



South Derbyshire District Council

Treasury Management Report Q4 2023/24

Introduction

The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual outturn reports.

This report includes the requirement in the 2021 Code, mandatory from 1st April 2023, of reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in a separate report.

The Council's treasury management strategy for 2024/25 was approved at a meeting on 15th February 2024. The Council has borrowed and 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 remains central to the Council's treasury management strategy.

The Council's treasury advisors Arlingclose provide the following commentary on the External Economic updates affecting the UK's wider finances.

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 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 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 10-year UK benchmark gilt yield started the period at 3.94% and ended at 4.69%, having reached a low of 3.76% in September and a high of 4.90% in January in between. While the 20-year gilt started at 4.40% and ended at 5.22%, hitting a low of 4.27% in September and a high of 5.40% in January. The Sterling Overnight Rate (SONIA) averaged 4.90% over the period.

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.

On local authorities, S&P assigned a BBB+ to Warrington Council, having previously withdrawn its rating earlier in 2024, and also withdrew its rating for Lancashire County Council due to the council deciding to stop maintaining a credit rating. However, it still holds a rating with Fitch and Moody's. Moody's withdrew its rating of Cornwall Council after it chose to no longer maintain a rating.

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 Council had net investments of £17.723m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are

the underlying resources available for investment. These factors are summarised in the table below.

Balance Sheet Summary

	31.3.24 Actual £'000	31.3.25 Provisional £'000
General Fund CFR	6,607	7,070
HRA CFR	41,584	41,584
Total CFR	48,191	48,654
External borrowing**	37,512	37,494
Internal borrowing	10,679	11,160
Less: Balance sheet resources	(64,283)	(66,418)
Net (investments)	(53,604)	(55,258)

**** Shows only loan to which the Council is committee and excludes optional refinancing**

The treasury management position at 31st March 2024 and the change over the year is shown in the table below.

Treasury Management Summary

	31.03.24 Balance £'000	Movement £m	31.03.25 Balance £'000	Average Rate %
Long-term borrowing:				
Fixed	37,423	(0)	37,423	3.31%
Variable	0	0	0	0.00%
Short-term borrowing	89	(18)	71	3.50%
Total borrowing	37,512	(18)	37,494	
Long-term investments	3,434	66	3,500	4.71%
Short-term investments	45,500	3,000	48,500	4.63%
Cash and cash equivalents	4,670	(1,413)	3,257	1.76%
Total investments	53,604	1,653	55,257	
Net investments	16,092	1,671	17,763	

Borrowing Strategy and Activity

As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriate risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. During the majority of the period short term interest rates have been higher than long term interest rates.

After substantial rises in interest rates since 2021 many central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields were volatile but have increased overall during the period. Much of the increase has been in response to market concerns that policies introduced by the Labour government will be inflationary and lead to higher levels of government borrowing. The election of Donald Trump in the US in November is also expected to lead to inflationary trade policies.

The Public Works Loan Board (PWLB) certainty rate for 10-year maturity loans was 4.80% at the beginning of the period and 5.42% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.71%. Rates for 20-year maturity loans ranged from 5.01% to 6.14% during the period, and 50-year maturity loans from 4.88% to 5.88%.

For the majority of the year the cost of short-term borrowing from other local authorities closely tracked Base Rate at around 5.00% - 5.25%. However, from late 2024 rates began to rise, peaking at around 6% in February and March 2025.

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Council has no new plans to borrow to invest primarily for financial return.

The PWLB HRA rate which is 0.4% below the certainty rate is available up to March 2026. This discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans.

At 31st March 2025 the Council held £37.5m of loans. These loans were taken out by the Council in 2011/12 for the purpose of HRA self-financing. The principal element of these loans is repayable in full on maturity, with interest being paid each March and September.

The short-term borrowing of £71k relates to deposits received from two Parish Councils within the District. These loans can be recalled on immediate notice. Interest is calculated at the Bank of England Base Rate, less 1%. Interest will be payable half yearly after the 30th September and the second after 31st March.

The following table shows the maturity dates of the loans and rate of interest payable.

Borrowing Position

Loan Profile	Type	Value £'000	Rate %	Maturity
Public Works Loan Board	Fixed	10,000	3.01	2026/27
Public Works Loan Board	Fixed	10,000	3.30	2031/32
Public Works Loan Board	Fixed	10,000	3.44	2036/72
Public Works Loan Board	Fixed	7,423	3.50	2041/42
Total Long-term borrowing		37,423		

Short-term Parish Council Loans		71	3.50	
Total borrowing		37,494		

The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

Treasury Investment Activity

The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £53.2m and £77.5m million due to timing differences between income and expenditure. The investment position is shown in the table below.

