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Annual Treasury Report 2024/25

For approval by Council on 21 July 2025 following scrutiny by Audit and Governance Committee on 7 July 2025

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ANNUAL TREASURY REPORT 2024/25

1. INTRODUCTION

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury 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 4 March 2024)
- a mid year treasury update report (Audit and Governance 18 November 2024 and Council 20 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 14 October 2024 and 22 April 2025 which were received by the Audit and Governance 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 Audit and Governance Committee. Member training on treasury management has been undertaken during the 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 (including leases)	5,939	20,814	15,257
Financed in year	(4,160)	(20,418)	(14,853)
Unfinanced capital expenditure	1,779	396	404

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 (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 Minimum Revenue Provision – MRP, 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 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 4 March 2024.

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

CFR (£'000)	**31 March 2024 Actual**	**31 March 2025 Estimate**	**31 March 2025 Actual**
Opening CFR Balance	17,211	18,405	18,405
Add Unfinanced Capital Expenditure	1,779	396	404
Less Minimum Revenue Provision	(585)	(129)	(154)
Less Finance Lease Repayments	-	-	(78)
Total CFR	18,405	18,672	18,577

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. 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	1,000	1,000	1,000
CFR	18,405	18,672	18,577

The authorised limit - the authorised limit is the "affordable borrowing limit" required by S3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2024/25 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary 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	£28m
Maximum gross borrowing position	£1m
Operational boundary	£25m
Average gross borrowing position	£1m
Financing costs as a proportion of net revenue stream	-20.98%

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:

	31/3/24 Principal & Accrued Interest £000's	**Rate/ Return %**	**Average Life In Years**	**31/3/25 Principal & Accrued Interest £000's**	**Rate/ Return %**	**Average Life In Years**
Fixed Rate External & PWLB borrowing	1,000	11.125	26.87	1,000	11.125	25.87
CFR	18,405			18,577		
Over/(under) borrowing	(17,405)			(17,577)		
Total investments (including Cash and Cash Equivalents)	(44,495)	5.12	0.52	(50,669)	4.92	0.59
Net investments	(43,495)			(49,669)		

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

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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	15,264	52	7,275	21
Local Authorities	9,076	31	26,351	74
Total managed in house	**24,340**	**83**	**33,626**	**95**
Money Market Funds	5,026	17	1,713	5
Total managed externally	**5,026**	**17**	**1,713**	**5**
Total Treasury Investments	**29,366**	**100**	**35,339**	**100**
Non Treasury Investments				
Property Funds	15,129	100	15,330	100
Total Non Treasury Investments	**15,129**	**100**	**15,330**	**100**

The value of property fund investments have increased during the financial year and a detailed analysis is provided at paragraph 9.

SUMMARY	**Actual 31/03/24 £000's**	**Actual 31/03/24 %**	**Actual 31/03/25 £000's**	**Actual 31/03/25 %**
Total Treasury Investments	29,366	66	35,339	70
Total Non Treasury Investments	15,129	34	15,330	30
Total of all Investments	**44,495**	**100**	**50,669**	**100**

The maturity structure of the investment portfolio was as follows:

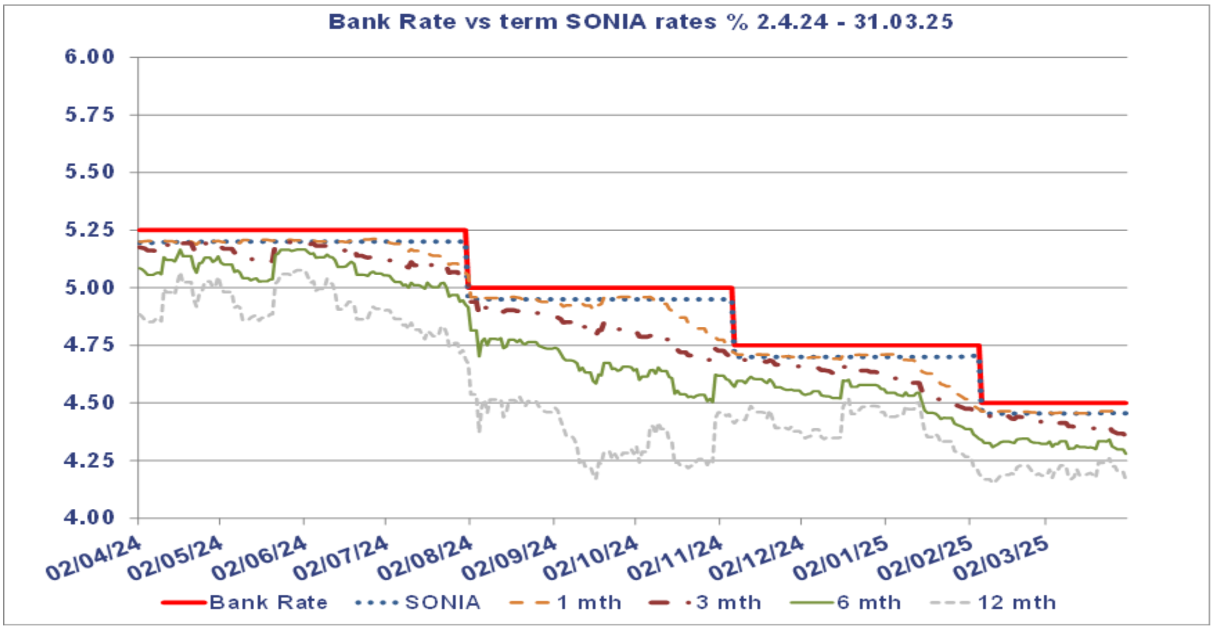
	2023/24 Actual £'000	**2024/25 Actual £'000**
Investments		
Longer than 1 year	15,129	15,330
Under 1 year	29,366	35,339
Total	44,495	50,669

