Midlothian Council
Tuesday 24 June 2025
Item No 8.4

Annual Treasury Management Report 2024/25

Report by David Gladwin, Chief Financial Officer & Section 95 Officer

Report for Information

1 Recommendations

It is recommended that Council note the Annual Treasury Management Report 2024/25.

2 Purpose of Report/Executive Summary

The purpose of the report is to inform members of the Council of the Treasury Management activity undertaken in 2024/25 and the year-end position.

Audit Committee will scrutinise the report on 16 June 2025 and any approved changes will be advised verbally to members of Council at the meeting on 24 June 2025.

Date: 6 June 2025
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3 Background

The main points arising from treasury activity in 2024/25 were:

- The pooled internal loans fund rate for General Fund and HRA was 2.73% in 2024/25, which is again expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland;

- Were the pooled internal loans fund rate to have equated to the Scottish weighted average of 3.66%, this would have generated loan charges in 2024/25 of £26.4 million. The Council's actual 2024/25 loan charges for General Services and HRA were £22.3 million, representing a cash saving (compared to the Scotland weighted average) of £4.1 million in 2024/25;

- Total long term borrowing maturing in the year amounted to £1.426 million, comprising the following:-

    - £0.057 million of PWLB Annuities of various tenors and interest rates;
    - £0.626 million of PWLB Maturities (original
    - £0.673 million of Annuity and EIP, and £0.070 million of interest free loans.

- Total new long term borrowing taken in the year amounted to £40.000m, this being four £10.000 million loans from PWLB:-

    - 2 x £10.000 million Maturity loans drawn on 20 August 2024 with tenors of 4 and 4.5 years and at interest rates of 4.15% and 4.13% respectively;
    - 1 x £10.000 million Maturity loan drawn on 25 November 2024 with a tenor of 5.5 years and at an interest rate of 4.67%;
    - 1 x £10.000 million Equal Instalment of Principal (EIP) loan drawn on 20 December 2024 with a total tenor of 10 years and at an interest rate of 4.49%

  all drawing down loan funding to fund the Council's 2024/25 capital plans in line with the 2024/25 Treasury Management and Investment Strategy approved by Council on 27 February 2024;

- The remainder of the 2024/25 borrowing requirement was supported by the change in policy to no longer fully cash back the Council's useable reserves and to run down cash balances, to allow the Council to navigate past the current interest rate plateau;

- As a result, the Council were under-borrowed by £90.421 million (19% of the borrowing Capital Financing Requirement (CFR)) at

31 March 2025. This means that the Council has funded the majority (81%) of its underlying borrowing requirement as at 31 March 2025. This position is prudent in the current economic climate (with PWLB rates forecast to drop from their prevailing rates, across the next 2-3 financial years), as it balances longer-term interest rate and refinancing risk with short-medium term budgetary implications;

- The average rate of interest paid on external debt was 3.14% in 2024/25, up from 3.00% in 2023/24 reflective of the financing of the Council's CFR in the current interest rate environment;

- Only instant access deposits were placed during the year, with each deposit with an approved counterparty in line with the Council's approved creditworthiness process as outlined in the "*Treasury Management and Investment Strategy 2024/25 & Prudential indicators*" (TMSS 24/25) report approved by Council on 27 February 2024. The Council's deposit portfolio at 31 March 2025 is outlined in Table 2 below and in detail in Table 11 in Appendix 1;

- The average rate of return on deposits was 5.03% in 2024/25 (exceeding the benchmark[1] of 4.82% for the twenty first year in succession) with total interest earned on deposits totalling £2.438 million and reflecting the approved strategy in the TMSS 24/25;

- Useable reserves at 31 March 2025 equated to £85.295 million, with cash balances partly cash backing reserves and partly used to support the deferral of borrowing as outlined in the TMSS for 2025/26.

- No debt rescheduling was undertaken during 2024/25.

A detailed report "*Annual Treasury Management Review 2024/25*" on the activity during 2024/25 is attached as Appendix 1.

The Treasury Portfolio at the start and end of the financial year is shown in Tables 1 and 2 below.

