Corporate Governance, Audit and Standards Committee
22nd May 2025

EXECUTIVE HEAD OF FINANCE
REPORT NO: FIN2511

TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS 2024/25 – Quarter 4

SUMMARY:
This report sets out the activities of the Treasury Management and non-Treasury Investment Operations for quarter 4 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 4 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 March 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 March 2025;
- The **Treasury Management Borrowing** which sets out the Council's borrowing during the period to March 2025, and;
- The **Treasury Management Investments** which sets out the Council's Treasury Management investment operations for the period to March 2025.

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 March 2025.

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. However, the statutory override was recently further extended to March 2029.

4.2 In quarter 1 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 (March 2025).

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 Local Authority (LA), although this quarter the Public Works Loan Board (PWLB) interest rate was lower than LA rates and therefore some borrowing was secured with PWLB for 18 months. This diversifies the borrowing the Council holds.

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 has reduced to 4.50%. 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

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Treasury Management Report Q4 - 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

The forecast to 31st March 2025, the Council is estimated to have net borrowing of £125.20m 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. The 31st March 25 forecast CFR will be updated with actual figures within the Quarter 1 Treasury Management reporting.

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	170.8
Less: Other debt liabilities (leases)	0.8	1.0	1.0
Borrowing CFR	**167.1**	**166.6**	**169.8**
Less: Internal borrowing (surplus cashflow timing difference)	5.0	4.6	1.2
External borrowing	162.1	162.0	168.6
Less: Balance sheet resources (mostly pooled funds)	26.7	43.2	40.8
Net borrowing	**135.4**	**118.8**	**127.8**

The treasury management position at 31st March and the change over the quarter is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.24 Balance £m	**Movement £m**	**31.03.25 Balance £m**	**31.03.25 Rate %**
Long-term borrowing				
- Other (local authorities)	5.0	(3.0)	2.0	5.10
- PWLB	0.0	62.0	62.0	4.94
Short-term borrowing	157.0	(55.0)	102.0	5.16
Total borrowing	**162.0**	**(4.0)**	**166.0**	

Long-term investments	21.9	(5.9)	16.0	5.15
Short-term investments	15.0	(10.0)	5.0	6
Cash and cash equivalents	6.3	12	18.3	5.17
Total investments	**43.2**	**(3.9)**	**39.3**	
Net borrowing	**118.8**	**7.9**	**126.7**	

Borrowing Strategy and Activity

As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriate 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. During the period short term interest rates have been higher than long term interest rates.

After substantial rises in interest rates since 2021 many central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields were volatile but have increased overall during the period. Much of the increase has been in response to market concerns that policies introduced by the Labour government will be inflationary and lead to higher levels of government borrowing. The election of Donald Trump in the US in November is also expected to lead to inflationary trade policies.

The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the period and 5.42% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.71%. Rates for 20-year maturity loans ranged from 5.01% to 6.14% during the period, and 50-year maturity loans from 4.88% to 5.88%.

For the majority of the year the cost of short-term borrowing from other local authorities closely tracked Base Rate at around 5.00% - 5.25%. However, from late 2024 rates began to rise, peaking at around 6% in February and March 2025.

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 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 31st March 2025 the Council held £166m of loans, (an increase of £4m on 31st March 2024), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31st March 2025 are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.24 Balance £m	Net Movement £m	31.03.25 Balance £m	31.03.25 Weighted Average Rate %	31.03.25 Weighted Average Maturity (years)
Local authorities (long-term)	5.0	(3.0)	2.0	5.10	2.00
Local authorities (short-term)	157.0	(55.0)	102.0	5.16	1.09
PWLB Maturity Loan	0.0	62.0	62.0	4.94	1.50
Total borrowing	**162.0**	**4.0**	**166.0**		

The average rate on the Council's short-term loans at 31st March 2025 on £102m was 6.81%, this compares with 5.96% on £123m loans 3 months ago.

Table 3B: Long-dated Loans borrowed

	Amount £m	Rate %	Period (Years)
Horsham District Council	2.0	5.10	2
PWLB Maturity Loan	62.0	4.95	1.5
Total borrowing	**64.0**		

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 £5m of forward starting loans with fixed interest rate of 4.85% 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)
PWLB	5	4.85	1	3
Total borrowing	**5**	**4.85**		

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.

