Tonbridge and Malling Borough Council

Treasury Management Annual Report 2024/25

1.1 Introduction

1.1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activity and the actual prudential and treasury indicators for 2024/25. 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).

1.1.2 During 2024/25 the minimum reporting requirements were that Full Council should receive the following treasury reports:

- an annual strategy in advance of the year.
- a mid-year review; and treasury update report.
- an annual review following the end of the year describing the activity compared to the strategy (this report).

In addition, treasury management updates have been presented to each meeting of the Audit Committee throughout the 2024/25 financial year. Treasury performance is also included in the Financial Planning and Control reports to Cabinet and/or the Finance, Regeneration and Property Scrutiny Select Committee.

1.1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.1.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the Full Council. Member training on treasury management issues was undertaken during the year on the 19 June 2023 in order to support members' scrutiny role.

1.2 Treasury Position 31 March 2025

1.2.1 At the beginning and the end of 2024/25 the Council's debt and investment position was as follows:

	31 March 2024 £m	Average Rate / Return %	Average duration Days	31 March 2025 £m	Average Rate / Return %	Average duration Days
Variable rate debt:						
Overdraft	0.0	-	-	0.0	-	-
Total debt	**0.0**	-	-	**0.0**	-	-
Fixed rate investments:						
Cash flow surpluses	-	-	-	-	-	-
Core cash	32.0	5.39	158	27.0	4.76	123
Variable rate investments:						
Cash flow surpluses	10.9	5.51	9	15.9	4.52	7
Core cash	3.0	5.25	95	3.0	4.55	95
Sub-total	45.9	5.40	122	45.9	4.68	83
Medium term investments:						
Multi-Asset Income Funds	4.3	4.94	-	4.3	4.92	-
Long term investments:						
Property Funds	5.0	3.59	-	3.7	3.92	-
Total investments	**55.2**	**5.28**	-	**53.9**	**4.80**	-

Table 1

1.2.2 There has been no overall change to the total cash available for investment purposes at the end of the financial year. Funds have been transferred between core and cashflow to meet the Council's financial obligations, including the payment of Short Term Creditors. Conditional government grants paid in advance in 2024/25 have been offset by the increase in Grants and Contributions in advance held in Long Term Liabilities. These funds are used to generate additional investment income.

1.3 The Strategy for 2024/25

1.3.1 The treasury management strategy for 2024/25 was based on the November 2023 forecast and assumed bank rates would steadily decrease over the next year to 4.0% with rates reducing to 3.00% in 2025/26. In actuality, the Bank of England initiated its easing cycle by lowering interest rates from 5.25% to 5.0% in August 2024, holding the rates steady until a further reduction in November 2024 and again in February 2025, ending the year with the Bank Rate at 4.50%.

1.3.2 The slow and measured rate path reflects the MPC's dual mandate: cooling inflation and guarding against a sharper economic slowdown. Two of the prominent factors influencing the rate cuts include fiscal loosening (£36 billion) from plans unveiled by the Chancellor in the budget which led to a revised GDP growth expectation, and the easing of UK labour markets.

1.3.3 This has provided the Council with the challenge of proactively investing surplus cash while maintaining the appropriate balance between cash for liquidity purposes while pursuing opportunities to lock in deposits at favourable rates.

1.3.4 While the Council has taken a prudent approach to investing surplus funds, it is also fully aware of the regulatory changes introduced for financial institutions following the Global Financial Crisis of 2008/09. These reforms, including enhanced capital and liquidity requirements, have provided a stronger foundation for the financial sector.

1.3.5 Annual stress tests conducted by regulators offer evidence that institutions are now significantly better equipped to withstand extreme market and economic conditions.

1.4 Investment Rates in 2024/25

1.4.1 Investment returns remained robust throughout 2024/25 with Bank Rate reducing steadily through the course of the financial year (three 0.25% rate cuts in total), and even at the end of March the yield curve was still relatively flat, which might be considered unusual as further Bank Rate cuts were expected in 2025/26.