[1] 3 month forward uncompounded SONIA (Sterling Overnight Index Average) which reflects the weighted average duration of the Council's portfolio for the year

Table 1: Loan Portfolio at 1 April 2024 and 31 March 2025

Loan Type	Principal Outstanding 1 Apr 2024 £000's	Principal Outstanding 31 Mar 2025 £000's	Movement £000's
PWLB Annuity	452	395	-57
PWLB Maturity	304,128	333,502	+29,374
PWLB EIP	0	10,0000	+10,000
LOBO	20,000	20,000	0
Other Market Loans	16,221	15,548	-673
Salix Loans	70	0	-70
Total Loans	**340,871**	**379,445**	**+38,574**
Underlying Borrowing Requirement	**401,845**	**469,866**	**+68,021**
Over/(Under) Borrowed	**-60,974**	**-90,421**	**-29,447**

Table 2: Deposits at 1 April 2024 and 31 March 2025

Deposit Type	Principal Outstanding 1 Apr 2024 £000's	Principal Outstanding 31 Mar 2025 £000's	Movement £000's
Bank Call Accounts	1,518	538	-980
Money Market Funds	25,100	25,946	+846
Bank Fixed Term Deposit Accounts	30,000	0	-30,000
Total Deposits	**56,618**	**26,484**	**-30,134**
Useable Reserves	**84,505**	**85,295**	**+1,504**

Throughout 2024/25, all counterparties that the Council placed deposits with met their obligations in respect of the return of the deposited funds and interest receivable in full and on the required dates.

5 Report Implications (Resource, Digital and Risk)

5.1 Resource

Treasury Management activity during the year, in accordance with the approved strategy, has once again been effective in minimising loan charges through minimising the cost of borrowing and maximising the return on deposits within the parameters set by the strategy for the year.

Although benefits from Treasury Management activity continue to accrue there are no direct financial implications or other resource issues arising from this report.

The loan charges associated with Capital Expenditure and Treasury Management activity during 2024/25 are reported in the Financial Monitoring 2024/25 – General Fund Revenue report and HRA 2024/25 Outturn report elsewhere on the Council agenda for 24 June 2025.

5.2 Digital

None.

5.3 Risk

As the Council follows the requirements of the CIPFA Code of Practice and the Prudential Code this minimises the risks involved in Treasury Management activities place. For those risks that do exist there are robust and effective controls in place to further mitigate the level of risks. These include full written Treasury Management Practices, which define the responsibilities of all staff involved and reflect the provisions of the Prudential and Treasury Management Codes.

5.4 Ensuring Equalities (if required a separate IIA must be completed)

This report does not recommend any change to policy or practice and therefore does not require an Equalities Impact Assessment.

5.5 Additional Report Implications

See Appendix A

Appendices:-

Appendix 1: Annual Treasury Management Review 2024/25

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable

A.2 Key Drivers for Change

Key drivers addressed in this report:

☐ Holistic Working
☐ Hub and Spoke
☐ Modern
☒ Sustainable
☒ Transformational
☐ Preventative
☐ Asset-based
☒ Continuous Improvement
☐ One size fits one
☐ None of the above

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

☐ One Council Working with you, for you
☒ Preventative and Sustainable
☐ Efficient and Modern
☐ Innovative and Ambitious
☐ None of the above

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

Although no external consultation has taken place, cognisance has been taken of professional advice obtained from Link Asset Services, the Council's appointed Treasury Consultants.

A.6 Impact on Performance and Outcomes

The strategies adopted are an integral part of the corporate aim to achieve Best Value as they seek to minimise the cost of borrowing by exercising prudent debt management and placement of deposits. This in turn helps to ensure that the Council's capital expenditure is sustainable in revenue terms.

A.7 Adopting a Preventative Approach

Not applicable.

A.8 Supporting Sustainable Development

Not applicable.

Appendix 1

Annual Treasury Management Review 2024/25

Midlothian Council
June 2025

Contents

This Council is required by regulations issued under the Local Government in Scotland 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 updated CIPFA Code of Practice on Treasury Management, (the Code), and the updated 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 27 February 2024);
- a mid-year, (minimum), treasury update report (Council 17 December 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 Committee before they are reported to the full Council.

1. The Council's Capital Expenditure and Financing 2024/25

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.

Table 1: Capital Expenditure + Financing			
	2023/24 Actual £000	**2024/25 Budget £000**	**2024/25 Actual £000**
General Fund			
Capital Expenditure	47,656	78,524	48,778
Available Funding	26,903	28,579	19,155
Borrowing Required	**20,753**	**49,945**	**29,623**
HRA			
Capital Expenditure	50,412	103,054	53,175
Available Funding	6,724	19,611	9,523
Borrowing Required	**43,688**	**83,443**	**43,652**
General Fund and HRA			
Capital Expenditure	98,068	181,578	101,953
Available Funding	33,627	48,190	28,678
Borrowing Required	**64,441**	**133,388**	**73,275**

2. The Council's Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2024/25 unfinanced capital expenditure (see above table), plus prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Scheduled Debt Amortisation (or loans repayment), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the minimum loan repayment each year through an additional revenue charge.

The Council's CFR for the year is shown below, and represents a key prudential indicator.

