

Agenda Item	9a
Report No	RES/25/25

# The Highland Council

**Committee:** Corporate Resources

**Date:** 28 August 2025

**Report Title:** Annual Treasury Management Report 2024/25

**Report By:** Chief Officer – Corporate Finance

## 1. Purpose/Executive Summary

- 1.1 This report on treasury management for the financial year 2024/25 is prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) revised Code of Practice on Treasury Management in Local Authorities.
- 1.2 The report highlights the Council's treasury management activities undertaken, provides a commentary on the year and compares activity to the expected activities contained in the annual 2024/25 Treasury Strategy Statement and Investment Statement which was approved by Highland Council in March 2024.
- 1.3 The Prudential Code also requires the Council to report the actual prudential indicators after the financial year end, and these are shown in **Appendix 1**.
- 1.4 This annual report reflects continued gradual decreases in the Bank of England interest rates over the report period, with the objective of achieving the Bank of England target inflation rates. The report provides context on how wider economic factors have impacted treasury activity during the year.

## 2. Recommendations

- 2.1 Members are asked to:
  - i. Consider and **note** the Annual Treasury Management report for 2024/25.

## 3. Implications

- 3.1 **Resource:** Implications are set out within the report and reflect the cost of borrowing to fund the capital programme and are covered in **section 7** and Risk implications are covered in **section 8**. The report reflects the resource implications of decisions previously made regarding capital investment, and treasury activity to support that. While by its nature, this annual report is backwards looking, the context and prudential indicators are also of relevance to the Council looking forward, given the long-term implications that arise from borrowing and investment.

- 3.2 **Legal:** There are no specific Legal implications arising from this report. All treasury activity is undertaken in line with relevant legislation, regulation, and policies/strategies. **Section 5** provides further information on relevant context.
- 3.3 **Risk:** Implications are described in further detail in **section 8** of this report. Risk management is of particular importance regarding treasury management, and the Council's Treasury Management Strategy Statement and Investment Statement, is comprehensive in the description of risk and how these are mitigated/managed through that Strategy.
- 3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people):** There are no implications arising as a direct result of this report.
- 3.5 **Gaelic:** There are no implications arising as a direct result of this report.

#### 4. Impacts

- 4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.
- 4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.
- 4.3 This is a monitoring and update report and therefore an impact assessment is not required.

#### 5. Background

- 5.1 The Local Government in Scotland Act 2003 (the Act) and supporting regulations requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The CIPFA Code of Practice on Treasury Management (November 2009) was adopted by the Council on 4 March 2010.

The Code was further updated in December 2017 and then in December 2021. The Council fully complies with the Code requirements.

- 5.2 The primary requirements of the Treasury Management Code are the:
- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
  - Creation and maintenance of Treasury Management Practices which set out the way in which the Council will seek to achieve those policies and objectives.
  - Receipt by the Council of an Annual Strategy Report for the year ahead, a mid-year report and an Annual Review Report of the previous year.
  - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of treasury management policies to a specific named body, which in this Council is the Corporate Resources Committee.

5.3 Treasury Management is defined as: *“The management of the local authority’s cash flows, 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”*.

5.4 This report sets out:

- An overview of the strategy agreed for 2024/25 considering the economy and interest rates position for the year and incorporating the professional views of the Council’s external treasury management advisors (**section 6**);
- Performance measurement for the year including the Council’s treasury position as at 31 March 2025 compared to the previous financial year (**section 7**);
- A summary of treasury decisions taken and effects on the revenue budget (**section 8**);
- A commentary on performance and risk (**section 9**);
- A review of compliance with the Council’s procedures and Prudential Indicators (**sections 10 and 11**).

## 6. The Strategy Agreed for 2024/25

6.1 The 2024/25 TMSS was agreed in March 2024, and interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2024/25. Bank Rate did peak at 5.25% as anticipated, but has not fallen as quickly as initially predicted, primarily because inflation concerns remained elevated.

At the start of April 2025, the market expected Bank Rate to fall to 3.75% by the end of December 2025, with the actual level and pace of reduction being much slower.

6.2 The treasury strategy was to continue to remain flexible in the Councils approach to borrowing to fund the capital programme and replace maturities, continuing to consider all borrowing options on an ongoing basis, manage liquidity, refinancing and interest rate risks in order to minimise loan charge interest costs as far as was possible.

6.3 The narrative in **sections 6.3 to 6.8** of this report reflects the view of MUFG, the Council’s treasury advisor at April 2025.

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would

struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

- 6.4 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid, then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. Rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the Fed, ECB and Bank of England are all being challenged by levels of persistent inflation that are exacerbated by tight labour markets and high wage increases relative to what central banks believe to be sustainable.
- 6.5 Gilt yields have been volatile through 2024/25. Indeed, the low point for the financial year for many periods was reached in September 2024. Thereafter, and especially following the Autumn Statement, PWLB Certainty rates have remained elevated at between c5% - 6% except for the slightly cheaper shorter dates.

At the close of 31 March 2025, the 1-year PWLB Certainty rate was 4.82% whilst the 25-year rate was 5.98% and the 50-year rate was 5.67%.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)
- HRA Borrowing rate is gilt plus 40 40bps (G+40bps)

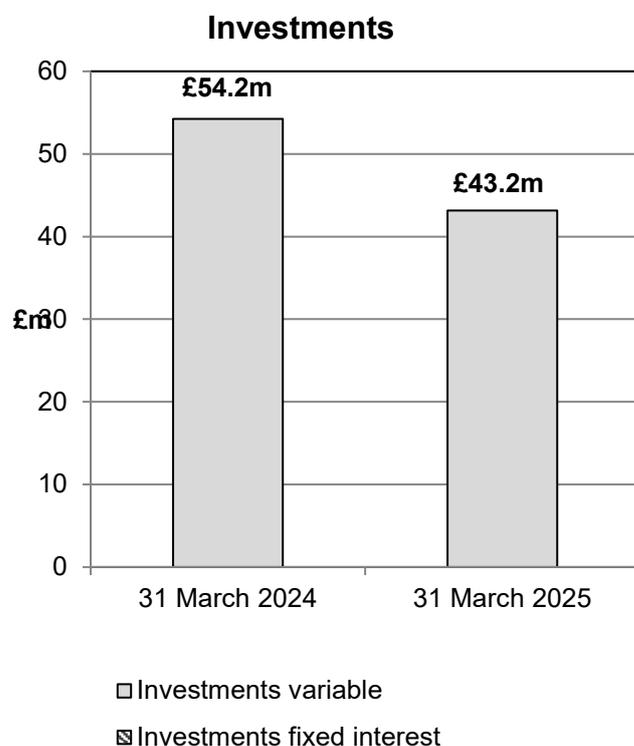
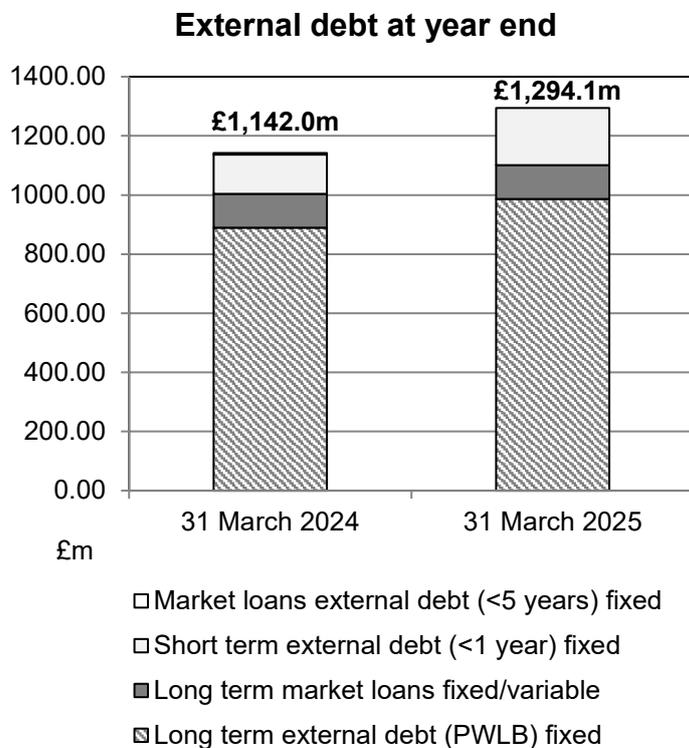
- 6.6 There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves lower.

Generally, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

- 6.7 The Bank of England is also continuing a process of Quantitative Tightening. The Bank's original £895bn stock of gilt and corporate bonds will gradually be sold back into the market over several years (currently c£623bn). The impact this policy will have on the market pricing of gilts, while issuance is still markedly increasing, and very high in historic terms, is an unknown at the time of writing.
- 6.8 Further information on the economy and interest rates during the year can be found at **Appendix 2**.

## 7. Performance Measurement

7.1 The treasury position at the 31 March 2025 compared with the previous year is shown in the graphs below.



<b>Average interest rates comparison</b>	<b>31/03/24</b>	<b>31/03/25</b>
Short term external debt (<1 year) fixed	5.61%	5.14%
Market loans fixed/variable	4.68%	4.68%
Long term external debt (PWLB) fixed	3.88%	3.95%
<b>Total debt</b>	<b>4.16%</b>	<b>4.19%</b>
Investments variable	5.26%	4.53%
<b>Total investments</b>	<b>5.26%</b>	<b>4.53%</b>

7.2 The figures show an increase in the average interest rate on external debt borrowings from 4.16% at March 2024 to 4.19% at March 2025 which is due to the increase in the average rate for long-term borrowing as more has been undertaken at rates which increase the overall average. The investment return for 2024/25 was lower than the previous year following the bank rate decreases (01 Aug 24 **5.00%**, 07 Nov 24 **4.75%**, 06 Dec 24 **4.50%**).

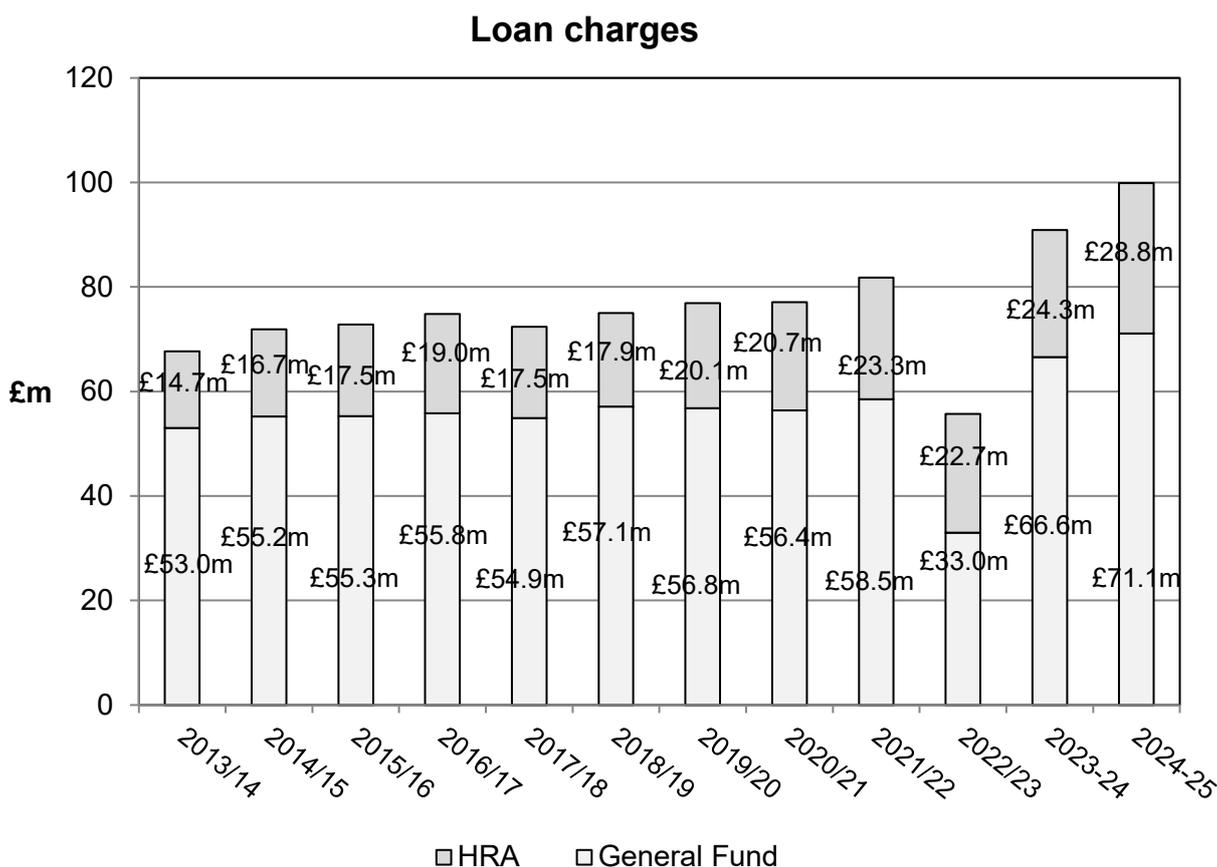
7.3 Between April 2024 and March 2025, there was £160.0m of PWLB borrowing undertaken with an average rate of 4.77%. Details of all PWLB long-term borrowing undertaken and repaid, are in **Appendix 3** and all external borrowing is in **Appendix 4**. The average rate for fixed temporary loans at 31 March 2025 was 5.14% (31 March 2024, 5.61%).

