POLICY AND RESOURCES COMMITTEE 24 SEPTEMBER 2025

ANNUAL TREASURY MANAGEMENT REPORT 2024/25

Report by Chief Financial Officer

PURPOSE

1.1 The purpose of the Report is to provide Members with a report of the Treasury Management activity for 2024/25.

EXECUTIVE SUMMARY

2.1 The Comhairle embraces Best Practice in accordance with CIPFA'S recommendations which requires that Members are informed on Treasury Management activities of the previous year.

2.2 Treasury Management is defined as "The management of the local authority's investments and 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".

2.3 Loan charges are calculated on all Comhairle treasury activities: revenue and capital cash flow, borrowing and investments. The management and operation of the Loans Fund during 2024/25 generated a saving of £1.4m compared to budget.

RECOMMENDATIONS

3.1 It is recommended that the Comhairle note the Report

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Background Papers: None

IMPLICATIONS

4.1 The following implications are applicable in terms of the Report.

Resource Implications	**Implications/None**
Financial	
Legal	Section 1 of The Local Government in Scotland Act 2003 Section 35 of The Local Government in Scotland Act 2003 Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition The Local Government Investments (Scotland) Regulations 2010
Staffing	None
Assets and Property	None
Strategic Implications	**Implications/None**
Risk	None
Equalities	None
Corporate Strategy	None
Environmental Impact	None
Consultation	None

INTRODUCTION

5.1 The Treasury Management Strategy for 2024/25, which was approved by the Comhairle on 7 February 2024, included the recommended Prudential Indicator estimates for the year. This report also confirms the Comhairle's compliance with the Prudential Indicators which were set for 2024/25.

5.2 The Comhairle borrows and invests substantial sums of money and therefore has potentially large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Comhairle's Treasury Management Strategy.

5.3 This Annual Report covers:

(a) The Comhairle's debt and investment portfolio positions at the beginning and end of the year;
(b) The prevailing economic background during the year;
(c) The strategy for borrowing and other financing options for the year and its outturn;
(d) Debt Restructuring Activity;
(e) The annual investment strategy and its outturn
(f) Compliance with Treasury Limits and Prudential Indicators; and
(g) Other relevant factors.

DEBT PORTFOLIO AT 31 MARCH 2025

6.1

	Balance 31.03.24 £'000	Average Rate %	Debt Matured £'000	New Borrowing £'000	Balance 31.03.25 £'000	Average Rate %
PWLB	127,266	6.18	(1,003)	0	126,263	6.14
	Balance 31.03.24 £'000	**Average Rate %**	**Investments Made £'000**	**Investments Repaid £'000**	**Balance 31.03.25 £'000**	**Average Rate %**
Investments	33,007	5.43	557,285	(558,605)	31,687	5.02

ECONOMIC BACKGROUND

7.1 Both the UK and US elected new governments during the period, whose policy decisions impacted the economic outlook. The Chancellor of the Exchequer delivered her Spring Statement in March 2025, following her Budget in October 2024. Based on the plans announced, the Office for Budget Responsibility downgraded its predictions for UK growth in 2025 to 1% from 2%. However, it upgraded its predictions for the four subsequent years. Inflation predictions for 2025 were pushed up, to 3.2% from 2.6%, before seen as falling back to target in 2027. The market reaction to the Spring Statement was more muted compared to the Budget, with very recent market turbulence being driven more by US trade policy decisions.

7.2 The UK economy Gross Domestic Product (GDP) grew by 0.1% between October and December 2024, unrevised from the initial estimate. This was an improvement on the zero growth in the previous quarter, but down from the 0.4% growth between April and June 2024. Of the monthly GDP figures, the economy was estimated to have contracted by 0.1% in January, worse than expectations for a 0.1% gain.

7.3 The labour market continued to cool, but the Office for National Statistics (ONS) data still requires treating with caution. Recent data showed the unemployment rate rose to 4.4% in the three months to January 2025 while the economic inactivity rate fell again to 21.5%. The ONS reported pay growth over the same three-month period at 5.9% for regular earnings (excluding bonuses) and 5.8% for total earnings.

7.4 The Bank of England's Monetary Policy Committee (MPC) held Base Rate at 4.5% at its March 2025 meeting, having reduced it in February. This follows earlier 1.25% cuts in August and November 2024 from the 5.25% peak. At the March MPC meeting, members voted 8-1 to maintain Base Rate at 4.5%. The meeting minutes implied a slightly more hawkish tilt compared to February when two MPC members wanted a 50bps cut. In the minutes, the Bank also upgraded its Q1 2025 GDP forecast to around 0.25% from the previous estimate of 0.1%.

7.5 Financial market sentiment was reasonably positive over most of the period, but economic, financial and geopolitical issues meant the trend of market volatility remained. In the latter part of the period, volatility increased, and bond yields started to fall following a January peak, as the economic uncertainty around likely US trade policy impacted financial markets. Yields in the UK and US started to diverge in the last month of the period, with the former rising around concerns over the fiscal implications on the UK government from weaker growth, business sentiment and higher rates, while the latter started falling on potential recession fears due to the unpredictable nature of policy announcements by the US President and their potential impact.

