Treasury Management

Borrowing and Investments

1. Table 1 below shows the year's opening balance of borrowing and investments, current levels, and the year-end forecast. Forecast borrowing is based on the forecast capital programme and will be subject to review during the year.

The strategy of keeping borrowing and investments below their underlying levels to reduce risk and make a net saving, has been maintained.

2. **Table 1 - Borrowing and Investments**

	31-Mar-24 Actual £M	31-Mar-24 Average %	31-Dec-24 Actual £M	31-Dec-24 Average %	31-Mar-25 Forecast £M	31-Mar-25 Forecast %
Long Term Borrowing						
Public Works Loan	288.59	3.47	306.80	3.50	429.23	2.96
LOBO Loans from Banks	4.00	4.86	4.00	4.86	4.00	4.85
	292.59	**3.58**	**310.80**	**3.60**	**433.23**	**3.00**
Short Term Borrowing						
Other Local Authorities	20.00	5.79	17.00	5.29	2.00	5.79
Total External Borrowing	**312.59**	**2.98**	**327.80**	**3.64**	**435.23**	**3.11**
Other Long Term Liabilities						
PFI Schemes	41.08	9.82	41.08	9.56	37.11	9.82
Deferred Debt Charges (HCC)	12.37	4.99	12.37	3.27	12.01	4.99
Total Gross External Debt	**366.04**	**3.97**	**381.25**	**4.08**	**484.35**	**3.97**
Investments:						
Managed In-House						
Cash (Instant access)	(7.83)	5.27	(21.30)	4.74	(20.00)	5.40
Long Term Bonds	(1.03)	5.27	(1.02)	5.27	(1.00)	5.27
Managed Externally						
Pooled Funds (CCLA) & Shares	(27.00)	4.76	(27.00)	4.65	(27.00)	3.00
Total Investments	**(35.86)**	**4.78**	**(49.32)**	**4.68**	**(48.00)**	**4.05**
Net Debt	**330.18**		**331.93**		**436.35**	

3. After maturing and new debt requirements in year and a forecast investment balance, net borrowing is expected to increase by £106.17M, to £436.35M.

This forecast remains subject to change; most notably regarding the use of EFS, increased use of balances, (which increase borrowing need as use of internal borrowing reduces) and changes to the capital programme, which due to the current financial environment is subject to ongoing review against the backdrop of rising inflation (significantly increasing construction costs) and rising interest rates.

4. The interest cost of financing the council's long and short term loan debt is charged to the general fund revenue account and is detailed below, with a summary of performance to date.

Borrowing

5. As of December 2024, the forecast cost of financing the council's loan debt is £21.64M of which £6.86M relates to the HRA, however this will be subject to movement as the need for further borrowing for the remainder of the year becomes more certain.

6.	As outlined in the treasury strategy, the primary objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period funds are required, with flexibility to renegotiate loans should long-term plans change being a secondary objective. The 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.
7.	Gilt yields were volatile and have increased overall during the period, 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 5.40% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.44%. Rates for 20-year maturity loans ranged from 5.01% to 5.87% during the period, and 50-year maturity loans from 4.88% to 5.69%. Whilst the cost of short-term borrowing from other local authorities has also seen a rise, around 5.00% - 5.5%.
8.	**Short-term borrowing:** Short-term borrowing costs have remained high with the current high Base Rate and short-dated market rates. The average rate on £17M short-term loans as at 31st December 2024 was 5.29%. The market-consistent range were around 5.00% - 5.5%, however there were rising rates at the end of the period in the LA-LA market. Any borrowing decisions will be in consultation with our advisors as long-term debt is expected to fall in the medium term.
9.	There is an increasing CFR due to the capital programme, and after future debt maturities currently has an additional estimated borrowing requirement of £89.23M for the year, as determined by the Liability Benchmark, which considers capital spend, maturing debt, usable reserves and working capital and is summarised in Table 2 below. The movement of £66.78M is due to forecast reduction in the use of borrowing for EFS, as the revenue monitoring position improves, and capital receipts emerge from disposals.

