Treasury Management Report Q1 2024/25

Introduction

The Council applies the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve, as a minimum, treasury management semi-annual and annual outturn reports.

This quarterly report provides an additional update and includes the requirement in the 2021 Code of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators are included in Appendix 2.

The Authority's treasury management strategy for 2024/25 was approved at the Council meeting on 22 February 2024. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

Local Context

On 31st March 2024, the Authority had net borrowing of £118.8m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	2024-25 Estimate	31.3.24 Actual £m	31.3.25 Forecast £m
General Fund CFR	167.9	167.6	173.0
Less: Other debt liabilities	0.8	1.0	0.7
Borrowing CFR	**167.1**	**166.6**	**172.3**
Less: Internal borrowing	5.0	4.6	5.0
External borrowing	162.1	162.0	167.3
Less: Balance sheet resources	26.7	43.2	18.0
Net borrowing	**135.4**	**118.8**	**149.3**

The treasury management position at 30th June and the change over the quarter is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.24 Balance £m	Movement £m	30.6.24 Balance £m	30.6.24 Rate %
Long-term borrowing				
- Other (local authorities)	5.0	(3.0)	2.0	5.10%
Short-term borrowing	157.0	(14.0)	143.0	5.16%
Total borrowing	**162.0**	**(17.0)**	**145.0**	
Long-term investments	21.9	(0.0)	21.9	6.87%

Short-term investments Cash and cash equivalents	15.0 6.3	(15.0) (1.4)	0.0 5.0	n/a 5.19%
Total investments	**43.2**	**(16.4)**	**26.9**	
Net borrowing	**118.8**	**(0.7)**	**118.2**	

The council had £15m of local authority investments that have matured during the quarter. These have been utilised to reduce Local authority borrowing to minimise interest costs.

Borrowing Strategy and Activity

As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. At the present time short term interest rates are higher than long term interest rates.

Policy interest rates have risen substantially since 2021 although they have largely plateaued over the last year. Over the last quarter gilt yields have risen slightly overall, having had a number of peaks and troughs. There has been downward pressure from lower inflation figures, but also upward pressure from unexpectantly positive economic data. Data from the US continues to impact global markets including UK gilt yields.

The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the quarter and 4.96% percent at the end. The lowest available 10-year maturity rate during the quarter was 4.80% and the highest was 5.18%. Rates for 20-year maturity loans ranged from 5.24% to 5.57% during the quarter, and 50-year maturity loans from 5.06% to 5.40%.

Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a dearth of LA-LA lending/borrowing activity during the month, as expected shorter-term rates reverted to a more normal range and were generally around 5.25% through the quarter.

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Authority has no new plans to borrow to invest primarily for financial return.

The Authority currently holds £135.8m in commercial investments primarily for financial return that were purchased prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the Authority will review the options for exiting these investments.

Loans Portfolio: At 30th June the Authority held £145m of loans, (a decrease of £17m on 31st March 2024), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th June 2024 are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.24 Balance £m	**Net Movement £m**	**30.6.24 Balance £m**	**30.6.24 Weighted Average**	**30.6.24 Weighted Average**

				Rate %	Maturity (years)
Local authorities (long-term)	5.0	(5.0)	0.0	5.10%	2.00
Local authorities (short-term)	162.0	(12.0)	145.0	5.13%	1.01
Total borrowing	**167.0**	**(17.0)**	**145.0**		

The Authority's short-term borrowing cost has remained high with the currently high Base Rate and short-dated market rates. The average rate on the Authority's short-term loans at 30th June 2024 on £145m was 5.13%.

Table 3B: Long-dated Loans borrowed

	Amount £m	Rate %	Period (Years)
Horsham District Council	2.0	5.10	2
Total borrowing	**2.0**		

The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a portfolio of short- and long-term borrowing was maintained.

Forward starting loans: To enable certainty of cost to be achieved without suffering a cost of carry in the intervening period, the Authority arranged £15m of forward starting loans with fixed interest rates of 5.17% for the delivery of cash in the following months time, details of which are below.

Table 3C: Forward starting loans

	Amount £m	Rate %	Loan Period (Years)	Forward Period (Months)
Vale of White Horse DC	5	5.20%	1	1
West of England Combined Authority	10	5.15%	1	1
Total borrowing	**15**	**5.17%**		

There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

The UK Infrastructure Bank is one alternative source of funding which offers funding at gilt yields + 0.40% (0.40% below the PWLB certainty rate) and the possibility of more flexible funding structures than the PWLB. Funding from UKIB is generally only available for certain types of projects that meet its criteria of green energy, transport, digital, water and waste. The minimum loan size is £5 million.