LONG-TERM BORROWING STRATEGY AND OUTURN

8.1 No long-term borrowing took place during the financial year ended 31 March 2025.

8.2 The use of internal resources to fund in lieu of borrowing has therefore continued to be the most cost-effective means of financing capital expenditure and financing loan maturities. In addition, this has lowered the overall treasury risk by reducing external debt and has contributed to loan charge savings.

DEBT RESTRUCTURING STRATEGY AND OUTTURN

9.1 The main objective of debt restructuring is to reduce the Comhairle's overall exposure to the risk of interest rate movements, to lower the long-term interest charges paid on its debt, to smooth the maturity profile without compromising the overall longer-term stability, or to alter its volatility profile.

9.2 There were no opportunities for debt restructuring during the financial year ended 31 March 2025**.**

ANNUAL INVESTMENT STRATEGY AND OUTTURN

10.1 **Investment Strategy:** The Scottish Government's Investment Regulations give priority to security and liquidity, and the Comhairle's aim is to achieve a yield commensurate with these principles. The Comhairle's prime objective is to invest its surplus funds prudently and whilst the Comhairle may borrow in advance of requirement in the financial year, which would result in a short-term excess of cash, the Comhairle will now borrow purely with the intention to invest,

10.2 Investment Outturn;

a) Investments decreased from £33.007m at the beginning of the year to £31.687m at the year end. The Comhairle continued to maintain a counterparty list based on its criteria of security of capital monies invested and constantly monitored and updated the credit standings of the institutions. This assessment included credit ratings, other alternative assessments of credit strength, information on corporate developments of and market sentiment towards investment counterparties and was guided by its Treasury Advisors.

b) The Comhairle's investments attracted an average rate of 5.02% during the year and produced a total of £1.81m of income.

c) The principal objective throughout the year was the security of investments. In view of the regulatory changes which promote deposits of individuals and small and medium sized enterprises (SMEs) above those of public authorities, the Comhairle has reduced the sums invested with banks and building societies and has subsequently placed these investments with other local authorities.

d) In any period of significant stress in the markets, the default position continued to be to place investments with the Government's deposit facility, the DMADF. The rates of interest are slightly below equivalent money market rates, but this is an acceptable trade-off for the guarantee that the Comhairle's capital is secure.

e) All investments made during the year complied with the Comhairle's agreed Treasury Management Strategy, Prudential Indicators, Treasury Management Practices and prescribed limits. Maturing investments were repaid to the Comhairle in full and in a timely manner.

COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

11.1 The Prudential Code for Capital Finance in Local Authorities requires the Comhairle to set a number of Prudential Indicators for the financial year and the two succeeding years. Indicators may, if necessary, be revised during the year with Comhairle approval.

11.2 The recommended Prudential Indicators for 2024/25 were approved by the Comhairle on 7 February 2024. The indicators are local to the Comhairle.

11.3 **Capital Expenditure**

This indicator is set to ensure that the level of proposed investment in capital assets remains within sustainable limits.

	2024/25	**2024/25**
Indicator	**Estimate**	**Actual**
	£000	**£000**
Net Capital Expenditure Funded by Borrowing	9,250	-656

11.4 Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability which highlight the proportion of the revenue budgets required to meet the borrowing costs associated with capital expenditure.

	2024/25	**2024/25**
Indicator	**Estimate**	**Actual**
	%	**%**
Financing Costs to Net Revenue Stream	7.60	5.09

11.5 **Capital Financing Requirement**

The Capital Financing Requirement (CFR) measures a Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium-term net borrowing will only be for a capital purpose, the Comhairle ensures that net external borrowing does not, except in the short-term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and the next two financial years.

	2024/25	2024/25
Indicator	**Estimate**	**Actual**
	£000	**£000**
Capital Financing Requirement	139,400	146,342

11.6 Authorised Limit and Operational Boundary for External Debt

The Prudential Code requires limits to be set in order to keep borrowing within an affordable range. These limits are referred to as the Authorised Limit and the Operational Boundary.

a) The Comhairle's Authorised Limit was set at £140m and the Operational Boundary was set at £133m for 2024/25.

b) On conclusion of the Deep-Water Port Project, for which the Comhairle provided support with the funding, both the Authorised and Operational Boundary limits for 2024/25 were recalculated to £165,843.

11.7 **Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure**

These indicators allow the Comhairle to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	2024/25	2024/25	Compliance with Limit
Indicator	**Estimate**	**Actual**	
Upper Limit for Variable Interest Rate Exposure on Debt	40%	40%	**Yes**
Upper Limit for Variable Interest Rate Exposure on investments	100%	100%	Yes

ADDITIONAL SIGNIFICANT FACTORS

12.1 With the introduction of the second Financial Instruments Directive (MiFID 11), the Comhairle opted up to professional client status with its providers of financial services, allowing access to a greater range of services but without the greater regulatory protections afforded to individual and small companies. Given the size and range of the Comhairle's treasury management activities, this has been judged to be the most appropriate status for the Comhairle.

12.2 CIPFA's Code of Practice requires the responsible officer to ensure that all those tasked with treasury management responsibilities, receive appropriate training relevant to their needs. Treasury Management staff regularly attend training courses and workshops delivered by both the Scottish Treasury Management Forum and Arlingclose, the Comhairle's Treasury Advisors.