Corporate Governance, Audit and Standards Committee
21st November 2024

EXECUTIVE HEAD OF FINANCE
REPORT NO: FIN2417

TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS 2024/25 – Quarter 2

SUMMARY:
This report sets out the activities of the Treasury Management and non-Treasury Investment Operations for quarter 2 in the financial year 2024/25, and reports on compliance with Prudential Indicators.

RECOMMENDATIONS:
Members are requested to:

(i) Make any recommendations, as appropriate, to the Cabinet on the contents of this report in relation to the treasury management and non-treasury investment operations carried out during 2024/25.

1. INTRODUCTION

1.1 This report sets out the Treasury Management and Non-Treasury Investment operation performance for Quarter 2 2024/25. This report is a statutory requirement under the CIPFA Code of Practice on Treasury Management.

1.2 Full Council approved the Annual Treasury Management Strategy and Non-Treasury Investment Strategy for the financial year 2024/25 in February 2024. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management 2021 ("the Code") and is fully incorporated into the Council's adopted strategy.

2. PURPOSE

2.1 This report sets out compliance with the strategy and performance against Prudential Indicators to the end of September 2024/25 within appendices (1-4):

<u>**Appendix 1**</u>

- The **Treasury Management operations** which sets out how the Council's treasury service operated during the period to September 2024;
- The **Treasury Management Borrowing** which sets out the Council's borrowing during the period to September 2024, and;
- The **Treasury Management Investments** which sets out the Council's Treasury Management investment operations for the period to September 2024.

Appendix 2

- the **Prudential indicators** performance is compared to the indicators set out in the Annual Capital Strategy for the year 2024/25.

Appendix 3

- The list of borrowing counterparties as at end of September 2024.

Appendix 4

- Market commentary regarding from the Council's treasury management advisors Arlingclose

3 BACKGROUND

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued guidance on the aims and requirements of a Capital Strategy focusing on a whole organisation approach to prudent, sustainable, and resilient local government investment.

3.2 CIPFA have also issued two professional Codes of Practice to which the Council is required to "have regard to". These Codes provide frameworks that are designed to support local strategic planning, local asset management planning and proper option appraisal:

- The Prudential Code – developed to support local authorities in taking decisions around their capital investment programmes. The objectives of the Prudential Code are to ensure, within a clear reporting framework, that a local authority's capital expenditure plans and investment plans are affordable and proportionate; that all external borrowing and other long-term liabilities are within prudent and sustainable levels; that the risks associated with investments for commercial purposes are proportionate to their financial capacity; and that treasury management decisions are taken in accordance with good professional practice.
- The Treasury Management Code - Treasury Management is defined as 'The management of the organisation's borrowing, investments, and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.

3.3 The primary purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed to deliver the Councils services. The secondary function of the treasury management operation is the funding of the Council's capital programme and manage cashflow requirements over a longer-term period.

3.4 Non-treasury investment operations should ensure that all investments made primarily for service reasons. Then, second to this, the function of investment management is to generate returns.

3.5 This quarterly report provides an additional update and includes the requirement in the 2021 Code of quarterly reporting of the treasury management prudential indicators.

4 POOLED FUNDS

4.1 Accounting Standard IFRS9 impact – The statutory override for pooled funds in England – requires change in value of the original capital invested (i.e., current market price resulting in gains and losses) to be held as a value on the Balance Sheet until the fund is sold (i.e., when the gain or loss becomes real) – is set to end in 2025-26, i.e., the last year it will be in place will be 2024-25. The long-term pooled funds investment is currently valued below cost, i.e. at a loss if they were to be redeemed. The council must make a revenue provision for the change in value each year from 2025-26. At current valuation this will be £968k.

Fund:	Cash Invested	Value October	Unrealised loss
Threadneedle Investments	2,000	1,906	(94)
M&G Investments Strategic Corporate Bond Fund	4,000	3,505	(495)
Schroders Income Maximiser	5,000	4,705	(295)
Aegon Diversified Monthly Income Fund	2,000	1,917	(83)
	13,000	12,032	(968)

4.2 In the previous quarter it was decided to give notice on the CCLA fund to mitigate some of the losses incurred from the UBS fund. Due to the 6 months' notice period required there is an element of risk that remains as the final value could go up or down by the end of the 6 month period.