## **8. Treasury Decisions Taken and Revenue Effects**

### Borrowing requirement and debt

- 8.1 The Council undertakes capital expenditure on long-term assets which is funded as follows:
- 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, or there is planned borrowing for capital investment, the capital expenditure will give rise to a borrowing requirement.
- 8.2 The total net capital expenditure for 2024/25 was £137.9m (General Fund £97.3m and HRA £40.6m) against planned net capital expenditure of £166.9m (General Fund £122.7m and HRA £44.2m). Reasons for variations in Service and project capital expenditure for the year are reported to Committees as part of the final 2024/25 out-turn capital monitoring process. Details of gross and net capital spend for the year and the borrowing requirement against the estimated position are in **Appendix 1**.
- 8.3 There has been an increase in external debt of £152.1m which is reflective of approved capital investment plans and the associated borrowing requirements (see graph at **section 7 c.1**). The total borrowing is less than the capital financing requirement and more information on this is at **section 11.2**.

8.4 In terms of the impact on revenue budgets, increased capital expenditure generally increases the level of loan charges the Council incurs. In 2024/25 loan charges were higher than 2023/24. This is in line with expectations and reflective of approved capital programmes and the Council’s Highland Investment Plan (HIP) and associated revenue budget decisions to provide for expected increases in loan charge costs. The increased level of loan charges in 2024/25 reflects increased levels of capital expenditure. Loan charges for both General Fund and the HRA were below budget for the year, based on capital programme slippage and lead times for HIP project delivery. The graph on the next page shows the changes in loans charges over the last 11 years.



\*General Fund Loans charges lower in 2022/23 due to loans principal repayment “holiday” flexibility taken

8.5 Due to the level of capital expenditure, financing costs (loan charges) are a significant proportion of the Council’s net revenue stream. The ratio of financing costs to net revenue stream for the general fund including PPP/NPD/IFRS16\* is 11.1% (estimate 10.2%) and 41.1% for HRA (estimate 43.0%) (**Appendix 1, prudential indicator 4**).

The General Fund ratio is higher than the original estimate due to the implementation of the IFRS16 accounting standard in 2024/25 resulting in leases being brought on balance sheet and becoming part of the capital financing requirement. No estimate was included in the original indicator forecasts pending IFRS16 implementation and the availability of resulting data. The HRA ratio is marginally lower than original indicator due to HRA loan charges being lower than forecast.

\*For Prudential Indicator reporting, and compliance with the Prudential Code, the relevant ratio consists of capital programme financing costs (borrowing) **plus** the financing costs associated with the Council’s Schools PPP and related contracts and

IFRS16 Leases. This is a different measurement base than the local prudential indicator agreed by Council in May 2024 which relates only to General Fund HIP financing and excludes PPP/NPD/IFRS16 financing costs. For reference, that agreed local indicator was a 10% cap, and for context the equivalent actual ratio for 2024/25 8.1%.

<b>Ratio of financing costs to net revenue stream</b>	<b>2024/25 Indicator £m</b>	<b>2024/25 Actual £m</b>
General Fund including PPP/NPD/IFRS16	10.2%	11.1%
General Fund excluding PPP/NPD/IFRS16 (local indicator for HIP with a 10% cap)	<10%	8.1%
Housing Revenue Account	43.0%	41.1%

#### 8.6 Rescheduling

There was no rescheduling completed during 2024/25. While refinancing rates were closely monitored throughout the year no significant opportunities arose to make savings due to breakage costs.

8.7 A summary of outstanding deferred revenue costs attributable to debt rescheduling exercises undertaken in years to date, is provided in the table below. These represent early debt repayment costs (premiums) and discounts, associated with debt rescheduling. It is accounting practice for these to be written off over the periods of the new loans taken as part of the rescheduling and included as part of the annual loan charges.

	<b>Outstanding 31 Mar 2024 £000</b>	<b>Incurred 2024/25 £000</b>	<b>Written off 2024/25 £000</b>	<b>Outstanding 31 Mar 2025 £000</b>
Premiums	17,582	-	(1,956)	15,626
Discounts	(6,650)	-	37	(6,613)
Net Deferred Revenue Costs	10,932	-	(1,919)	9,013

#### 8.8 Overall performance

The Council's average borrowing and investment rate (loans fund rate) for the year was 4.29% compared to 4.01% in 2023/24 with capital expenditure and maturities being funded using £160m of PWLB borrowing and £239m short-term borrowing compared to £110m PWLB and £183m short-term in 2023/24.

8.9 Revenue effect: Due to capital expenditure being lower than forecast (but also with interest rates not falling as quickly as originally forecast), the final position shows an underspend for the General Fund loans charges (£5.6m) and an underspend for HRA (£0.7m) compared to budget for the year. Given interest rates remain high in relative terms, income received on revenue balances was higher than budgeted for, and the Council remains committed to ongoing capital investment and borrowing to support that so the underspend against loan charges in 2024/25 is assumed to be short-term in nature.

#### 8.10 Investments held by the Council

The Council's investment policy is governed by the Scottish Government Investment Regulations, which were adopted in the Annual Investment Strategy 2010/11 and approved by the Council on 24 June 2010. This policy sets out the approach for choosing investment categories and counterparties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

8.11 The Council's policy states the maximum investment period is 2 years. However, during 2024/25 deposits were placed for less than 1 year to manage credit risk.

8.12 The Council maintained an average end of month balance of £74.7m of internally managed funds which earned a weighted average rate of return of 4.97% and rate at 31 March 2025 of 5.14%. The comparable performance indicator is the average 7-day SONIA rate (Sterling Overnight Index Average - is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors), which was 4.90% for 2024/25. No institutions in which investments were made showed any difficulty in repaying the investment and interest in full during the year.

### 9. **Performance and Risk**

9.1 In the Council's debt portfolio as at 31 March 2025, 76.2% (£986.3m) of the total gross debt is at fixed long-term rates with the PWLB compared to 77.9% (£889.2m) as at 31 March 2024.

9.2 All major borrowing and capital financing requirement (CFR) decisions taken by officers were discussed with the Council's external treasury management advisors.

9.3 Returns on the Council's investments are predominantly determined by short-term variable rates. Whilst this can introduce an element of volatility to returns, it is minimal in terms of the total debt portfolio. Risk, in relation to the potential loss of principal, is minimised through the Council's restricted lending list (using a diversified list of counterparties and based on credit assessment).

9.4 The Council uses several Money Market brokers to facilitate short-term borrowing and investment deals. This ensures competitive market rates are obtained. All brokers charged the same level of commission per transaction and performed satisfactorily. In addition, the Council's treasury management officers have direct lines to some major banks to facilitate direct investment with suitably rated institutions.

9.5 Short term borrowing increased from £133.0m (31/03/24) to £193.0m (31/03/25). Levels of short-term borrowing remained high to achieve cost savings on rates. However, to mitigate exposure to interest rate risk, PWLB rates will be monitored, and longer-term borrowing undertaken where rates are favourable to reduce our levels of short-term borrowing.

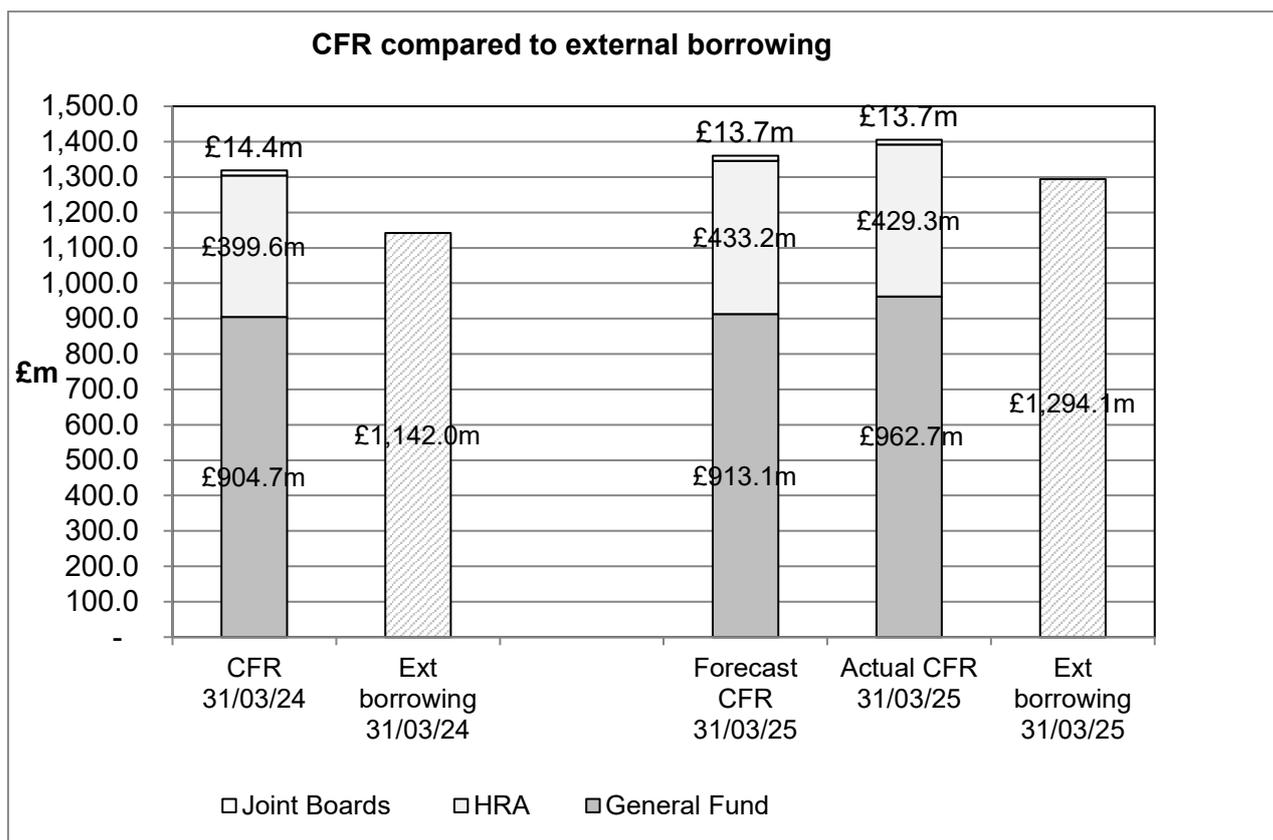
### 10. **Compliance with the Council's Procedures and Prudential Indicators**

10.1 The Council complied with its internal procedures and the requirements of the CIPFA Code of Practice on Treasury Management. The Council is bound by best practice requirements, which involve limits to be set and adhered to in relation to short-term

borrowing and exposure to variable interest rates and complied with these throughout the year (**Appendix 1, indicator 10**).

