SWANAGE TOWN COUNCIL

Annual Treasury Report 2024/25

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1. Background

The Council's Treasury Management Strategy for 2024/25 is underpinned by having due regard to the Chartered Institute of Public Finance and Accountancy's Guidance for Smaller Public Organisations on the Application of the CIPFA Code of Practice for Treasury Management *in the Public Services: Code of Practice (2014 Edition) and Cross-Sectoral Guidance Notes 2017 Edition* (the CIPFA Code) and the Ministry of Housing, Communities & Local Government (MHCLG) *Statutory Guidance on Local Government Investments (3rd Edition),* updated February 2018. The Code recommends that members approve a treasury management annual report after the end of each financial year. This report fulfils the Authority's obligation to have regard to the CIPFA Code and any other appropriate guidance.

The Authority's Treasury Management and Investment Strategy for 2024/25 was approved by full Council on 25 March 2024 which can be accessed on https://www.swanage.gov.uk/Publications-Finance.aspx

The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

2. External Context

Economic background: 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 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 and President Trump.

After revising its interest rate forecast in November following the Budget, the council's treasury management advisor, Arlingclose, maintained its stance that Bank Rate will fall to 3.75% in 2025.

UK annual Consumer Price Index (CPI) inflation continued to stay above the 2% Bank of England (BoE) target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices at 2.8% in February 2025, down from 3.0% in the previous month and below expectations. Core CPI also remained elevated, falling slightly in February to 3.5% from 3.7% in January, just below expectations for 3.6% but higher than the last three months of the calendar year.

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.

The labour market continued to cool, but the ONS data still require treating with caution. Recent data showed the unemployment rate rose to 4.4% (3mth/year) 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.

The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.5% at its March 2025 meeting, having reduced it in February. This follows earlier 0.25% cuts in November and August 2024 from the 5.25% peak. At the March MPC meeting, members voted 8-1 to maintain Bank Rate at 4.5%, with the one dissenter preferring another 25 basis points cut. 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%.

The February Monetary Policy Report (MPR) showed the BoE expected GDP growth in 2025 to be significantly weaker compared to the November MPR. GDP is forecast to rise by 0.1% in Q1 2025, less than the previous estimate of 0.4%. Four-quarter GDP growth is expected to pick up from the middle of 2025, to over 1.5% by the end of the forecast period. The outlook for CPI inflation showed it remaining above the MPC's 2% target throughout 2025. It is expected to hit around 3.5% by June before peaking at 3.7% in Q3 and then easing towards the end of the year, but staying above the 2% target. The unemployment rate was expected to rise steadily to around 4.75% by the end of the forecast horizon, above the assumed medium-term equilibrium unemployment rate of 4.5%.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would continue to fall throughout 2025. From the cuts in August and November 2024 and February 2025, which took Bank Rate to 4.50%, May is considered the likely month for the next reduction, with other cuts following in line with MPR months to take Bank Rate down to around 3.75% by the end of 2025.

The US Federal Reserve paused its cutting cycle in the first three months of 2025, having reduced the Fed Funds Rate by 0.25% to a range of 4.25%-4.50% in December, the third cut in succession. Fed policymakers noted uncertainty around the economic outlook but were anticipating around 0.50% of further cuts in the policy rate in 2025. Economic growth continued to rise at a reasonable pace, expanding at an annualised rate of 2.4% in Q4 2024 while inflation remained elevated over the period. However, growth is now expected to weaken by more than previously expected in 2025, to 1.7% from 2.1%. The uncertainty that President Trump has brought both before and since his inauguration in January is expected to continue.

The European Central Bank (ECB) continued its rate cutting cycle over the period, reducing its three key policy rates by another 0.25% in March, acknowledging that monetary policy is becoming meaningfully less restrictive. Euro zone inflation has decreased steadily in 2025, falling to 2.2% in

March, the lowest level since November 2024. Over the current calendar year, inflation is expected to average 2.3%. GDP growth stagnated in the last quarter of the 2024 calendar year, after expanding by 0.4% in the previous quarter. For 2025, economic growth forecasts were revised downwards to 0.9%.

Financial markets: 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.