1.4.2 Bank Rate reductions of 0.25% occurred in August, November and February, bringing the headline rate down from 5.25% to 4.5%. Each of the Bank Rate cuts occurred in the same month that the Bank of England publishes its Quarterly Monetary Policy Report, therein providing clarity over the timing of potential future rate cuts.

1.4.3 As of early April 2025, market sentiment has been heavily influenced by President Trump’s wide-ranging trade tariffs policy. Commentators anticipate a growing risk of a US recession, whilst UK GDP is projected by the Office for Budget Responsibility to remain tepid, perhaps achieving 1% GDP growth in 2025/26.

1.4.4 Looking back to 2024/25, investors were able to achieve returns in excess of 5% for all periods ranging from 1 month to 12 months in the spring of 2024 but by March 2025 deposit rates were some 0.75% - 1% lower. Where liquidity requirements were not a drain on day-to-day investment choices, extending duration through the use of “laddered investments” paid off.

1.4.5 That is not to say that investment choices were straight-forward. Concerns over rising inflation after the Autumn Statement in October led to reduced expectations for Bank Rate to fall. Indeed, the CPI measure of inflation is expected to reach c3.75% by the autumn of 2025, which could provide for some presentational issues for a Bank whose primary mandate is to ensure inflation is close to 2% on a two-to-three-year timeframe. At the end of March, only two further rate cuts were priced into the market for 2025 (4% at December 2025).

1.4.6 Bank Rate and investment returns across durations of up to 12 months are depicted in the graphs below.

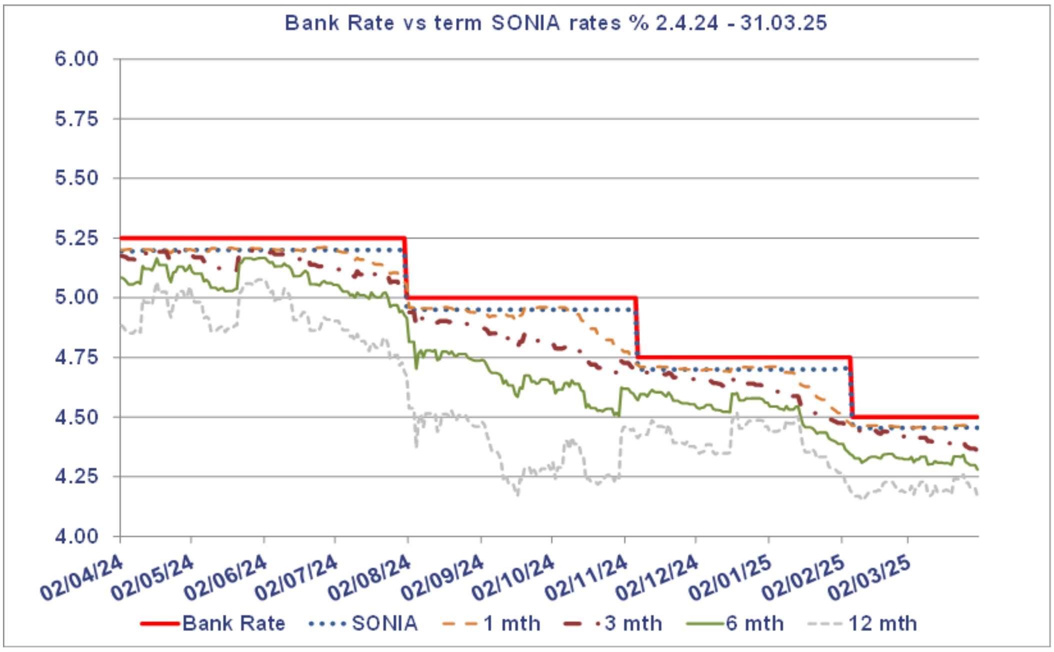

Table 2

1.5 Investment Outturn for 2024/25

1.5.1 The Council's investment policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies. This is supplemented by additional market information including credit rating outlooks and credit default swap data (CDS). The 2024/25 Annual Investment Strategy was approved by Council in February 2024 and was subjected to a mid-year review in September 2024. In undertaking the review, no changes were made to the Council's minimum counter-party credit requirement (typically Fitch A-, F1 unless UK state owned) or counter-party exposure limits (maximum of 20% of funds per financial institution). Subject to constraints, discretion to extend investment duration for UK regulated financial institutions by up to six months over the Council's external treasury advisor's suggested duration was also retained.

