MIDDLESBROUGH COUNCIL	Middlesbrough moving forward

Report of:	Director of Finance and Transformation (S151 Officer)

Relevant Executive Member:	Executive Member for Finance

Submitted to:	Executive

Date:	11 June 2025

Title:	2024/25 Treasury Management Outturn Report

Report for:	Information

Status:	Public

Council Plan priority:	Delivering Best Value

Key decision:	No
Why:	Report is for information only

Subject to call in?	No
Why:	Report is for information only

Proposed decision(s)
That the Executive: • Note the Prudential Indicators for 2024/25 as the Council's year-end position in relation to capital finance activities and overall indebtedness (Tables 1- 5) • Note the performance of the treasury management function against the Council's approved strategy for 2024/25 (Paragraphs 4.32 – 4.37)

Executive summary
The Council is required to approve annually a Treasury Management Strategy and a set of Prudential Indicators, which self-regulate the level of capital financing activities of the Council and the affordability of the capital programme. These need to be set on an annual basis to comply with the Local Government Act 2003 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Codes of Practice on Capital Finance and Treasury Management.

The Treasury Management Strategy is important from both a financial and governance perspective as it sets the framework within which the council manages its borrowing and investments, how it delivers these services, and how it controls the risks attached to related decisions. It also sets out the parameters and criteria that govern the day-to-day cashflow management activity and how these impact on the medium to long term financial planning. These include achieving value for money from any borrowing undertaken, managing risk, and protecting any resources that have been invested.

The Prudential Indicators are an integral part of the CIPFA Capital Finance Code and demonstrate whether the capital programme is affordable, sustainable, and prudent.

The report sets out the year-end outturn results for the 2024/25 financial year against the approved strategy approved by Council and give an analysis of the results achieved.

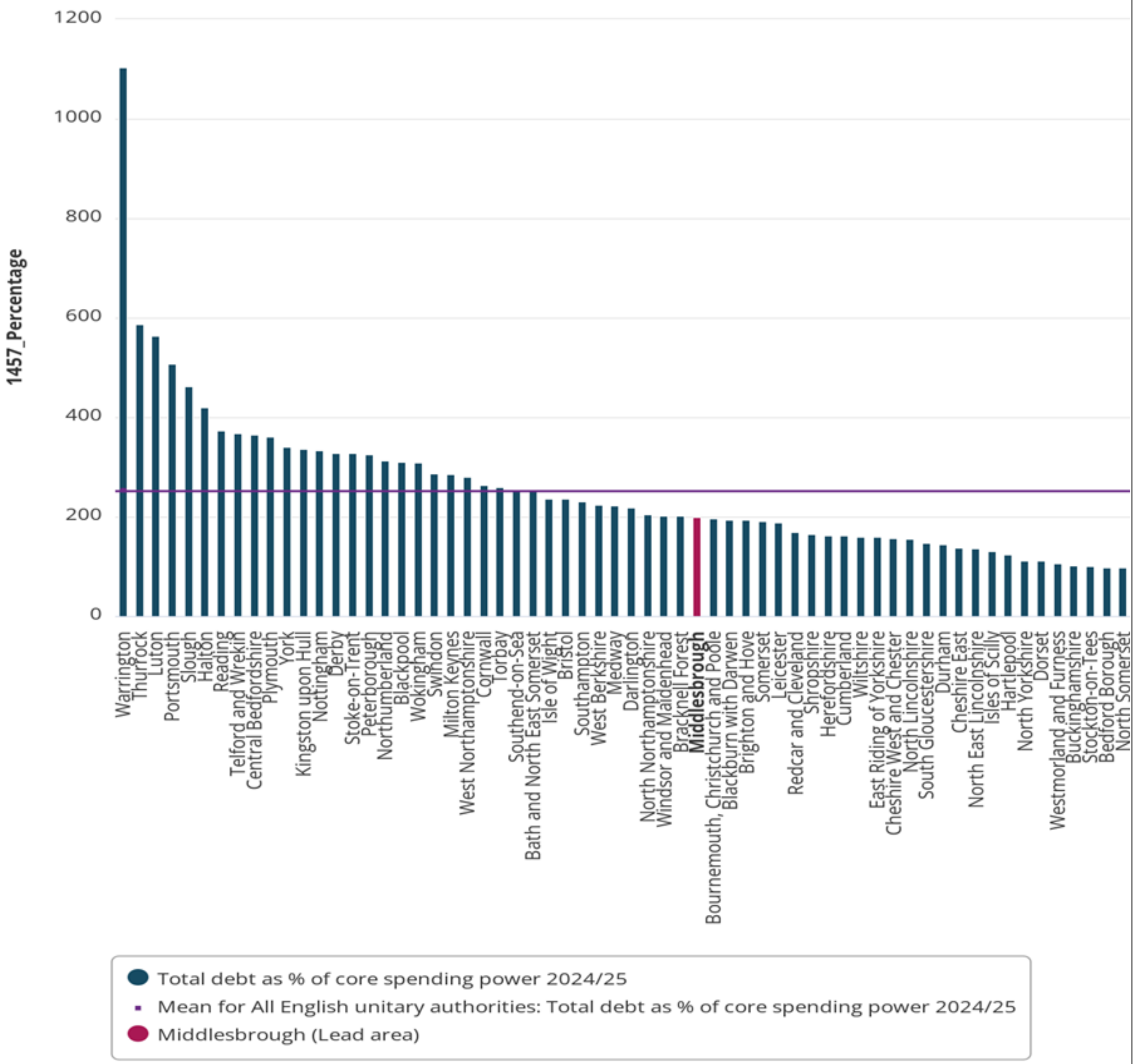
The key points for Elected Members to note on this are as follows:

- No prudential or treasury management indicators agreed as part of the Treasury Management Strategy for 2024/25 were breached during the financial year.
- The amount of borrowing required during the year was lower than planned at £12.343m as against £36.437m in the original budget for the year due to slippage on capital schemes into future years and no requirement to borrow for exceptional financial support purposes.
- The Council's need to borrow, or Capital Financing Requirement (CFR) is £298.001m on 31 March 2025.
- The Council is 'under borrowed' by £44.559m or 15.0% of the CFR at the financial year end. This means that it is using its internal cash balances rather than borrowing externally for some of its capital assets.
- The Council's total external debt is therefore £253.442m (£298.001m CFR less £44.559m) on 31 March 2025.
- This is in line with the practice adopted by most other local authorities and avoids the cost of carry of any unnecessary external debt against the overall cashflow need for the Council and makes savings against the revenue budget.
- All cash investments have been made in line with the Council's credit worthiness criteria, generally with either central government or other local authorities.
- The net annual revenue cost of financing the Council's current and historic debt, less income from its historic commercial investments and on cash balances is £11.406m or 8.0% of the net revenue budget for 2024/25.

Whilst the Council is not an outlier compared to other English Unitary Authorities in terms of its level of total debt as a % of core spending power (see Graph 1 below), it is approaching its limit of affordability on borrowing to fund its future capital investment at around 8% of the net revenue budget at the end of 2024/25 and marginally breaching the 10% level by the end of the current MTFP period (see Table 5).

It will need to prioritise its capital investment decisions over the medium and longer term and secure its financing through third party funds such as contributions and grants, and capital receipts from the sale of assets, to maintain borrowing costs within affordable limits.

Graph 1 - Total debt as a percentage of core spending power (2024/25) for All English unitary authorities



1. Purpose of this report and its contribution to the achievement of the Council Plan ambitions

1.1 This report provides important information regarding the regulation and management of the Council's borrowing, investments, and cash-flow for the 2024/25 financial year. It is a requirement of the Council's reporting procedures under the CIPFA Treasury Management Code of Practice, and by regulations issued under the Local Government Act 2003, to produce an annual review that covers the treasury activity and compares the performance against the original strategy set by the Council. It should be read in conjunction with the Council's revenue and capital outturn report for 2024/25 to this Executive, both of which have a significant impact on treasury arrangements.

1.2 The report also provides the Prudential Indicators results for 2024/25 in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Capital Finance, which is best practice in terms of governance in this area.