Table 2 – Estimated Borrowing Requirement 2024/25

	Qtr. 2 £M	Qtr. 3 £M	Movement £M
New Capital Expenditure	160.44	104.50	(55.94)
Repayment of Principle (MRP)	(9.46)	(9.47)	(0.01)
Maturing Debt	30.60	30.60	(0.00)
Movement in Resources	3.43	1.54	(1.89)
	185.01	**127.17**	**(57.84)**
New Borrowing Taken in Year (inc short term)	(29.00)	(41.00)	(12.00)
Cumulative Borrowing Need	**156.01**	**86.17**	**(69.84)**

	Other Debt Activity
10.	Although not classed as borrowing the Council has previously raised capital finance via Private Finance Initiative (PFI). The forecast balance at the end of the year, after allowing for repayment in year of £3.29M is £37.11M.
11.	In addition, the council holds debt in relation to debt transferred from Hampshire County Council of £12.19M from when we became a unitary authority on the 1 April 1997. This is

being repaid over 50 years at £0.36M per annum.

Investment

12. 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 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 in table 2 above, the Authority expects to be a long-term borrower, so new treasury investments are 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.

13. Invested funds represent income received in advance of expenditure plus balances and reserves. During the year investment balances have ranged between £99.33M and £35.83M and are currently £49.3M and expected to be around £48M by year end.

Forecast income is now £2.81M, slightly higher (£0.23M) than budgeted £2.58M, which helps to bring down net borrowing cost.

14. Bank Rate reduced from 5.25% to 5.00% in August 2024 and again to 4.75% in November 2024 with short term interest rates being around these levels. The rates on DMADF deposits in last quarter ranged between 4.70% and 4.94% and money market rates between 4.60% and 5.30%.

Investment Performance

15. Our advisors produce quarterly benchmarking which shows the breakdown of our investments and how we compare to their other clients and other English Unitary; summarised below:

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity**	**Rate of Return %**
30.09.2024	4.53	A+	94%	12	5.12
31.12.2024	4.79	A+	96%	6	4.88
Similar LAs	4.70	A+	67%	97	4.91
All LAs	4.59	A+	61%	10	4.78

*Weighted average maturity Use additional indicators if meaningful to your position

16. Investments managed internally are currently averaging a return of 4.75% which is in line with both the average unitary authority at 4.80% and other LAs at 4.74%, as is the credit rating of A+. Total income returns at 4.88% is also slightly lower than other unitary (4.91%) but above LA’s (4.78%).
Due to operating on a cash flow basis for investments to avoid higher borrowing costs we maintained lower cash balances, £22.3M compared to £59.2M for other unitaries and £59.4M for other Local Authority, which accounts for our higher than average funds exposed to bail in but these are available on 1 day notice, there are no concerns with this.
Cash is performing well in the current financial environment, reflecting our total return of 4.86% being lower compared to 4.91% for other unitaries and 4.88% for other LA’s
We hold 53% of our investments in historic strategic funds which offer higher return over the long term, as detailed in paragraphs 17 and 18. The capital value of our external strategic funds has increased, £0.26M in the quarter. The income return over the longer term was and remains the driver to invest, although this is kept under review for opportunities to divest.

External Managed Investments

17. The council has maintained its £27M investment in pooled property funds as an alternative to buying property directly. As previously reported these funds offer the potential for enhanced

returns over the longer term but may be more volatile in the shorter term. They are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.

18. Table 3 below shows the funds' current capital value, £25.06M and income earned to 31st December 2024. The valuation has improved for the last two quarters and is now £0.26M higher than reported at the end of last year.

The forecast dividend for this quarter is £0.27M and £1.19M in total for the year.

