	Corporate Policy and Resources Committee
	Thursday, 12th June 2025

Subject: Annual Treasury Management Report 2024/25

Report by:	Director of Finance and Assets (S151)
Contact Officer:	Comie Campbell Interim Financial Services Manager (Deputy S151) comie.campbell@west-lindsey.gov.uk
Purpose / Summary:	To report on Annual Treasury Management activities and prudential indicators for 2024/25 in accordance with the Local Government Act 2003

RECOMMENDATION(S):

1. Members recommend the Annual Treasury Management Report and actual Prudential Indicators 2024/25 to Full Council for approval.

IMPLICATIONS

Legal: None from this report

Financial: FIN/29/26/MT/CC

Treasury Investment activities have generated £1.166m of investment interest at an average rate of 5.01%.

Non-Treasury investments (Investment Property Portfolio) have generated £1.691m income which is a gross yield of 7.01%

Financing activities has resulted in a total of £24.0m of external borrowing at a cost in year of £0.760m.

Staffing : None from this report

Equality and Diversity including Human Rights : None from this report

Data Protection Implications : None from this repor**t**

Climate Related Risks and Opportunities: None from this report

Section 17 Crime and Disorder Considerations: None from this report

Health Implications: None from this report

Title and Location of any Background Papers used in the preparation of this report :
The Treasury Management Strategy 2024/25

Risk Assessment :
The Treasury Management Strategy sets out an assessment of treasury risks.

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	X

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	X

1. Executive Summary

The Council are required to receive as a minimum the following reports;

- an annual treasury strategy in advance of the year (March 2024)
- a mid-year, (minimum), treasury update report (January 2025)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

In addition, this Corporate Policy and Resources Committee has received quarterly treasury management update reports.

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 either the Governance and Audit Committee who provide scrutiny of the Treasury Management Strategy and the Corporate Policy and Resources Committee who monitor in year performance and mid-year updates. Member training on treasury management issues was undertaken during the year in order to support members' scrutiny role.

During 2024/25, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	**2023/24 Actual £000**	**2024/25 Original £000**	**2024/25 Actual £000**
Capital expenditure	5,303	30,716	17,398
Capital Financing Requirement:	37,022	*36,340*	36,070
Of which – Investment Properties	19,536	19,099	19,099
Gross borrowing (External)	**24,000**	**19,155**	**24,000**
Finance Lease	0	0	0
Investments			
• Longer than 1 year	2,000	3,000	2,000
• Under 1 year	18,210	10,000	19,780
• **Total**	**20,210**	**13,000**	**21,780**
Net borrowing	**3,790**	**6,155**	**2,220**

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

The financial year 2024/25 was a challenging investment environment due to the uncertainty if interest rates were due to be reduced or not by the Bank of England. This meant that locking in longer term investments was hard to do because of concern over the possible increase or decrease of the return over time. With this in mind shorter term investments were made so as not to lose potential returns if rates went up. Conversely debt then became more expensive and so it was a fine balancing act.

This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

2. Capital Expenditure and Financing

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

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

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

Capital and Financing	2023/24 Actual £000's	2024/25 Original Budget £000's	2024/25 Actual £000's
Capital expenditure	**5,303**	**30,716**	**17,398**
Financed in year by:			
Capital Receipts	324	451	119
Capital grants/contributions	4,142	19,525	16,827
Revenue	776	9,393	18

Leases	0	0	0
S106	797	1,204	434
Prudential Borrowing	(736)	143	0

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 DLUHC Guidance), was approved as part of the Treasury Management Strategy Report for 2024/25 on 4th March 2024.

The Council has retained a Valuation Volatility Reserve with a minimum balance of 3% of purchase price of the investment property portfolio. This Reserve will be utilised to mitigate any loss on the investment upon sale of the assets if the capital receipt does not meet the debt outstanding. With the introduction of MRP for 2022/23, this reserve and minimum balance will be reviewed on an annual basis. This is considered a prudent approach for these specific assets.

