Agenda Item No:	**9**	Fenland CAMBRIDGESHIRE
Committee:	**Council**	
Date:	**21 July 2025**	
Report Title:	**Treasury Management Annual Review 2024/25**	

1 Purpose / Summary

The purpose of this report is to consider the overall financial and operational performance of the Council's treasury management activity for 2024/25.

2 Key issues

- Outstanding loans of £7.8m and investments of £6.907m as of 31 March 2025.
- No new borrowing was undertaken, and the authorised limit was not breached during 2024/25.
- The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.
- Total investment income received from temporary investments and pooled property fund distributions was £512,346 (estimate £530,000) and £120,947 (estimate £130,000) respectively.
- Overall interest rate achieved from temporary investments and pooled property funds was 4.84% and 3.62% respectively. The benchmark for temporary investments is the 7 day backward looking Sterling Overnight Index Averages (SONIA) uncompounded rate for 2024/25, 4.91%.
- Property funds are viewed as long term investments where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income. Planning consent for a strategic data centre in one of the Property Fund portfolios helped to increase the pooled property funds valuation to £3.558m at 31.3.2025, (£3.25m, 31.03.2024).

3 Recommendations

- It is recommended that members note the report.

Wards Affected	All
Portfolio Holder(s)	Cllr Chris Boden, Leader & Portfolio Holder, Finance
Report Originator(s)	Peter Catchpole, Corporate Director and Chief Finance Officer Sian Warren, Chief Accountant
Contact Officer(s)	Peter Catchpole, Corporate Director and Chief Finance Officer Sian Warren, Chief Accountant
Background Paper(s)	Treasury Management and Annual Investment Strategy 2024/25

4 Introduction

4.1 The Council is required through 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 Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

4.2 During 2024/25 the minimum reporting requirements were that Council should receive the following reports:

- an annual Treasury Strategy in advance of the year (Council 26/02/2024);
- a mid-year treasury update report (Council 16/12/2024);
- an Annual Review following the end of the year, describing the activity compared to the strategy (this report).

4.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

4.4 In normal circumstances, the treasury management reports would be reviewed by Audit and Risk Management Committee before they are reported to Council. This Annual Review report is being presented directly to Council due to the Audit and Risk Management Committee not meeting until 28 July 2025. For all of the other above treasury management reports prior scrutiny by the Audit and Risk Management Committee has taken place as required by the Code.

5 The Council's Capital Expenditure and Financing

5.1 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.

	2023/24 Actual £000	2024/25 Revised Estimate £000	2024/25 Actual £000
Capital expenditure	**15,847**	**13,745**	**11,431**
Financed In Year	10,010	7,285	6,196
Unfinanced capital expenditure	**5,837**	**6,460**	**5,235**

6 The Council's Overall Borrowing Need

6.1 The Council's underlying need to borrow to finance 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.

6.2 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.

6.3 **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).

6.4 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 26/02/2024.

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

6.6 **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.

6.7 In February 2020 Council allocated £25m in the capital programme to enable the Council to take forward projects linked to its Commercial and Investment Strategy (CIS). At the 31.3.2025 £11,259M has been spent on property acquisitions and loans to Fenland Future Limited as approved by the Investment Board in accordance with the CIS. This impacts on the Capital Financing Requirement as explained in the table below. Currently the expenditure has been funded from internal borrowing, i.e. no specific external borrowing to fund the investments has been undertaken, but the Council retains the flexibility to externalise the associated borrowing if it is deemed appropriate to do so.

6.8 The table below highlights the Council's gross borrowing position against the CFR (See Appendix A).

	31 March 2024 Actual £000	**31 March 2025 Revised Estimate £000**	**31 March 2025 Actual £000**
CFR opening balance	8,052	13,471	13,471
Capital expenditure – Capital Programme	3,627	3,635	2.916
Capital expenditure – Commercial and Investment Strategy	2,176	2,825	2.316
Less Minimum Revenue Provision	(384)	(451)	(451)
CFR Closing balance	**13,471**	**19,480**	**18,255**
of which: Capital Programme	7,281	10,465	9,746
Commercial and Investment Strategy	6,190	9,015	8,509
Gross Debt (see table at 4.1 below)	**7,800**	**14,260**	**7,800**

6.9 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.

