London Borough of Waltham Forest Annual Treasury Management Review

2024/25

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Annual Treasury Management Review 2024/25

Introduction

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities 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).

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

- an annual treasury strategy in advance of the year (Council 24/03/2024).
- a mid-year, treasury update report (Council 02/10/2024).
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

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.

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 and Governance Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during the year on 02/10/2024 in order to support members' scrutiny role.

Executive Summary

During 2024/25, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators – the 2024/25 comparators are the original budget presented to council on the 24th March 2024 and amended -are as follows:

Prudential and treasury indicators **Capital Expenditure**	**2023/24 Actual £'000**	**2024/25 Estimate £'000**	**2024/25 Actual £'000**
General Fund	73,569	70,075	70,492
HRA	135,596	102,757	85,551
Adj. Sales from GF to HRA	(32,709)	(24,165)	(24,245)
Total Capital Programme	**176,456**	**148,667**	**131,798**
Capital Financing Requirement:			
• Non-HRA	339,126	348,632	349,406
• HRA	298,553	345,752	341,333
• **Total**	**637,679**	**694,384**	**690,739**
Gross borrowing	**496,412**	**576,699**	**570,298**
External debt*	461,008	544,134	537,733
Finance Leases/PFI	35,404	32,565	32,565
Investments			
• Longer than 1 year			
• Under 1 year	(54,732)	(50,000)	(80,061)
• Total	(54,732)	(50,000)	(80,061)
Net borrowing	**441,680**	**526,699**	**490,237**

The Council's actual under-borrowing position for 2024/25 is £120.4m (CFR less the Gross debt). Balances in reserves did not deplete as expected to externalise debt so reliance was made on internal borrowing.

- The Council's average investments for the year is £48.1m with an average rate 5.0% against the benchmark of the average o/n SONIA (Sterling Overnight Interbank Average Rate) of 4.90%.
- In 2024/25 the investment income is £2.4m.

Other prudential and treasury indicators are to be found in the main body of this report. The Strategic Director of Resources (S151 Officer) confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

1. **The Council's Capital Expenditure and Financing**

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund	2023/24 Actual £000	2024/25 Original £000	2024/25 Actual £000
Capital expenditure	**73,569**	**70,075**	**70,492**
Capital Receipts	(3,643)		(158)
Capital Grants & Reserves	(29,248)	(33,407)	(33,514)
Self- Financing	(12,024)		-
Revenue	(1,102)	(1,230)	(1,062)
Unfinanced capital expenditure	**27,552**	**35,438**	**35,758**

HRA	2023/24 Actual £000	2024/25 Original Estimate £000	2024/25 Actual £000
Capital expenditure	**135,596**	**102,757**	**85,551**
Financed in year	(49,298)	(55,937)	(42,771)
unfinanced capital expenditure	**86,298**	**46,820**	**42,780**

Resources – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

General Fund - Balance Sheet Resources	31-Mar-24 £000	31-Mar-25 £000
Capital receipts	25,108	40,412
Unapplied Capital Grants	989	1,738
Earmarked Reserves	65,459	47,537
Grant Reserves	17,460	10,168
Provisions	10,936	9,582
General fund Balance	14,906	14,906
Total	**134,858**	**124,343**

HRA Balance Sheet Resources (£m)	31-Mar-24 £000	31-Mar-25 £000
Balances	5,517	6,905
Earmarked reserves	1,178	1,178
Total	**6,695**	**8,083**

2. The Council's Overall Borrowing Need

The Council's underlying need to borrow to finance capital expenditure is termed as the Capital Financing Requirement (CFR).

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2024 Actual £'000	31 March 2025 Estimate £'000	31 March 2025 Actual £'000
CFR General Fund (£m)	339,126	348,632	349,406
CFR HRA (£m)	298,553	345,752	341,333
Total CFR (£m)	**637,679**	**694,384**	**690,739**
Gross borrowing position	(496,412)	(576,699)	(570,298)
Internal Borrowing	**141,267**	**117,685**	**120,441**

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the operational boundary and authorised limit.