Table 2: Council's Underlying Borrowing Requirement

CFR:	31-Mar-24 Actual	2024/25 Budget	31-Mar-25 Actual
	£000	£000	£000
Opening balance	**£ 346,898**	**£ 496,656**	**£ 401,845**
Add Borrowing Required	£ 64,441	£ 73,893	£ 72,862
Loans Fund Review Retrospective	£ -	£ -	£ 5,525
Less scheduled debt amortisation	£ (9,494)	£ (10,760)	£ (10,366)
Closing balance	**£ 401,845**	**£ 559,789**	**£ 469,866**

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

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 three 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 in 2024/25. The table below highlights the Council's gross borrowing position against the CFR (excluding PFI schemes). The Council has complied with this prudential indicator.

Table 3: Council's Gross Borrowing Position			
	31-Mar-24	2024/25	31-Mar-25
	Actual	Budget	Actual
	£000	£000	£000
Gross Borrowing	£ 340,871	£ 509,105	£ 379,445
CFR	£ 401,845	£ 559,789	£ 469,866

The authorised limit – this Council has kept within its authorised external borrowing limit as shown by the table below. Once this has been set, the Council does not have the power to borrow above this level.

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 is acceptable subject to the authorised limit not being breached.

Table 4: Gross Borrowing against Authorised Limit / Operational Boundary	
	2024/25
Authorised limit - borrowing	£ 604,957
Operational boundary - borrowing	£ 604,957
Maximum gross borrowing position	£ 379,623
Average gross borrowing position	£ 358,618

3. Treasury Position as at 31 March 2025

The Council's debt and investment position is organised by the treasury management service in order 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 Purpose section of this report, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2024/25 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

Table 5: Treasury Position

	31 March 2024 Principal	Rate/ Return	Average Life (Yrs)	31 March 2025 Principal	Rate/ Return	Average Life (Yrs)
Debt						
Fixed Rate Debt						
PWLB	£ 304,580	3.02%	29.40	£ 343,897	3.16%	25.79
Market	£ 21,291	3.01%	28.34	£ 20,548	3.03%	27.68
Total Fixed Rate Debt	**£ 325,871**	**3.02%**	**29.33**	**£ 364,445**	**3.15%**	**25.90**
Variable Rate Debt						
PWLB	£ -	n/a	n/a	£ -	n/a	n/a
Market	£ 15,000	4.63%	26.71	£ 15,000	4.63%	25.71
Total Variable Rate Debt	**£ 15,000**	**4.63%**	**26.71**	**£ 15,000**	**4.63%**	**25.71**
Total debt/gross borrowing	**£ 340,871**	**3.09%**	**29.22**	**£ 379,445**	**3.21%**	**25.89**
CFR	**£ 401,845**			**£ 469,866**		
Over/(under) borrowing	**£ (60,974)**			**£ (90,421)**		
Deposits						
Fixed Rate Deposits						
In House	£ 30,000	5.12%	0.83	£ -	n/a	n/a
With Managers	£ -	n/a	n/a	£ -	n/a	n/a
Total Fixed Rate Deposits	**£ 30,000**	**5.12%**	**0.83**	**£ -**	**n/a**	**n/a**
Variable Rate Deposits						
In House	£ 26,618	5.28%	0.01	£ 26,484	4.54%	0.01
With Managers	£ -	n/a	n/a	£ -	n/a	n/a
Total Variable Rate Deposits	**£ 26,618**	**5.28%**	**0.01**	**£ 26,484**	**4.54%**	**0.01**
Total Deposits	**£ 56,618**	**5.20%**	**0.45**	**£ 26,484**	**4.54%**	**0.01**

The maturity structure of the debt portfolio was as follows:

Table 6: Maturity Structure of Debt Portfolio					
	31-Mar-24		2024/25	31-Mar-25	
	Actual		Original Limits	Actual	
	£000	%	%	£000	%
Under 12 months	£ 1,426	0%	0% to 50%	£ 2,263	1%
12 months to 2 years	£ 1,263	0%	0% to 50%	£ 11,759	3%
2 years to 5 years	£ 22,323	7%	0% to 50%	£ 45,346	12%
5 years to 10 years	£ 45,106	14%	0% to 50%	£ 60,095	16%
10 years to 20 years	£ 32,365	10%	0% to 50%	£ 22,220	6%
20 years to 30 years	£ 51,505	16%	0% to 50%	£ 60,879	16%
30 years to 40 years	£ 81,883	25%	0% to 50%	£ 81,883	22%
40 years to 50 years	£ 100,000	31%	0% to 50%	£ 90,000	24%
50 years and above	£ 5,000	2%	0% to 50%	£ 5,000	1%
Total	**£ 340,871**	**106%**		**£ 379,445**	**100%**

The maturity structure of the Council's deposits was as follows:

Table 7: Maturity Structure of Deposit Portfolio		
	31-Mar-24	31-Mar-25
	£000	£000
Deposit		
Under 1 Year	£ 56,618	£ 26,484
Over 1 Year	£ -	£ -
Total	**£ 56,618**	**£ 26,484**

The exposure to fixed and variable interest rates on debt was as follows:-

Table 8: Fixed/Variable Interest Rate Exposure of Debt Portfolio					
	31-Mar-24		2024/25	31-Mar-25	
	Actual		Original Limits	Actual	
	£0	%	%	£0	%
Fixed Interest Rate Exposure	£325,871	96%	0% to 100%	£364,445	96%
Variable Interest Rate Exposure	£ 15,000	4%	0% to 30%	£ 15,000	4%
Total	**£340,871**	**100%**		**£379,445**	**100%**

4. The Strategy for 2024/25

At the outset of the financial year, the Council were under borrowed by £60.974 million and holding £56.618 million in instant access accounts and fixed term deposits.

Interest rate forecasts within the 2024/25 Treasury Management & Investment Strategy suggested that interest rates were expected to gradually fall throughout the year and the forthcoming 2 financial years.

Link Interest Rate forecasts at time of TMIS 2024/25 setting (February 2024)

MUFG Corporate Markets Interest Rate View 05.02.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

MUFG Interest Rate forecasts at end of 2024/25 Financial Year (May 2025, unchanged from March 2025)

MUFG Corporate Markets Interest Rate View 28.05.24												
	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

With interest rates on new borrowing remaining elevated throughout much of 2024/25 at the medium-long end of the curve, borrowing was undertaken at the short end, in order to navigate past the expected hump in interest rates, and timed to correlate to dips in Gilt Yields.

Borrowing undertaken during the 2024/25 financial year amounted to £40.000 million, this comprising

- 2 x £10.000 million Maturity loans drawn on 20 August 2024 with tenors of 4 and 4.5 years and at interest rates of 4.15% and 4.13% respectively;
- 1 x £10.000 million Maturity loan drawn on 25 November 2024 with a tenor of 5.5 years and at an interest rate of 4.67%;
- 1 x £10.000 million Equal Instalment of Principal (EIP) loan drawn on 20 December 2024 with a total tenor of 10 years and at an interest rate of 4.49%

all drawing down loan funding to de-risk the funding of the Council's 2024/25 capital plans in line with the 2024/25 Treasury Management and Investment Strategy approved by Council on 27 February 2024;

This position is prudent in the current economic climate (with PWLB rates forecast to drop from their prevailing rates, across the next 2 financial years), as it balances longer-term interest rate and refinancing risk with short-medium term budgetary implications.

At 31 March 2025, the Council was under-borrowed by £90.421 million. This means that the majority (81%) of the capital borrowing need, (the Capital Financing Requirement), is fully funded with loan debt.

Useable reserves at 31 March 2025 equated to £85.295 million, with cash balances partly used to support the deferral of borrowing as outlined in the TMSS for 2025/26. Deposits at 31 March 2025 equated to £26.484 million.

5. The Economy and Interest Rates

UK Economy

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 4.50%, 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.

The table below provides a snapshot of the conundrum facing central banks: inflation pressures remain, labour markets are still relatively tight by historical comparisons, and central banks are also having to react to a fundamental re-ordering of economic and defence policies by the US administration.

	UK	Eurozone	US
Bank Rate	4.50%	2.5%	4.25%-4.5%
GDP	0.1%q/q Q4 (1.1%y/y)	+0.1%q/q Q4 (0.7%y/y)	2.4% Q4 Annualised
Inflation	2.8%y/y (Feb)	2.3%y/y (Feb)	2.8%y/y (Feb)
Unemployment Rate	4.4% (Jan)	6.2% (Jan)	4.1% (Feb)

The Bank of England sprung no surprises in their March meeting, leaving Bank Rate unchanged at 4.50% by a vote of 8-1, but suggesting further reductions would be gradual. The Bank of England was always going to continue its cut-hold-cut-hold pattern by leaving interest rates at 4.50% but, in the opposite of what happened at the February meeting, the vote was more hawkish than expected. This suggested that as inflation rises later in the year, the Bank cuts rates even slower, but the initial impact of President Trump's tariff policies in

April 2025 on the financial markets underpin our view that the Bank will eventually reduce rates to 3.50%.

Having said that, the Bank still thinks inflation will rise from 2.8% in February to 3.75% in Q3. And while in February it said “inflation is expected to fall back thereafter to around the 2% target”, this time it just said it would “fall back thereafter”. That may be a sign that the Bank is getting a bit more worried about the “persistence in domestic wages and prices, including from second-round effects”. Accordingly, although we expect a series of rate cuts over the next year or so, that does not contradict the Bank taking “a gradual and careful” approach to cutting rates, but a tepid economy will probably reduce inflation further ahead and prompt the Bank to cut at regular intervals.