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

Capital Financing Requirement (CFR)	**31 March 2024 Actual £000's**	**31 March 2025 Actual £000's**
Opening balance	39,438	37,022
Add adjustment for Prudential Borrowing	(736)	0
Less MRP/Finance Lease Repayments	(1,680)	(952)
Less VRP	0	0
Closing balance	**37,022**	**36,070**
Movement on CFR	*(2,416)*	*(952)*

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 ensures 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 allowed 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	**2024/25 Budget £000's**	**31 March 2025 Actual £000's**
Gross Borrowing Position	24,000	19,155	24,000
CFR	37,022	36,340	36,070
(Under)/Over Funding of CFR	(13,022)	(17,185)	(12,070)

The Authorised Limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the

Council does not have the power to borrow above this level. The table below demonstrates that during 2024/25 the Council has maintained gross borrowing within its authorised limit.

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

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 £000's
Authorised limit	29,155
Operational boundary	24,155
Financing costs as a proportion of net revenue stream	10.12%

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 detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2024/25 the Council's treasury, (excluding borrowing and finance leases), position was as follows:

TABLE 1	31 March 2024 Principal £000's	Rate/ Return	Average Life yrs.	31 March 2025 Principal £000's	Average Rate/ Return	Average Life yrs.
Fixed rate funding:						
-PWLB	14,000	2.25%	27	14,000	2.25%	26
-Other LA	10,000	5.78%	0.3	10,000	5.25%	0.2
Total debt	**24,000**		**27.3**	**24,000**		***26.2***
CFR	**37,022**		**-**	**36,070**		
Over / (under) borrowing	**(13,022)**	**-**	**-**	**(12,070)**		
Investments:						
	20,210		-	21,780		
Total investments	**20,210**		**-**	**21,780**		
Net debt	**3,790**	**-**	**-**	**2,220**		

Under borrowing reflects Internal Borrowing from the Council's cash balances.

The maturity structure of the debt portfolio was as follows:

	31 March 2024 Actual £000's	31 March 2025 Actual £000's	% Portfolio
Less than 5 years	13,000	13,000	54%
5 years and within 10 years	0	0	0
10 years and within 20 years	0	0	0
20 years and within 30 years	2,500	2,500	10%
30 years and within 40 years	0	0	0
40 years and within 60 years	8,500	8,500	36%

£14.0m of loans have been undertaken with the Public Works Loans Board at fixed rates on a maturity basis as detailed above.

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.

The Council's capital investments and their subsequent financing costs as a % of the Net Revenue Stream is detailed below along with the impact on Council

Tax (all other things being equal). The indicators reflect the Borrowing Strategy, that the Council will only borrow where schemes are able to provide sustained support for the costs of borrowing and reflect new income generated is in excess of the cost of borrowing.

	31 March 2024 Actual	31 March 2025 Actual
Ratio of Financing Costs to Net Revenue Stream	11.15%	10.12%
Increase/(Reduction) in Council Tax	£25.75	£26.37

Investments

Investment Policy – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 4th 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*	31 March 2024 £000's	31 March 2025 £000's
General Fund Balance	3,328	3,495
Earmarked reserves	20,047	19,558
Provisions	378	0
Usable capital receipts	1,460	1,460
Capital Grants Unapplied	3,577	3,070
Total	**28,849**	**27,603**

*Subject to external audit of the 2024/25 accounts

Investments held by the Council

- The Council maintained an average balance of £21.283m of internally managed funds.
- The internally managed funds earned an average rate of return of 5.01%.

- The comparable performance indicator is the Sterling Overnight Index Average (SONIA) which was a rate of 4.91% as at 31 March 2025.
- Total investment income was £1.166m compared to a budget of £0.651m.

Types of investments	31 March 2024 Actual £000	31 March 2025 Actual £000
Deposits with banks and building societies	1,995	500
Money Market Funds	16,710	19,280
Other Local Authorities	1,000	0
Property funds	2,000	2,000
TOTAL TREASURY INVESTMENTS	**20,210**	**21,780**

Non-Treasury Investments

YEAR OF ACQUISITION	Commercial Property Portfolio	Sector	Total Acquisition Cost £'m
2017/18	Bradford Road, Keighley	Hotel	2.490
2018/19	43 Penistone Road, Sheffield	Leisure	2.700
2018/19	Unit 7 Drake House, Sheffield	Manufacturing	3.175
2018/19	5 Sandars Road, Gainsborough	Manufacturing	6.470
2018/19	Heaton Street, Gainsborough	Retail	1.150
2019/20	Wheatley Road, Doncaster	Commercial Unit	5.681
	TOTAL PORTFOLIO		**21.666**