As at 31st March 2025 the Council under-borrowed position is £120.4m, taking into account the finance lease and PFI liabilities of £32.5m. In 2023/24 the under-borrowed position was £141.2m inclusive of the finance lease and PFI liabilities of £35.4m.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2024/25 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

	2024/25
Authorised Limit	763,822
Operational boundary	694,384
Maximum gross borrowing position during the year	570,298

3.Treasury Position

The Council's investments and debts outstanding as at 31st March 2025 are £80m and £537.7m respectively. The Council's Investments and debts summary are as follow:

	31 March 2024 Principal £'000	Average Rate	Interest £'000	31 March 2025 Principal £'000	Average Rate	Interest £'000
Borrowing:						
-PWLB	332,637	3.79%	12,215	392,874	3.89%	13,360
-Market	40,271	4.38%	1,883	33,859	4.12%	1,559
-Temporary Loan	88,100	6.01%	1,695	111,000	5.23%	5,026
Total debts	461,008	4.26%	15,793	537,733	4.18%	19,945
PFI/Finance leases	35,404			32,565		
Gross debts	**496,412**			**570,298**		
CFR	**637,679**			**690,739**		
Over / (under) borrowing	**(141,267)**			**(120,441)**		
Investments:						
- in house	(54,732)	5.24%	(4,075)	(80,061)	4.89%	(2,405)
Total investments	(54,732)	5.24%	(4,075)	(80,061)	4.89%	(2,405)
Net Debts	**406,276**		**11,718**	**457,672**		**17,540**

The maturity structure of the investment portfolio as follows.

	31 March 2024 Actual £'000	31 March 2025 Estimate £'000	31 March 2025 Actual £'000
Investments			
Longer than 1 year			
Under 1 year	54,732	50,000	80,061
Total	**54,732**	**50,000**	**80,061**

The maturity structure of the debts portfolio as follows:

	31 March 2024 Actual £'000	31 March 2025 Estimate £'000	31 March 2025 Actual £'000
Under 12 months			131,615
12 months and within 24 months			20,623
24 months and within 5 years			81,255
5 years and within 10 years			45,644
10 years and within 20 years			35,264
20 years and within 30 years			44,731
30 years and within 40 years			78,239
over 40 years			100,362
Total			**537,733**

The Council's treasury management debts and investments position is organised by the treasury management service to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

4. The Strategy for 2024/25

4.1 Investment Strategy

Investment Policy – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 24/03/2024. This policy sets out the approach for choosing investment 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.).

Treasury team kept the investments short-term (within 365 days). The Needs reviewing given that the average investment return of 4.89% is less than at 31/03/24. Bank rate reduced in 2024/25.

4.2 Borrowing strategy

During 2024/25, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debts as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2025 and 2026 as inflation concerns are dampened. The Council has sought to minimise the taking on of long-term borrowing at elevated levels (>5%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<5 years) as appropriate.
Against this background and the risks within the economic forecast, caution was adopted with the treasury operations.
Interest rate forecasts initially suggested further gradual fall in short, medium and longer-term fixed borrowing rates during 2024/25. There were 3 Base rate cuts from 5.25% to 4.50% in February 2025.

Borrowing in advance of need
The Council has not borrowed more than, or in advance of its needs, purely to profit from the investment of the extra sums borrowed.

Rescheduling
The Council did not undertake any long-term loan rescheduling in the year.

The Council repaid two of it's LOBO loans (Lending Option Borrowing Option).

Other Issues (Regulatory changes) Appendix A

IFRS 16 Leases was issued by the IASB in 2016, replacing IAS 17 and IFRIC 4, with an effective date for annual reporting periods beginning on or after 1 January 2019. After several deferrals, local authorities are now mandatorily required to implement IFRS 16 from 1 April 2024 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting for 2024/25 (the Code) incorporates the requirements. Earlier voluntary adoption as of 1 April 2022 or 1 April 2023 was however encouraged by CIPFA and Local Authority (Scotland) Accounts Advisory Committee (LASAAC).
The main objective of IFRS 16 is to report information that:
• faithfully represents lease transactions and
• provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

To meet that objective, IFRS 16 introduces a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value.