Our ambitions	Summary of how this report will support delivery of these ambitions and the underpinning aims
A successful and ambitious town	The annual treasury management strategy underpins both the revenue budget and capital programme for the Council for each financial year, by ensuring it has sufficient liquidity in place for all services to operate. As a result, it supports all the ambitions within the Council Plan.
A healthy Place	
Safe and resilient communities	
Delivering best value	In addition to the above, the treasury management strategy contributes to delivering best value for the Council by ensuring that a framework for good governance is in place for all borrowing and investment decisions made. This means that borrowing is taken over periods that are consistent with the life of any capital assets purchased and that appropriate provision is made in the annual revenue budget and medium for the associated capital financing costs. The risks of any borrowing or debt refinancing undertaken are supported by fit for purpose business cases. Also, any investment decisions on cash balances are made with reference to the implications of security, liquidity and yield in relation to the principal sums invested.

2. Recommendations

2.1 That the Executive:

- Note the Prudential Indicators for 2024/25 as the Council's year-end position in relation to capital finance activities and overall indebtedness (Tables 1- 5)
- Note the performance of the treasury management function against the Council's approved strategy for 2024/25 (Paragraphs 4.32 – 4.37)

3. Rationale for the recommended decision(s)

3.1 The recommendations above will fulfil the following for the local authority:

- Compliance with the CIPFA Prudential Code for Capital Finance for local authorities.
- Compliance with the CIPFA Treasury Management Code for local authorities.
- Compliance with the Local Government Act 2003 Section 1 in relation to borrowing.

4. Background and relevant information

4.1 The Council's treasury management strategy for 2024/25 (including Prudential Indicators) was approved at the annual budget setting meeting on 8 March 2024. The Council both borrows and invests substantial sums of money to provide liquidity for its revenue and capital plans, and is therefore exposed to various financial risks, including the potential loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the treasury management strategy each year.

4.2 The Council is a net borrower overall. The borrowing required to fund its capital programme is significantly higher than its normal cash balances that are available for investment purposes. As a result, the timing of capital financing decisions has a significant impact on the overall treasury strategy within the Council and how risk is managed.

4.3 The structure of this report to assess performance against the 2024/25 approved treasury strategy is as follows:

- Capital expenditure and financing for 2024/25
- The Council's overall borrowing need
- Prudential Indicators and any compliance issues
- Treasury position as at 31 March 2025
- The economic background for the 2024/25 financial year
- A summary of the Treasury Management Strategy approved for 2024/25
- Treasury Management activity and compliance during 2024/25

<u>Capital Expenditure and Financing 2024/25</u>

4.4 The Council undertakes capital expenditure on long term assets, which can be financed as follows:

- immediately during the year of incurring the expenditure, through capital receipts, capital grants, contributions or from revenue.
- if insufficient financing is available, prudential borrowing can be used to spread these costs over future financial years.

4.5 Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies – predominantly the Public Works Loan Board (PWLB), other banks and financial institutions, or by utilising temporary cash resources within the Council (internal borrowing). The wider treasury activities also include managing the day-to-day cash flow position, its previous borrowing activities, and the investment of surplus funds from cash balances that are not required immediately. These activities are structured to manage risk foremost and then optimise performance where appropriate.

4.6 Capital Expenditure forms one of the Prudential Indicators that are used to regulate treasury activity. Table 1 shows total capital expenditure and how this was financed, compared with what was expected to be spent and how this would have been financed. Further information on the capital variances at directorate level can be found in the 2024/25 revenue and capital outturn report to this Executive, but this predominantly relates to capital schemes that have not yet been delivered or grants received in advance of need.

Table 1: Capital expenditure and financing in £ millions

	2023/24 actual	2024/25 original budget	2024/25 actual	2024/25 Variance to original budget	2025/26 original budget	2026/27 original budget	2027/28 original budget	2028/29 original budget
Prudential Borrowing	18.469	23.037	12.343	(10.694)	16.191	23.161	7.413	8.371
EFS Borrowing	-	13.400	-	(13.400)	-	-	-	-
EFS Capital Receipts		-	2.443	2.443	-	-	-	-
Capital Receipts for Investment Strategy	-	6.000	6.000	-	6.000	6.000	6.000	6.000
Flexible Use of Capital Receipts	2.399	13.700	4.447	(9.253)	7.500	7.150	6.303	1.300
Grants	26.375	29.897	31.693	1.796	50.801	15.678	-	-
Contributions	0.471	2.515	0.237	(2.278)	2.079	6.523	-	-
TOTAL	**47.714**	**88.549**	**57.163**	**(31.386)**	**82.571**	**58.512**	**19.716**	**15.671**

<u>The Council's overall borrowing requirement</u>

4.7 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). The CFR results from the capital activity of the Council and resources used to pay for the capital expenditure over time. It represents 2024/25 and prior years' net capital expenditure which has not yet been paid for by revenue, capital receipts or other external resources and therefore must be met from borrowing.

