Audit Committee

21 July 2025

Part 1 - Public

Recommendation to Council

Cabinet Member	Martin Coffin – Cabinet Member for Finance, Waste and Technical Services
Responsible Officer	Sharon Shelton – Director of Finance and Transformation
Report Author	Donna Riley – Principal Accountant

Treasury Management Performance Update and Annual Report for 2024/25

1 Summary and Purpose of Report

1.1 The report provides details of investments undertaken during April and May of the current financial year, and the Treasury Management outturn position for 2024/25.

2 Corporate Strategy Priority Area

2.1 Efficient services for all our residents, maintaining an effective council.

2.2 Prudent financial management of Council's investments will generate a yield to assist with the Council's overall budget objectives.

3 Recommendations

3.1 Members are asked to **RECOMMEND** that Council:

- Endorse the action taken by officers in respect of Treasury Management activity for April to May 2025.
- Note the 2024/25 outturn position.
- Note the current position in respect of Lothbury, and Hermes Property Investment Funds.

4 Introduction and Background

4.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

4.2 Following the Treasury Management training provided to Members in 2023 the Chairman expressed an interest in externally managed funds being presented to the Committee.

4.3 Kelly Watson, Head of Local Government Relationships from CCLA attended Audit Committee in July 2023 and again in September 2024, presenting the LAPF Portfolio which included the fund performance and the sustainable investment outcomes.

5 Investment Performance

5.1 In accordance with the CIPFA Code, the Council's priorities, in order of importance, are to ensure security of capital; liquidity; and having satisfied both, to obtain an appropriate level of return which is consistent with the Council's risk appetite.

5.2 The Council's investments are derived from cash flow surpluses, core cash balances and other long term cash balances.

5.3 Cash flow surpluses are available on a temporary basis and the amount mainly dependent on the timing of council tax and business rates collected and their payment to precept authorities and government. Less significant cash flows relate to receipt of grants, payments to housing benefit recipients, suppliers and staff. Cash flow surpluses build up during a financial year and are spent by financial year end.

5.4 The Authority also holds core cash balances. These funds are for the most part available to invest for more than one year, albeit a proportion is usually transferred to cash flow towards the end of the financial year to top-up daily cash balances. Core cash includes the Council's capital and revenue reserves which are being consumed over time to meet capital expenditure and 'buy time' to enable the authority to deliver its revenue savings targets.

5.5 Long and medium term investments are expected to be held anywhere upward of 5 years and is anticipated to be held in perpetuity to provide steady investment income and capital growth.

5.6 A full list of investments held on 30 May 2025 is provided at **[Annex 1]** and a copy of our lending list of 30 May 2025 is provided at **[Annex 2]**. The table below provides a summary of funds invested and income earned at the end of May 2025.

	Funds invested on 31 May 2025 £m	Average duration to maturity Days	Weighted average rate of return 1 April to 31 May 2025 %	SONIA benchmark May 2025 %	Interest / dividends earned 1 April to 31 May 2025 £	Gross annualised return %
Cash flow	18.72	6	4.30	4.22	180,330	4.45
Core cash	30.17	97	4.65	4.19	241,840	4.72
Long term	3.00				28,730	4.61
Long term (LPT)	0.72				1,715	--
Medium term	4.25				36,460	5.13
Total	**56.86**				**489,075**	**--**

Table 1

Property funds pay dividends quarterly. The return quoted above is based on dividends expected for April and May 2025.

5.7 **Cash flow and core cash investments**. Interest earned of £422,170 from surplus cash flow and core cash balances to the end of May 2025 is a positive variance of £60,170 when compared to the original estimate for the same period. This positive variance is primarily driven by the slower-than-anticipated reduction in the Bank Rate, which has resulted in sustained higher interest yields on deposits.

5.8 Market sentiment around potential rate cuts is increasingly reflected in the investment opportunities currently being offered by financial institutions. Meanwhile, money market funds continue to yield near the bank rate level, providing investors with a low risk, enhanced liquidity option.