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

	31/3/24 Actual £'000	31/3/25 Actual £'000
Fixed rate	23,705 (53%)	32,609 (64%)
Variable rate	20,790 (47%)	18,060 (36%)

5. THE STRATEGY FOR 2024/25

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



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 is 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

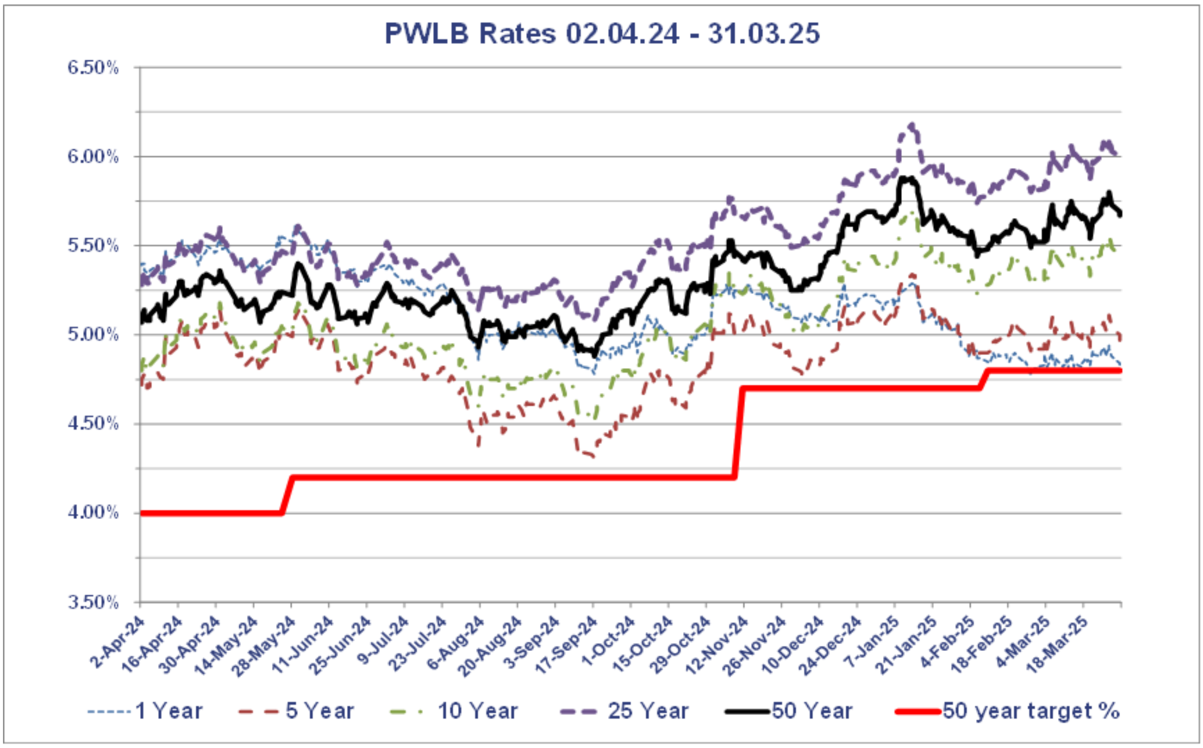
During 2024/25, the Authority maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow was used as an interim measure. This strategy was 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

Actual PWLB rates during the year are reflected on the chart below:



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 has a £1m loan from State Street Nominees Ltd at a rate of 11.125% which matures in 2051. Interest on this loan was £111,250.

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 – The Council has not undertaken any debt rescheduling during the 2024/25 financial year

7. INVESTMENT OUTTURN FOR 2024/25

Investment Policy – the Authority’s investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Authority on 4 March 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
General Fund Balance	2,000	2,000
Earmarked reserves	13,794	17,051
Usable capital receipts	275	275
Capital Grants Unapplied	26,371	34,346
Boston Town Area Committee	207	294
Total	**42,647**	**53,966**

The Council held average treasury investment balances of £33.5m during 2024/25 which were internally managed, achieving an average rate of return of 5.29% compared with the average 3 Month Sterling Overnight Index Average (SONIA) rate of 4.82%.

The Council also held average non-treasury investment balances of £17.3m at cost which were externally managed. These balances were held in property funds and achieved estimated net average returns of 3.21%.