4.8 The CFR will normally be a combination of external borrowing (from third parties in the form of loan arrangements) or from internal borrowing (from the council's own unapplied revenue and capital resources). External borrowing incurs both principal and interest costs as part of the Council's capital financing budget. Internal borrowing is from the Council's own cash resources and has an opportunity cost in that the cash is spent on capital activities, rather than invested.

4.9 Part of the Council's treasury role is to meet the funding requirements for this borrowing need. Depending on the funding requirements of the capital programme, the treasury team organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the government, through the PWLB, or the money markets).

4.10 The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory guidance is in place to ensure that capital expenditure is broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a principal loan repayment of the long-term borrowing need from the revenue budget.

4.11 The Council's capital financing requirement for the year is shown in Table 2 and represents a key prudential indicator for the Council. The CFR outturn for 2024/25 is £298.001m which is £0.185m higher than forecast due to marginal changes in the borrowing requirement due to slippage on the capital programme.

Table 2: change in the Capital Financing Requirement 2024/25 - in £ millions

Opening CFR at 1 April 2024	**292.090**
Add: Capital expenditure financed by borrowing	12.343
Less: Minimum Revenue Provision	(4.316)
Less: Other adjustments	(2.116)
Closing CFR at 31 March 2025	**298.001**
Forecast CFR at Q3 2024/25	**297.816**

Treasury Position for 2024/25

4.12 Whilst the measure of the Council's underlying need to borrow is the CFR, the Director of Finance and Transformation can manage the Council's actual borrowing position by:

- borrowing to the CFR level; or
- choosing to utilise some temporary cash flows instead of borrowing ("under borrowing").

4.13 Most local authorities have a degree of under borrowing within their CFR at present. This tends to be in the range of 10% - 20% of the total CFR. This means that external debt is lower than the need to borrow and other resources available have been used to bridge the gap. This strategy has been common as part of an approach to generating revenue savings in relation to annual capital financing costs, by deferring external borrowing, to a later point in time driven by cash flow needs.

4.14 The Council's treasury management debt and investment position is organised by the corporate finance team to ensure that there is adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting and through officer activity detailed in the Council's Treasury Management Practices.

4.15 A summary of outstanding balances is shown below.

Table 3 – summary of borrowing and investments

Treasury Position	2023/24 Principal (£m)	Average Rate (%)	2024/25 Principal (£m)	Average Rate %
Public Works Loan Board	206.018	3.61	225.604	3.76
Banks	18.000	6.26	13.000	6.83
Other loans	24.086	3.75	14.838	3.82
Total Debt	**248.104**		**253.442**	
Cash Investments	(12.723)	4.73	(21.555)	4.45
Net Debt	**235.381**		**231.887**	

4.16 Just under 90% of the Council's total debt is with central government via the PWLB at 31 March 2025. These loans vary in length from between 5 – 45 years and in essence match the lives of the capital assets they are financing. Most of the bank debt was taken out in the early 2000's when interest rates were higher, but these options were more attractive than borrowing from central government at the time. Due to the terms and conditions on these loans, there is no option to refinance them in the short term.

4.17 The other loans represent short-term borrowing from other local authorities. At times the Council will need cash liquidity to finance its revenue and capital commitments but interest rates for long term borrowing are not in line with the overall treasury strategy. In these cases, it is better value to finance this cash need over short periods of time, normally 1-3 months, even if interest rates are higher at that point. This allows the Council time to monitor market rates on long term debt for temporary reductions in rates caused by fluctuations in economic data and government policy.

4.18 Cash investments are temporary surpluses in liquidity that are either invested with central government via the debt management office or with other local authorities with a cash need. Over £1.300m in interest was earned during 2024/25 on these balances.

4.19 The Council's total debt outstanding as at 31st March 2025 was £253.442m. The Council's revised CFR position was estimated to be £297.816m at Quarter Three. However, the actual out turn position was £298.001m. When comparing this to our actual borrowing, this meant that the Council was "under borrowed" by £44.559m or 15.0%.