5.9 The Council takes advantage of MUFG's (formerly Link Asset Services) benchmarking service which enables performance to be gauged against MUFG's other local authority clients. An extract from the latest benchmarking data is provided in the form of a scatter graph at **[Annex 3]**. The graph shows the return (vertical scale) vs. the credit / duration risk (horizontal scale) associated with an authority's investments. As at 31 March 2025 the Council's return was 4.67% (purple diamond) in-line with the local benchmarking group average of 4.56%. MUFG's predicted return is between the upper and lower boundary indicated by the diagonal lines. The Council's risk exposure remains consistent with the local authority average.

5.10 **Long term investment.** £5m was invested in property investment funds, spread across three funds to ensure, as far as is possible, stability of annual income and capital growth over time.

5.11 During the period 1 April 2025 to 31 May 2025, the £3m investment in property funds are estimated to generated dividends of £28,730 which represents an annualised return of 4.61% (3.92% in 2024/25).

5.12 Of the initial £2m invested in Lothbury Property Fund, due to the sales of assets and the return of capital monies, the outstanding balance is £723,480. While unbudgeted dividends are being received, it is on an ad-hoc basis. Further information is set out in paragraphs 5.17 to 5.19.

5.13 The long-term investment figure set out in table 2 concentrates on the LAPF and Hermes Property Funds. Lothbury Property Fund is shown separately in table 3 to provide details of the repayment of capital investment from the sale of assets due to the termination of the Fund on 30 May 2024.

5.14 Sale values at the end of May 2025 vs initial purchase prices are as follows:

Property fund (Primary = units in the fund purchased from the fund manager. Secondary = units purchased from another investor at a discount. Date = first month the investment attracted dividends)	Purchase price a £	Sale value at date of purchase b £	Sale value 31 May 2025 c £	31 May sale value above (below) purchase price (c-a) £
LAPF (Primary, July 2017)	1,000,000	922,200	896,430	(103,570)
Hermes (Secondary, Oct 2017)	1,000,000	939,000	900,575	(99,425)
LAPF (Primary, June 2018)	1,000,000	922,200	859,495	(140,505)
Total change in principal	**3,000,000**	**2,783,400**	**2,656,500**	**(343,500)**
			Total dividends received to March 2025	**855,136**
			Net benefit since inception	**511,636**

Table 2

5.15 Since inception, the Council have received dividends from the above property fund investments totalling £855,136.

5.16 Investment institutes continue to diversify their portfolios to optimise returns while considering prevailing market conditions. Between April and May 2025, all property fund investments recorded capital depreciation. Despite this, property funds have continued to distribute dividends, with an estimated £30,045 to be received for the first two months of the financial year.

5.17 Lothbury Property Fund officially terminated on 30 May 2024 and commenced the sale of assets.

5.18 As shown in Table 3 below, we have, to date, received five payments totalling £1,276,520 of our initial investment. The remaining assets are now expected to be sold by July 2025. Distributions will be made as assets sales are completed, with additional dividends paid from income-generating assets.

5.19 Taking into account the dividends received since the fund's inception, the breakeven point would be achieved with the recovery of £342,725 from the outstanding assets.

Property fund (Primary = units in the fund purchased from the fund manager. Secondary = units purchased from another investor at a discount. Date = first month the investment attracted dividends)	Purchase price a £	Sale value at date of purchase b £	Principal Investment Returned c £	Principal Investment Balance Outstanding £
Lothbury Property Trust	2,000,000	1,900,700	1,276,520	(723,480)
			Total dividends received to May 2025	**380,755**
Table 3			**Net balance to breakeven point**	**(342,725)**

5.20 On 13 February 2025, Hermes Property Trust held an Extraordinary General Meeting (EGM) following a redemption request for approximately 22% of the fund. The meeting included a vote on proceeding with potential merger options, which required 75% approval to pass. The resolution was successful, and discussions are now moving forward.

5.21 However, it has been announced that small-value investments will not be eligible to form part of the merger. As a result, the Council, along with many other smaller stakeholders, will have their shares realised and paid out upon the successful completion of the merger.

5.22 Members are reminded that higher yielding investments (e.g. property, equities) have the potential to fluctuate in value, both up and down. It is this feature which makes them unsuitable for short term investment where certainty over value at maturity is a key criteria. The Council's property fund investments are not required to meet day to day spending commitments and will only be realised should a higher yielding opportunity be identified.

