

---

<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>12 August 2025</b>
<b>Report By:</b>	<b>Interim Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/42/25/AE/KJ</b>
<b>Contact Officer:</b>	<b>Angela Edmiston</b>	<b>Contact No:</b>	<b>01475 712143</b>
<b>Subject:</b>	<b>Treasury Management – Annual Report 2024/25</b>		

---

## 1.0 PURPOSE AND SUMMARY

1.1 ☒ For Decision ☐ For Information/Noting

1.2 The purpose of this report is:

- a. To advise the Committee of the operation of the treasury function and its activities for 2024/25 as required under the terms of Treasury Management Practice 6 (“TMP6”) on “Reporting Requirements and Management Information Arrangements”.
- b. To request that the Committee remits the report to the Full Council for their approval.

1.3 As at 31 March 2025 the Council had gross external debt (including PPP and leases) of £246,413,913 and investments of £5,208,007. This compares to gross external debt (including PPP) of £234,304,481 and investments of £6,502,107 at 31 March 2024. The increase in gross external debt is not due to additional borrowing by the Council but to accounting changes for operating leases applied from 1 April 2024 resulting in increased debt levels for PPP and lease debt in the Council’s Annual Accounts.

1.4 The accounting changes for operating leases requires that an update is made to the Limits and Indicators, as included in the Treasury Management Strategy Statement & Annual Investment Strategy 2025/26-2027/28, as considered by the Committee on 25 March 2025. The updated Limits and Indicators are included in this report.

1.5 The Council operated within the required treasury limits and Prudential Indicators for the year, as set out in the Council’s Treasury Policy Statement, annual Treasury Strategy Statement, and the Treasury Management Practices.

## 2.0 RECOMMENDATIONS

2.1 It is recommended that the Committee considers the contents of the annual report on Treasury Management for 2024/25.

2.2 It is recommended that the Committee remits the report to the Full Council for approval of the report and the revised Authorised Limits in the report.

**Angela Edmiston**  
**Interim Chief Financial Officer**

### 3.0 BACKGROUND AND CONTEXT

- 3.1 The Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2024/25.
- 3.2 Treasury Management in this context 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.”
- 3.3 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). Paragraphs 3.16 to 3.18 of the report include information on Loan Fund Advances required by regulations that came into effect on 1 April 2016.
- 3.4 The treasury management issues arising during the year were:
- a. The Council’s debt (excluding PPP and leases) reduced during the year by £7.499m but the PPP and leases debt increased by £19.609m due to accounting changes for operating leases applied from 1 April 2024 and not due to additional borrowing. Council investments reduced by £1.294m.
  - b. The Council repaid a £5m LOBO loan at 4.99% in November 2024 without paying any premium on the loan, after the lender asked if the Council would be interested in repaying the loan. The Council also repaid 2 PWLB loans totalling £17.5m on maturity.
  - c. To fund the above and its cash requirements, the Council borrowed a total of £15m in PWLB loans in the year for periods of between 1 year and 2 years. PWLB rates are expected to fall and so the Council expects to be able to refinance the borrowing at lower rates when the loans mature, or after further short-term borrowing.
  - d. The Council remained within its Prudential Indicator and Treasury Management limits during 2024/25.
  - e. As at 31 March 2025 the Council had under borrowed against its capital financing requirement by £71.047m. This under borrowing is £4.656m higher than at the end of 2023/24.
  - f. In February 2024, the Treasury Consultants forecast that the Bank Rate would fall from 5.25% to 4.75% by September 2024, to 4.25% by December 2024, to 3.75% by the end of March 2025 and to 3.00% by September 2025 until March 2027 at least. The actual position saw the Bank Rate cut to 5.00% in August 2024, 4.75% in November 2024 and 4.50% in February 2025. A further cut to 4.25% took place in May and the Consultants forecast that the Bank Rate will fall to 3.75% by March 2026 then to 3.50% by December 2026 and remain there until March 2028 at least.
  - g. PWLB rates for new borrowing were expected to fall by between 0.40% and 0.60%. Rates for 1-3½ years fell by up to 0.54% but other rates increased by up to 0.78%. In addition, there was volatility during the year that resulted in spreads in rates for new loans of up to 1.19% between their lowest and highest levels e.g. 9½ year loans were 4.52% on 17 September but 5.71% on 13 January and ended the year at 5.42%.
  - h. The Council’s investments earned a rate of return of 5.000% during the year which is lower than the benchmark return of 5.026% and is due to the Council having a low level of investments, seeking to defer borrowing and largely keeping its funds in call accounts for liquidity reasons, rather than placing funds in Fixed Term Deposits that normally pay higher rates.
  - i. All investments were in accordance with the Council’s investment policy and no institutions with which investments were made had any difficulty in repaying those investments and interest in full during the year.

- 3.5 The main economic uncertainty in the UK and around the world during the year came from inflation concerns, the continuing impact of the conflicts in Ukraine and in the Middle East, the uncertainty on world trade and tariffs, and the likely level of interest rates and impact of those rates on the economy.

The economic situation continues to be closely monitored.

- 3.6 The Council's Year End debt position was as follows:

	At 31 March 2024	At 31 March 2025
	£	£
Total Excluding PPP/leases	181,234,481	173,735,128
PPP Debt #	53,070,000	72,608,670
Lease Debt #	0	70,115
Total Including PPP/leases	234,304,481	246,413,913

Further detail is given in the following table:

	At 31 March 2024		At 31 March 2025		Movement 2024/25
	Principal	Rate	Principal	Rate	Principal
	£000		£000		£000
Fixed Rate Funding:					
- PWLB	111,378		108,878		(2,500)
- LOBO *	16,000		16,000		0
- Market	40,000		40,000		0
- Temporary	0		0		0
	167,378	4.22%	164,878	4.14%	(2,500)
Variable Rate Funding:					
- PWLB	0		0		0
- LOBO *	13,500		8,500		(5,000)
- Market	0		0		0
- Temporary ##	356		357		1
	13,856	4.93%	8,857	4.86%	(4,999)
Debt Excl PPP/leases	181,234	4.27%	173,735	4.18%	(7,499)
PPP Debt #	53,070		72,609		19,539
Lease Debt #	0		70		70
Total Debt	234,304		246,414		12,110

# - The PPP Debt and Lease Debt have been adjusted due to accounting changes applied from 1 April 2024 relating to accounting for operating leases.

## - Temporary Loans include funds held by the Council on behalf of the Common Good and Trust Funds and that are to be treated as borrowing for Treasury Management purposes under Scottish Government requirements.

\* - LOBO Loans are shown as variable when they have less than 1 year to go until their next call date.

3.7 The Council's cash balances investment position was as follows:

	At 31 March 2024		At 31 March 2025		Movement 2024/25
	Principal	Return	Principal	Return	Principal
	£000		£000		£000
Investments:					
- Fixed Term Deposits	0	0.00%	0	0.00%	0
- Notice Accounts	53	3.99%	55	4.49%	2
- Deposit Accounts	6,449	5.15%	5,153	4.34%	(1,296)
Totals	6,502	5.14%	5,208	4.34%	(1,294)

Investments as at 31 March 2025: £5,208,007

Maximum level of investments in 2024/25: £28,388,755 on 30 September 2024

Minimum level of investments in 2024/25: £ 930,537 on 24 December 2024

Daily average for the year 2024/25: £12,349,268

The Council's forecast and actual Investment Balances for 2024/25 for "investments" as defined in the Investment Regulations (including loans/holdings not managed under the treasury function) are shown in Appendix 1.

3.8 2024/25 Outturn Compared to Estimates in 2024/25 Strategy

The 2024/25 outturn compared to the estimates in the 2024/25 strategy:

	2024/25 Estimate	2024/25 Outturn
<u>Borrowing Requirement</u>	£000	£000
New borrowing	10,000	0
Alternative financing requirements	0	0
Replacement borrowing (See Note 1 below)	12,500	15,000
TOTAL	22,500	15,000
<u>Prudential/Treasury Management Indicators</u>	£000	£000
Gross external debt including PPP/leases (As at 31 March 2025) (See Note 2)	236,981	246,414
Capital financing requirement (CFR) (As at 31 March 2025)	292,714	317,461
(Under)/over borrowing against CFR	(55,733)	(71,047)
Gross capital expenditure	£000 23,451	£000 23,013
Ratio of financing costs (including PPP and leases) to net revenue stream	8.19%	8.00%
Ratio of net debt (debt and PPP/leases less investments) to net revenue stream (See Note 2)	91.1%	96.1%

Notes:

1. The £15 million replacement borrowing was for a £5m LOBO loan repaid in November 2024 and £10m to partly fund the repayment of 2 maturing PWLB loans in year.
2. The outturn includes the accounting changes for operating leases as a result of which the PPP and lease debt have increased and there is an increase in the ratio of net debt to net revenue stream.

3.9 The table in paragraph 3.8 above shows that as at 31 March 2025 the Council had under borrowed against its capital financing requirement by £71.047m. Under borrowing means that the Council is using cash it already has (e.g. in earmarked reserves and other balances) to cash flow capital expenditure and maturing debt rather than bringing in new funds from borrowing. The level of under borrowing is kept under review in light of Council capital financing and other funding requirements.

3.10 2024/25 Outturn Compared to Limits in 2024/25 Strategy

The 2024/25 outturn compared to limits in the 2024/25 strategy:

Prudential/Treasury Management Indicators

Authorised limit for external debt

- Borrowing
- Other long-term liabilities

Operational boundary for external debt

- Borrowing
- Other long-term liabilities

Upper limit on sums invested for periods longer than 365 days (Actual is maximum in period)

Limits on fixed and variable rate borrowing maturing in each period at 31 March 2025 (LOBOs included based on call dates and not maturity dates)

- Under 12 months
- 12 months and within 24 months
- 24 months and within 5 years
- 5 years and within 10 years
- 10 years and within 30 years
- 30 years and within 50 years
- 50 years and within 70 years

Council Policy Limits

Maximum Percentage of Debt Repayable in Any Year (Actual is as at 31 March 2025 and relates to Financial Year 2077/78)

Maximum Proportion of Debt at Variable Rates (Actual is as at 31 March 2025)

Maximum Percentage of Debt Restructured in Year (Actual is as at 31 March 2025 and relates to early repayment of a £5m LOBO)

2024/25 Limits		2024/25 Outturn	
£000		£000	
243,000		173,735	
54,000		72,679	
297,000		246,414	
£000		£000	
228,000		173,735	
54,000		72,679	
282,000		246,414	
£000		£000	
10,000		0	
Fixed	Var.	Fixed	Var.
45%	35%	14.4%	5.1%
45%	35%	14.7%	0%
45%	35%	7.9%	0%
45%	35%	9.0%	0%
45%	35%	4.0%	0%
45%	35%	21.9%	0%
45%	35%	23.0%	0%
2024/25 Limits		2024/25 Outturn	
25%		23.0%	
45%		5.1%	
30%		2.8%	

- 3.11 The Prudential Code requires that the Council states how interest rate exposure is managed and monitored.

The position in 2024/25 was that all of the Council's PWLB and Market debt was at fixed rates. The remaining debt contained some temporary borrowing at fixed rates, some small amounts at variable rates and LOBO loans where the rates were fixed unless the lenders proposed to change the rates. The Council's investments, which were all for less than 1 year, were all variable or regarded as variable under the treasury management rules.

During 2024/25, these interest rate exposures were managed and monitored by the Council through management reports on treasury management that were received and reviewed by the Chief Financial Officer.

- 3.12 The forecast from the Treasury Consultants in the Strategy for the Bank Rate as at 31 March and the latest forecast (produced on 10 February 2025) are:

	Forecast Per 2024/25 Strategy	Actual/ Latest Forecast	
2024/25	3.75%	4.50%	(Actual)
2025/26	3.00%	3.75%	(Forecast)
2026/27	3.00%	3.50%	(Forecast)
2027/28	---	3.50%	(Forecast)

- 3.13 The Council's Loans Fund Pool Rate for Interest is used to allocate interest charges to the General Fund and reflects the actual cost of the Council's Treasury activities. The rates for the last 5 years (excluding expenses) are as follows:

Year	Loans Fund Pool Rate
2020/21	3.362%
2021/22	3.363%
2022/23	3.776%
2023/24	4.377%
2024/25	4.529%

In 2023/24 the Council repaid 3 LOBO loans and a further LOBO loan was repaid in November 2024 when the lender approached the Council to allow repayment without any loan breakage costs. The repayments for these 4 loans was funded from short-term PWLB borrowing at higher rates but are to be refinanced at lower rates forecast for the next 12-18 months.

- 3.14 The Council's investment policy for the year is governed by Scottish Government Investment Regulations and was implemented in the annual investment strategy approved by the Council on 25 April 2024 (after review by the Policy & Resources Committee on 26 March 2024). The 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.

All investments in 2024/25 and 2025/26 to date were in accordance with the policy and no institutions with which investments were made had any difficulty in repaying investments and interest in full.

3.15 The result of the investment strategy undertaken by the Council in 2024/25 is as follows:

Average Investment	Rate of Return (gross of fees)	Benchmark Return (3-month SONIA compounded)
£12,349,268	5.000%	5.026%

The Council under-performed the benchmark by 0.026% which is due to the Council having a low level of investments, seeking to defer borrowing and largely keeping its funds in call accounts for liquidity reasons rather than placing funds in Fixed Term Deposits that normally pay higher rates.

3.16 Where capital expenditure is funded by borrowing (referred to as loans fund advances), the debt financing costs are paid from the Revenue Budget as loan charges comprised of the repayments of debt along with interest and expenses costs on the borrowing.

The Council is required to set out its policy for the repayment of loans fund advances.

- a. For loans fund advances made before 1 April 2016 the policy is to maintain the practice of previous years and use the Statutory Method (option 1) with annual principal repayments being calculated using the annuity method.
- b. The same method was used for loans fund advances made after 1 April 2016 for the permitted 5-year transitional period to the end of 2020/21. In applying the annuity method to new advances in any year, the interest rate used in the annuity calculation is the Council's loans fund pool rate for the year (including expenses) as rounded up to the nearest 0.01%.
- c. Of the options available for new capital expenditure from 1 April 2021 onwards, it was approved by the Full Council on 22 April 2021 to maintain the use of the annuity method as set out in option b. above.

3.17 The outstanding loans fund advances (representing capital expenditure still to be repaid from the Revenue Budget) are:

	2023/24	2024/25
	Actual	Actual
	£000	£000
Balance As At 1 April	228,242	229,526
Add: Loan Charge Write-Off Period Review 23/24	3,387	0
Add: Advances For The Year	5,594	2,849
Less: Repayments For The Year	7,697	7,585
Balance As At 31 March	229,526	224,790

- 3.18 For the loans fund advances outstanding as at 31 March 2025, the liability to make future repayments (excluding debt interest and expenses) is as follows:

	£000
Year 1	8,567
Years 2-5	34,432
Years 6-10	42,592
Years 11-15	33,684
Years 16-20	32,382
Years 21-25	29,625
Years 26-30	23,408
Years 31-35	11,767
Years 36-40	4,406
Years 41-45	1,210
Years 46-50	1,245
Years 51-55	408
Years 56-60	69
Years 61-65	70
Years 66-70	84
Years 71-75	102
Years 76-80	123
Years 81-85	149
Years 86-90	180
Years 91-95	198
Years 96-100	89
TOTAL	224,790

3.19 Proposed Amendments to Limits and Indicators

At its meeting on 25 March 2025 the Committee considered the Treasury Management Strategy Statement & Annual Investment Strategy 2025/26-2027/28 and remitted the report to the Inverclyde Council for approval, which was given at a meeting on 10 April 2025.

The report included Limits and Indicators that are now being updated to include the impact of the accounting changes relating to operating leases, as calculated during completion of the Council's unaudited annual accounts for 2024/25. The changes do not arise from additional borrowing by the Council.

The Council's financing costs are affordable and fully funded from the Council's Revenue Budget and reflect the costs of the significant capital programme works and improvements undertaken by the Council on the School Estate and other assets.



3.20 The affected limits and indicators are:

a. Authorised Limit and Operational Boundary

The Council's Authorised Limit is a control on the maximum level of external debt whilst the Operational Boundary is a limit that external debt is not normally expected to exceed. It is proposed that the limits are:

	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
	<b>Limit</b>	<b>Limit</b>	<b>Limit</b>
<b>Authorised limit for external debt</b>	£000	£000	£000
Borrowing	243,000	249,000	257,000
Other Long-Term Liabilities (PPP/leases)	73,000	70,000	67,000
<b>TOTAL</b>	<b>316,000</b>	<b>319,000</b>	<b>324,000</b>
<b>Operational boundary for external debt</b>	£000	£000	£000
Borrowing	228,000	234,000	242,000
Other Long-Term Liabilities (PPP/leases)	73,000	70,000	67,000
<b>TOTAL</b>	<b>301,000</b>	<b>304,000</b>	<b>309,000</b>

The Borrowing limits above are unchanged from those approved in April 2025, the changes are to the Other Long-Term Liabilities and the Totals.

Approval is being sought for the revised Authorised Limits for 2025/26 to 2027/28.

b. Ratio of Net Debt to Net Revenue Stream

The revised ratio of net debt to the Council's net revenue stream is estimated as:

	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
Ratio of net external debt (external debt and PPP/leases less investments) to net revenue stream	97.3%	102.0%	103.2%

3.21 IFRS16

The accounting changes from 1 April 2024 affecting the PPP and Leases as above and earlier in this report result from the application of accounting standard IFRS16 to local authority accounts. The accounting standard changes require that leased assets are now included on the balance sheet, including adjustments for the contingent rental element that is part of the monthly payments for PPP schools as charged against the revenue budget. The accounting standard changes do not increase the amount owed by the Council for leased assets or the PPP schools.

## 4.0 PROPOSALS

- 4.1 It is proposed that the Committee consider the contents of Section 3 of the report, seek any assurances from Officers, and thereafter remit the Annual Report to the Council for approval of the report and the revised Authorised Limits.

## 5.0 IMPLICATIONS

5.1 The table below shows whether risks and implications apply if the recommendations are agreed:

SUBJECT	YES	NO
Financial		X
Legal/Risk		X
Human Resources		X
Strategic (Partnership Plan/Corporate Plan)		X
Equalities, Fairer Scotland Duty & Children/Young People's Rights & Wellbeing		X
Environmental & Sustainability		X
Data Protection		X

## 5.2 Finance

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

## 5.3 Legal/Risk

The Council has complied with all treasury management statutory requirements in 2024/25. Treasury risks are identified in the Treasury Strategy and officers are supported in this regard by the Council's treasury consultants.

## 5.4 Human Resources

None.

## 6.0 CONSULTATION

6.1 This report includes the latest advice from the Council's treasury consultants (MUFG Corporate Markets Treasury Limited, previously known as Link Treasury Services Limited).

## 7.0 BACKGROUND PAPERS

7.1 CIPFA - Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – 2021 Edition  
Inverclyde Council – Treasury Management Strategy Statement and Annual Investment Strategy 2024/25-2027/28.

## **Appendix 1**

### **FORECAST OF INVESTMENT BALANCES ESTIMATE FOR 2024/25 AND ACTUAL AT 31 MARCH 2025**

Investment Regulation 31 requires the Council to provide forecasts for the level of investments. The estimate for 2024/25 and the actual as at 31 March 2025 are:

	<b>Purpose of Investment</b>	<b>2024/25 Estimate</b>	<b>2024/25 Actual At 31 March 2025</b>
		£000	£000
Cash balances managed in-house	Treasury		
- At 1 April 2024		10,000	6,502
- At 31 March 2025		12,555	5,208
- Change in year		2,555	(1,294)
- Average daily cash balances		11,278	12,349
Holdings of shares, bonds, units (includes local authority owned company)	Service		
- At 1 April 2024		2	2
- Purchases		0	0
- Sales		0	0
- At 31 March 2025		2	2
Loans to local authority company or other entity to deliver services	Service		
- At 1 April 2024		260	260
- Advances		0	0
- Repayments		49	49
- At 31 March 2025		211	211
Loans made to third parties	Service		
- At 1 April 2024		93	93
- Advances		0	5
- Repayments		25	20
- At 31 March 2025		68	78
Investment properties	Commercial		
- At 1 April 2024		0	0
- Purchases		0	0
- Sales		0	0
- At 31 March 2025		0	0
Total of all investments			
- At 1 April 2024		10,355	6,857
- At 31 March 2025		12,836	5,499
- Change in year		2,481	(1,358)

The movements in the forecast investment balances shown above are due largely to ongoing treasury management activity in accordance with the Council's treasury management strategy or, for loans made to third parties, in accordance with Council decisions made in respect of such loans.

All of the Council's cash balances are managed in-house with no funds managed by external fund managers.

The "holdings of shares, bonds, units (includes authority owned company)" are historic and relate to the Common Good.

The Loans to local authority company or other entity to deliver services is a loan to Inverclyde Leisure.

The Loans made to third parties is comprised of:

	£000
Birkmyre Trust	15
Housing Advances	4
Small Business Loans	9
Loan to Shared Interest Society Limited	50
	78

The £50,000 loan to Shared Interest Society Limited ("Shared Interest") was approved by the Policy & Resources Committee in August 2017, Shared Interest being a company that uses funds invested by individuals and organisations to allow it to provide loans to fair trade businesses around the world.