From a fiscal perspective, the increase in businesses’ national insurance and national minimum wage costs from April 2025 is likely to prove a headwind, although in the near-term the Government’s efforts to provide 300,000 new homes in each year of the current Parliament is likely to ensure building industry employees are well remunerated, as will the clamp-down on immigration and the generally high levels of sickness amongst the British workforce. Currently wages continue to increase at a rate close to 6% y/y. The MPC would prefer a more sustainable level of c. 3.5%.

As for equity markets, the FTSE 100 has recently fallen back to 7,700 having hit an all-time intra-day high 8,908 as recently as 3rd March. The £ has also endured a topsy-turvy time, hitting a peak of $1.34 before dropping to $1.22 in January and then reaching $1.27 in early April 2025.

USA Economy

Despite the markets willing the Federal Open Market Committee (Fed) to repeat the rate cut medicine of 2024 (100 basis points in total), the Fed Chair, Jay Powell, has suggested that the Fed Funds Rate will remain anchored at 4.25%-4.5% until inflation is under control, and/or the economy looks like it may head into recession as a consequence of President Trump’s tariff policies.

Inflation is close to 3.0% and annualised growth for Q4 2024 was 2.4%. With unemployment just above 4.0%, and tax cuts in the pipeline, the FOMC is unlikely to be in a hurry to cut rates, at least for now.

EZ Economy

The Eurozone economy has struggled throughout 2024 and is flat lining at present, although there is the promise of substantial expenditure on German defence/infrastructure over the coming years, which would see a fiscal loosening. France has struggled against a difficult political backdrop, but with a large budget deficit it is difficult to see any turn-around in economic hopes in the near-term.

With GDP currently below 1% in the Euro-zone, the ECB is likely to continue to cut rates, although the headline inflation rate is still above 2% (2.3% February 2025). Currently at 2.5%, a further reduction in the Deposit Rate to at least 2% is highly likely.

6. Borrowing Rates in 2024/25

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the Fed, ECB and Bank of England are all being challenged by levels of persistent inflation that are exacerbated by tight labour markets and high wage increases relative to what central banks believe to be sustainable.

Gilt yields have been volatile through 2024/25. Indeed, the low point for the financial year for many periods was reached in autumn 2024. Thereafter, and especially following the Autumn Statement, PWLB Certainty rates have remained elevated at between c. 5% - 6% with the exception of the slightly cheaper shorter dates.

At the close of 31 March 2025, the 1-year PWLB Certainty rate was 4.82% whilst the 25-year rate was 5.98% and the 50-year rate was 5.67%.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

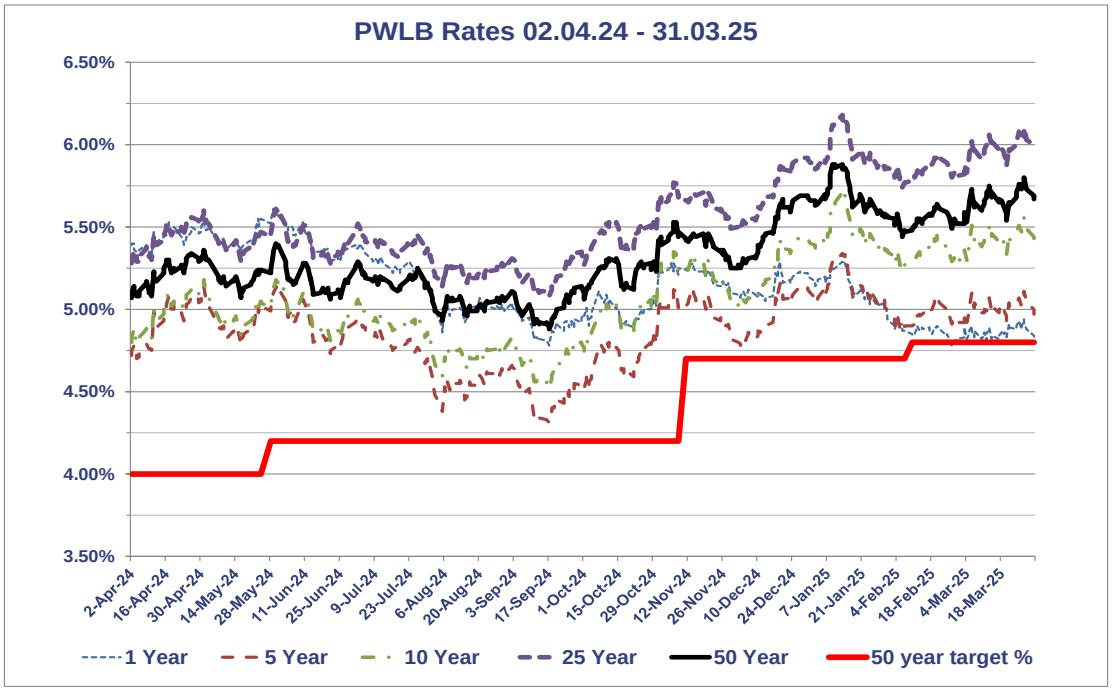
- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **HRA Borrowing Rate** is gilt plus 40bps (G+40bps)