Other Debt Activity (not applicable for Q4)

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**	**31.03.25 Balance £m**	**31.03.25 Income Return %**
Banks & building societies	(0.3)	0.6	0.3	4.85
Local authorities	15	(10)	5	6.00
Money Market Funds	6.6	11.1	17.7	5.20-5.30
Other Pooled Funds				
- *Strategic bond funds*	6		6	4.57
- *Equity income funds*	5		5	7.64
- *Property funds*	3.9	(0.9)	3	5.12
- *Multi asset income funds*	7	(5)	2	2.79
Total investments	43.2	(4.2)	39.0	

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 5.00% in August and again to 4.75% in November 2024 and again to 4.5% in February 2025 with short term interest rates largely being around these levels. The rates on money market were between 4.5% and 5.3%.

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
31.03.2025	5.14	A+	78	7	5.63
Similar LAs	**4.79**	**A+**	**63**	**54**	**4.77**
All LAs	**4.77**	**A+**	**64**	**8**	**4.80**

Externally Managed Pooled Funds

£16m 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 period is shown in Table 4.

The Council has budgeted £1.24m income from these investments in 2024/25. Income due up to 31st March was £933k. 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. We gave notice on the remaining CCLA funds which provided a realised gain of £368k in this financial year. This left us with a realised loss in this financial year, of £901k.

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

Further to consultations in April 2023 and December 2024 MHCLG wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. On the assumption that when published regulations follow this policy announcement, the statutory override will be extended up until the 1st April 2029 for investments already in place before 1st April 2024. The override will not apply to any new investments taken out on or after 1st April 2024. The Authority had set up a reserve of £1m to mitigate the impact of the statutory override not being extended. The authority has reviewed its options for this reserve in lieu of the recent extension and will not maintain the reserve.

<u>Non-Treasury Investments</u>

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 Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government also broadens the definition of investments to include 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 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

	31.03.25 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

	31.03.25 Actual	**2024/25 Operational Boundary**	**2024/25 Authorised Limit**	**Complied?**
Borrowing	166	170	200	Yes
Leases	1	1.8	2	Yes
Total debt	**167**	**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 £21m. This incorporates £16m invested in strategic pooled funds, that cannot be sold at short notice, and an additional £5m liquidity buffer to manage short-term cashflow requirements. The minimum cash levels at 31st March 2024 were higher at £25m as the strategic pooled fund balance was higher at this date, it is now lower as some funds have been sold during 2024/25.

	31.3.24 Actual	**31.3.25 Forecast**	**31.3.26 Forecast**	**31.3.27 Forecast**
Loans CFR	166.4	169.8	160.5	157.1
Less: Balance sheet resources	-45.4	-40.8	-38.2	-36.8
Net loans requirement	121	129	122.3	120.3
Plus: Liquidity allowance	25	21	21	21
Liability benchmark	**146**	**150.0**	**143.3**	**141.3**
Existing borrowing	**162**	**171**	**49**	**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	160.5	157.1	155.6	149.6	148.3	147.2	146.1	145.0	143.8
External borrowing	-162.0	-171.0	-49.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
Internal (over) borrowing	4.4	-1.2	111.5	152.1	150.6	144.6	143.3	142.2	141.1	140.0	138.8
Balance sheet resources	-45.4	-40.8	-38.2	-36.8	-37.3	-38.5	-39.4	-40.4	-41.3	-42.3	-43.4
Investments (new borrowing	41.0	42.0	-73.3	-115.3	-113.3	-106.1	-103.9	-101.9	-99.8	-97.6	-95.4
Treasury investments	41.0	42.0	21.0	21.0	21.0	21.5	22.1	22.6	23.2	23.8	24.4
New borrowing	0.0	0.0	94.3	136.3	134.3	127.7	125.9	124.5	123.0	121.4	119.8
Net loans requirement	121.0	129.0	122.3	120.3	118.3	111.1	108.9	106.9	104.8	102.6	100.4
Liquidity allowance	25.0	21.0	21.0	21.0	21.0	21.5	22.1	22.6	23.2	23.8	24.4
Liability benchmark	146.0	150.0	143.3	141.3	139.3	132.7	130.9	129.5	128.0	126.4	124.8

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

	Upper Limit	Lower Limit	31.03.25 Actual	Complied?
Under 12 months	100%	0%	61%	Yes
12 months and within 24 months	100%	0%	39%	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. <u>Long-term Treasury Management Investments</u>
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	31.03.25 Actual	Complied?
Portfolio average credit rating	A+	A+	Yes
Portfolio average credit score	5.0	5.14	No

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.

	31.03.25 Actual	2024/25 Target	Complied?
Total cash available within 3 months	£23m	£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**	**31.03.25 Actual**	**Complied?**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£2.0m	£1.4m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£2.0m	£1.4m	Yes

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

	31/3/24	**31/03/25**
Bank Rate	5.25%	4.50%
1-year PWLB certainty rate, maturity loans	5.36%	4.82%
5-year PWLB certainty rate, maturity loans	4.68%	4.97%
10-year PWLB certainty rate, maturity loans	4.74%	5.42%
20-year PWLB certainty rate, maturity loans	5.18%	5.91%
50-year PWLB certainty rate, maturity loans	5.01%	5.67%

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.

APPENDIX 2

Prudential Indicators Q4 - 2024/25

The Authority measures and manages its capital expenditure, and 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 actual*	2025/26 budget	2026/27 budget
Capital expenditure	34.6	14.7	16.0	2.2

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.

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 forecast	31.3.2027 forecast
CFR	167.6	169.8	160.5	157.1

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 (incl. PFI & leases)	162.0	166.0	113.9	105.2
Capital Financing Requirement	167.6	169.8*	160.5	157.1

*CFR is forecasted until the financial accounts have been finalised by the end of May.

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 31.3.25	2024/25 Authorised Limit	2024/25 Operational Boundary	Complied?
Borrowing	166	200.0	170.0	Yes
Leases	1.0	2.0	1.8	Yes
Total debt	**167**	**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 actual	2025/26 forecast	2026/27 forecast
Total net income from service and commercial investments	7.1	7.8	7.8	8.0
Proportion of net revenue stream	57.2%	59.08%	57.39%	55.16%

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 actual*	2025/26 forecast	2026/27 forecast
Financing costs (£m)	6.9	7.0	6.6	6.4
Proportion of net revenue stream	55.55%	50.65%	47.34%	46.35%

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

APPENDIX 3

LIST OF DEBT COUNTERPARTIES AS AT 31 MARCH 2025

	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	5,000,000
Lancashire Combined Fire Authority	5,000,000
PWLB	20,000,000
PWLB	12,000,000
PWLB	20,000,000
PWLB	10,000,000
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
	166,000,000

External Context

Economic background: Both the UK and US elected new governments during the period, whose policy decisions impacted the economic outlook. The Chancellor of the Exchequer delivered her Spring Statement in March 2025, following her Budget in October 2024. Based on the plans announced, the Office for Budget Responsibility downgraded its predictions for UK growth in 2025 to 1% from 2%. However, it upgraded its predictions for the four subsequent years. Inflation predictions for 2025 were pushed up, to 3.2% from 2.6%, before seen as falling back to target in 2027. The market reaction to the Spring Statement was more muted compared to the Budget, with very recent market turbulence being driven more by US trade policy decisions and President Trump.

After revising its interest rate forecast in November following the Budget, the council's treasury management advisor, Arlingclose, maintained its stance that Bank Rate will fall to 3.75% in 2025.

UK annual Consumer Price Index (CPI) inflation continued to stay above the 2% Bank of England (BoE) target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices at 2.8% in February 2025, down from 3.0% in the previous month and below expectations. Core CPI also remained elevated, falling slightly in February to 3.5% from 3.7% in January, just below expectations for 3.6% but higher than the last three months of the calendar year.

The UK economy Gross Domestic Product (GDP) grew by 0.1% between October and December 2024, unrevised from the initial estimate. This was an improvement on the zero growth in the previous quarter, but down from the 0.4% growth between April and June 2024. Of the monthly GDP figures, the economy was estimated to have contracted by 0.1% in January, worse than expectations for a 0.1% gain.

The labour market continued to cool, but the ONS data still require treating with caution. Recent data showed the unemployment rate rose to 4.4% (3mth/year) in the three months to January 2025 while the economic inactivity rate fell again to 21.5%. The ONS reported pay growth over the same three-month period at 5.9% for regular earnings (excluding bonuses) and 5.8% for total earnings.

The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.5% at its March 2025 meeting, having reduced it in February. This follows earlier 0.25% cuts in November and August 2024 from the 5.25% peak. At the March MPC meeting, members voted 8-1 to maintain Bank Rate at 4.5%, with the one dissenter preferring another 25 basis points cut. The meeting minutes implied a slightly more hawkish tilt compared to February when two MPC members wanted a 50bps cut. In the minutes, the Bank also upgraded its Q1 2025 GDP forecast to around 0.25% from the previous estimate of 0.1%.

The February Monetary Policy Report (MPR) showed the BoE expected GDP growth in 2025 to be significantly weaker compared to the November MPR. GDP is forecast to rise by 0.1% in Q1 2025, less than the previous estimate of 0.4%. Four-quarter GDP growth is expected to pick up from the middle of 2025, to over 1.5% by the end of the forecast period. The outlook for CPI inflation showed it remaining above the MPC's 2% target throughout 2025. It is expected to hit around 3.5% by June before peaking at 3.7% in Q3 and then easing towards the end of the year, but staying above the 2% target. The unemployment rate was expected to rise steadily to around 4.75% by the end of the forecast horizon, above the assumed medium-term equilibrium unemployment rate of 4.5%.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would continue to fall throughout 2025. From the cuts in August and November 2024 and February 2025, which took Bank Rate to 4.50%, May is considered the likely month for the next reduction, with other cuts following in line with MPR months to take Bank Rate down to around 3.75% by the end of 2025.

The US Federal Reserve paused its cutting cycle in the first three months of 2025, having reduced the Fed Funds Rate by 0.25% to a range of 4.25%-4.50% in December, the third cut in succession. Fed policymakers noted uncertainty around the economic outlook but were anticipating around 0.50% of further cuts in the policy rate in 2025. Economic growth continued to rise at a reasonable pace, expanding at an annualised rate of 2.4% in Q4 2024 while inflation remained elevated over the period. However, growth is now expected to weaken by more than previously expected in 2025, to 1.7% from 2.1%. The uncertainty that President Trump has brought both before and since his inauguration in January is expected to continue.

The European Central Bank (ECB) continued its rate cutting cycle over the period, reducing its three key policy rates by another 0.25% in March, acknowledging that monetary policy is becoming meaningfully less restrictive. Euro zone inflation has decreased steadily in 2025, falling to 2.2% in March, the lowest level since November 2024. Over the current calendar year, inflation is expected to average 2.3%. GDP growth stagnated in the last quarter of the 2024 calendar year, after expanding by 0.4% in the previous quarter. For 2025, economic growth forecasts were revised downwards to 0.9%.

Financial markets: Financial market sentiment was reasonably positive over most of the period, but economic, financial and geopolitical issues meant the trend of market volatility remained. In the latter part of the period, volatility increased and bond yields started to fall following a January peak, as the economic uncertainty around likely US trade policy impacted financial markets. Yields in the UK and US started to diverge in the last month of the period, with the former rising around concerns over the fiscal implications on the UK government from weaker growth, business sentiment and higher rates, while the latter started falling on potential recession fears due to the unpredictable nature of policy announcements by the US President and their potential impact.

The 10-year UK benchmark gilt yield started the period at 3.94% and ended at 4.69%, having reached a low of 3.76% in September and a high of 4.90% in January in between. While the 20-year gilt started at 4.40% and ended at 5.22%, hitting a low of 4.27% in September and a high of 5.40% in January. The Sterling Overnight Rate (SONIA) averaged 4.90% over the period.

The period in question ended shortly before US President Donald Trump announced his package of 'reciprocal tariffs', the immediate aftermath of which saw stock prices and government bond yields falling and introduced further uncertainty over the economic outlook.

Credit review: In October, Arlingclose revised its advised recommended maximum unsecured duration limit on most banks on its counterparty list to six months. Duration advice for the remaining five institutions, including the newly added Lloyds Bank Corporate Markets, was kept to a maximum of 100 days. This advice remained in place at the end of the period.

Fitch revised the outlook on Commonwealth Bank of Australia (CBA) to positive from stable while affirming its long-term rating at AA-, citing its consistent strong earnings and profitability.

Other than CBA, the last three months of the period were relatively quiet on the bank credit rating front, with a small number of updates issued for a number of lenders not on the Arlingclose recommended counterparty list.

On local authorities, S&P assigned a BBB+ to Warrington Council, having previously withdrawn its rating earlier in 2024, and also withdrew its rating for Lancashire County Council due to the council deciding to stop maintaining a credit rating. However, it still holds a rating with Fitch and Moody's. Moody's withdrew its rating of Cornwall Council after it chose to no longer maintain a rating.

Credit default swap prices generally trended lower over the period but did start to rise modestly in March, but not to any levels considered concerning. Once again, price volatility over the period remained 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.