6.10 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.

6.11 Neither the authorised limit nor operational boundary were breached during 2024/25.

7 Overall Treasury Position as at 31 March 2025

7.1 At the beginning and end of 2024/25, the Council's treasury position was as follows.

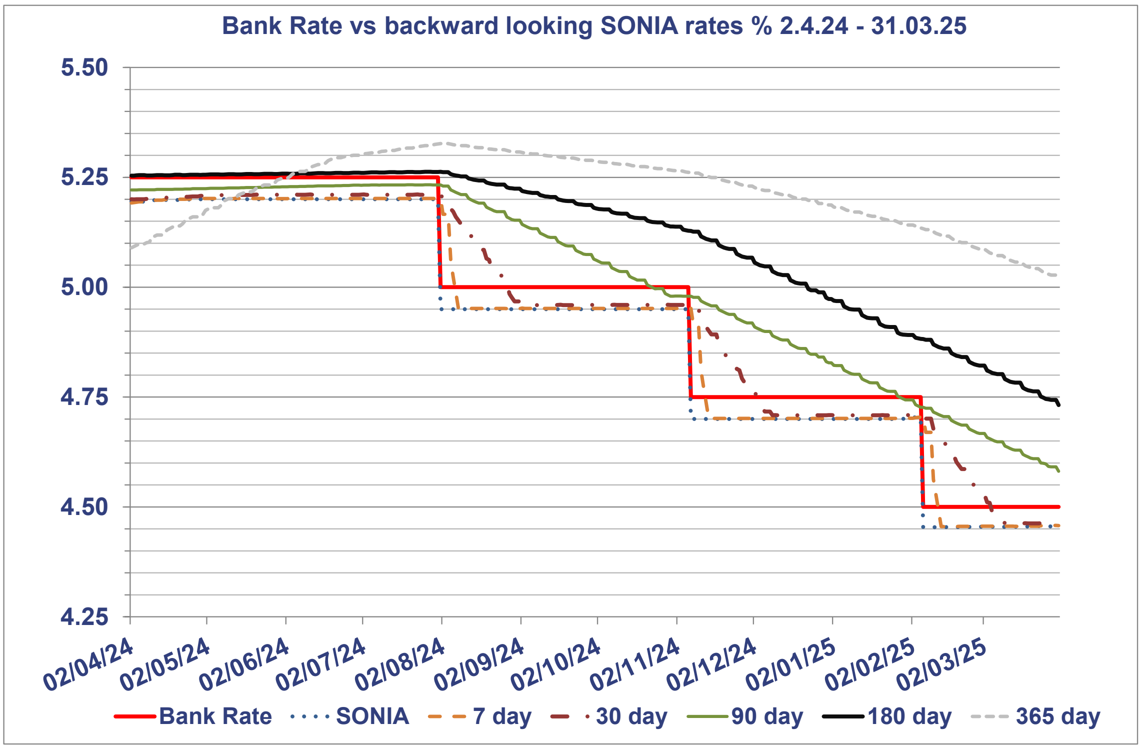
	31 March 2025 Principal £000	Rate / Return	Average Life years	**31 March 2024 Principal £000**	Rate / Return	Average Life years
Fixed rate funding						
• PWLB	**4,500**	7.29%	5.40 yrs	**4,500**	7.29%	6.40 yrs
• Market	**3,300**	4.70%	28.96 yrs	**3,300**	4.70%	29.96 yrs
Total debt	**7,800**			**7,800**		
Investments						
• Banks/Building Societies	**(3,350)**	4.84%		**(11,000)**	5%	
• Property Funds	**(3,557)**	3.62%		**(3,251)**	3.84%	
Total Investments	**(6,907)**			**(14,251)**		
Net debt /(Investments)	**893**			**(6,451)**		

7.2 In line with the Treasury Management Strategy and Annual Investment Strategy approved by Council on 23 February 2021, the Council invested £4M, split equally, into the Federated Hermes and Patrizia Hanover, Property Unit Trusts, in late March 2022. The distribution payable for the year was £120,947 which is a 3.62% return on the initial £4m investment.