5.23 **Medium term investment**. £4.25m of the Council's expected medium term cash balances together with new money derived from the sale of assets has been invested in externally managed diversified income funds. These investments will generate an annual income stream and will provide capital appreciation over time.

5.24 During the period April 2025 to May 2025 the £4.25m investment in multi asset funds generated dividends of £36,460 which represents an annualised return of 5.13%.

6 Compliance with the Annual Investment Strategy

6.1 Throughout April to end of May 2025, all the requirements contained in the 2025/26 Annual Investment Strategy intended to limit the Council's exposure to investment risks (minimum sovereign and counterparty credit rating; durational limits; exposure limits in respect of counterparties, groups of related counterparty and sovereigns; and specified and non-specified investment limits) have been complied with. No borrowing was undertaken during April or May 2025.

6.2 The Council has also operated within the treasury limits and prudential indicators set out in the Annual Investment Strategy. The 2025/26 Prudential and Treasury Indicators will be included for review as part of the treasury management report to the September 2025 meeting of Audit Committee.

7 Interest Rate Forecast

7.1 MUFG's latest interest rate forecast below, updated in February 2025 and reviewed following the Bank of England's Monetary Policy Committee (MPC) meeting in May 2025, reflects an unchanged position in the forecast.

The forecast projects Bank Rate will continue to see a managed reduction to rates over the next two years, settling at 3.50%.

Link - February 2025	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27
	%	%	%	%	%	%	%	%	%	%	%
Bank Rate	**4.50**	**4.25**	**4.25**	**4.00**	**3.75**	**3.75**	**3.75**	**3.50**	**3.50**	**3.50**	**3.50**
3 mth ave earnings	**4.50**	**4.30**	**4.30**	**4.00**	**3.80**	**3.80**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**
6 mth ave earnings	**4.40**	**4.20**	**3.90**	**3.90**	**3.70**	**3.70**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**
12 mth ave earnings	**4.40**	**4.20**	**3.90**	**3.90**	**3.70**	**3.70**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**
25yr PWLB	**5.80**	**5.70**	**5.50**	**5.50**	**5.40**	**5.30**	**5.20**	**5.10**	**5.00**	**5.00**	**4.90**

Table 4

8 Economic Background

8.1 CPI inflation is projected to rise to around 3.5% over the coming months, reflecting ongoing pressures in certain sectors such as services and domestically driven costs. However, the inflation trajectory beyond the short-term is likely to fall below the BoE's 2% target by 2027, or earlier if the macroeconomic developments, such as the strengthening of the pound and declines in global energy prices, are sustained.

8.2 The front-loading of UK goods exports to the United States in Q1, in anticipation of the incoming US tariffs, likely unwound in April, contributing to a temporary dip in export volumes and despite the continued uncertainly following Liberation Day, analysist broadly expect the tariffs to have only a modest impact on overall UK economic activity.

8.3 While the situation in the Middle East remains fluid, the economic ramifications are being monitored closely by markets, policymakers, and international institutions. The key channels of impact include energy markets, inflation, financial market volatility and regional economic stability.

9 2024/25 Treasury Management Outturn

9.1 A detailed report covering treasury management activity for the last financial year was submitted to Cabinet on 30 June 2025 as an annex to the Revenue and Capital Outturn report for 2024/25. That annex is replicated in full and provided at **[Annex 4]** to this report. The role of this Committee is to act as scrutineer on behalf of full Council.

9.2 A summary of the investment performance included in Annex 4 is as follows:

	2024/25 Balance 31/03/2025 £ m	Return %	2024/25 Interest/ dividends earned £	2024/25 Revised Estimate £	Variance Better (worse) £
Cash flow surplus	18.9	4.52	1,396,112	965,000	431,112
Core cash	27.0	4.76	1,572,085	1,730,000	(157,915)
Medium term investment	4.3	4.92	209,630	148,750	60,880
Long term investment	3.7	3.92	146,527	105,000	41,527
Total	53.9	4.80	3,324,354	2,948,750	375,604

Table 5

9.3 The combined performance of the Authority’s investments exceeded the revised estimate by £375,604, and £846,854 when compared to the 2024/25 original estimates. The increase in investment returns is mainly due to the Bank initiating its easing cycle and reducing the rates at a slower pace than anticipated in 2024/25.