Local authorities were permitted to choose to implement IFRS 16 on a voluntary basis in 2022/23 and 2023/24, with mandatory adoption of the standard in the 2024/25 financial statements. The Council has adopted IFRS 16 in 2024-25, which will bring currently off-balance sheet leased asset onto the balance sheet.

PWLB HRA concessionary rates

The Autumn Budget 2024 announced that the HRA Concessionary Rate has been extended to March 2026. This rate was previously introduced on the 15th June 2023 is now currently scheduled to expire on the 31st March 2025.

5.155 Extending the Public Works Loan Board Housing Revenue Account rate – The government is extending the discounted Public Works Loan Board Housing Revenue Account lending rate until March 2026. This will support local authority financing of capital expenditure on social housing in their Housing Revenue Account

Economic and Interest rates Forecast Appendix B

The MPC have voted 5-4 to lower the base rate to 4.25% from 4.50%.

UK inflation has proved somewhat stubborn throughout 2024/25. Having started the financial year at 2.3% y/y (April), the CPI measure of inflation briefly dipped to 1.7% y/y in September before picking up pace again in the latter months. The latest data shows CPI rising by 2.8% y/y (February), but there is a strong likelihood that figure will increase to at least 3.5% by the Autumn of 2025.

Against that backdrop, and the continued lack of progress in ending the Russian invasion of Ukraine, as well as the potentially negative implications for global growth as a consequence of the implementation of US tariff policies by US President Trump in April 2025, Bank Rate reductions have been limited. Bank Rate currently stands at 4.5%, despite the Office for Budget Responsibility reducing its 2025 GDP forecast for the UK economy to only 1% (previously 2% in October).

Moreover, borrowing has becoming increasingly expensive in 2024/25. Gilt yields rose significantly in the wake of the Chancellor's Autumn Statement, and the loosening of fiscal policy, and have remained elevated ever since, as dampened growth expectations and the minimal budget contingency (<£10bn) have stoked market fears that increased levels of borrowing will need to be funded during 2025.

Interest Rate Forecasts

Bank Rate	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
MUFG CM	4.25%	4.25%	4.00%	3.75%	3.75%	3.75%	3.50%	3.50%
Cap Econ	4.25%	4.00%	3.75%	3.50%	3.50%	3.50%	3.50%	3.50%
5Y PWLB RATE								
MUFG CM	4.90%	4.80%	4.70%	4.60%	4.50%	4.40%	4.40%	4.30%
Cap Econ	4.90%	4.80%	4.70%	4.60%	4.50%	4.50%	4.40%	4.40%
10Y PWLB RATE								
MUFG CM	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.70%	4.60%
Cap Econ	5.30%	5.20%	5.10%	5.00%	5.00%	4.90%	4.80%	4.80%
25Y PWLB RATE								
MUFG CM	5.70%	5.60%	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%
Cap Econ	6.00%	5.70%	5.40%	5.30%	5.20%	5.10%	5.00%	5.00%
50Y PWLB RATE								
MUFG CM	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%
Cap Econ	5.70%	5.50%	5.20%	5.20%	5.10%	5.00%	4.90%	4.90%

Glossary of Terms Appendix C

CE: Capital Economics - is the economics consultancy that provides MUFG Corporate Markets Treasury Limited, with independent economic forecasts, briefings and research.

CFR: capital financing requirement - the Authority's annual underlying borrowing need to finance capital expenditure and a measure of the Authority's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by the UK and countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

MHCLG: the Ministry for Housing, Communities and Local Government - the Government department that directs local authorities in England.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

EZ: Eurozone - those countries in the EU which use the euro as their currency

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing/tightening policy. It is composed of 12 members - the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies - the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom - that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e., a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing/tightening.

MRP: minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e., not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE/QT: quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. This is called quantitative tightening. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: the Sterling Overnight Index Average. Generally, a set of indices for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

TMSS: the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the Full Council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).