1.5.2 **Cash flow investment**. In 2024/25 cash flow surpluses averaged £30.7m and earned an average rate of return of 4.56%. The benchmark used to compare performance was 4.88%. Cash flow surpluses arise from the timing difference between the receipt of monies (from council tax, business rates, grants, etc.) and its subsequent payment (to Government, precepting authorities, housing benefit recipients, suppliers, staff, etc.). Cash flow surpluses are required to meet regular payment obligations and are invested in bank deposit accounts and money market funds which allow next day access. The opportunity to invest for longer durations and generate additional yield is taken when cash flow surpluses permit.

1.5.3 **Core cash investment**. In 2024/25 core cash averaged £31.1m and earned an average rate of return of 5.13%. The benchmark used to compare performance was 4.82%. Core cash comprises of the authority's revenue and capital reserves. Unlike cash flow, core cash is not required to meet regular payment obligations and is available to invest for longer durations including durations exceeding one year. This added flexibility allows core cash to generate a better return relative to cash flow surpluses.

1.5.4 **Medium-term investment**. In recent years multi asset (diversified income) funds have grown in popularity. Like property funds, multi asset funds aim to generate returns over and above inflation and thus preserve spending power.

1.5.5 The council has a total of £4.25m invested across three funds. Additional multi asset fund investments may be made in the future as resources become available from asset disposals and other windfalls.

1.5.6 In 2024/25 the investment in multi asset funds generated dividends of £209,215 which represents an annualised return of 4.92%.

1.5.7 As at 31 March 2025, the capital investment has depreciated in value by £517,950, a small increase in the position from the prior year of £29,904. The value of multi asset diversified income funds at 31 March stood at £3.73m. Members are reminded that our muti asset diversified income funds are medium term investments (5+ years) and the funds applied to them are not required to meet day to day spending commitments.

1.5.8 **Long-term investment**. Of the different types of long-term investment (equities, bonds, and commercial property), investment in property funds was considered best suited to meet the Council's more immediate funding need: a sustainable, stable income stream.

1.5.9 This does not however, preclude consideration of an alternative investment opportunity that meets the Council's strategic priorities and objectives, achieves value for money and delivers a financial return commensurate with the Council's risk appetite. Each such opportunity to be considered on a case-by-case basis as appropriate.

1.5.10 £5m was invested in property investment funds and no further sums were invested during the year. Investment was spread across three funds to ensure, as far as is possible, stability of annual income and capital growth over time.

1.5.11 Lothbury Property Fund officially terminated on 30 May 2024 and commenced the sale of assets. At the end of March 2025, five payments totalling £1,276,520 had been received from the initial £2,000,000 investment. The sale of assets has continued in 2025/26 with the expectation the fund should complete the winding up process within the financial year with final distributions being made.

1.5.12 In 2024/25 investment in property funds generated dividends of £146,527 which represents an annualised return of 3.92%.

1.5.13 Property funds issue and redeem primary units at a buy and sell price with the difference between the two prices reflecting the costs associated with buying and selling property (legal and other fees, stamp duty, etc.). The price spread varies from fund to fund but is typically in the region of 8% (6% on entry to a fund and 2% on exit). Where units are traded on a secondary market the impact of the spread can be reduced and delays in the purchase or redemption of units avoided. The table below compares the sale value of each investment if sold to the fund manager with the initial purchase price.