9.4 Income and expenditure attributed to the Treasury Management function for 2024/25 is provided at **[Annex 5]**. This shows the aggregate staff resource applied to treasury management remains less than one full time equivalent and that income exceeds costs by a significant margin. Income in future years forms part of the Council’s Medium Term Financial Strategy and is subject to changes in the level of reserves and changes in Bank Rate. Expenditure in future years is expected to rise in-line with inflation.

10 Financial and Value for Money Considerations

10.1 **Short-Term Liquidity**: Ensuring sufficient cash is readily available to meet operational and unforeseen financial commitments.

10.2 **Longer-Term Investments**: Identifying opportunities to invest surplus cash (up to 1 year) at fixed higher rates before further interest rate reductions diminish returns.

10.3 The annual income stream from a property fund exhibits stability (circa 4% per annum net of management fees) capital values rise and fall with the cyclical nature of economic activity. During a downturn in the economy, capital values may fall significantly. The duration of a property fund investment may need to be extended to avoid crystalising a loss and as a consequence the investment's duration cannot be determined with certainty.

10.4 Buying and selling property involves significant costs making property unsuitable for short term investment. Buying and selling costs are reflected in the entry fees (circa 6%) and exit fees (circa 2%) a property fund will charge unit holders. These fees are expected to be recouped over time through capital appreciation.

10.5 Diversified income funds aim to limit risk by spreading investment across a broad range of asset classes (equities, bonds, property and cash). Nevertheless, the principal sum invested may fall as a consequence of adverse economic or market events. Short term bond values are linked to interest rate expectations and long-term bond values are linked to inflation expectations. Funds aim to minimise the risk of issuer default by investing in a broad spread of issuers and across different sectors and geographic regions. Nevertheless, the principal sum invested may fall as a consequence of adverse economic or market events.

10.6 **Diversification**: Allocating funds across a range of investment vehicles to mitigate risk while maximising returns.

10.7 **Market Monitoring**: Regularly assessing economic conditions and interest rate forecasts to make informed investment decisions.

10.8 By adopting a proactive approach, the Council aims to optimise returns on its cash holdings while maintaining financial stability.

10.9 Performance is monitored against a benchmark return and against other local authorities in Kent and the broader local authority pool via MUFG's (formerly Link Asset Services) benchmarking service.

11 Risk Assessment

11.1 The application of best practice, including the regular reporting and scrutiny of treasury management activity, as identified by the CIPFA Code is considered to be an effective way of mitigating the risks associated with treasury management.

11.2 MUFG (formerly Link Asset Services) are employed to provide advice on the content of the Treasury Management and Annual Investment Strategy and this, coupled with a regular audit of treasury activities (balance sheet reviews, benchmarking and general support) ensures that the requirements of the Strategy and the Treasury Policy Statement adopted by this Council are complied with.

12 Legal Implications

12.1 Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management. In addition, MUFG (formerly Link Asset Services) are employed to provide independent advice on legislative and professional changes that impact on the treasury management function.

12.2 This report fulfils the requirements of the Chartered Institute of Public Finance & Accountancy's Treasury Management and Prudential Codes of Practice 2021 and the 2018 Statutory Guidance on Local Government Investments.

13 Cross Cutting Issues

13.1 Climate Change and Biodiversity

13.2 While the Treasury Management Code outlines the principle for investments as Security Liquidity and Yield is core, it recognises that ESG issues are increasingly significant for investors.

13.3 Consideration will be given to how we can formalise ESG as part of the Treasury Management Strategy Statement, while appreciating it is better developed in the equity and bond markets, than the short-term cash deposits, where the majority of the Council's portfolio is held.

13.4 Equalities and Diversity

13.5 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Background Papers	Benchmarking data.
Annexes:	(1) TMBC Investment Summary May 2025 (2) TMBC Lending List May 2025 (3) TMBC Benchmarking March 2025 (4) TMBC Treasury Management Annual Report 2024/25 (5) TMBC Finance & Transformation Outturn 2024/25