5 CONCLUSIONS ON THE TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS DURING 2024/25

5.1 All treasury activity was conducted within the approved Treasury Management Practices (TMP's).

5.2 The majority of borrowing is currently short term and will remain so until Public Works Loan Board (PWLB) interest rate reduces to a level that will enable longer term affordable borrowing to be secured.

6 KEY RISKS

6.1 The Council has borrowed 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.

6.2 The key risks to the Councils delivery of successful treasury and non-treasury investment options include:

- Inflation levels
  Inflation rates are now reducing after a prolonged period of increased levels
- Bank of England Base rate
  Base rate as of writing has reduced to 4.75%. Expectations are that this will reduce further, however a slow reduction is anticipated
- Delivery of Capital Programme

Will impact borrowing requirements and timing will impact rates achievable for both borrowing and investments during the years

- Changes in Valuation of Pooled Funds
  From 2025/26 will impact bottom line of General Fund

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Treasury Management Report Q2 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). This quarterly report provides an update of the treasury management prudential indicators. The non-treasury prudential indicators are included in Appendix 2.

The Council's treasury management strategy for 2024/25 was approved at the Council meeting on 22 February 2024. The Council 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 Council's treasury management strategy.

Local Context

On 31st March 2024, the Council had net borrowing of £140.8m 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	171.0
Less: Other debt liabilities (leases)	0.8	1.0	0.7
Borrowing CFR	**167.1**	**166.6**	**170.3**
Less: Internal borrowing (surplus cashflow timing difference)	5.0	4.6	25.1
External borrowing	162.1	162.0	145.2
Less: Balance sheet resources (mostly pooled funds)	26.7	43.2	18.0
Net borrowing	**135.4**	**118.8**	**127.2**

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

Table 2: Treasury Management Summary

	31.3.24 Balance £m	**Movement £m**	**30.9.24 Balance £m**	**30.9.24 Rate %**
Long-term borrowing				
- Other (local authorities)	5.0	(3.0)	2.0	5.10%
Short-term borrowing	157.0	(16.5)	140.5	5.17%
Total borrowing	**162.0**	**(19.5)**	**142.5**	
Long-term investments	21.9	(5.0)	16.9	5.58%
Short-term investments	15.0	(15.0)	0.0	n/a
Cash and cash equivalents	6.3	4	10.3	5.16%

Total investments	**43.2**	**(16.0)**	**27.2**	
Net borrowing	**118.8**	**(3.5)**	**115.3**	

Borrowing Strategy and Activity

As outlined in the treasury strategy, the Council'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 Council's long-term plans change being a secondary objective. The Council'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.

After substantial rises in interest rates since 2021 many central banks have now begun to reduce rates, albeit slowly. Gilt yields are volatile, data from the US continues to impact global bond markets including UK gilt yields.

The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the year and currently 5.26%. Rates for 20-year maturity loans was 5.01% to currently 5.83%, and 50-year maturity loans from 4.88% to 5.60%.

Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a less cash available during the last month of the financial year, as expected shorter-term rates reverted to a more normal range and were generally around 5.00% - 5.25%.

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 Council. 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 Council has no new plans to borrow to invest primarily for financial return.

The Council currently holds £148m in commercial property investments of which the majority were primarily for financial return and were purchased prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the Council will review the options for exiting these investments.

Loans Portfolio

At 30th September the Council held £142.5m of loans, (a decrease of £19.5m on 31st March 2024), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th September 2024 are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.24 Balance £m	Net Movement £m	30.9.24 Balance £m	30.9.24 Weighted Average Rate %	30.9.24 Weighted Average Maturity (years)
Local authorities (long-term)	5.0	(3.0)	2.0	5.10%	2.00
Local authorities (short-term)	157.0	(16.5)	140.5	5.16%	1.00
Total borrowing	**162.0**	**(19.5)**	**142.5**		

The average rate on the Council's short-term loans at 30th September 2024 on £140.5m was 5.16%, this compares with 5.13% on £145m loans 3 months ago.

Table 3B: Long-dated Loans borrowed

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

The Council's new borrowing decisions to replace existing borrowing as current loans mature are determined by a cashflow projection.