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves lower.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

The Bank of England is also continuing on a process of Quantitative Tightening. The Bank's original £895bn stock of gilt and corporate bonds will gradually be sold back into the market over several years (currently c£623bn). The impact this policy will have on the market pricing of gilts, while issuance is still markedly increasing, and very high in historic terms, is an unknown at the time of writing.

HIGH/LOW/AVERAGE PWLB RATES FOR 2024/25



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.77%	4.31%	4.52%	5.08%	4.88%
Date	26/02/2025	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.34%	5.71%	6.18%	5.88%
Date	29/05/2024	13/01/2025	13/01/2025	13/01/2025	09/01/2025
Average	5.14%	4.86%	5.07%	5.56%	5.32%
Spread	0.84%	1.03%	1.19%	1.10%	1.00%

7. Borrowing Outturn for 2024/25

New Treasury Borrowing:-

The following table gives details of new external treasury loans drawn during the year:-

Table 9: New Loans Taken in Financial Year 2024/25						
Lender	**Date Taken**	**Principal £000's**	**Interest Rate**	**Fixed/ Variable**	**Maturity Date**	**Term (Yrs)**
PWLB Maturity	20 Aug 2024	£ 10,000	4.15%	Fixed	22 Aug 2028	4.00
PWLB Maturity	20 Aug 2024	£ 10,000	4.13%	Fixed	22 Feb 2029	4.50
PWLB Maturity	25 Nov 2024	£ 10,000	4.67%	Fixed	24 May 2030	5.50
PWLB EIP	20 Dec 2024	£ 10,000	4.49%	Fixed	20 Dec 2034	10.00
Total		**£ 40,000**				

Maturing Debt:-

The following table gives details of treasury debt maturing during the year:-

Table 10: Maturing Debt in Financial Year 2024/25						
Lender	**Date Repaid**	**Principal £000's**	**Interest Rate**	**Fixed/ Variable**	**Date Originally Taken**	**Original Term (Yrs)**
PWLB Annuities	Various	£ 57	7.75%-9.50%	Fixed	02 Aug 1968 to 15 May 1972	56-60 years
PWLB Maturity	28 Sep 2024	£ 626	8.25%	Fixed	28 Sep 1995	29.00
Salix	Various	£ 70	0.00%	Fixed	Various	7-8 years
Deutsche Pfandbriefbank	Various	£ 357	2.63%	Fixed	29 Jun 2017	28.00
Deutsche Pfandbriefbank	Various	£ 316	2.73%	Fixed	15 Nov 2018	25.50
Total		**£ 1,426**				

Rescheduling:-

No rescheduling was done during the year.

Summary of debt transactions:-

The average interest rate payable on external debt gradually increased during the year as a result of new external loans drawn at the prevailing PWLB rates, averaging 3.14% for the 2024/25 financial year (opening rate of 3.09% with closing rate of 3.21%). The average life of debt within the loan portfolio dropped from 29.22 years to 25.89 years.