## **11. The Prudential Code – Indicators**

- 11.1 The Council is required by the Prudential Code to report the actual treasury position compared to the prudential indicators at the year-end. **Appendix 1** provides details of all the mandatory, estimated and actual prudential indicators for the year 2024/25.
- 11.2 Capital Financing Requirement (CFR)  
The CFR represents the accumulated net capital expenditure which the Council requires to fund by way of long-term borrowing and other capital financing, until the capital projects, comprising the CFR, are fully written off to revenue (mainly by way of annual loan charges).
- 11.3 In recent years the Council has been in a position whereby its CFR is greater than its long-term borrowing. This is often referred to as an 'under-borrowed position' with the Council's borrowing below the level it may have been expected to be based on the CFR. This results from the Council using internal cash sources, as well as long-term borrowing to finance the CFR. The use of internal cash sources can represent a more effective and low-cost option for financing, compared to long-term borrowing.
- 11.4 The Council must keep the CFR and long-term borrowing position under regular review, as the use of internal cash sources can result in increased re-financing risk i.e., if internal cash sources are utilised, and the Council has no choice but to borrow, and not necessarily at a time of its choosing, borrowing costs could be impacted.
- 11.5 The CFR is kept under regular review, and in recent years part of the annual treasury strategy has been to take steps to manage the CFR versus long-term borrowing position to an acceptable level. As shown in the graph below the difference between CFR and external borrowing stood at £111.6m at 31 March 2025. This position will be kept under regular review as part of the Council's on-going treasury management.
- 11.6 In order to ensure that over the medium-term borrowing net of investments will only be for a capital purpose, net borrowing should not, except in the short term, exceed the CFR for 2024/25. The graph below shows that the Council has complied with this requirement.



#### 11.7 Borrowing Limits

The Council is required to agree an Authorised Limit for borrowing for the year. This figure provides for estimated contingencies which may require to be funded in the year in addition to planned capital expenditure.

11.8 The Operational Boundary, also approved by the Council in compliance with the Code, 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.

11.9 During 2024/25 the Council complied with the Authorised Limit and as quoted in the Treasury Management – Summary of Transactions report to Corporate Resources on 5 June 2025 borrowing did peak above the Operational Boundary in the latter weeks of March reflecting cashflow needs and treasury activity during that quarter. The Operational Boundary is an estimate of likely and prudent day-to-day borrowing to be used as a planning measure and is distinct from the fixed authorised limit. The maximum for each is reported at **Appendix 1 indicator 5 and 6**.

Designation: Chief Officer – Corporate Finance

Date: 5 August 2025

Author: Rachel MacDonald, Principal Accountant

Background Papers: Treasury system and financial ledger reports

[https://www.highland.gov.uk/download/meetings/id/83028/item\\_18\\_treasury\\_management\\_strategy\\_statement](https://www.highland.gov.uk/download/meetings/id/83028/item_18_treasury_management_strategy_statement)

Appendices:

Appendix 1 – Estimated and Actual Treasury Position and Prudential Indicators

Appendix 2 – Economic update provided by the Council's Treasury Advisor (MUFG), April 2025

Appendix 3 - PWLB Borrowing undertaken and borrowing repaid 2024/25

Appendix 4 – External Borrowing at 31 March 2025

## Appendix 1

### Estimated and Actual Treasury Position and Prudential Indicators

		2024/25 Indicator £m	2024/25 Actual £m
1	<b>Capital expenditure</b>		
	<b>Gross capital expenditure</b>		
	General Fund including PPP/NPD	223.7	174.8
	Housing Revenue Account	65.9	60.9
	<b>Total gross capital expenditure</b>	<b>289.6</b>	<b>235.7</b>
	<b>Income</b>		
	General Fund	(89.2)	(77.5)
	HRA	(26.4)	(20.3)
	<b>Total income</b>	<b>(115.6)</b>	<b>(97.8)</b>
	<b>Net capital expenditure</b>		
	General Fund	134.5	97.3
	HRA	39.5	40.6
	<b>Total net capital expenditure</b>	<b>174.0</b>	<b>137.9</b>
	<b>Loan charge instalments</b>		
	General Fund	(33.3)	(33.3)
	HRA	(5.8)	(10.8)
	<b>Total instalments</b>	<b>(39.1)</b>	<b>(44.1)</b>
	<b>Net borrowing for new capital expenditure</b>		
	General Fund	101.2	64.0
	HRA	33.7	29.8
	<b>Total net borrowing for new capital expenditure</b>	<b>134.9</b>	<b>93.8</b>
2	<b>Capital Financing Requirement (CFR) at 31 March</b>		
	General Fund excluding PPP/NPD	913.1	962.7
	PPP/NPD	180.1	180.1
	IFRS16	35.0	16.1
	<b>Sub-total (as per HC annual accounts)</b>	<b>1,128.2</b>	<b>1,158.9</b>
	Housing Revenue Account	433.2	429.3
	<b>Sub-total (as per HC annual accounts)</b>	<b>1,561.4</b>	<b>1,588.2</b>
	Joint Boards	13.7	13.7
	<b>Total (Incl Joint Boards)</b>	<b>1,575.1</b>	<b>1,601.9</b>

		<b>2024/25 Indicator £m</b>	<b>2024/25 Actual £m</b>
3	<b>Treasury Position at 31 March</b>		
	Borrowing – Long term	1,119.9	1,101.1
	Borrowing – Short term	195.0	193.0
	Other Long-Term Liabilities (PPP/IFRS16)	154.1	135.2
	<b>Total Debt</b>	<b>1,469.0</b>	<b>1,429.2</b>
	Investments	(50.0)	(43.2)
	<b>Net Borrowing</b>	<b>1,419.0</b>	<b>1,386.2</b>
4	<b>Ratio of financing costs to net revenue stream</b>		
	General Fund including PPP/NPD/IFRS16	10.2%	11.1%
	General Fund excluding PPP/NPD/IFRS16 (local indicator for HIP with a 10% cap)	<10%	8.1%
	Housing Revenue Account	43.0%	41.1%
		<b>Limit</b>	<b>Maximum</b>
5	<b>Authorised Limit for Borrowing</b>	1,391.2	1,305.0 Mar 2025
6	<b>Operational Boundary for Borrowing</b>	1,291.3	1,305.0 Mar 2025
7	<b>Interest rate exposures of debt net of investments</b>		
	Upper Limit (Fixed)	1,554.3	1,257.7 Mar 2025
	Upper Limit (Variable)	544.0	(6.7) March 2025
8	<b>Maturity structure of fixed rate borrowing</b>		
	Under 12 months	30.0%	21.4% Dec 2024
	12 months to 2 years	30.0%	9.5% Mar 2025
	2 years to 5 years	40.0%	16.4% Dec 2024
	5 years to 10 years	50.0%	8.7% Sep 2024
	10 years and above	100.0%	60.8% Jun 2024

		<b>2024/25 Indicator £m</b>	<b>2024/25 Actual £m</b>
9	<b>Upper limit for the maturing of investments made for periods longer than 364 days (against maximum position)</b>	£20.0m	Nil
10	<b>Short term borrowing (net of investments) as a % of outstanding long-term debt (maximum position)</b>	25.0%	14.9% Mar 2025
	<b>Variable interest debt (net of investments) as a % of outstanding long-term debt (maximum position)</b>	35.0%	3.2% Apr 2024

## Economic update provided by the Council's Treasury Advisor (MUFG), April 2025

### UK

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.

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).

Moreover, borrowing has become 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
<b>Bank Rate</b>	4.50%	2.5%	4.25%-4.5%
<b>GDP</b>	-0.1%q/q Q4 (1.1%y/y)	+0.1%q/q Q4 (0.7%y/y)	2.4% Q1 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)

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.

## **USA**

Despite the markets willing the FOMC to repeat the rate cut medicine of 2024 (100 basis points in total), the Fed Chair, Jay Powell, has suggested that the Fed. Funds Rate will remain anchored at 4.25%-4.5% until inflation is under control, and/or the economy looks like it may head into recession as a consequence of President Trump’s tariff policies.

Inflation is close to 3% and annualised growth for Q4 2024 was 2.4%. With unemployment just above 4%, and tax cuts in the pipeline, the FOMC is unlikely to be in a hurry to cut rates, at least for now.

## **EU**

The Eurozone economy has struggled throughout 2024 and is flat lining at present, although there is the promise of substantial expenditure on German defence/infrastructure over the coming years, which would see a fiscal loosening. France has struggled against a difficult political backdrop, but with a large budget deficit it is difficult to see any turn-around in economic hopes in the near-term.

With GDP currently below 1% in the Euro-zone, the ECB is likely to continue to cut rates, although the headline inflation rate is still above 2% (2.3% February 2025). Currently at 2.5%, a further reduction in the Deposit Rate to at least 2% is highly likely.

### Appendix 3 – PWLB Borrowing undertaken and borrowing repaid 2024/25

#### PWLB Borrowing undertaken during 2024/25

Month undertaken	Amount £m	Purpose of borrowing	Duration (Y)	Rate %
April 24	10.0	Capital Programme	1.0	5.32
Oct 24	20.0	Capital Programme	4.5	4.23
Oct 24	10.0	Capital Programme	1.5	4.86
Nov 24	20.0	Capital Programme	2.5	4.76
Nov 24	20.0	Capital Programme	2.5	4.69
Jan 25	10.0	Capital Programme	1.5	4.74
Feb 25	10.0	Capital Programme	4.0	4.94
Mar 25	10.0	Capital Programme	1.0	4.81
Mar 25	10.0	Capital Programme	4.0	4.86
Mar 25	10.0	Capital Programme	1.5	4.82
Mar 25	10.0	Capital Programme	3.5	4.91
Mar 25	10.0	Capital Programme	1.0	4.82
Mar 25	10.0	Capital Programme	1.5	4.82
<b>Total</b>	<b>160.0</b>			

#### The following PWLB repayments were made during 2024/25

Month Repaid	Amount £m	Type of borrowing	Duration (Y)	Rate %
Apr 24	8.8	Maturity	26.5	6.88
Apr 24	0.8	Maturity	26.5	7.13
Apr 24	0.8	EIP	11.5	4.38
Sep 24	0.8	EIP	11.5	4.38
Sep 24	0.8	Maturity	34.5	10.88
Jan 25	5.0	Maturity	1.0	4.84
Jan 25	5.0	Maturity	1.0	4.96
Feb 25	5.0	Maturity	1.0	4.96
Feb 25	5.0	Maturity	1.0	4.92
Mar 25	10.0	Maturity	1.0	5.38
Mar 25	10.0	Maturity	1.0	5.33
Mar 25	10.0	Maturity	1.0	5.36
Mar 25	0.8	EIP	11.5	4.38
<b>Total</b>	<b>62.8</b>			

## Appendix 4 – External Borrowing at 31 March 2025

### Short term external debt (< 1 year) fixed and Notice

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate %	Principal O/S (£)
T503519	10/07/24	09/07/25	North Somerset District Council	Maturity	5.08	5,000,000.00
T503521	27/08/24	27/05/25	Edinburgh City Council	Maturity	4.75	5,000,000.00
T503520	04/09/24	03/09/25	Edinburgh City Council	Maturity	4.75	10,000,000.00
T503522	25/09/24	26/08/25	Oxfordshire County Council	Maturity	4.75	5,000,000.00
T503523	13/09/24	13/06/25	Edinburgh City Council	Maturity	4.80	5,000,000.00
T503524	11/09/24	10/09/25	Uttlesford District Council	Maturity	4.75	5,000,000.00
T503525	04/10/24	01/09/25	Oxfordshire County Council	Maturity	4.85	5,000,000.00
T503526	16/09/24	20/08/25	Cornwall Council	Maturity	4.85	7,000,000.00
T503527	16/10/24	27/08/25	Oxfordshire County Council	Maturity	4.85	5,000,000.00
T503528	25/10/24	24/10/25	South Kesteven District Council	Maturity	4.75	5,000,000.00
T503529	23/10/24	22/10/25	East Sussex County Council	Maturity	4.90	5,000,000.00
T503530	17/10/24	04/08/25	Somerset Pension Fund	Maturity	5.10	3,000,000.00
T503531	24/10/24	23/10/25	Breckland District Council	Maturity	5.00	2,000,000.00
T503532	24/10/24	23/10/25	Boston Borough Council	Maturity	5.00	2,000,000.00
T503533	22/10/24	17/04/25	Basingstoke and Deane Borough Council	Maturity	5.10	3,000,000.00
T503534	15/11/24	30/04/25	Rugby Borough Council	Maturity	5.10	5,000,000.00
T503535	25/10/24	25/07/25	Ashfield District Council	Maturity	5.10	5,000,000.00
T503537	04/11/24	06/05/25	North Hertfordshire District Council	Maturity	5.10	2,000,000.00
T503538	01/11/24	31/10/25	Chichester District Council	Maturity	5.10	5,000,000.00
T503539	05/11/24	05/08/25	Portsmouth City Council	Maturity	5.10	5,000,000.00
T503540	13/11/24	12/11/25	Sheffield City Council	Maturity	5.10	10,000,000.00
T503541	11/11/24	05/11/25	West Yorkshire Combined Authority	Maturity	5.10	5,000,000.00
T503542	15/11/24	13/08/25	West Yorkshire Combined Authority	Maturity	5.12	5,000,000.00
T503543	15/11/24	30/07/25	London Treasury - Liquidity Fund	Maturity	5.12	5,000,000.00
T503545	17/12/24	17/06/25	Northern Ireland Housing Executive	Maturity	5.55	10,000,000.00
T503548	03/02/25	05/01/26	West of England Combined Authority	Maturity	5.55	5,000,000.00
T503549	13/01/25	06/05/25	Arun District Council	Maturity	5.60	4,000,000.00
T503550	14/01/25	16/07/25	Westmorland & Furness Council	Maturity	5.25	5,000,000.00

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate %	Principal O/S (£)	
T503551	30/01/25	30/07/25	Hampshire County Council		5.60	5,000,000.00	
T503552	27/01/25	26/11/25	Portsmouth City Council	Maturity	5.50	5,000,000.00	
T503553	27/01/25	19/11/25	London Borough of Richmond upon Thames	Maturity	5.50	5,000,000.00	
T503554	27/01/25	27/10/25	Westmorland & Furness Council	Maturity	5.40	5,000,000.00	
T503555	28/01/25	29/07/25	Brentwood Borough Council	Maturity	5.50	5,000,000.00	
T503556	06/02/25	07/05/25	Westmorland & Furness Council	Maturity	5.50	5,000,000.00	
T503557	10/03/25	10/12/25	Oxfordshire County Council	Maturity	5.30	3,000,000.00	
T503558	10/03/25	10/12/25	Rutland County Council	Maturity	5.25	5,000,000.00	
T503560	10/03/25	10/12/25	Mid Sussex District Council	Maturity	5.25	2,000,000.00	
T503559	11/03/25	01/12/25	London Treasury - Liquidity Fund	Maturity	5.30	10,000,000.00	
					<b>Average Rate</b>	<b>5.14</b>	<b>193,000,000.00</b>

### Long term market loans fixed/variable (Lender Option Borrower Option)

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)	
M290045	30/09/02	30/09/42	Bank of Scotland plc	Maturity	4.50%	5,000,000.00	
M240007	12/12/90	12/12/50	Nortrust Nominees	Maturity	11.13%	1,000,000.00	
M290051	26/10/04	26/10/54	Dexia Public Finance Bank	Maturity	4.34%	8,750,000.00	
M290046	14/03/03	16/03/65	Dexia Public Finance Bank	Maturity	4.40%	10,000,000.00	
M290047	14/03/03	16/03/65	Dexia Public Finance Bank	Maturity	4.40%	11,740,000.00	
					<b>Average rate</b>	<b>4.58%</b>	<b>36,490,000.00</b>

### Market loans fixed

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)	
M290050	03/08/04	03/02/65	Barclays Bank plc	Maturity	5.05%	11,900,000.00	
M290048	02/12/03	02/12/65	Barclays Bank plc	Maturity	5.00%	25,200,000.00	
M290049	02/12/03	02/12/65	Barclays Bank plc	Maturity	5.00%	25,000,000.00	
M290052	23/03/06	23/03/66	Barclays Bank plc	Maturity	3.80%	16,216,000.00	
					<b>Average rate</b>	<b>4.76%</b>	<b>78,316,000.00</b>

### Long term external debt (PWLB) fixed

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
P508923	25/03/19	30/09/28	PWLB	Maturity	1.90%	7,500,000.00
P509002	28/03/19	30/09/28	PWLB	Maturity	1.82%	7,500,000.00
P509289	30/05/19	31/03/69	PWLB	Maturity	2.19%	5,000,000.00
P509312	04/06/19	30/09/61	PWLB	Maturity	2.18%	5,000,000.00
P509372	18/06/19	31/03/69	PWLB	Maturity	2.11%	5,000,000.00
P509461	04/07/19	31/03/62	PWLB	Maturity	2.10%	10,000,000.00
P509495	08/07/19	31/03/69	PWLB	Maturity	2.01%	5,000,000.00
P509506	09/07/19	30/09/68	PWLB	Maturity	2.03%	5,000,000.00
P509629	08/08/19	31/03/69	PWLB	Maturity	1.94%	20,000,000.00

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
P509636	09/08/19	31/03/66	PWLB	Maturity	1.84%	10,000,000.00
P509723	19/08/19	31/03/68	PWLB	Maturity	1.74%	10,000,000.00
P509848	05/09/19	31/03/67	PWLB	Maturity	1.58%	10,000,000.00
P366831	25/06/21	31/03/71	PWLB	Maturity	1.91%	5,000,000.00
P431937	04/11/21	30/09/71	PWLB	Maturity	1.63%	25,000,000.00
P438539	16/11/21	30/09/71	PWLB	Maturity	1.51%	10,000,000.00
P448434	03/12/21	31/03/71	PWLB	Maturity	1.46%	10,000,000.00
P450404	08/12/21	31/03/61	PWLB	Maturity	1.49%	25,000,000.00
P450406	08/12/21	31/03/71	PWLB	Maturity	1.35%	25,000,000.00
P552574	26/09/22	30/09/26	PWLB	Maturity	3.89%	20,000,000.00
P678606 HRA	28/11/23	30/09/35	PWLB	EIP	4.38%	17,500,000.00
P681158 HRA	07/12/23	02/06/25	PWLB	Maturity	5.11%	10,000,000.00
P685814 HRA	21/12/23	30/09/29	PWLB	Maturity	3.98%	10,000,000.00
P704297	22/02/24	30/03/30	PWLB	Maturity	4.71%	10,000,000.00
P501784	11/12/12	30/09/27	PWLB	Maturity	3.19%	10,000,000.00
P454211	30/03/84	30/09/33	PWLB	Maturity	10.25%	700,000.00
P464213	25/03/88	30/09/37	PWLB	Maturity	9.13%	702,319.85
P474785	14/10/94	30/09/54	PWLB	Maturity	8.88%	1,000,000.00
P474807	24/10/94	30/09/51	PWLB	Maturity	8.63%	1,000,000.00
P474808	24/10/94	30/09/52	PWLB	Maturity	8.63%	1,000,000.00
P474817	26/10/94	30/09/53	PWLB	Maturity	8.62%	1,000,000.00
P474818	26/10/94	30/09/54	PWLB	Maturity	8.63%	1,000,000.00
P475052	26/01/95	30/09/48	PWLB	Maturity	8.75%	500,000.00
P475184	16/02/95	30/09/45	PWLB	Maturity	8.63%	500,000.00
P475185	16/02/95	30/09/44	PWLB	Maturity	9.00%	500,000.00
P476150	29/06/95	31/03/45	PWLB	Maturity	8.38%	1,000,000.00
P476656	30/11/95	30/09/55	PWLB	Maturity	8.00%	1,000,000.00
P476790	21/12/95	30/09/55	PWLB	Maturity	7.88%	4,000,000.00
P476823	21/12/95	30/09/55	PWLB	Maturity	7.88%	1,000,000.00
P476824	21/12/95	30/09/55	PWLB	Maturity	7.88%	1,000,000.00
P477578	02/05/96	31/03/56	PWLB	Maturity	8.38%	10,000,000.00
P477622	08/05/96	31/03/56	PWLB	Maturity	8.38%	10,000,000.00
P477985	30/08/96	31/03/56	PWLB	Maturity	8.25%	3,000,000.00
P478594	11/12/96	30/09/31	PWLB	Maturity	7.75%	11,135,901.00
P479272	01/05/97	31/03/27	PWLB	Maturity	7.75%	25,000,000.00
P479704	17/07/97	31/03/27	PWLB	Maturity	7.00%	25,000,000.00
P480402	13/01/98	30/09/27	PWLB	Maturity	6.13%	5,000,000.00
P488282	02/12/03	30/09/33	PWLB	Maturity	5.00%	3,600,000.00
P492695	15/01/07	31/03/52	PWLB	Maturity	4.25%	13,500,000.00
P492696	15/01/07	31/03/53	PWLB	Maturity	4.25%	23,300,000.00
P492697	15/01/07	31/03/54	PWLB	Maturity	4.25%	20,000,000.00
P493070	08/03/07	31/03/54	PWLB	Maturity	4.25%	8,600,000.00
P493071	08/03/07	30/09/53	PWLB	Maturity	4.25%	5,000,000.00
P493425	05/07/07	30/09/56	PWLB	Maturity	4.80%	60,000,000.00
P493626	02/08/07	30/09/54	PWLB	Maturity	4.55%	10,000,000.00
P493835	23/08/07	30/09/54	PWLB	Maturity	4.45%	5,000,000.00
P497853	06/09/10	31/03/60	PWLB	Maturity	4.03%	10,000,000.00

Deal Ref	Start Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
P498092	13/10/10	31/03/59	PWLB	Maturity	4.09%	10,000,000.00
P499029	27/09/11	30/09/25	PWLB	Maturity	3.92%	20,000,000.00
P499165	23/11/11	30/09/30	PWLB	Maturity	3.93%	20,000,000.00
P501895	26/02/13	25/07/32	PWLB	Maturity	3.94%	15,000,000.00
P501996	15/03/13	31/03/30	PWLB	Maturity	3.70%	7,500,000.00
P502022	22/03/13	31/03/30	PWLB	Maturity	3.50%	7,500,000.00
P502832	07/02/14	31/03/34	PWLB	Maturity	4.17%	10,000,000.00
P502887	05/03/14	30/09/57	PWLB	Maturity	4.20%	20,000,000.00
P502921	18/03/14	30/09/63	PWLB	Maturity	4.19%	20,000,000.00
P503301	12/09/14	31/03/64	PWLB	Maturity	3.95%	20,000,000.00
P503717	05/02/15	31/03/63	PWLB	Maturity	2.84%	20,000,000.00
P503806	10/03/15	30/09/34	PWLB	Maturity	3.30%	10,000,000.00
P715818	28/03/24	01/04/25	PWLB	Maturity	5.34%	10,000,000.00
P716237	02/04/24	09/04/25	PWLB	Maturity	5.32%	10,000,000.00
P769506 HRA	23/10/24	30/09/29	PWLB	Maturity	4.23%	20,000,000.00
P771254	30/10/24	01/05/26	PWLB	Maturity	4.86%	10,000,000.00
P777112 HRA	21/11/24	04/05/27	PWLB	Maturity	4.76%	20,000,000.00
P777938 HRA	25/11/24	01/07/27	PWLB	Maturity	4.69%	20,000,000.00
P793585 HRA	23/01/25	01/07/26	PWLB	Maturity	4.74%	10,000,000.00
P802926	25/02/25	07/02/29	PWLB	Maturity	4.94%	10,000,000.00
P804885	04/03/25	04/03/26	PWLB	Maturity	4.81%	10,000,000.00
P805190	05/03/25	21/02/29	PWLB	Maturity	4.86%	10,000,000.00
P806745	11/03/25	01/06/26	PWLB	Maturity	4.82%	10,000,000.00
P809318	19/03/25	01/11/28	PWLB	Maturity	4.91%	10,000,000.00
P810207	21/03/25	01/08/26	PWLB	Maturity	4.82%	10,000,000.00
P810209	21/03/25	01/04/26	PWLB	Maturity	4.82%	10,000,000.00
P169721	11/03/20	30/09/69	PWLB	Maturity	2.07%	5,000,000.00
P175073 HRA	24/03/20	30/09/69	PWLB	Maturity	1.48%	29,800,000.00
PW507215	05/04/18	30/09/67	PWLB	Maturity	2.27%	25,000,000.00
PW507444	31/05/18	31/03/67	PWLB	Maturity	2.25%	10,000,000.00
P505126	21/06/16	31/03/64	PWLB	Maturity	2.51%	25,000,000.00
				<b>Average rate</b>	<b>4.76%</b>	<b>986,338,220.85</b>

**External borrowing average rate and total**

**4.19%**

**1,294,144,220.85**