4.20 This "under borrowed" amount was financed by internal borrowing from cash balances which means that the amount that could have been invested externally was reduced to cover this. The reduced under borrowed position has the dual effect of reducing revenue costs incurred by the General Fund budget because borrowing costs are generally greater than investment returns. It also reduces counterparty risk by reducing the Council's exposure to the inherent risks that exist in commercial banks and other financial institutions.

4.21 **Gross Borrowing and the CFR** – in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years (to 2026/27). This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs, if required. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator as debt levels continue to be lower than needed.

Table 4 – Gross Borrowing to Capital Financing Requirement comparison in millions

	2023/24 Actual	**2024/25 Original**	**2024/25 Actual**	**2025/26 Budget**	**2026/27 Budget**	**2027/28 Budget**	**2028/29 Budget**
Gross External Borrowing	248.104	310.525	253.442	292.388	320.568	320.568	315.568
Capital Financing Requirement (CFR)	292.090	331.863	298.001	310.197	333.295	327.929	321.994
(Under)/Over borrowing	**(43.986)**	**(21.338)**	**(44.559)**	**(17.809)**	**(12.727)**	**(7.361)**	**(6.426)**
% of CFR	15.1	6.4	15.0	5.7	3.8	2.2	2.0

4.22 **The Authorised Limit** – The Authorised Limit is the "Affordable Borrowing Limit" required by section 3 of the Local Government Act 2003. The Council does not have power to borrow above this level.

4.23 **The Operational Boundary** – The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are both acceptable, subject to the Authorised Limit not being breached.

4.24 **Actual financing costs as a proportion of net revenue expenditure** - This identifies the trend in the revenue cost of capital (borrowing and other long term obligation costs net of investment income) as a proportion of the Council's net revenue budget. The actual for this indicator has risen from the previous year due to an increase in the Financing costs outturn.

Table 5 – Key Prudential Indicators Summary

	2023/24 actual	**2024/25 actual**	**2025/26 forecast**	**2026/27 forecast**	**2027/28 forecast**	**2028/29 forecast**
Authorised Limit (£m)	328.000	**318.000**	331.000	354.000	348.000	342.000
Operational Boundary (£m)	308.000	**308.000**	321.000	344.000	338.000	332.000
Capital Financing Requirement (£m)	292.090	**298.001**	310.197	333.295	327.929	321.994
Capital financing costs (£m)	9.235	**11.405**	12.060	13.732	14.685	15.404
Net Revenue Budget (£m)	126.354	**143.190**	143.304	144.382	148.621	152.973
Proportion of net revenue budget (%)	7.4%	**8.0%**	8.4%	9.5%	9.9%	10.1%

4.25 Table 5 above also shows the profile of debt required to fund the capital programme over the whole of the medium-term financial planning period, and that this will rise to a maximum of £333.295m on 31st March 2027 before starting to reduce in the following financial year. This increase in indebtedness is a direct result of the amount required to fund the capital programme in each financial year and any additional cash flow demands.

4.26 Although the Council does not have relatively highly debt levels against its comparator authorities (as shown in Graph 1), the strain on the revenue budget is increasing. When CIPFA introduced the Capital Finance Code of Practice in 2007, a nominal amount of 10% of the net revenue budget was suggested as being a maximum threshold for sustainability and prudence. Although some councils have exceeded this over the years the S151 Officer would not advise Members to go much higher than current levels, particularly given the financial position and low level of unrestricted reserves.

4.27 The levels though do remain aligned to the Operational Boundary (the Council's capital planning total) and within the Authorised Limit approved by Members, which is the statutory limit for the Council in relation to external debt.

Economic Background 2024/25

4.28 A summary of the general economic conditions that have prevailed through 2024/25 provided by Arlingclose, the Council's treasury management advisors is attached at Appendix 1.

Summary of the Treasury Management Strategy agreed for 2024/25

4.29 Treasury Management is defined as 'the management of the Council's cash flows, borrowing and investments, and the associated risk'. The main risks that affect a local authority include credit risk, interest rate risk, liquidity risk and refinancing risk.