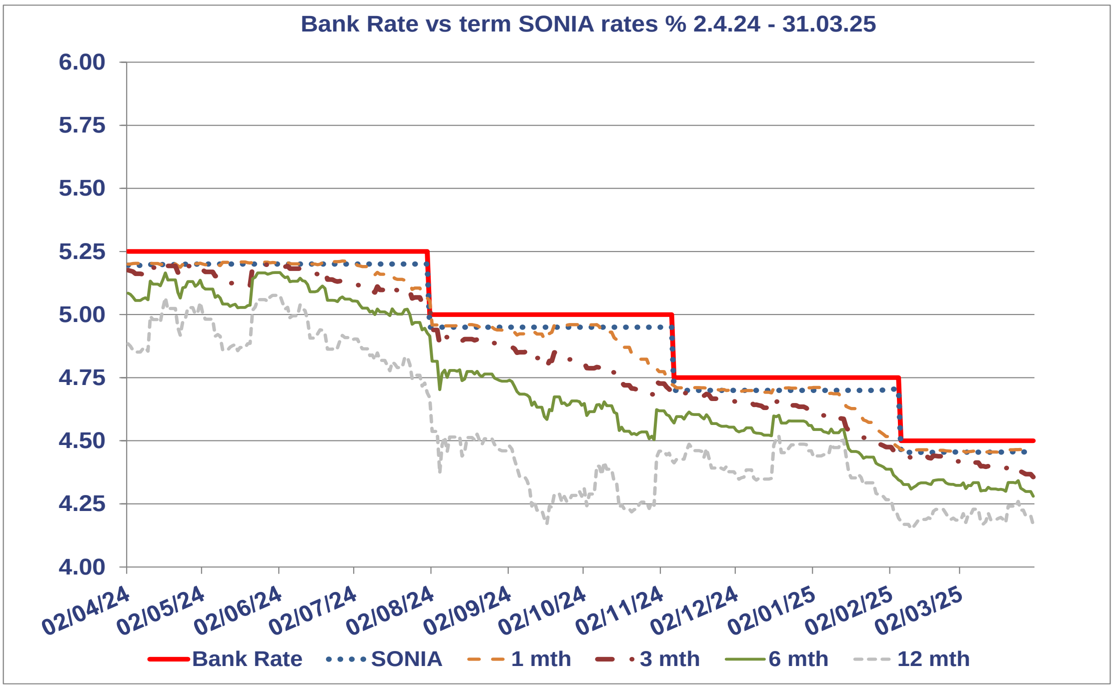
The investments are held on the balance sheet at their Fair Value *(the price expected to be received in current market conditions).* The Fair Value as at 31 March 2025 for the Commercial Property Portfolio is £22.952m.

This investment portfolio is generating a gross yield of 7.01% and £1.691m in income relevant to the financial year.

The Council mitigates any loss on investment by holding a Valuation Volatility Reserve at a minimum of 3% of the purchase price of properties. The balance on this reserve as at 31 March 2025 is £0.850m.

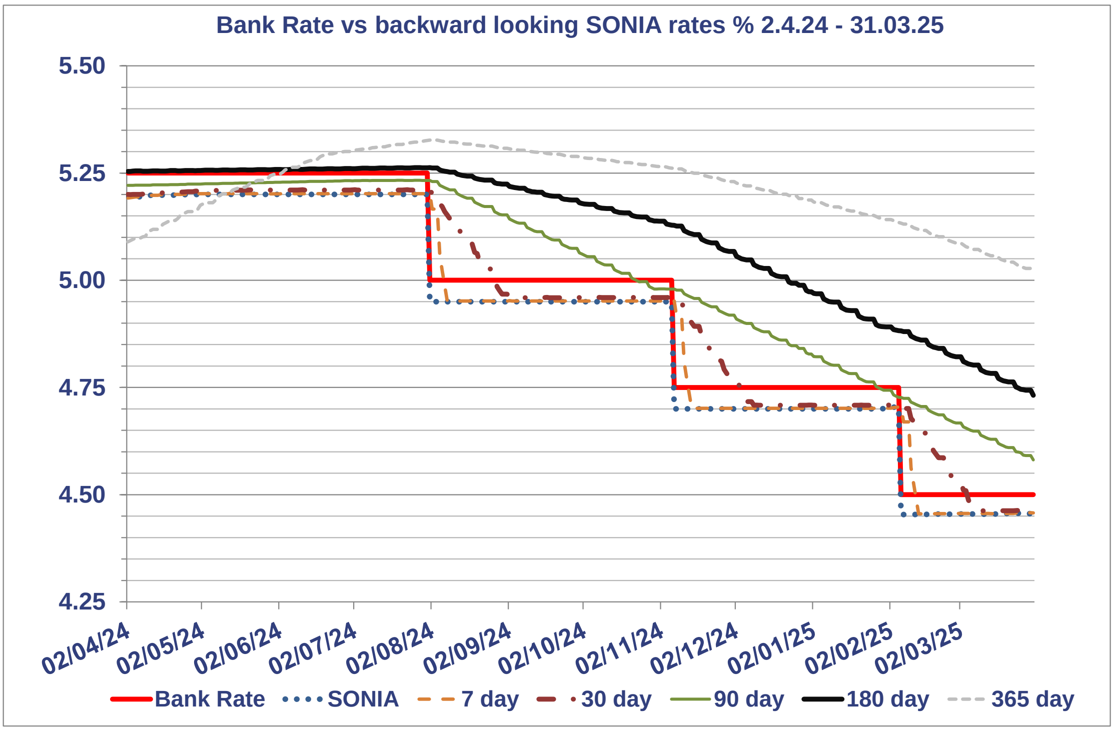
5. The Strategy for 2024/25 (*Information supplied by MUFG*)

Investment strategy and control of interest rate risk



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 Benchmarking Data – Sterling Overnight Index Averages (Backward-looking) 2024/25



FINANCIAL YEAR TO QUARTER ENDED 31/03/2025							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.25	5.20	5.20	5.21	5.23	5.26	5.33
High Date	02/04/2024	03/05/2024	13/05/2024	26/06/2024	26/07/2024	26/07/2024	01/08/2024
Low	4.50	4.45	4.46	4.46	4.58	4.73	5.02
Low Date	06/02/2025	12/02/2025	13/02/2025	12/03/2025	31/03/2025	31/03/2025	31/03/2025
Average	4.95	4.90	4.91	4.94	5.02	5.11	5.22
Spread	0.75	0.75	0.75	0.75	0.65	0.53	0.30

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.

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, 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.

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 c3.75% 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 (4% at 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%).

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 and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing as appropriate.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short-term rates, (e.g., due to a marked increase of risks around a relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, perhaps arising from the stickiness of inflation in the major developed economies, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

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.

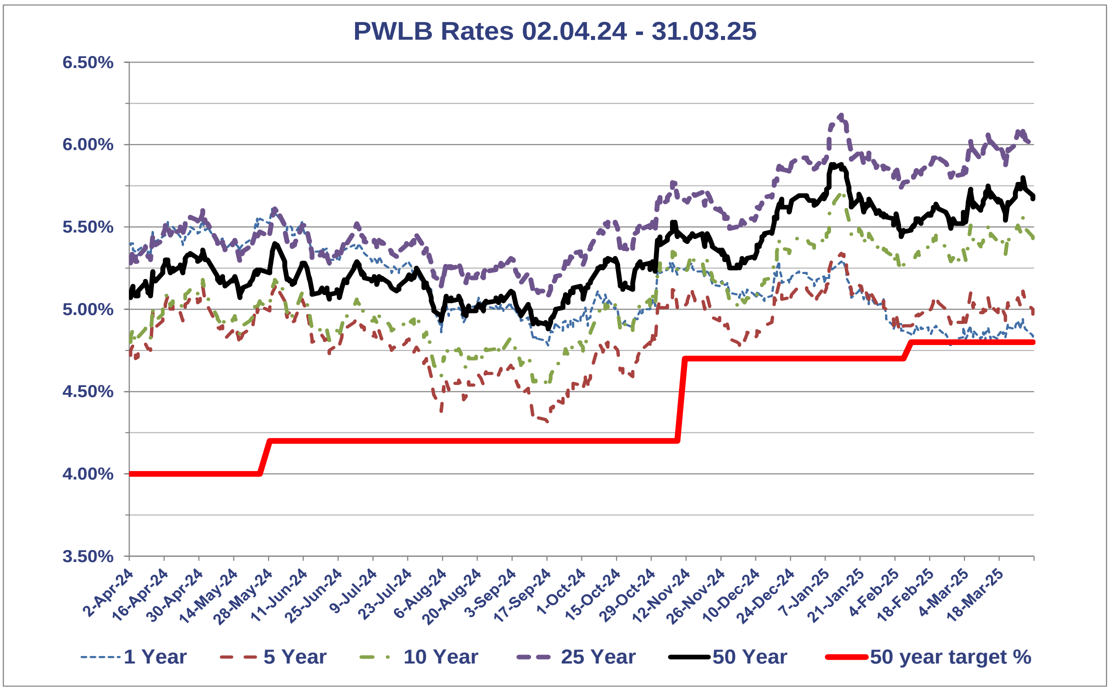
At the start of April 2025, following the introduction of President Trump's trade tariffs policies, the market now expects Bank Rate to fall to 3.75% by the end of December 2025, pulling down the 5- and 10-year parts of the curve too.

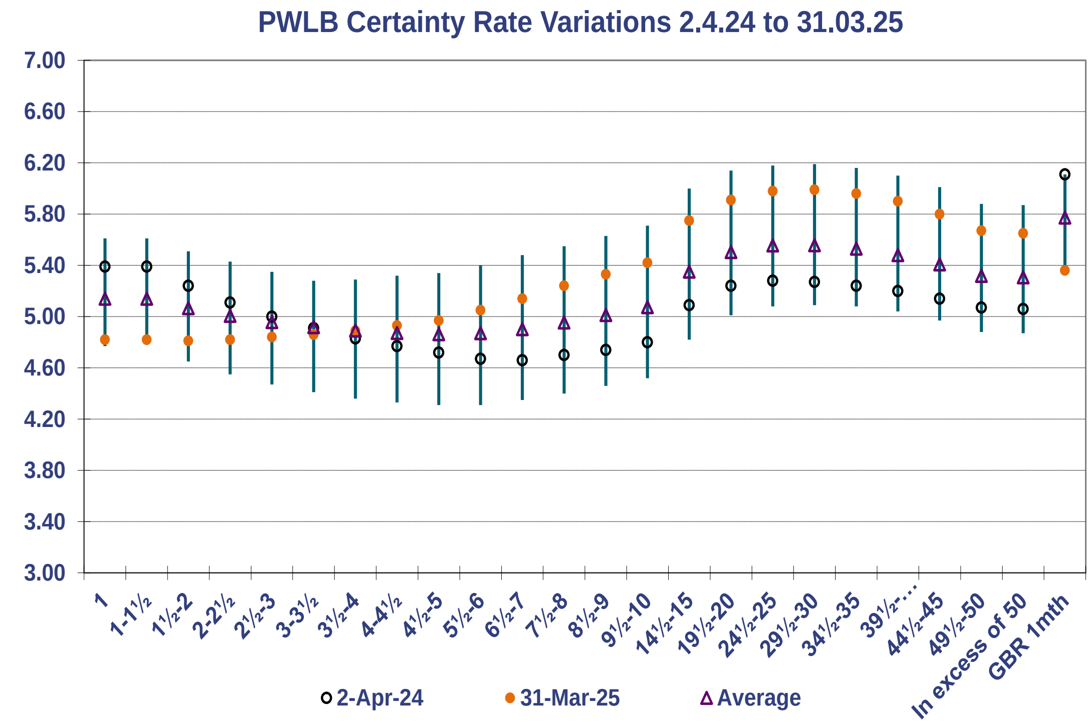
This should provide an opportunity for greater certainty to be added to the debt portfolio, although a significant fall in inflation will be required to underpin any material movement lower in the longer part of the curve.

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

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

PWLB Rates 2024/25





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%

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.

UK gilt yields

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%.

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)
- **Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)
- **HRA Borrowing rate** is gilt plus 40 basis points (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.

6. Other Issues

Counterparty Limits

There have been no breaches of Prudential Indicators.