Treasury Investment Position

	31.03.24 Balance £'000	Q4 2025 Movement £'000	31.03.25 Balance £'000	31.03.25 Rate of Return %
Banks (unsecured)	4,670	(1,413)	3,257	1.76%
Local Authorities	29,500	3,000	32,500	4.71%
Money Market Funds	16,000	0	16,000	4.50%
CCLA Property Fund (Fair value)	3,434	66	3,500	4.71%
Total investments	53,604	1,653	55,257	

Both the CIPFA Code and government guidance require the Council 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 Council'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.

As demonstrated by the liability benchmark in this report, the Council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment

income.

Bank Rate reduced from 5.25% to 5.00% in August 2024, again to 4.75% in November 2024 and again to 4.5% in February 2025 with short term interest rates largely being around these levels. The rates on DMADF deposits ranged between 4.43% and 4.63% and money market rates between 4.44% and 4.53%.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking below.

Investment Benchmarking – Treasury investments managed in-house (excludes CCLA)

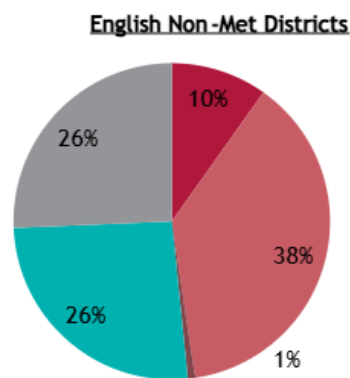
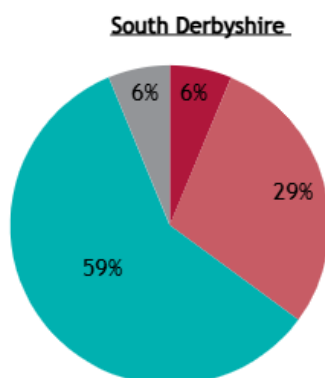
	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2024	4.85	A+	41%	75	4.67
31.03.2025	5.03	A+	37%	62	4.61
Similar LAs	4.79	A+	63%	54	4.77
All LAs	4.77	A+	64%	8	4.80

Credit Score: This is a value weighted average score calculated by weighting the credit score of each investment by its value. A higher number indicates a higher risk.

Credit Rating: This is based on the long-term rating assigned to each institution in the portfolio, by ratings agencies Fitch, Moody's and Standard & Poor's. Ratings rang from AAA to D, and can be modified by +/-

Bail in Exposure: The adoption of a bail in regime for failed banks results in a potential increased risk of loss of funds for local authority should this need to be implemented. Therefore, a lower exposure to bail in investments reduces this risk.

Weighted Average Maturity: This is an indicator of the average duration of the internally managed investments. Similar authorities have a similar profile to South Derbyshire; other larger authorities tend to hold a greater proportion of fund in money markets than fixed term deposits with other LAs, due to their cash flow requirements.





This chart illustrates the type of investment funds held by the Council in comparison to other similar Local Authorities, this shows in greater detail, the comparisons in the bail in exposure and rate of return, on the above security benchmark table. The unsecured funds held by other Local Authorities is a slightly higher percentage of their investment portfolio, which will offer them a higher rate of return, however the bail in exposure risk to funds is 63% of their total portfolio. The Council have invested their funds in much safer secured investments (Government) which may produce a smaller yield but the risk to Council funds is lower at 37%.

Externally Managed Pooled Funds

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.

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 Council's funds' capital values and income return over the 12-month period to 31st March is shown in the Treasury Investment Position table.

Income returns remained broadly consistent at 5%. The Council has budgeted £164k income from these investments in 2024/25. Income received up to 31st March 2025 was £132k, whilst a further £41k has been declared and is due to be paid by April/May.

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 Council'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 minimum period total returns will exceed cash interest rates.

Statutory override: Further to consultations in April 2023 and December 2024 MHCLG wrote to finance directors in England in February 2025 regarding the statutory override on

accounting for gains and losses in pooled investment funds. On the assumption that when published regulations follow this policy announcement, the statutory override will be extended up until the 1st April 2029 for investments already in place before 1st April 2024. The override will not apply to any new investments taken out on or after 1st April 2024. The Council had set up a reserve of £609k to mitigate the impact of the statutory override not being extended. However, following the announcement of the statutory override extension, and given the Council's has no plans for new investments after 1st April 2024, the Section 151 officer approved removal of this reserve.

CCLA Property Fund Performance

		2023/24	2024/25
		Q4	Q4
Dividend Received	£	45,019	40,774
Annual Equivalent Interest Rate	%	5.31%	4.71%
Bid (Selling) Price	pence/unit	272.73	277.98

The mid-market value of the fund as at the 31st March 2025 is £3,514,124 and the bid market value is £3,459,655. The quarters market and bid values have increased from March 24 by 1.93%. This reinforces the notion that the Fund should only be considered for long-term investments.

The Council's investment in the CCLA fund remained stable throughout 24/25 with performance continuing to yield positive dividends.

Non-Treasury Investments

The definition of investments in the Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by DLUHC and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

The Council held £9.9m of investments made for commercial purposes. This consisted entirely of directly owned property and land. A full list of the Council's non-treasury investments is available in the Investment Strategy document.

All commercial investments are located within the district.

Performance

Average 7-Day Money Market Rate

The main indicator the Council uses to measure its return on short-term investments to average over the year, is the Average 7-Day Money Market Rate. This is a standard measure of performance. Performance for the second quarter is shown below.

	As at 31.03.24	As at 31.03.25
Average 7-Day Money Market Rate (Target)	5.24%	4.59%
Average Interest Rate Achieved on Short Term Deposits	5.35%	4.63%

Cost of Debt

This indicator shows how much the costs of borrowing impact upon each household (at Band D Council Tax rate) in the District. The impact on Council Tax is positive as the General Fund has no actual debt. The performance for the final quarter is shown below using the current interest received and the estimated annual interest based on current returns. This is compared to the actual annual interest received last year.

General Fund Impact per Council Tax Payer	Actual 31.03.2024	Actual 31.03.2025
	£	£
Net Interest Received - General Fund	-£1,900,080	-£2,238,972
Band D Properties	37,663	38,469
Cost per Band D Property	-£50.45	-£58.21

The cost of debt on each council tenant (HRA) is shown below. The performance for the first quarter is the actual costs compared to the estimated costs for the year.

HRA Debt Interest per Dwelling	31.03.2024 Actual	31.03.2025 Actual
HRA Interest Payable	1,504,805	1,234,805
Dwellings	2,947	2,940
Annual Cost per Dwelling	£510.62	£420.00

MRP Regulations

On 10th April 2024 amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP). The majority of the changes take effect from the 2025/26 financial year, although there is a requirement that for capital loans given on or after 7th May 2024 sufficient MRP must be charged so that the outstanding CFR in respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for that loan.

The regulations also require that local authorities cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets).

Compliance

The Chief Finance Officer reports that all treasury management activities undertaken during the quarter complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy.

Compliance with specific investment limits is demonstrated in the table below:

Investment limits

Sector	Maximum Investment Q4 2025	Counterparty Limit	Time Limit	Sector Limit	Complied
The UK Government	£23m	£25m	364 days	n/a	✓
Local authorities & other government entities	£30m	£5m	364 days	Unlimited	✓
Banks (unsecured)*	£2.8m	£3m	35 days	Unlimited	✓
Building societies (unsecured)*	£2m	£2m	35 days	£5m	✓
Money Market Funds*	£16m	£2m	60 days	£16m	✓
Strategic Pooled Funds	£4m	£4m	n/a	£4m	✓
Other Investments*	0	£1m	35 days	Unlimited	✓

Debt limits

	2024/25 Maximum	31.03.25 Actual	2024/25 Operational Boundary	2024/25 Authorised Limit	Complied
Borrowing	37,512	37,494	42,423	49,493	✓
PFI and Finance Leases	0	0	0	0	✓
Total debt	37,512	37,494	42,423	49,493	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Treasury Management Prudential Indicators

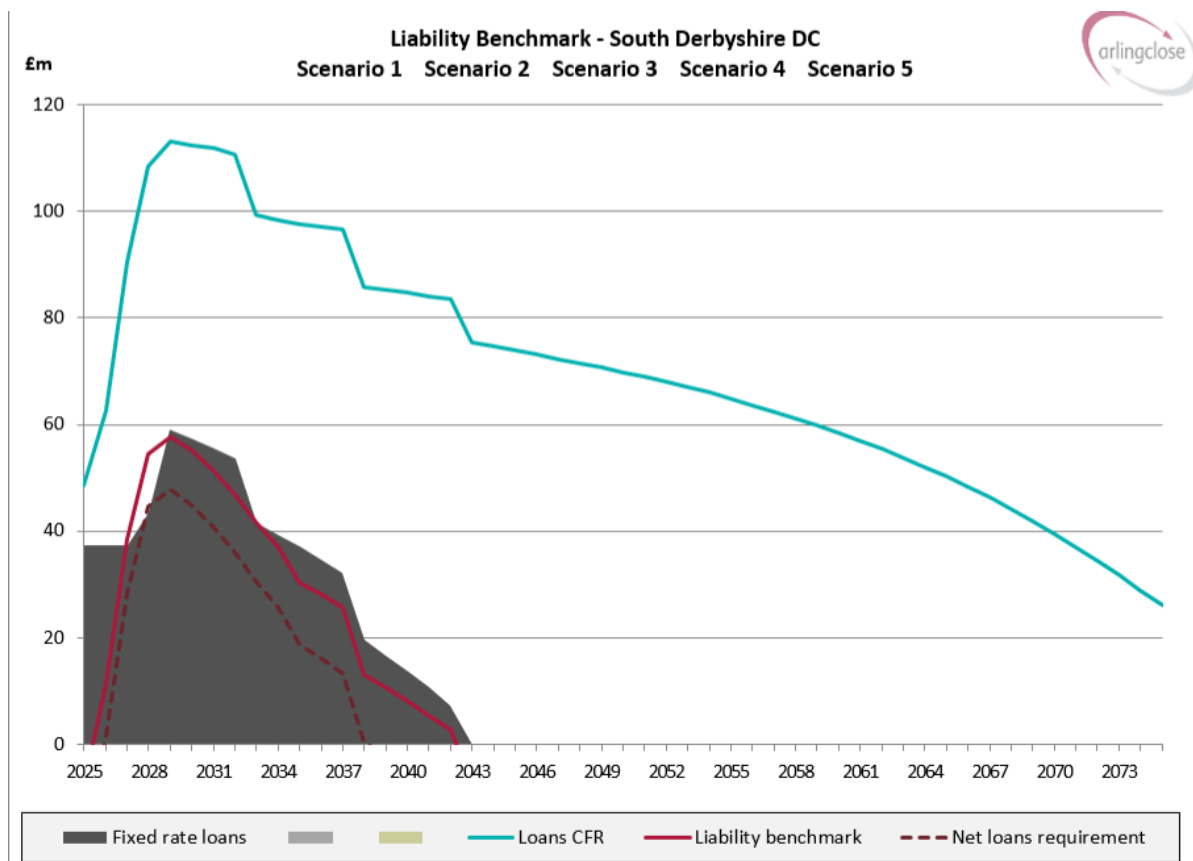
As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

Liability Benchmark:

This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10m required to manage day-to-day cash flow.

	31.3.24 Actual	31.3.25 Provisional	31.3.26 Forecast	31.3.27 Forecast
Loans CFR	48,191	48,654	62,728	90,576
Less: Balance sheet resources	(64,283)	(66,418)	(61,268)	(62,145)
Net loan requirement	(16,092)	(17,764)	1,460	28,431
Plus: Liquidity allowance	10,000	10,000	10,000	10,000
Liability benchmark	(6,092)	(7,764)	11,460	38,431
Existing borrowing	37,512	37,494	37,512	27,512

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing per the capital programme, minimum revenue provision on new capital expenditure based on the useful life of the asset and reserves continue to reduce year on year to fund future year expenditure.



The above graph shows that actual borrowing increases over the medium term to fund the Council's capital programme. The liability benchmark increases due to planned capital expenditure and utilisation of reserves.

Maturity Structure of Borrowing:

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper Limit	Lower Limit	31.03.2025 Actual	Complied?
Under 12 months	70%	0%	0%	✓
12 months and within 24 months	30%	0%	0%	✓
24 months and within 5 years	30%	0%	27%	✓
5 years and within 10 years	30%	0%	27%	✓
10 years and above	90%	0%	46%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long-term Treasury Management Investments:

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

	2024/25	2025/26	2026/27	No fixed date
Limit on principal invested beyond year end	£0m	£0m	£0m	£4m
Actual principal invested beyond year end	£0m	£0m	£0m	£4m
Complied?	✓	✓	✓	✓

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.