



Annual Treasury Management Review 2024/25

For approval by Council on 23 July 2025 following scrutiny by
Governance and Audit Committee
On 10 July 2025

ANNUAL TREASURY MANAGEMENT REVIEW 2024/25

1. 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 following reports have been submitted:

- an annual treasury strategy in advance of the year (Council 29 February 2024)
- a mid year treasury update report (Governance and Audit 19 November 2024 and Council 29 January 2025)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

In addition, this Council has received quarterly treasury management update reports on 12 September 2024 and 20 March 2025 which were received by the Governance and Audit Committee.

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 also 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 Governance and Audit Committee. Member training on treasury management has been undertaken during the financial year and further external training will be provided in the 2025/26 financial year.

2. 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 following table summarises actual capital expenditure and how this was financed.

£'000 General Fund	2023/24 Actual	2024/25 Approved Budget	2024/25 Actual
Capital expenditure	7,007	6,116	4,830
Financed in year	(4,574)	(4,101)	(3,403)
Unfinanced capital expenditure	2,433	2,015	1,427

£'000 Housing Revenue Account (HRA)	2023/24 Actual	2024/25 Approved Budget	2024/25 Actual
Capital expenditure	16,547	16,111	14,816
Financed in year	(16,547)	(16,111)	(14,816)
Unfinanced capital expenditure	-	-	-

3. 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 resources used to pay for the capital spend. It represents the 2024/25 unfinanced capital expenditure (see above table), and 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 that 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 (PWL) or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's (non HRA) 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 Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need (there is no statutory requirement to reduce the HRA CFR). 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 statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2024/25 MRP Policy, (as required by Department for Levelling Up, Housing and Communities (DLUHC) Guidance), was approved as part of the Treasury Management Strategy Report for 2024/25 on 29 February 2024.

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

CFR (£'000): General Fund	31 March 2024 Actual	31 March 2025 Budget	31 March 2025 Actual
Opening Balance	13,165	15,289	15,289
Adjustment to Opening Balances: IFRS 16 leases	-	-	26
Add unfinanced capital expenditure (as above)	2,433	2,015	1,427
Less Minimum Revenue Provision	(309)	(319)	(391)
Closing Balance	15,289	16,985	16,351

CFR (£'000): HRA	31 March 2024 Actual	31 March 2025 Budget	31 March 2025 Actual
Opening Balance	68,427	68,427	68,427
Add unfinanced capital expenditure (as above)	-	-	-
Closing Balance	68,427	68,427	68,427

Borrowing activity is constrained by prudential indicators for gross 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 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 in 2024/25. 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's	31 March 2025 Estimate £000's	31 March 2025 Actual £000's
Gross Borrowing Position	67,456	67,456	67,456
CFR	83,716	85,412	84,778

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 –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.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2024/25
Authorised limit	£115m
Maximum gross borrowing position	£67.456m
Operational boundary	£111m
Average gross borrowing position	£67.456m
Financing costs as a proportion of net revenue stream – Non HRA	-7.12%
HRA	39.93%

4. 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 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 position including accrued interest was as follows:

APPENDIX '1'

	31/3/24 Amount £'000	Rate/ Return %	Average Life	31/3/25 Amount £'000	Rate/ Return %	Average Life
Fixed rate funding						
PWLB	67,456	3.48	38 years	67,456	3.48	37 years
Total debt	67,456	3.48	38 years	67,456	3.48	37 years
CFR	83,716			84,778		
Over/(under) borrowing	(16,260)			(17,322)		
Cash and investments:						
long term equity and service loans	(11,103)	n/a	n/a	(12,624)	n/a	n/a
short term	(25,849)	6.26	126 days	(20,332)	5.50	126 days
instant access deposits	(2,762)	5.23	1 day	(5,277)	4.47	1 day
Total cash and investments	(39,714)	6.16	110 days	(38,233)	5.29	95 days
Net debt	27,742			29,223		

Investments and Cash and Cash Equivalents held as at 31 March 2025 including accrued interest were as follows:

INVESTMENT PORTFOLIO	Actual 31/03/24 £000's	Actual 31/03/24 %	Actual 31/03/25 £000's	Actual 31/03/25 %
Treasury Investments				
Banks	22,570	79	6,961	27
Building Societies	0	0	0	0
Local Authorities	4,010	14	15,132	59
Total managed in house	26,580	93	22,093	86
Money Market Funds	2,031	7	3,516	14
Total managed externally	2,031	7	3,516	14
Total Treasury Investments	28,611	100	25,609	100
Non-Treasury Investments				
Equity (at fair value)	5,308	48	6,078	48
Service Loans (long term debtors)	5,795	52	6,546	52
Total Non-Treasury Investments	11,103	100	12,624	100

SUMMARY	Actual 31/03/24 £000's	Actual 31/03/24 %	Actual 31/03/25 £000's	Actual 31/03/25 %
Total Treasury Investments	28,611	72	25,609	67
Total Non-Treasury Investments	11,103	28	12,624	33
Total of all Investments	39,714	100	38,233	100

The maturity structure of the investment portfolio was as follows:

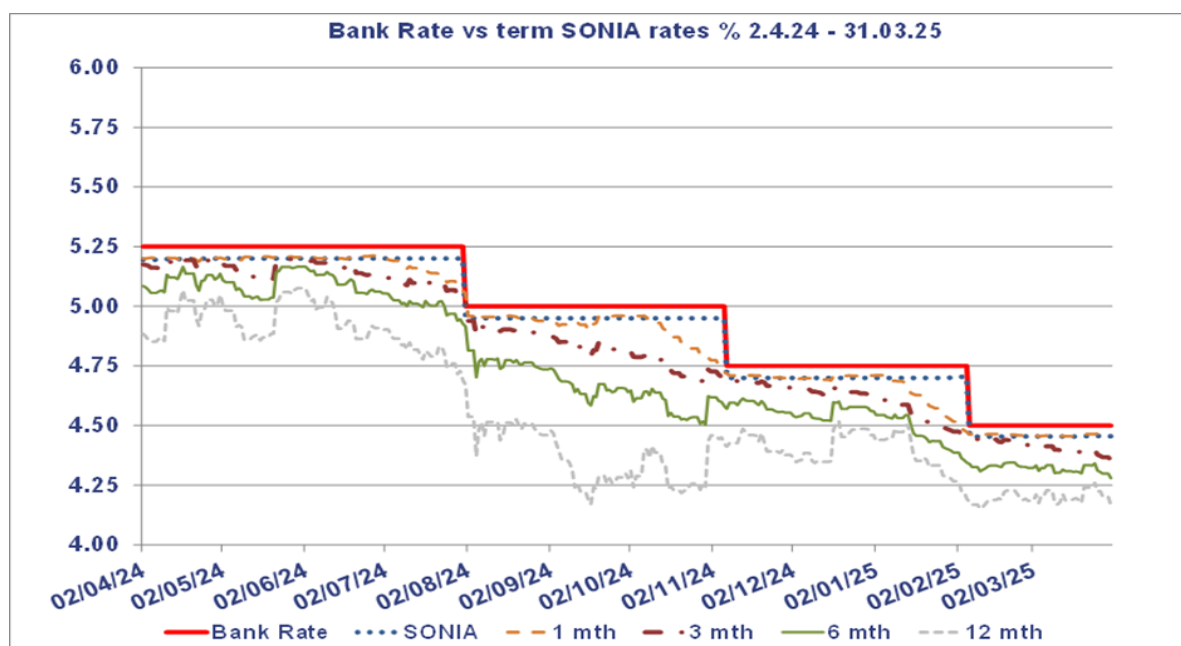
	2023/24 Actual £'000	2024/25 Actual £'000
Investments		
Longer than 1 year	11,103	12,624
Under 1 year	<u>28,611</u>	<u>25,609</u>
Total	39,714	38,233

The exposure to fixed and variable rates on investments was as follows:

	31/3/24 Actual £'000	31/3/25 Actual £'000
Fixed rate	30,795 (78%)	26,878 (70%)
Variable rate	8,919 (22%)	11,355 (30%)

5. THE STRATEGY FOR 2024/25

5.1 Investment strategy and control of interest rate risk (commentary provided by MUGF)



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 4.5%. Each of the Bank Rate cuts occurred in the same month as the Bank of England publishes its Quarterly Monetary Policy Report, therein providing a clarity over the timing of potential future rate cuts.