The combined rate of return on all investments averaged 4.57%.

The table below provides an analysis of the net treasury position following the decision to repay the PWLB borrowing and takes account of the discount which must be allocated to revenue over a ten year period in accordance with proper accounting practice.

	2024/25 Annual Budget	**2024/25 Outturn**	**2024/25 Variance**
Treasury Investment Income			
Gross Interest	(887,720)	(1,765,663)	(877,943)
Brokers Fees	10,000	3,263	(6,737)
Net Position	(877,720)	(1,762,400)	(884,680)
Property Funds Income			
Gross Distributions	(878,790)	(713,515)	165,275
Less Management Fees	170,000	178,889	8,889
Net Distributions	(708,790)	(534,626)	174,164
Premature Repayment of Borrowing Discount Allocated to Revenue	(641,743)	(641,743)	-
Less: Total Borrowing Costs	111,250	111,250	-
Overall Net Position	**(2,117,003)**	**(2,827,519)**	**(710,516)**

Further details of property fund investments held by the Council and the 2024/25 performance is shown in **Paragraph 9** of this report**.**

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

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.

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

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 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

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.

Non Treasury Investments : Property Funds – The Council owns investments in commercial property funds totalling £17,326,043 at cost.

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The table below provides an analysis of the revenue returns (dividend distributions) received during the financial year and an analysis of the change in the Net Asset Values of each fund since purchase and also during the 2024/25 financial year.

Financial Institution	**Purchase Cost (£)**	**2024/25 Budgeted Net Revenue 2024/25 (£ & %)**	**2024/25 Outturn Net Revenue (£ & %)**	**Net Asset Value (£)**	**Total Gain/ (Loss) Since Purchase (£ & %)**	**Capital Gain/(Loss) Since 31/3/24 (£ & %)**	**2024/25 Combined Annual Return (%)**
BlackRock UK Property Fund	4,500,006	180,000 4.00%	140,881 3.13%	4,045,511	(454,495) (10.10%)	66,985 1.68%	4.81%
Schroder UK Real Estate Fund	4,250,006	170,000 4.00%	148,496 3.49%	3,556,483	(693,523) (16.32%)	(36,421) (1.01%)	2.48%
Threadneedle Property Unit Trust	4,239,754	169,590 4.00%	150,309 3.55%	3,656,500	(583,254) (13.76%)	137,476 3.91%	7.46%
M&G Investments UK Property Fund (After Distribution Payments)	336,277	29,200 4.00%	16,116 4.79%	464,052	127,775 N/A	(18,424) N/K	N/K
AEW UK Core Property Fund	4,000,000	160,000 4.00%	101,108 2.53%	3,514,059	(485,941) (12.15%)	81,795 2.38%	4.91%
TOTAL	**17,326,043**	**708,790**	**556,910**	**15,236,605**	**(2,089,438)**	**231,411**	
Adjustment for 23/24 Accrual	**-**	-	(22,284)	-	-	-	-
GRAND TOTAL	**17,326,043**	**708,790**	**534,626**	**15,236,605**	**(2,089,438)**	**231,411**	

The total unrealised gains on the capital property funds during 2024/25 was £231,411. The total cumulative net unrealised losses on the capital property funds now stands at £2,089,438.

The M&G property fund has paid a cumulative total of £3,663,724 in respect of property sales. This receipt has been used to finance the minimum revenue provision charge which reduces the historic unfinanced capital expenditure.

A cumulative minimum revenue provision of £265k has been made in respect of the Council's remaining property fund investments.

The table below provides details of the 2024/25 budget for property fund distributions and borrowing costs along with the returns received for the year. The final column shows the total distributions since the property funds were purchased.

Financial Institution	**Actual Net Dividend Distribution Received Pre 2024/25 (£)**	**Net Dividend Distribution Budget 2024/25 (£)**	**Net Dividend Distribution Received 2024/25 (£)**	**Adjustment For 2023/24 Accrual (£)**	**Total Net Distribution Received Since Purchase (£)**
Schroder UK Real Estate Fund	809,186	170,000	148,496	(1,171)	956,511
Threadneedle Property Unit Trust	1,015,699	169,590	150,309	(3,229)	1,162,779
BlackRock UK Property Fund	809,969	180,000	140,881	645	951,495
M&G Investments UK Property Fund *	534,942	29,200	16,116	-	551,058
AEW UK Core Property Fund	905,204	160,000	101,108	(18,529)	987,783
Total Revenue	**4,075,000**	**708,790**	**556,910**	**(22,284)**	**4,609,626**
Borrowing Costs	(1,868,687)	-	-	-	(1,868,687)
Net Revenue Position	**2,206,313**	**708,790**	**556,910**	**(22,284)**	**2,740,939**

It can be seen from the table above that the net revenue distribution received by the Council during 2024/25 was £556,910 and there was an adjustment of £22,284 for over accrued distributions. The cumulative net distribution since purchase has now increased to £2,740,939.

Changes in Risk Appetite

There has been no change to the Councils risk appetite during the 2024/25 financial year.