Forward starting loans
To enable certainty of cost to be achieved without suffering a cost of carry in the intervening period, the Council arranged £10m of forward starting loans with fixed interest rates of 4.70% for the delivery of cash in the following 2 months' time, details of which are below.

Table 3C: Forward starting loans

	Amount £m	Rate %	Loan Period (Years)	Forward Period (Months)
Furness Building Society Lancashire Combined Fire Authority	5 5	4.70% 4.70%	1 1	2 2
Total borrowing	**10**	**4.70%**		

There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below PWLB rates. The Council will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose. There has not been any opportunities identified to date.

Other Debt Activity (not applicable for Q2)

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 Council 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	30.9.24 Balance £m	30.9.24 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	3.3	9.9	4.90-5

Other Pooled Funds				
- *Strategic bond funds*	6		6	4.34
- *Equity income funds*	5		5	10.09
- *Property funds*	3.9		3.9	4.54
- *Multi asset income funds*	7	(5)	2	3.72
Total investments	43.2	(16)	27.2	

Both the CIPFA Code and government guidance require the Council 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 Council'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 Council 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.

Bank Rate reduced from 5.25% to 4.75% in November 2024 with short term interest rates largely being around these levels. The rates on money market were between 4.90% and 5%.

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%
30.09.2024	4.89	A+	100%	1	5.30%
Similar LAs	**4.62**	**A+**	**60%**	**52**	**4.85%**
All LAs	**4.60**	**A+**	**61%**	**11**	**4.90%**

Externally Managed Pooled Funds

£17.4m of the Council'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 first six months of 2024/25 were marked by ongoing market volatility and had a marginal negative effect on the combined value of the Council's strategic funds since March 2024. The change in the Council's funds' capital values and income return over the 6-month period is shown in Table 4.

The Council has budgeted £1.24m income from these investments in 2024/25. Income due up to 30th September was £533k. UBS fund had a realised loss of £1.37m. A portion of the CCLA fund was sold to mitigate some of these losses which reduced the realised loss to £1.27m. Considering the unrealised gain the net affect was £968k unrealised losses during the quarter.

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 Council'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 minimum period total returns will exceed cash interest rates.

Statutory override
In April 2023 the Ministry for Housing, Communities and Local Government 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.

The long-term pooled funds investment is currently valued below cost, i.e. at a loss if they were to be redeemed. The council must make a revenue provision for the change in value each year from 2025-26. At current valuation this will be £968k.

Fund:	Cash Invested	Value October	Unrealised loss
Threadneedle Investments	2,000	1,906	(94)
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	13,000	12,032	(968)

Non-Treasury Investments

The definition of investments in the Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council 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 Council also held £155.9m of such investments in:

- directly owned property £148m
- loans to local businesses and landlords £6.5m
- subsidiaries £1.4m

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

Treasury Performance

The Council 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 half year complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	30.9.24 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

	30.9.24 Actual	**2024/25 Operational Boundary**	**2024/25 Authorised Limit**	**Complied?**
Borrowing	142.5	170	200	Yes
Leases	1	1.8	2	Yes
Total debt	**143.5**	**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 Council monitors and measures the following treasury management prudential indicators.

1. Liability Benchmark

This indicator compares the Council'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**	**99**	**7**	**5**

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 Council's existing borrowing.

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	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	-99.0	-7.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
Internal (over) borrowing	4.4	70.8	137.1	125.8	124.8	119.2	118.7	118.2	117.6	117.0	116.3
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	-30.7	-101.6	-95.1	-94.2	-87.8	-86.5	-85.2	-83.8	-82.4	-80.9
Treasury investments	41.0	25.0	25.0	25.0	25.0	25.6	26.3	26.9	27.6	28.3	29.0
New borrowing	0.0	55.7	126.6	120.1	119.2	113.4	112.8	112.1	111.4	110.7	109.9
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. <u>Maturity Structure of Borrowing</u>

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

	Upper Limit	Lower Limit	30.9.24 Actual	Complied?
Under 12 months	100%	0%	96.4%	Yes
12 months and within 24 months	100%	0%	3.6%	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 Council'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 Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating and 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	30.9.24 Actual	Complied?
Portfolio average credit rating	A+	A+	Yes
Portfolio average credit score	5.0	4.89	Yes

Liquidity

The Council 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.