Other Debt Activity (not applicable for Q1)

Treasury Investment Activity

The CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (revised in 2021) defines treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Authority holds some invested funds, representing income received in advance of expenditure plus balances and reserves held. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.24 Balance £m	Net Movement £m	31.6.24 Balance £m	31.6.24 Income Return %
Banks & building societies	(0.3)	0.7	0.4	5.14
Local authorities	15	(15)	0	n/a
Money Market Funds	6.6	(1.65)	5.0	5.1-5.2
Other Pooled Funds				
- *Strategic bond funds*	6		6	4.63
- *Equity income funds*	5		5	12.69
- *Property funds*	3.9		3.9	5.17
- *Multi asset income funds*	7		7	5.55
Total investments	43.2	(15.95)	27.3	

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2024	5.34	A+	30%	16	5.69%
30.06.2024	5.2	A+	100%	1	5.74%
Similar LAs	**4.76**	**A+**	**62%**	**52**	**5.02%**
All LAs	**4.66**	**A+**	**62%**	**10**	**5.06%**

Externally Managed Pooled Funds: £21.9m of the Authority's investments is invested in externally managed strategic pooled funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

The reliance markets had placed at the beginning of 2024 on rapid declines in inflation, stalling growth and the consequent interest rate cuts in quick succession proved overoptimistic. Core inflation was higher than expected and economic activity was relatively resilient. Central bankers remained cautious and, barring the one 0.25% cut by the European Central Bank, the status quo was maintained for policy rates by the Bank of England and the US Federal Reserve.

It was tough quarter for fixed income investors. Government bonds yields, sensitive to hotter-than-expected inflation data and an improving economic outlook, remained elevated. The higher-for-longer interest rate narrative keeping yields mostly pegged in a narrow range between 4.0% - 4.7%. Escalating geopolitical tensions and the setback in expectations of lower official interest rates and corporate borrowing costs were headwinds for corporate bonds. Combined, these resulted in a drop in capital values of the Authority's bond funds, and, to a lesser extent, the multi-asset funds where there was some offset from better equity performance.

Upbeat earnings data and better economic growth prospects helped global equities perform well during the quarter and supported investor appetite for riskier assets despite stronger than expected inflation and employment data delaying interest rate cuts. US stocks once again performed well although much of the momentum in the S&P 500 in recent months has been derived from the very large concentration in the index of a handful of technology stocks.

UK equities also enjoyed a positive quarter. The FTSE All Share index was buoyed in April by data showing the economy had emerged from the short, shallow recession in 2023. Sterling's weakness against the dollar in April also provided a boost to UK stocks with overseas earnings. The energy, materials and mining sectors gained as the outlook for global manufacturing improved. Healthcare and financial stocks were also supported by good earnings data. The rally faded somewhat with the unexpected announcement in May of a general election in early July.

Dwindling prospects of policy rate cuts weighed on consumer discretionary stocks as well as on the UK real estate sector. Improvement in commercial property capital values was dampened by property's sensitivity to higher interest rates.

The Authority has budgeted £1.24m income from these investments in 2024/25. Income due up to 30th June was £324k. Over the quarter, these funds generated £3k of unrealised capital loss.

The change in the Authority's funds' capital values and income return over the 3-month period is shown in Table 4.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

Statutory override: In April 2023 the Department for Levelling Up, Housing and Communities published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for 2 years until 31st March 2025 but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not.

Non-Treasury Investments

The definition of investments in the Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

The Authority also held £143.8m of such investments in

- directly owned property £135.8m
- loans to local businesses and landlords £6.5m
- subsidiaries £1.4m

A full list of the Authority's non-treasury investments is available.

Treasury Performance

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates.

MRP Regulations

On 10th April 2024 amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP). The majority of the changes take effect from the 2025/26 financial year, although there is a requirement that for capital loans given on or after 7th May 2024 sufficient MRP must be charged so that the outstanding Capital Financing Requirement (CFR) in respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for that loan.

The regulations also require that local authorities cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets).

Compliance

The S151 Officer reports that all treasury management activities undertaken during the quarter complied fully with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	30.6.24 Actual	2024/25 Limit	Complied?
Any group of pooled funds under the same management	5	15	Yes
Negotiable instruments held in a broker's nominee account	0	15	Yes
Limit per foreign countries	0	6	Yes

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

	30.6.24 Actual	2024/25 Operational Boundary	2024/25 Authorised Limit	Complied?

Borrowing	145	170	200	Yes
Leases	**1**	**1.8**	**2**	Yes
Total debt	**146**	**171.8**	**202**	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Treasury Management Prudential Indicators

As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

1. Liability Benchmark**:**

This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £25m required to manage day-to-day cash flow.

	31.3.24 Actual	31.3.25 Forecast	31.3.26 Forecast	31.3.27 Forecast
Loans CFR	166.4	169.8	144.1	130.8
Less: Balance sheet resources	-45.4	-40.1	-35.4	-30.7
Net loans requirement	121	129.7	108.6	100.1
Plus: Liquidity allowance	25	25	25	25
Liability benchmark	**146**	**154.7**	**133.6**	**125.1**
Existing borrowing	**162**	**199**	**102**	**44**

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing, minimum revenue provision on new capital expenditure based on variable year asset lives and income, expenditure and reserves all increasing by inflation. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.

Rushmoor BC

	Actual	Forecasts	£m								
Position at 31 March	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
Loans CFR	166.4	169.8	144.1	130.8	129.8	124.2	123.7	123.2	122.6	122.0	121.3
External borrowing	-162.0	-199.0	-102.0	-44.0	-42.0	-42.0	-42.0	-42.0	-42.0	-42.0	-42.0
Internal (over) borrowing	4.4	-29.2	42.1	86.8	87.8	82.2	81.7	81.2	80.6	80.0	79.3
Balance sheet resources	-45.4	-40.1	-35.4	-30.7	-30.7	-31.4	-32.2	-32.9	-33.7	-34.5	-35.4
Investments (new borrowing)	41.0	69.3	-6.6	-56.1	-57.2	-50.8	-49.5	-48.2	-46.8	-45.4	-43.9
Treasury investments	41.0	69.3	25.0	25.0	25.0	25.6	26.3	26.9	27.6	28.3	29.0
New borrowing	0.0	0.0	31.6	81.1	82.2	76.4	75.8	75.1	74.4	73.7	72.9
Net loans requirement	121.0	129.7	108.6	100.1	99.2	92.8	91.5	90.2	88.8	87.4	85.9
Liquidity allowance	25.0	25.0	25.0	25.0	25.0	25.6	26.3	26.9	27.6	28.3	29.0
Liability benchmark	146.0	154.7	133.6	125.1	124.2	118.4	117.8	117.1	116.4	115.7	114.9

Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

2. Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper Limit	Lower Limit	30.6.24 Actual	Complied?
Under 12 months	100%	0%	100%	Yes
12 months and within 24 months	100%	0%	0%	Yes
24 months and within 5 years	100%	0%	0%	Yes
5 years and within 10 years	100%	0%	0%	Yes
10 years and above	100%	0%	0%	Yes

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

3. Long-term Treasury Management Investments: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£40m	£40m	£30m
Actual principal invested beyond year end	£13m	£13m	£13m
Complied?	Yes	Yes	Yes

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Additional indicators

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating *or* credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2024/25 Target	30.6.24 Actual	Complied?
Portfolio average credit rating	A+	A+	Yes
Portfolio average credit score	5.0	5.2	Yes

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	30.6.24 Actual	2024/25 Target	Complied?
Total cash available within 3 months	£5m	£5m	Yes

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk.

Although important information for the Council to consider, the Council is currently unable to influence performance against this measure. The Council requires the higher level of borrowing for cashflow and committed capital expenditure. Once the council is in a position to pay the current level of debt down, more options will be available to the council regarding its treasury management function.

Interest rate risk indicator	2024/25 Target	30.6.24 Actual	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£2.0m	£1.8m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£2.0m	£1.8m	Yes

For context, the changes in interest rates during the quarter were:

	01/04/24	30/06/24
Bank Rate	5.25%	5.25%
1-year PWLB certainty rate, maturity loans	5.39%	5.37%
5-year PWLB certainty rate, maturity loans	4.72%	4.89%
10-year PWLB certainty rate, maturity loans	4.80%	4.96%
20-year PWLB certainty rate, maturity loans	5.24%	5.37%
50-year PWLB certainty rate, maturity loans	5.07%	5.18%

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.