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

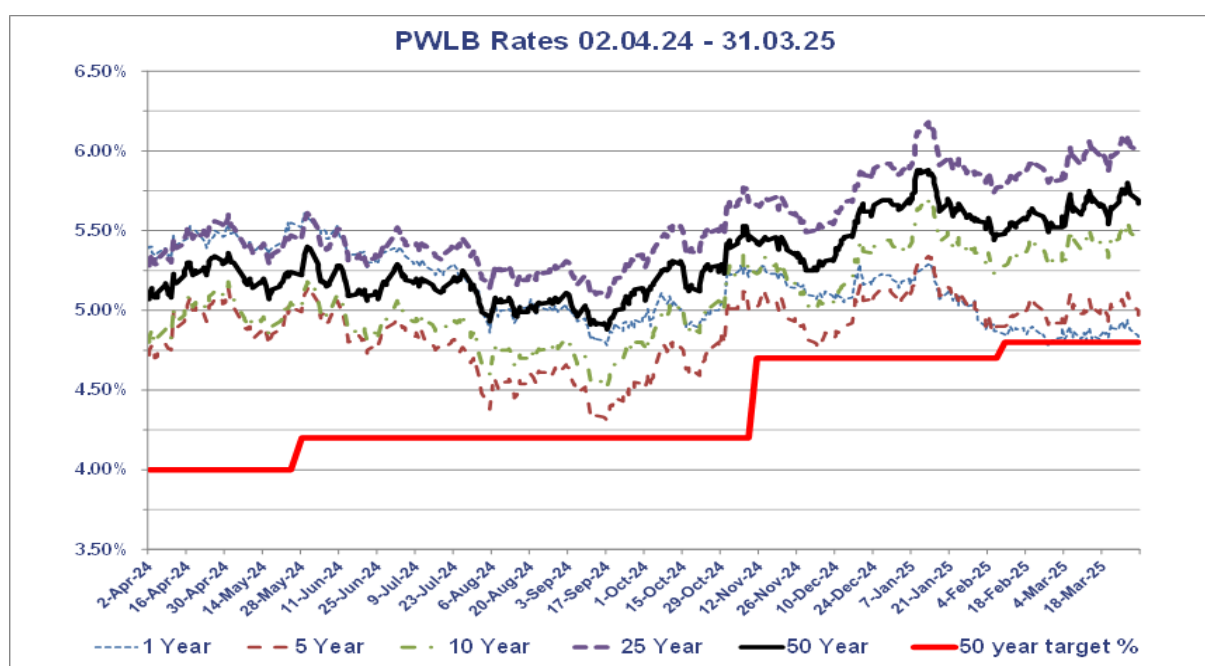
5.2 Borrowing strategy and control of interest rate risk

During 2024/25, the Authority maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Authority’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 in the light of economic growth concerns and the eventual dampening of inflation. The Authority has sought to minimise the taking on of long-term borrowing at elevated levels (>5%) and has focused on a policy of internal borrowing.

Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2024/25. Bank Rate did peak at 5.25% as anticipated, but the initial expectation of significant rate reductions did not transpire, primarily because inflation concerns remained elevated. Forecasts were too optimistic from a rate reduction perspective, but more recently the forecasts, updated from November 2024 onwards, look more realistic.

Forecasts at the time of approval of the treasury management strategy report for 2024/25 were as follows:

Link Group Interest Rate View 08.01.24													
	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



Gilt yields have been volatile through 2024/25. Indeed, the low point for the financial year for many periods was reached in September 2024. Thereafter, and especially following the Autumn Statement, PWLB Certainty rates have remained elevated at between c5% - 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%.

6. Borrowing Outturn

Treasury borrowing – The Council has not undertaken any new Treasury borrowing during the 2024/25 financial year.

The Council’s external borrowing from the PWLB at 31 March 2025 remained at £67.456m at a fixed rate of 3.48% and matures on 28 March 2062.

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

Rescheduling – No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Interest Payable – The budget for 2024/25 was £2,847,469 for the year and the outturn was £2,347,469 giving a favourable variance of £500k for the year. This was as a result of the £10m budgeted additional HRA borrowing not be taken out.

7. INVESTMENT OUTTURN FOR 2024/25

Investment Policy – the Authority's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy approved by the Authority on 29 February 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.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

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

Balance Sheet Resources (£'000)	31 March 2024	31 March 2025
Balances	17,473	14,574
Earmarked Reserves	6,225	8,875
Major Repairs Reserve	4,379	2,502
Capital Grants and Contributions	5,193	6,201
Usable capital receipts	7,498	8,356
Total	40,768	40,508

The Council held average treasury investment balances of £31.75m during 2024/25 which were internally managed, achieving an average rate of return of 5.41% compared with the average 3 Month Sterling Overnight Index Average (SONIA) rate of 4.82%.

The Council also held average non-treasury investment balances (excluding equity) of £6.55m. The Council has issued nine loans totalling £6.55m to Welland Homes Limited, which is the Council's wholly owned Housing Development Company. These are service loans (classified as long term debtors) and the Council received interest at an average rate of 4.32% for the 2024/25 financial year. Total interest earned on these loans during the year was £271k.

The combined rate of return on all investments averaged 5.23%.

The following table provides an analysis of the outturn for the net treasury position:

Category	2024/25 Original Budget £	2024/25 Outturn £	2024/25 Variance £
GF Interest Received	(1,032,700)	(1,600,170)	(567,470)
HRA Interest Received	(511,400)	(389,713)	121,687
HRA Interest Paid	<u>2,847,469</u>	<u>2,347,469</u>	<u>(500,000)</u>
HRA Net Position	2,336,069	1,957,756	(378,313)
Total Net Position	1,303,369	357,586	(945,783)

At 31 March 2025 there was a combined favourable variance of £945,783.

8. THE ECONOMY AND INTEREST RATES (Commentary provided by MUGF)

UK. Economy.

UK inflation has proved somewhat stubborn throughout 2024/25. Having started the financial year at 2.3% year on year (y/y) (April), the Consumer Price Index (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.

Bank Rate reductions have been limited. Bank Rate currently stands at 4.5%, despite the Office for Budget Responsibility reducing its 2025 Gross Domestic Product (GDP) forecast for the UK economy to only 1% (previously 2% in October).

Borrowing has become 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.

The Bank of England sprung no surprises in their March meeting, leaving Bank Rate unchanged at 4.5% by a vote of 8-1, but suggesting further reductions would be gradual.

USA Economy.

Despite the markets willing the Federal Open Market Committee (FOMC) 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% and annualised growth for Q4 2024 was 2.4%. With unemployment just above 4%, and tax cuts in the pipeline, the FOMC is unlikely to be in a hurry to cut rates, at least for now.

Eurozone (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.

9. OTHER ISSUES

9.1 IFRS 9 fair value of investments – When producing the 2024/25 financial statements the Council has adhered to this accounting standard. This standard prescribes the way financial instruments are valued in the accounts and also how risk is measured and accounted for.

9.2 Non Treasury Investments - The following table provides details relating to the Council's equity investments which are valued at "fair value" in accordance with proper accounting practice.

Entity	Equity at Cost (£)	Equity at Fair Value 31/03/25 (£)
Welland Homes	3,718,694	4,828,602
South Holland Local Housing Community Interest Company	100	1,249,643
UK Municipal Bond Agency	50,000	0
TOTAL	3,768,794	6,078,245

9.3 Changes in Risk Appetite – There has been no change to the Council's risk appetite during the 2024/25 financial year and investments have been made throughout the year in accordance with the Council's agreed investment criteria approved by Council.