Table 3 - Pooled Fund Performance (Year to Date)

Quarter Ending	Valuation £M	Movement since Reported in SOA	Dividends £M
1st April	24.79		
30th June	24.67	(0.12)	0.34
30th September	24.71	(0.09)	0.31
31st December	25.06	0.26	0.31 *
Total			0.97
**Forecast*			

Non – Treasury Investments

19. The rate of return on investment for 2024/25 on the three properties, known as the Property Investment Fund (PIF), is forecast at 6.03%. Borrowing costs are 3.90% giving a forecast net rate of return of 2.13% before any realised gains or losses.

A full review of all assets is underway and may result in the disposals in year.

Details of the properties purchased are shown in table 4 below.

Table 4 – Property Investment Fund

Property	Actual	31.03.2023 Actual		31.03.2024 Actual		Outstanding Debt 31.03.2024	Outstanding Debt 31.03.2025
	Purchase Cost £M	Value in Accounts	Gain or (Loss) in Year	Value in Accounts	Gain or (Loss) in Year	£M	£M
Property 1	6.47	4.79	(0.09)	5.43	0.64	5.75	5.68
Property 2	14.69	10.61	(1.03)	11.52	0.91	13.05	12.91
Property 3	8.53	8.42	(0.74)	8.24	(0.18)	7.57	7.49
	29.69	**23.82**	**(1.86)**	**25.19**	**1.37**	**26.37**	**26.08**

Financial Review and Outlook

20. A summary of the external factors, which sets the background for Treasury, as provided by the council's treasury advisors, Arlingclose Ltd, is summarised below:

Table 5 - Arlingclose's Economic Outlook (December 2024 interest rate forecast)

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75

21. The economic interest rate outlook provided by Arlingclose Ltd, for December 2024 is based on the following underlying assumptions:

- As expected, the Monetary Policy Committee (MPC) held Bank Rate at 4.75% in

	December, although, a 6-3 voting split and obvious concerns about economic growth, presented a much more dovish stance than expected given recent inflationary data. • The Budget measures remain a concern for policymakers, for both growth and inflation. Additional government spending will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects will promote caution amongst policymakers. • UK GDP recovered well in H1 2024 from technical recession, but underlying growth has petered out as the year has progressed. While government spending should boost GDP growth in 2025, private sector activity is waning, partly due to Budget measures. • Private sector wage growth and services inflation remain elevated; wage growth picked up sharply in October. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will be inflationary as these additional costs get passed to consumers. • CPI inflation rates have risen due to higher energy prices and less favourable base effects. Current CPI rate of 2.6% could rise further in Q1 2025. The Bank of England (BoE) estimates the CPI at 2.7% by year end 2025 and to remain over target in 2026. • The MPC re-emphasised that monetary policy would ease gradually. Despite recent inflation-related data moving upwards or surprising to the upside, the minutes suggested a significant minority of policymakers are at least as worried about the flatlining UK economy. • US government bond yields have risen following strong US data and uncertainty about the effects of Donald Trump's policies on the US economy, particularly in terms of inflation and monetary policy. The Federal Reserve pared back its expectations for rate cuts considering these issues. Higher US yields are also pushing up UK gilt yields, a relationship that will be maintained unless monetary policy in the UK and US diverges. **Forecast:** • In line with our forecast, Bank Rate was held at 4.75% in December. • The MPC will reduce Bank Rate in a gradual manner. Rate cut in February 2025, followed by a cut alongside every Monetary Policy Report, to a low of 3.75%. • Long-term gilt yields have risen to reflect both UK and US economic, monetary, and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes. • This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently. • The risks around the forecasts lie to the upside over the next 12 months but are broadly balanced in the medium term.
	Prudential Indicators
22.	As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators, which together with Capital Prudential Indicators are detailed in Appendix 3. • Liability Benchmark • Maturity Structure of Borrowing • Long-term Treasury Management Investments • Security • Liquidity • Interest Rate Risk Indicator