The period in question ended shortly before US President Donald Trump announced his package of 'reciprocal tariffs', the immediate aftermath of which saw stock prices and government bond yields falling and introduced further uncertainty over the economic outlook.

Credit review: In October, Arlingclose revised its advised recommended maximum unsecured duration limit on most banks on its counterparty list to six months. Duration advice for the remaining five institutions, including the newly added Lloyds Bank Corporate Markets, was kept to a maximum of 100 days. This advice remained in place at the end of the period.

Fitch revised the outlook on Commonwealth Bank of Australia (CBA) to positive from stable while affirming its long-term rating at AA-, citing its consistent strong earnings and profitability.

Other than CBA, the last three months of the period were relatively quiet on the bank credit rating front, with a small number of updates issued for a number of lenders not on the Arlingclose recommended counterparty list.

Credit default swap prices generally trended lower over the period but did start to rise modestly in March, but not to any levels considered concerning. Once again, price volatility over the period remained generally more muted compared to previous periods.

Financial market volatility is expected to remain a feature, at least in the near term ,and credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

Local Context

On 31st March 2025 the Authority held investments valued at £6.1m, with usable reserves and working capital being the underlying resources available for investment. These year-end values include unrealised gains from the Council's strategic investments, being £0.14m at 31 March 2025.

3. Borrowing Strategy and Debt Management

The Authority is debt free. Usable reserves are forecast to fall to £1.2m by March 2028, as capital receipts and earmarked reserves are used to finance the Council's extensive capital programme. The 2025/26 capital expenditure plans and treasury strategy implied a need to borrow in 2026/27, however this will be reviewed during the course of the 2025/26 financial year as plans for the Green Seafront Scheme are developed.

4. Treasury Investment Activity

CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represent balances that need to be invested until the cash is required for use in the course of business.

The Authority holds significant invested funds, representing balances and reserves held. During the year the Authority's cash investment balances remained relatively stable, with fluctuations in the value of its long-term strategic investments. The investment position is shown in table 1 below.

Table 1: Treasury Investment Position

Investment Portfolio	**31.03.24 Balance £**	**Net Movement £**	**31.03.25 Balance £**	**31.03.25 Income Return %**
Banks and building societies (unsecured)	83,812	-9,924	73,888	
Money Market Funds	750,000	0	750,000	
UK Govt – DMO Deposit/Gilts	1,200,000	450,000	1,650,000	
Total Internal Investments	**2,033,812**	**440,076**	**2,473,888**	**4.35%**
*Investments in Pooled Funds:				
Property	2,873,245	-500,633	2,372,612	
Bond	440,863	-15,766	425,097	
Multi Asset	866,343	-2,552	863,791	
Total External Funds	**4,180,451**	**-518,951**	**3,661,500**	**5.06%**
TOTAL INVESTMENTS	**6,214,263**	**-78,875**	**6,135,388**	**4.77%**

*Funds stated at Fair Value

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The Authority's treasury investments include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.

Bank Rate reduced from 5.25% to 5.00% in August 2024, again to 4.75% in November 2024 and again to 4.50% in February 2025 with short term interest rates largely being around these levels. The rates on DMADF deposits ranged between 4.4% and 5.2% and money market rates between 4.5% and 5.2%.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 2 below, which only includes the Council's internally managed investments.

Table 2: Investment Benchmarking-Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
31.03.2024	4.23	AA-	41%	16	5.04%
31.03.2025	4.10	AA-	33%	19	4.35%
Similar LAs	4.98	A+	32%	102	4.76%
All LAs	4.77	A+	64%	8	4.55%

Externally Managed Pooled Funds

£3.6m (£3.5m book value) of the Authority's investments are held in externally managed strategic pooled funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. In terms of measuring the performance of these funds, the current value is used.

In financial markets the 2024/25 year was characterised by overall positive equity market performance, market volatility, elevated global yields, central bank interest rate cuts and uncertainties surrounding the impact of UK and European fiscal policy and particularly US President Donald Trump's tariff plans.

For UK and US government bonds, yields declined (and therefore prices rose) until September but then moved higher following the UK budget and strong US economic data. Government bond yields were then generally dragged upwards (prices down) globally by US market movements, given the uncertain trade policy outlook of Donald Trump's administration. Announcements of increased defence spending by governments in Europe and fiscal concerns in the UK saw yields spiking in January before easing somewhat, despite some divergence.

US, UK & European stock markets hit highs in early 2025 but started to decline towards the very end of the period, particularly in the US, reflecting investor concerns over escalating trade tensions and economic uncertainty. The FTSE All Share index was higher at the end of the 12-month period at 4,623 on 31/03/2025 versus 4,324 on 01/04/24. The MSCI All Countries World Index was higher at 3,629 on 31/03/2025 versus 3,425 on 01/04/24.

Having had a challenging time since 2022, UK commercial property generally experienced a recovery during the period, with improved investment activity, capital values stabilising or improving, particularly towards the end of the period, and income remaining relatively robust.

The combination of the above had a marginal positive effect on the combined value of the Authority's strategic funds since March 2024.

The change in the Authority's funds' capital values and income earned over the 12-month period is shown in Table 3 below.

Table 3: Strategic Investment Returns – 12 months to 31st March 2025

Fund Name	Book Value £m	Current Value £	Capital Growth £	Dividends Earned £	Capital Return %	Income Return %	Total Return %
CCLA-LAMIT Property Fund	2.01	2,372,612	42,870	132,882	1.49%	4.62%	6.12%
M & G Strategic Corporate Bond Fund	0.50	425,097	-15,766	21,014	-3.58%	4.77%	1.19%
Ninety-One Diversified Income Fund	1.00	863,791	-2,552	43,252	-0.29%	4.99%	4.70%
Total	3.51	3,661,500	24,552	197,148	0.59%	4.72%	5.30%

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

In February 2024, the Finance & Governance Committee determined to withdraw 1/5th of the units held in the CCLA LAMIT property fund in preparation of financing the capital programme over the next three financial years. Upon redemption of the units (200,000 units), in October 2024, Council received £543k, being a return of principal of £482k and a realised gain of £61k.

Due to accounting practices, long-term investments are stated at cost price in the Council's Annual Return, £3.51m in total, and as such these funds have an overall unrealised gain of £0.14m at 31st March 2025. Two of the funds, M&G and Ninety-One, are showing an unrealised loss, £211k in total, and CCLA an unrealised gain of £354k. Unrealised capital losses, or gains, will not have an impact on the General Fund until such a time as the Council redeems all or part of the units held in the funds.

Treasury Performance

The budget for investment income in 2024/25 was £240,000, with actual income of £393,584, although £61,454 was attributable to the realised gain from the sale of units in the CCLA property fund and £332,130 to investment yield. This is primarily due to the Council retaining a higher level of reserves than estimated, due to delays in implementing its extensive capital programme, combined with higher interest rates on its short-term investments than forecast. During the 2023/24 financial year a Treasury Risk Management Reserve was established in order to protect against any potential capital loss impacting the general fund at the point when strategic investments are redeemed. In compliance with the reserve policy, investment income received above budget has been appropriated to the reserve. In 2024/25 this was £ 92,130 (£122,002 in 2023/24) and holds £214,132 at 31 March 2025, covering unrealised losses. The realised gain has been appropriated to the Green Seafront Scheme earmarked reserve.

ESG policy: Although the Council has not adopted an Environmental, social and governance (ESG) policy, it is recognised that ESG factors should be considered when placing new investments. The 2024/25 TMISS stated that when investing in banks and funds, the Council will aim to prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code. In 2024/25 all investments held by the Council complied with this assertion.

Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return.

The Council did not invest in non-treasury investments during the year.

5. Compliance & Treasury Management Indicators

This report provides members with a summary report of the treasury management activity during 2024/25, having due regard to both the CIPFA Code of Practice and DLUHC Guidance. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit Risk Indicator	31.3.25 Actual	2024/25 Target	Complied?
Portfolio average credit rating	AA-	A	Yes

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period.

Liquidity Risk Indicator	31.3.25 Actual	2024/25 Target	Complied?
Total cash available within 3 months	£2.4m	£0.75m	Yes

The Authority can confirm that during 2024/25 it complied with its **Treasury Management Policy Statement** and **Treasury Management Practices**.