	30.9.24 Actual	2024/25 Target	Complied?
Total cash available within 3 months	£10.25m	£5m	Yes

Interest Rate Exposures

This indicator is set to control the Council'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	30.9.24 Actual	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£2.0m	£2.0m	Yes

Upper limit on one-year revenue impact of a 1% fall in interest rates	£2.0m	£2.0m	Yes

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

	31/3/24	**30/9/24**
Bank Rate	5.25%	5.00%
1-year PWLB certainty rate, maturity loans	5.36%	4.95%
5-year PWLB certainty rate, maturity loans	4.68%	4.55%
10-year PWLB certainty rate, maturity loans	4.74%	4.79%
20-year PWLB certainty rate, maturity loans	5.18%	5.27%
50-year PWLB certainty rate, maturity loans	5.01%	5.13%

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.

Whilst outside of the quarter being reported, the most up to date rates provided by Arlingclose as at 11th November 2024 are shown below:

	11/11/24
Bank Rate	4.75%
1-year PWLB certainty rate, maturity loans	4.95%
5-year PWLB certainty rate, maturity loans	4.30%
10-year PWLB certainty rate, maturity loans	4.41%
20-year PWLB certainty rate, maturity loans	4.84%
50-year PWLB certainty rate, maturity loans	4.35%

Prudential Indicators Q2 2024/25

The Authority measures and manages its capital expenditure, borrowing with references to the following indicators.

It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

Capital Expenditure
The Authority has undertaken and is planning capital expenditure as summarised below:

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget
Capital expenditure	34.6	16.1	6.6	1.3

The main General Fund capital projects to date have included Union Yard, and Aldershot Crematorium.

Capital Financing Requirement
The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.
The actual CFR is calculated on an annual basis.

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 forecast	31.3.2027 forecast
CFR	167.6	171.0	144.1	130.8

Gross Debt and the Capital Financing Requirement: Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Authority has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 forecast	31.3.2027 forecast	Debt at 30.9.2024
Debt (incl. PFI & leases)	162.0	145.9	132	107.2	143.5
Capital Financing Requirement	167.6	171.0	149.0	137.2	

Debt and the Authorised Limit and Operational Boundary: The Authority is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

	Debt at 30.6.24	2024/25 Authorised Limit	2024/25 Operational Boundary	Complied?
Borrowing	142.5	200.0	170.0	Yes
Leases	1.0	2.0	1.8	Yes
Total debt	**143.5**	**202.0**	**171.8**	Yes

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

Net Income from Commercial and Service Investments to Net Revenue Stream: The Authority's income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below.

	2023/24 actual	2024/25 forecast	2025/26 forecast	2026/27 forecast
Total net income from service and commercial investments	7.1	8.0	9.5	9.5
Proportion of net revenue stream	57.2%	60.6%	69.9%	65.5%

Proportion of Financing Costs to Net Revenue Stream: Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue.

The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

	2023/24 actual	2024/25 forecast	2025/26 forecast	2026/27 forecast
Financing costs (£m)	6.9	7.2	5.1	3.3
Proportion of net revenue stream	55.55%	62.11%	44.64%	28.93%

Treasury Management Indicators: These indicators (Liability Benchmark, Maturity Structure of Borrowing, Long-Term Treasury Management Investments) are within the Treasury Management Report Q1 2024/25 at Appendix 1.