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 recalled	Sale value March 2025 (c) £	March sale value above (below) purchase price (c-a) £
LAPF (Primary, July 2017)	1,000,000	922,200		896,075	(103,925)
Lothbury (Primary, July 2017)	1,000,000	927,700	(1,000,000)	--	--
Hermes (Secondary, Oct 2017)	1,000,000	939,000		911,840	(88,160)
LAPF (Primary, June 2018)	1,000,000	922,200	(276,520)	--	--
Lothbury (Secondary, July 2018)	1,000,000	973,000		859,155	(140,845)
Total	5,000,000	4,684,100	(1,276,520)	2,667,070	(332,930)

Table 3

1.5.14 As at 31 March 2025, the capital investment (excluding Lothbury Property Trust has depreciated in value by £332,930. Members are reminded that our property fund investments are long-term (10 years) and the funds applied to them are not required to meet day to day spending commitments.

1.5.15 **Summary**. Investment performance for the year 2024/25 is summarised in the table below:

	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 4

1.5.16 The overall performance of the Authority’s investments bettered the revised estimates by £375,604 or £846,854 when compared to the 2024/25 original estimates.

1.6 Compliance with the Annual Investment Strategy

1.6.1 The Annual Investment Strategy aims to limit the Council's exposure to investment risks by prescribing: minimum counterparty credit criteria; maximum exposure limits in respect of sovereigns, counterparties, and groups of related counterparties; the type of investment instrument that can be used; and investment duration limits. Throughout the period April 2024 to March 2025 the requirements set out in the Annual Investment Strategy for 2024/25, as approved by Council in February 2024, were complied with. No liquidity issues were experienced resulting in nil borrowing throughout 2024/25.

1.7 Treasury and Prudential Codes of Practice

1.7.1 Updates to both the Prudential Code and Treasury Management Code were published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2021 and uphold a key principle that borrowing primarily for return on investment is not permissible.

1.7.2 Also re-emphasised that the risks associated with investment in '**non-financial assets** which are held primarily for financial returns' are properly evaluated, reported, subject to scrutiny and managed over time. The Council has no material non-financial investments.

1.7.3 The requirements of both the Treasury Management and Prudential Codes of Practice published by CIPFA have been considered and reflected as appropriate in this annual review.

Financial Services
June 2025

Prudential and Treasury Indicators

1 Prudential Indicators	2023/24 Actual £'000	2024/25 Original £'000	2024/25 Actual £'000
Capital expenditure	1,070	7,283	2,886
Ratio of financing costs to net revenue stream	-9.83%	-62.40%	-24.82%
Net borrowing requirement:			
Brought forward 1 April	nil	nil	nil
Carried forward 31 March	nil	nil	nil
In year borrowing requirement	nil	nil	nil
Capital financing requirement as at 31 March	nil	nil	nil
Annual change in capital financing requirement	nil	nil	nil
Incremental impact of capital investment decisions: Increase in Council Tax (Band D) per Annum	£0.06	£0.06	£0.00

2 Treasury Management Indicators	2023/24 Actual £'000	2024/25 Original £'000	2024/25 Actual £'000
Authorised limit for external debt:			
Borrowing	nil	7,000	nil
Other long-term liabilities	nil	nil	nil
Total	nil	7,000	nil
Operational boundary for external debt:			
Borrowing	nil	4,000	nil
Other long-term liabilities	nil	nil	nil
Total	nil	4,000	nil
Actual external debt:	nil	nil	nil
Upper limit for fixed rate exposure over one year at year end	nil	0 – 60%	nil
Upper limit for variable rate exposure under one year at the year end	10,916 (19.50%)	40 – 100%	15,851 (29.03%)
Upper limit for total principal sums invested for over 365 days	9,250 (16.7%)	60%	7,973 (14.6%)

3 Maturity structure of new fixed rate borrowing during 2024/25	Upper limit %	Lower limit %
Under 12 months	100	nil
Over 12 months	nil	nil