1.00	5.19
External Fund Managers	-	-	28.80	1.64
Total Investments	**53.25**	**4.80**	**64.02**	**3.65**

35. All treasury investments held as at 31 March 2025 are held in AAA rated money market funds and are readily available.

Non-Treasury Investments

36. The definition of investments in CIPFA's revised Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets which are held primarily or partly for financial return.

Investment as at	31 March 2025 £m	31 March 2024 £m
Commercial property portfolio	302.9	309.5
Loans to local institutions	28.1	26.4

37. During 2024-25 a review was conducted of the loans to local institutions due to concerns regarding financial challenges arising from the economic environment they are operating in. These loans have now been assessed as high risk and processes have been put in place to ensure increased monitoring of their financial position is conducted on an ongoing basis so that any issues regarding their assessed ability to make repayments on time can be addressed promptly when identified.

Revenue Implications of Treasury Management Activities

38. As can be seen from the table below, net interest payable shows a favourable variance against the budget of £12m for 2024-25. (£6.2m favourable for 2023-24).

£m	2024-25			2023-24		
	Budget	**Outturn**	**Variance**	**Budget**	**Outturn**	**Variance**
Interest payable	54.7	43.6	-11.1	37.6	39.4	1.8
Interest receivable	-2.7	-3.6	-0.9	-1.2	-9.2	-8.0
Net Interest	**52.0**	**40.0**	**-12.0**	**36.4**	**30.2**	**-6.2**

Prudential Indicators - Actuals

39. Local authority borrowing, investment and capital finance activity is supported by the Prudential Code for Capital Finance (Prudential Code), the Treasury Management in the Public Services Code of Practice (The code) and related guidance published by CIPFA. The code requires councils to set a series of indicators and limits each year. The 2024-25 indicators were agreed in February 2024, before the start of the financial year. Appendix A shows the outturn of the Authority against the 2024-25 prudential indicators.

40. The council complied with its prudential indicators throughout 2024-25.

Community, Equalities (including socio-economic) and Health Impacts

41. This report monitors the council’s compliance with the treasury management strategy and prudential indicators as agreed in February 2024. This report has been judged to have no direct impact on local people and communities.

Climate change implications

42. There are no climate change implications arising directly from this report.

Resource implications

43. There are no direct resource implications in this report.

Consultation

44. There has been no consultation on this report.

SUPPLEMENTAL ADVICE FROM ASSISTANT CHIEF EXECUTIVE – GOVERNANCE AND ASSURANCE

45. The constitution determines that agreeing the treasury management strategy is a function of the council assembly and that review and scrutiny of strategies and policies is the responsibility of the audit, governance, and standards committee.

46. Financial standing orders require the strategic director of resources to set out the treasury management strategy for consideration and decision by council assembly, and report on activity on a regular basis to cabinet and at mid and year-end to council assembly. Furthermore, all executive and operational decisions are delegated to the strategic director of resources.

47. The Local Government Act 2003 ("the 2003 Act") and supporting regulations require local authorities to determine annual borrowing limits and have regard to the Prudential Code for Capital Finance, and the Treasury Management in the Public Services Code of Practice and Guidance, published by the Chartered Institute of Public Finance and Accountancy, when considering borrowing and investment strategies, determining or changing borrowing limits or prudential indicators.

48. Section 15(1) of the 2003 Act requires a local authority "to have regard (a) to such guidance as the Secretary of State may issue". This guidance is found in the Ministry of Housing, Communities and Local Government Guidance on Local Authority Investments updated February 2018 and there is statutory guidance on the Minimum Revenue Provision (MRP) made under section 21(1A) of the 2003 Act.

49. Section 12 of the 2003 Act grants local authorities the powers to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs.

REASONS FOR LATENESS

50. The report is late due to an administrative timetabling error. This has been mitigated and will not be repeated.

REASONS FOR URGENCY

51. The council is required to follow the Chartered Institute of Public Finance's Treasury Management Code of Practice and has signed up to such in the annual Treasury Management Strategy approved in February. The annual report (Outturn) should be agreed by members before the mid year report due in

November. This is to allow adequate time for the council to discharge its governance and scrutiny responsibilities.

BACKGROUND DOCUMENTS

Background Papers	Held at	Contact
Capital and Treasury Management Strategy 2024-25	160 Tooley Street	Caroline Watson

APPENDICES

No.	Title
Appendix A	Prudential Indicators – 2024-25 Actuals

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Caroline Watson, Chief Investment Officer	
Version	Final	
Dated	2 July 2025	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comment included**
Assistant Chief Executive – Governance & Assurance	Yes	Yes
Strategic Director, Resources	Yes	N/A
Cabinet Member	Yes	No
Date final report sent to Constitutional Team		2 July 2025

APPENDIX A

PRUDENTIAL INDICATORS: 2024-25 ACTUALS

BACKGROUND

1. Capital finance, borrowing and investment arrangements are supported by a series of prudential indicators, drawn from the Prudential Code on Capital Finance for Local Authorities and the Treasury Management in the Public Services Code of Practice plus Guidance, published by CIPFA. The Local Government Act 2003 requires that councils have regard to these codes. The indicators were approved by council assembly in February 2024. This appendix updates the 2024-25 indicators based on the un-audited statement of accounts for 2024-25.

2. The indicators are grouped into three broad areas: affordability and prudence, capital finance and treasury management. The indicators are of a technical nature and existing budgets take account of capital finance and treasury activities. The indicators themselves have no effect on those budgets.

AFFORDABILITY AND PRUDENCE INDICATORS

3. The indicators below are for affordability and prudence.

2023-24	2024-25	
		Ratio of Financing Cost to Net Revenue Stream A measure of the cost of borrowing and long-term liabilities (e.g., PFI) net of interest income and set-asides, as a percentage of revenue. Note that the 2023-24 figures have been restated in line with the latest Prudential Code.
31%	31%	HRA
12%	18%	General fund

		Capital Financing Requirements (CFR) and Gross Debt The CFR is the balance remaining on past capital expenditure financed through debt and long-term liabilities (e.g., PFI). The level of gross debt should not exceed the CFR unless prudent over the short term. Actual gross debt remained below the CFR throughout 2024-25 on account of cash balances, internal borrowing and PFI transactions.
£1,753m	£1,856m	CFR
£1,156m	£1,248m	Gross debt

CAPITAL FINANCING INDICATORS

4. The indicators below are for capital finance.

2023-24	2024-25	
Capital Expenditure - Capital expenditure includes PFI funded spend.		
£331m	£203m	HRA
£102m	£102m	General fund
£433m	**£305m**	**Total**

. ***Capital Financing Requirement (CFR)*** - the CFR is capital expenditure yet to be financed through borrowing and long-term liabilities (e.g., PFI), taking into account available internal resources.		
£896m	£934m	HRA
£857m	£922m	General fund
£1,753m	**£1,856m**	**Total**

TREASURY MANAGEMENT INDICATORS

5. The indicators below are for treasury management.

Operational Boundary and Authorised Limit for External Debt:

These are limits the council determines to accommodate borrowing and long-term liabilities.
The lower limit is the operational boundary and takes account of existing positions and ordinary activity and the higher limit is the authorised limit, enabling additional borrowing to be taken for very short periods, in the interest of prudence, within a risk-controlled framework.

2023-24 Outturn	2024-25 Limit	2024-25 Outturn	Operational Boundary
£1,085m	£1,452m	£1,159m	Borrowing (maximum outstanding in year)
£66m	£176m	£89m	Other Long -Term Liabilities
£1,151m	**£1,628m**	**£1,248m**	**Total**

			Authorised Limit
£1,085m	£,1,555m	£1,159m	Borrowing (maximum outstanding in year)
£66m	£ 210m	£89m	Other Long -Term Liabilities
£1,151m	**£1,765m**	**£1,248m**	**Total**

2023-24 Outturn	2024-25 Limit	2024-25 Outturn	
94%	100%	93%	**Gross and Net Debt** An upper limit on net debt as a percentage of gross debt. The net debt has remained below gross on account of investments held to meet spend.

			Maturity Structure of Borrowing Limits accommodating existing positions with flexibility to vary exposure within a risk-controlled framework.
11%	35%	4%	Under 1 year
3%	35%	4%	1 year and within 2 years
9%	50%	10%	2 years and within 5 years
14%	75%	21%	5 years and within 10 years
63%	100%	61%	10 years and over
			Limits on Investments Greater than One Year Caps on the maximum exposure to longer term investments, while recognising benefits from prudent exposure within a risk-controlled framework.
18%	65%	0%	Percentage longer than one year
1.1 months	2.5 years	0	Overall maximum average maturity

COUNCIL ASSEMBLY AGENDA DISTRIBUTION LIST (OPEN) (FULL LIST)
MUNICIPAL YEAR 2025/26

NOTE: Original held by Constitutional Team; all amendments/queries to Virginia Wynn-Jones Tel: 020 7525 7055

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		Total:	**20**
		Last updated: May 2025	