APPENDIX 3

LIST OF DEBT COUNTERPARTIES AS AT 30 SEPTEMBER 2024

	Amount
Vale of White Horse District Council	5,000,000
North Ayrshire Council	5,000,000
West of England Combined Authority	10,000,000
Hyndburn District Council	2,000,000
South Oxfordshire District Council	5,000,000
West Yorkshire Combined Authority	5,000,000
Furness Building Society	7,500,000
Renfrewshire Council	5,000,000
Warwickshire County Council	5,000,000
West Midlands Combined Authority	10,000,000
Havant Borough Council	5,000,000
West Midlands Combined Authority	5,000,000
Crawley Borough Council	3,000,000
Northern Ireland Housing Executive	3,000,000
Test Valley Borough Council	5,000,000
South Oxfordshire District Council	5,000,000
Rushcliffe Borough Council	5,000,000
Bolton Metropolitan Borough Council	5,000,000
Oxfordshire County Council	5,000,000
Oxfordshire County Council	5,000,000
Oxfordshire County Council	5,000,000
West Yorkshire Combined Authority	7,000,000
Northern Ireland Housing Executive	5,000,000
East Lindsey District Council	3,000,000
Gloucestershire County Council	5,000,000
Test Valley Borough Council	5,000,000
Thames Valley PCC	5,000,000
Horsham District Council	2,000,000
	142,500,000

External Context

Economic background

UK headline consumer price inflation remained around the Bank of England (BoE) target later in the period, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally to June to 2.2% in July and August, as was expected, due to base effects from energy prices. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August.

The UK economy continued to expand over the period, albeit slowing from the 0.7% gain in the first calendar quarter to 0.5% (downwardly revised from 0.6%) in the second. Of the monthly figures, the economy was estimated to have registered no growth in July.

Labour market data was slightly better from a policymaker perspective, showing an easing in the tightness of the job market, with inactivity rates and vacancies declining. However, a degree of uncertainty remains given ongoing issues around the data collected for the labour force survey by the Office for National Statistics. Figures for the three months to July showed the unemployment rate fell to 4.1% (3mth/year) from 4.4% in the previous three-month period while the employment rate rose to 74.8% from 74.3%.

Over the same period average regular earnings (excluding bonuses) was 5.1%, down from 5.4% in the earlier period, and total earnings (including bonuses) was 4.0% (this figure was impacted by one-off payments made to NHS staff and civil servants in June and July 2023). Adjusting for inflation, real regular pay rose by 2.2% in May to July and total pay by 1.1%.

With headline inflation lower, the BoE cut Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. At the September MPC meeting, committee members voted 8-1 for no change at 5.00%, with the lone dissenter preferring Bank Rate to be cut again to 4.75%. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern among policymakers.

The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025 and remaining there until early 2027.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, with November 2024 the likely next one, taking Bank Rate down to around 3% by the end of 2025.

The US Federal Reserve (the Fed) also cut interest rates during the period, reducing the Federal Funds Rate by 0.50% to a range of 4.75%-5.00% at its policy meeting in September. The forecasts released at the same time by the central bank suggested a further 1.00% of easing is expected by the end of the calendar year, followed by the same amount in 2025 and then a final 0.50% of cuts during 2026.

Having first reduced interest rates in June, the European Central Bank (ECB) held steady in July before cutting again in September, reducing its main refinancing rate to 3.65% and its deposit rate to 3.50%. Unlike the Fed, the ECB has not outlined a likely future path of rates, but inflation projections remain in line with the central bank's previous forecasts where it will remain above its 2% target until 2026 on an annual basis.

Financial markets
Sentiment in financial markets continued to mostly improve over the period, but the ongoing trend of bond yield volatility remained. The general upward trend in yields in the early part of the period was reversed in the later part, and yields ended the half-year not too far from where they started. However, the volatility in response to economic, financial and geopolitical issues meant it was a bumpy ride for bond investors during that time.

Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.00% but hit a high of 4.41% in May and a low of 3.76% in mid-September. While the 20-year gilt started at 4.40% and ended at 4.51% but hit a high of 4.82% in May and a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.12% over the period to 30th September.

Credit review
Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.

Having had its outlook increased by Fitch and ratings by S&P earlier in the period, Moody's upgraded Transport for London's rating to A2 from A3 in July.

Moody's also placed National Bank of Canada on Rating Watch for a possible upgrade, revising the outlook on Standard Chartered to Positive, the outlook to Negative on Toronto Dominion Bank, and downgrading the rating on Close Brothers to A1 from Aa3.

S&P upgraded the rating on National Bank of Canada to A+ from A, and together with Fitch, the two rating agencies assigned Lancashire County Council with a rating of AA- and A+ respectively.

Credit default swap prices were generally lower at the end of the period compared to the beginning for the vast majority of the names on UK and non-UK lists. Price volatility over the period was also generally more muted compared to previous periods.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.