7.3 All other investments held at 31 March 2025 are fixed term or callable deposits due for repayment within the next twelve months.

8 The Strategy for 2024/25

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



Investment Strategy

8.1 The Council does not have sufficient cash balances to be able to place deposits for more than a month so as to earn higher rates from longer deposits. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

8.2 Officers aimed to keep Investment balances to a minimum through the agreed strategy of using reserves and balances to support internal borrowing as far as possible.

Borrowing Strategy

8.3 At 1 April 2024 the Council's Debt position comprised of £7.8m of external borrowing. These loans were taken out at prevailing market rates between 1994 and 2004. The term of these loans is between 25 and 50 years. Following the transfer of the Council's Housing Stock in 2007, which generated a significant capital receipt for the Council, the Council has retained investment balances which exceed the amounts borrowed. However, changes in prevailing interest rates since the loans were taken out mean that a high premium would be payable by the Council if it were to seek to repay the PWLB loans (£4.5m) early. The premiums to be applied are considered to be prohibitively high for early redemption to be regarded as a reasonable treasury management decision. Repaying the Barclays market rate loan of £3.3m may be considered whilst premature redemption rates remain elevated but only if surplus cash available to facilitate any repayment. The Council continues to keep this situation under review with the support of its appointed treasury management advisors.

8.4 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 and temporary borrowing.

8.5 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Chief Finance 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 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.

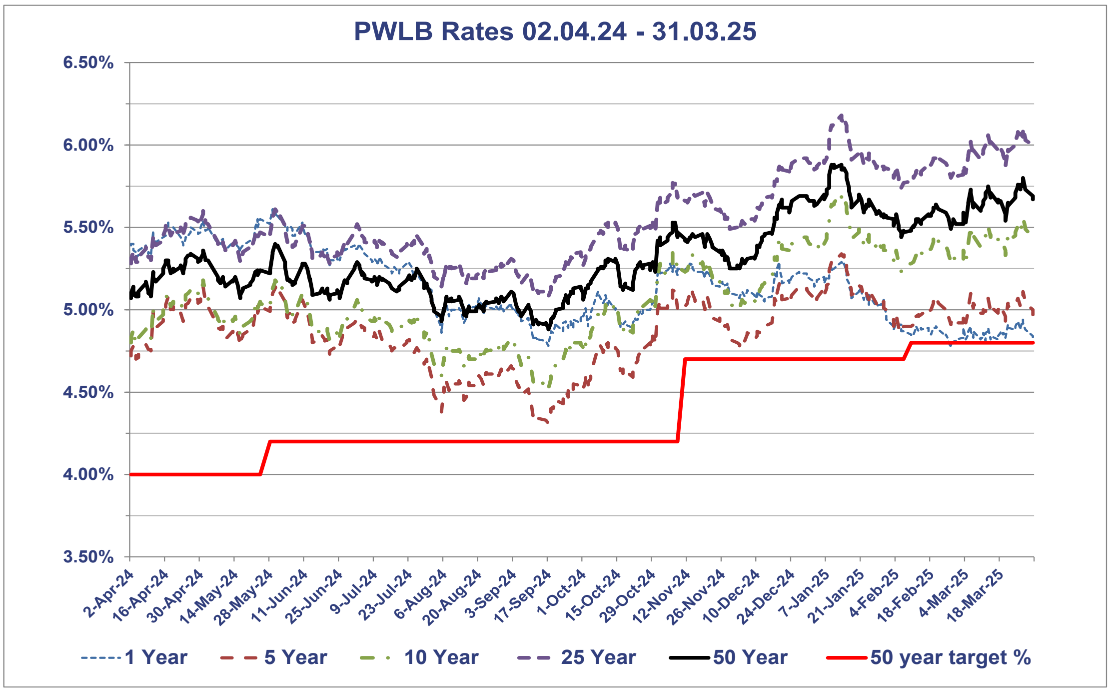
8.6 Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2024/25. Bank Rate did peak at 5.25% as anticipated, but the initial expectation of significant rate reductions did not transpire, primarily because inflation concerns remained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

8.7 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.

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

MUFG Corporate Markets 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

PWLB Rates 2024/25



8.9 PWLB rates are based on gilt (UK Government bonds) yields through H.M.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.

8.10 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.

8.11 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%.

8.12 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.

9 Borrowing Outturn

9.1 Due to the elevated cost of borrowing long term, no borrowing was taken during 2024/25. The approach during the year was to use cash balances to finance new capital expenditure, so as to run down cash balances and to minimise counterparty risk incurred on investments. Additionally, it is important to note that Council had abnormally high cash balances through the first half of the year, due to the receipt of significant funds from government in respect of funding received in advance to enable the Council to deliver grant-funded schemes included in its capital programme.

9.2 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.

9.3 No rescheduling was completed during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates and the penalty position which can arise from early repayment of debt, made rescheduling unviable.

10 Investment Outturn

10.1 The Council’s investment policy is governed by the Ministry of Housing, Communities and Local Government investment guidance, which has been implemented in the annual investment strategy approved by Council on 26 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 and bank share prices etc).

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

10.3 The Council maintained an average balance of £8.392m of internally managed funds. The internally managed funds earned an average rate of return of 4.84% (£512,346). The comparable performance indicator is the average 7-day backward looking SONIA rate, which was 4.91%.

10.4 £4m of the Council's investments are held in externally managed pooled property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income (from quarterly cash distribution payments) and long-term price stability. The Council views these as a long-term investment that it has entered into for a minimum of five years as this manages the risk of fluctuations in the value of the investments.

10.5 Planning consent for a strategic data centre in one of the Property Fund portfolios helped to increase the pooled property funds valuation to £3.558m at 31.3.2025, (£3.25m, 31.03.2024). Distributions from the fund are not affected by the movement in capital value. The distributions payable for the year was £120,947 which is a 3.62% distribution return on the initial £4m investment.

Non – Treasury Investments

10.6 At 31 March 2025 the Council had an outstanding loan of £1.45m with Fenland Future Limited (FFL) for the development of two vacant sites in the district. This loan was agreed at bank rate plus a risk premium for a new start up company. The amount of interest earned by the Council from this loan was £147,518 in 2024/25.

11 Prudential and Treasury Indicators

11.1 During 2024/25 the Council complied with its legislative and regulatory requirement.

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Appendix A - Prudential Indicators

	Prudential Indicators	2023/24 Actual £000	2024/25 Revised Estimate £000	**2024/25 Actual £000**
1	**Capital Expenditure (including Commercial and Investment Strategy)**	15,847	13,745	**11,431**
2	**Ratio of Financing Costs to Net Revenue Stream**	5.13%	5.11%	**4.94%**
3	**Gross Borrowing and the Capital Financing Requirement**			
	Gross Debt	7,800	14,260	**7,800**
	CFR	13,471	19,480	**18,255**

	Treasury Management Indicators	2023/24 Actual £000	2024/25 Revised Estimate £000	**2024/25 Actual £000**
4	**Authorised Limit for External Debt**			
	Borrowing	17,430	16,435	**16,435**
	Other Long-Term Liabilities	1,000	1,000	**1,000**
	Commercial Activities	1,000	2,825	**2,825**
	Total	19,430	20,260	**20,260**
5	**Operational Boundary for External debt**			
	Borrowing	12,430	11,435	**11,435**
	Other Long-Term Liabilities	1,000	1,000	**1,000**
	Commercial Activities	1,000	2,825	**2,825**
	Total	14,430	15,260	**15,260**
6	**Actual External debt (as at 31 March)**			
	Borrowing	7,800	14,260	**7,800**
	Total	7800	14,260	**7,800**