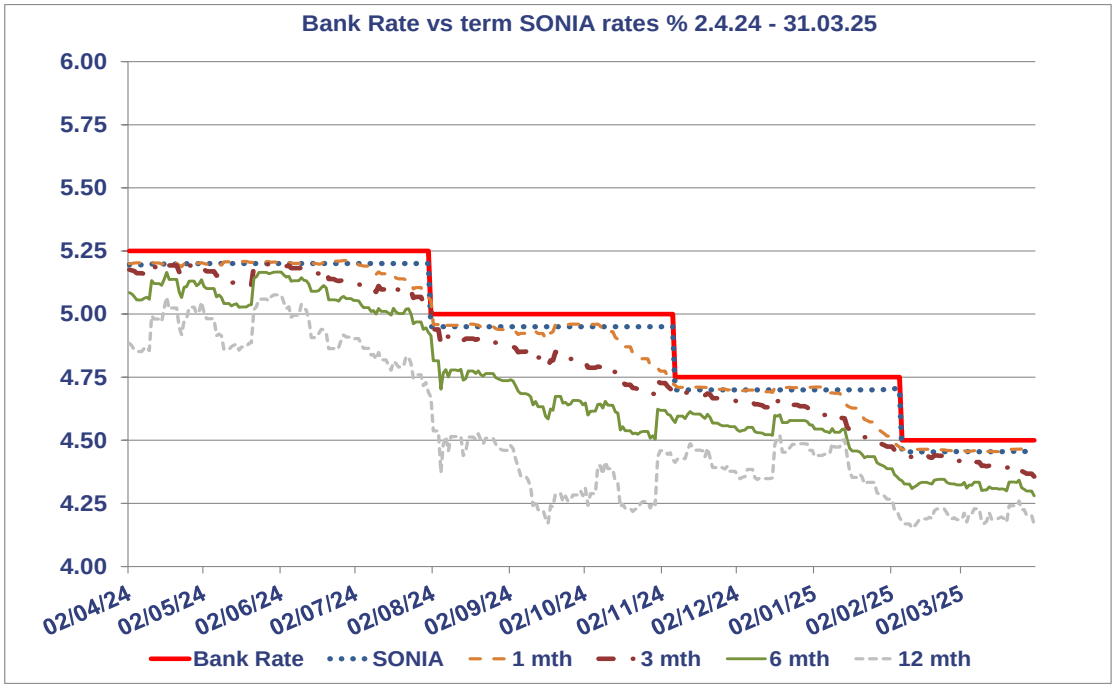
8. Deposit Rates in 2024/25

Investment returns decreased throughout 2024/25, reflective of the Bank of England base rate cuts during the year.

Money market funds and instant access bank call accounts were utilised to manage the Council's day to day liquidity needs.

Money market fund / bank account rates started the year at 5.09%-5.29%, decreasing throughout the year in line with movements in Bank of England Base Rates, ending the year at 4.34%-4.56%.

HIGH/LOW/AVERAGE BANK AND SONIA RATES FOR 2024/25



FINANCIAL YEAR TO QUARTER ENDED 31/03/2025

	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	5.25	5.20	5.21	5.20	5.17	5.08
High Date	02/04/2024	03/05/2024	27/06/2024	17/04/2024	31/05/2024	30/05/2024
Low	4.50	4.45	4.45	4.36	4.28	4.15
Low Date	06/02/2025	12/02/2025	04/03/2025	31/03/2025	31/03/2025	10/02/2025
Average	4.95	4.90	4.88	4.82	4.72	4.54
Spread	0.75	0.75	0.76	0.85	0.89	0.93

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.

Bank Rate reductions of 0.25% occurred in August, November and February, bringing the headline rate down from 5.25% to 4.50%. Each of the Bank Rate cuts occurred in the same month as the Bank of England publishes is Quarterly Monetary Policy Report, therein providing a clarity over the timing of potential future rate cuts.

As of early April 2025, market sentiment has been heavily influenced of late 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.

Looking back to 2024/25, returns in excess of 5% were able to be achieved 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.

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 c. 3.75% 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 (to fall to 4.00% by December 2025). A week later and sentiment has changed dramatically in the wake of the equity market sell-off to the extent that markets now expect three Bank Rate reductions between May and December 2025 (Bank Rate to fall to 3.75% by December 2025).

9. Funds on Deposit Outturn for 2024/25

Deposit Policy:-

The Council's policy for placing deposits is governed by Scottish Government Investment Regulations, and the requirements of the CIPFA Prudential and Treasury Management Codes, which have been implemented in the annual investment strategy approved by the Council on 27 February 2024. This policy sets out the approach to the considerations when placing deposits, specifically security, liquidity and then yield (in that order) and sets out the approach for choosing counterparties based on their credit strength, and for financial institutions 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.).

The activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties. The position at 31 March 2025 was as follows:-

Table 11: Breakdown of Deposits by Counterparty at 31 March 2025					
Counterparty	**Principal Outstanding 31 Mar 2025 £000's**	**Security Long/Short Term Rating (Colour)**	**Liquidity**	**Yield**	**UK Local Authority Investment* £000's**
Bank of Scotland	518	AA-/F1+ (Orange)	Instant Access Call Account	4.34%	162,087
Royal Bank of Scotland	1	A+/F1 (Orange)	Instant Access Call Account	2.50%	21,221
Handelsbanken	19	AA/F1+ (Orange)	Instant Access Call Account	4.34%	129,896
MMF - Aberdeen Liquidity Fund	10,982	AAAmmf (Yellow)	Instant Access Money Market Fund	4.53%	1,118,170
MMF - Federated	51	AAAmmf (Yellow)	Instant Access Money Market Fund	4.53%	704,965
MMF - LGIM	14,913	AAAmmf (Yellow)	Instant Access Money Market Fund	4.56%	548,057
Total Deposits	**26,484**			**4.54%**	**2,684,395**

** As at 31 March 2025 by MUFG Clients*

Deposits placed by the Council:-

The Council maintained an average balance of £48.386 million of instant access and fixed term deposits, earning an average rate of return of 5.03%. The comparable performance indicator[2] is 4.82%.