4.30 The borrowing approach outlined in the treasury strategy was to achieve the optimum value for money for the revenue budget by a combination of long-term borrowing from the Public Works Loan Board when interest rates reached a trigger rate of below 4.75% and the maturity term of the new borrowing fitted in with the Council's current debt portfolio. If these conditions did not exist when cash balances fell below £10.000m, then short term borrowing would be considered for the minimum period possible, given that interest rates were expected to rise over the period. Additionally short-term borrowing would be capped at a maximum of 20% of the total of the Council's gross external debt balance.

4.31 The approach to investing cash balances is to follow the relevant government and CIPFA guidance in prioritising and protecting the principal sums involved by only investing with institutions on the Council's approved lending list. This factor is paramount and more important than the higher interest rates that could be achieved on risker and illiquid investments with longer duration terms. Only 10% of total investments could be deposited for periods over one financial year given the higher levels of risk associated with these products.

Treasury Management activity during 2024/25

4.32 During the financial year, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the CFR), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

4.33 All borrowing and investment activity undertaken during the financial year were in line with the approved strategy agreed for the financial year.

4.34 A total of £40.000m of new long-term borrowing was undertaken, with £7.500m of long-term loans repaid. This was offset by the repayment of £7.106m of short-term borrowing and £20.056m of annuity loan repayments. The total level of external debt for the Council rose by £5.338m during 2024/25. All borrowing decisions were authorised in line with the treasury management policy and via consultation with external advisers.

4.35 Investments were made with either central government or other local authorities on an almost daily basis to ensure that the Council's overall liquidity position was protected. All principal sums invested have been repaid on time by each counterparty. The total interest earned on these temporary cash balances for 2024/25 was £1.307m and helped to balance the overall net capital financing budget.

4.36 The Councils Treasury Management function has complied with all the relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. The adoption and implementation of both the Prudential Code and the code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable and its treasury practices demonstrate a low-risk approach.

4.37 Officers of the Council are aware of the risks of passive management of the treasury portfolio and, with the support of Arlingclose, the Council's advisers, have proactively managed the debt and investments portfolio over the financial year.

5. Ward Member Engagement if relevant and appropriate

5.1 Not relevant to this report as it relates to corporate financial management issues.

6. Other potential alternative(s) and why these have not been recommended

6.1 Not relevant as the report is for information only.

7. Impact(s) of the recommended decision(s)

Topic	Impact
Financial (including procurement and Social Value)	All relevant financial implications are outlined within the body of this report and the supporting appendix. The capital programme and financing being recommended in the budget report continues to remain affordable within the approved MTFP and revenue budget parameters. The Council needs to manage and prioritise its future capital investment and associated funding strategies more strictly over the term of the MTFP to maintain revenue cost of capital investment within affordable and prudent parameters. The prudential and treasury management indicators and processes remain robust and within prudent limits over the term of the MTFP. Tables 3 to 5 outline the key debt metrics, and the capital financing costs as a % of the net revenue budget over the medium-term financial planning period.
Legal	There are no direct legal implications of this report. All activity on capital financing, investments and borrowing is under current local authority powers under either the Local Government Act 2003 or the capital finance and accounting regulations.

Risk	Any risk related issues are set out within the report. Risk management is an integral part of the Council's treasury management strategy, and these are considered as part of business-as-usual activities and are set out in more detail within the Treasury Management Practices document maintained by the central finance team.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no applicable issues to consider within this report.
Reducing Poverty	There are no applicable issues to consider within this report.
Climate Change / Environmental	There are no applicable issues to consider within this report.
Children and Young People Cared for by the Authority and Care Leavers	There are no applicable issues to consider within this report.
Data Protection	There are no applicable issues to consider within this report.

Actions to be taken to implement the recommended decision(s)

Action	Responsible Officer	Deadline
Not Applicable		

Appendices

1	Economic Background – 2024/25 financial year (Arlingclose Ltd. March 2025)

Background papers

Body	Report title	Date
Council	2024/25 Revenue Budget, Medium Term Financial Plan, Council Tax Setting and Treasury Management	8 March 2024
Executive	2024/25 Revenue and Capital Budget Outturn	11 June 2025

Contact: Justin Weston, Head of Corporate Finance (Deputy S151 Officer)
Email: justin_weston@middlesbrough.gov.uk