[2] 3 month forward uncompounded SONIA (Sterling Overnight Index Average) which reflects the weighted average duration of the Council's portfolio for the year

10. Performance Measurement

One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities.

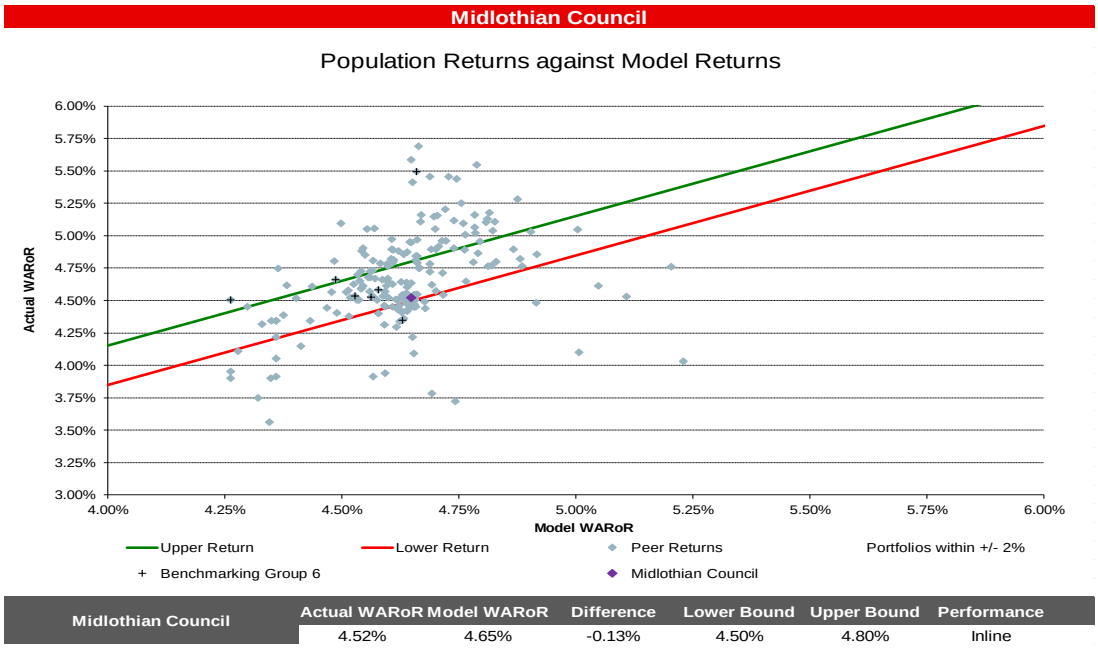
Loans Fund Rate

Combining the interest paid (earned) on external debt (deposits) with charges for premiums written off and internal interest allowed into an average Loans Fund Rate, Midlothian's result of 2.08% for 2023/24 was the 2nd lowest Loans Fund Rate amongst all mainland authorities in Scotland, as reported previously to Council.

The comparative Loans Fund Rate for 2024/25, of 2.73%, is once again expected to be one of the lowest when benchmarked against all mainland authorities in Scotland (note that at present, these benchmark figures are not yet available).

Deposit Benchmarking

The Council participates in the Scottish Investment Benchmarking Group set up by its Treasury Management Consultants, Link. This service provided by Link provides benchmarking data to authorities for reporting and monitoring purposes, by measuring the security, liquidity and yield within an individual authority portfolio. Based on the Council's funds on deposit as at 31 March 2025, the Weighted Average Rate of Return (WARoR) on deposits of 4.54% against other authorities is shown in the graph below:-



Midlothian Council	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
	4.52%	4.65%	-0.13%	4.50%	4.80%	Inline

As can be seen from the above graph, Midlothian is performing in line with the Link model benchmarks (red to green lines).

Debt Performance

Whilst deposit performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide. In this respect, the relevant figures for Midlothian are incorporated in the table in Section 3.

11. Conclusion

The Council's overall cost of borrowing continues to benefit significantly from the approved strategy and the proactive Treasury Management activity undertaken.

The weighted average cost of long term borrowing has risen marginally during the year, reflective of the borrowing undertaken at prevailing Gilt Yields during the year. Tenor of borrowing has been kept short on the market expectation that the current plateau in Gilt Yields will gradually reduce over the coming 2-3 years.

A better than average return on deposits has been achieved for the twenty first consecutive year and Midlothian continues to perform in line with the Link model benchmarks.

Overall Midlothian's Loans Fund Rate of 2.73% for the year is expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland.