

Arun District Council

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| REPORT TO: | Audit and Governance Committee – 3 December 2024 |
| SUBJECT: | Treasury Management – Quarter 2 report 2024-25 |
| LEAD OFFICER: | Antony Baden - Group Head of Finance and Section 151 Officer |
| LEAD MEMBER: | Cllr Matt Stanley |
| WARDS: | All |
| CORPORATE PRIORITY/POLICY CONTEXT/CORPORATE VISION: The Treasury Management function is required by regulation and has an effect on all Directorates of the Council. | |
| DIRECTORATE POLICY CONTEXT: This report supports the Annual Treasury Management Strategy Statement (TMSS). It is the Treasury Management mid-year report (Quarter 2) 2024-25. This report is an update report and summarises: <ul style="list-style-type: none">• Investment position (Appendix 1)• Borrowing position (Appendix 2) and• Prudential Indicators (Appendix 3) | |
| FINANCIAL SUMMARY: The financial implications arising from this report are detailed in Appendices 1 to 3. Some of the figures contained in this report are draft, and subject to external audit but they are not expected to change significantly. Any such changes will be reported to this Committee. | |

1. PURPOSE OF REPORT

- 1.1. To note the Treasury Management activities for the second financial quarter ending 30th September 2024. Also, it enables the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

2. RECOMMENDATIONS

The Audit and Governance Committee is asked to recommend the following to Full Council:

- 2.1. note the Quarter 2 (mid-year) treasury management report for 2024/25;
- 2.2. note the treasury activity for the quarter ended 30 September 2024, which has generated interest receipts of £1.2m (5.15%) against a budget of £1.9m (4.63%); and
- 2.3. note the quarter 2 prudential and treasury indicators for 2024/25 contained in the report.

3. EXECUTIVE SUMMARY

- 3.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management 2021 recommends that Members be updated on treasury management activities at least quarterly. The 2024/25 Treasury Management Strategy states this report will go to the Audit and Governance Committee around December time. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.
- 3.2. During the second quarter to 30 September 2024, the Council complied with its legislative and regulatory requirements, including confirmation that the authorised limit was not breached.

4. DETAIL

- 4.1. Treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return and the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations.
- 4.2. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

“The management of the local authority’s borrowing, investments and cash flows, 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.”

- 4.3. The Council has also implemented the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance in producing these regular reports.
- 4.4. The investment activity to date conforms to the approved strategy and the Council has had no liquidity difficulties. This report focuses on the 2024/25 financial period ending 30 September 2024 and is based on the data available at the time of writing.

4.5. The detail can be found in appendices 1 to 3.

4.6. Economic update

The second quarter of 2024/25 financial year (July to September) saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August but then reducing to 1.7% in September;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August then dropped to 3.2% in September;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

4.7. The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months.

4.8. The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts.

4.9. November saw a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

4.10. Interest rate forecasts

4.11. PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012. For Housing Revenue Account authorities, the lower Housing Revenue Account (HRA) PWLB rate has also been available since 15 June 2023 (standard rate minus 60 bps) but is available for HRA borrowing only.

4.12. The latest forecast, updated on 11th November, sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

4.13. Below is Link group's Interest rate view at 11 November 2024.

| Link Group Interest Rate View | 11.11.24 | | | | | | | | | | | | |
|-------------------------------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 | Jun-27 | Sep-27 | Dec-27 |
| BANK RATE | 4.75 | 4.50 | 4.25 | 4.00 | 4.00 | 3.75 | 3.75 | 3.75 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| 3 month ave earnings | 4.70 | 4.50 | 4.30 | 4.00 | 4.00 | 4.00 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 6 month ave earnings | 4.70 | 4.40 | 4.20 | 3.90 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 12 month ave earnings | 4.70 | 4.40 | 4.20 | 3.90 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 | 3.50 | 3.50 | 3.50 | 3.50 |
| 5 yr PWLB | 5.00 | 4.90 | 4.80 | 4.60 | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 4.00 | 3.90 |
| 10 yr PWLB | 5.30 | 5.10 | 5.00 | 4.80 | 4.80 | 4.70 | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.20 | 4.10 |
| 25 yr PWLB | 5.60 | 5.50 | 5.40 | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 | 4.50 | 4.50 |
| 50 yr PWLB | 5.40 | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 | 4.50 | 4.40 | 4.30 | 4.30 |

5. CONSULTATION

- 5.1. Consultation has been undertaken with the Council's Treasury Advisors – Link Group, Link Treasury Services Limited.

6. OPTIONS / ALTERNATIVES CONSIDERED

- 6.1. As the CIPFA Code of Practice for Treasury Management 2021 recommends that Members be updated on treasury management activities at least quarterly, the only option available is to request that Full Council note the recommendations (2.1, 2.2, 2.3).

7. COMMENTS BY THE GROUP HEAD OF FINANCE SUPPORT/SECTION 151 OFFICER

- 7.1. The Council is required to ensure that cash raised during the year will meet expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments in line with the Council's low risk appetite, providing adequate liquidity before considering investment return.
- 7.2. Another key function of the treasury management service is to manage the funding of the Council's Capital Programme. It determines borrowing needs in respect of longer-term cash flow planning so that the Council can deliver its capital plans. This involves arranging long and short-term loans as well as the use of cash flow surpluses. It can also involve restructuring existing debt if this reduces costs or risk exposure to interest rate increases.
- 7.3. The Treasury Management function looks to optimise interest income and reduce debt interest payments whilst ensuring that the Council has enough liquidity to meet all its spending commitments. Since cash balances generally consist of reserves and balances, it is paramount that investments are placed as securely as possible as any losses would have an adverse impact on the revenue budget.
- 7.4. The parameters guiding our approach to treasury management are set out in the Council's approved Treasury Management and Annual Investment strategies and the financial

implications and detail arising from our Treasury Management activities are outlined in appendices 1 and 2.

8. RISK ASSESSMENT CONSIDERATIONS

8.1. The main risks in treasury management are financial ones. These are identified in the Council's Treasury Management Practices and the main risks in these activities are:

- liquidity;
- markets or investment;
- inflation;
- credit and counterparty;
- legal and regulatory

8.2. The consequences of ignoring these are poor practices implemented, diminished interest returns, loss of capital invested, poor liquidity (funds available when required). The Council's strategies guard against most of these risks.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1. Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority including securing effective arrangements for treasury management. There are no other specific legal implications arising from this report.

10. HUMAN RESOURCES IMPACT

10.1. None direct

11. HEALTH & SAFETY IMPACT

11.1. None direct

12. PROPERTY & ESTATES IMPACT

12.1. None direct

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1. None

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1. Best practice is taken when reviewing investment options to ensure that they are with companies or banks that are actively looking to reduce their impact on the environment and increase sustainability.

14.2. Current Investments with CCLA (better world cautious fund and the property fund) and Standard Chartered (Sustainable deposits) have positive ESG (Environmental, Social and Governance) factors.

14.3. Further options will be explored and considered.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1. None

16. HUMAN RIGHTS IMPACT

16.1. None

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1. None

CONTACT OFFICER:

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BACKGROUND DOCUMENTS:

- The Local Government Act 2003 ([The Local Government Act 2003](#)).
- Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA, December 2021) (*Link not available as copyright*).
- The Prudential Code for Capital Finance in Local Authorities (CIPFA, December 2021) (*Link not available as copyright*).
- MHCLG Guidance on Local Government Investments
[Guidance on local government investments.pdf \(publishing.service.gov.uk\)](#)-
- Link Asset Services Ltd Annual Treasury Management review Template 2023/24. (*Link not available as copyright*).
- 2024/2025 Strategy:
[\(Public Pack\)Agenda Document for Audit and Governance Committee, 19/02/2024 18:00 \(arun.gov.uk\)](#)

Arun District Council**Investment Position****1. Investment and Strategy review**

1.1. The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on **13 March 2024**. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being (SLY):

- Security of capital
- Liquidity
- Yield

1.2. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 2 years with high credit rated financial institutions to achieve the best yield possible but with SLY at the forefront.

1.3. The table below shows a £50.22m investment portfolio at 30 September 2024 and percentage in each sector.

| INVESTMENT PORTFOLIO | 31.3.24 Actual £000 | 31.3.24 Actual % | 30.9.24 Actual £000 | 30.9.24 Actual % |
|-----------------------------------|------------------------------------|---------------------------------|------------------------------------|---------------------------------|
| Treasury investments | | | | |
| Banks | 15,800 | 37% | 30,120 | 60% |
| Building Societies - rated | 1,000 | 2% | 0 | 0% |
| Building Societies - unrated | 0 | 0% | 0 | 0% |
| Local authorities | 6,000 | 14% | 4,000 | 8% |
| Money Market Funds | 12,965 | 30% | 9,100 | 18% |
| Total managed in house | 35,765 | 83% | 43,220 | 86% |
| Property funds | 5,000 | 12% | 5,000 | 10% |
| Diversified funds | 2,000 | 5% | 2,000 | 4% |
| TOTAL TREASURY INVESTMENTS | 42,765 | 100% | 50,220 | 100% |

1.4. A full list of these investments held are shown in the following table:

| Reference no. | Counterparty | Issue Date | Maturity Date | Principal | Current Interest Rate |
|---------------|--|------------|---------------|---------------|-----------------------|
| 903 | Goldman Sachs International Bank | 08/04/2024 | 07/10/2024 | £1,000,000.00 | 5.2750 |
| 906 | Lloyds Bank Plc (RFB) | 18/04/2024 | 14/10/2024 | £2,000,000.00 | 5.2300 |
| 888 | Standard Chartered Bank - Sustainable Deposits | 18/10/2023 | 17/10/2024 | £1,000,000.00 | 5.820 |
| 889 | Goldman Sachs International | 20/10/2023 | 18/10/2024 | £1,000,000.00 | 5.750 |
| 918 | Overseas Chinese Bank (OCBC) | 26/07/2024 | 25/10/2024 | £3,000,000.00 | 5.150 |
| 909 | Goldman Sachs International Bank | 09/05/2024 | 19/11/2024 | £1,000,000.00 | 5.2800 |
| 908 | City of Bradford Metropolitan District Council | 02/05/2024 | 20/11/2024 | £2,000,000.00 | 5.3800 |
| 865 | Goldman Sachs International | 05/01/2023 | 06/01/2025 | £1,000,000.00 | 4.645 |
| 919 | National Westminster Bank PLC (RFB) | 29/07/2024 | 27/01/2025 | £1,000,000.00 | 5.0900 |
| 913 | Goldman Sachs International Bank | 05/07/2024 | 05/02/2025 | £1,000,000.00 | 5.1900 |
| 914 | DBS Bank Ltd. | 05/07/2024 | 05/02/2025 | £1,000,000.00 | 5.2100 |
| 915 | DBS Bank Ltd. | 10/07/2024 | 05/02/2025 | £1,000,000.00 | 5.200 |
| 911 | National Westminster Bank PLC (RFB) | 20/06/2024 | 20/02/2025 | £2,000,000.00 | 5.1800 |
| 922 | National Westminster Bank PLC (RFB) | 26/09/2024 | 26/02/2025 | £5,000,000.00 | 4.8000 |
| 921 | Goldman Sachs International Bank | 12/09/2024 | 04/03/2025 | £3,000,000.00 | 4.8450 |
| 912 | Goldman Sachs International Bank | 27/06/2024 | 07/04/2025 | £1,000,000.00 | 5.2050 |
| 916 | DBS Bank Ltd. | 22/07/2024 | 07/04/2025 | £3,000,000.00 | 5.110 |
| 917 | DBS Bank Ltd. | 25/07/2024 | 23/05/2025 | £1,000,000.00 | 5.080 |
| 920 | Lancashire County Council | 20/09/2024 | 19/09/2025 | £2,000,000.00 | 4.7500 |
| 893 | Close Brothers Limited | 06/11/2023 | 06/11/2025 | £1,000,000.00 | 5.350 |
| 44447 | Lloyds Bank | | | £120,000.00 | 4.880 |
| 100500 | CCLA (Churches, Charities and LA's) (MMF) | | | £1,080,000.00 | 4.9933 |
| 110000 | Federated Investors LLP (MMF) | | | £4,000,000.00 | 5.0267 |
| 120000 | Aberdeen Standard (MMF) | | | £4,000,000.00 | 5.0079 |
| 99999 | Fidelity Fund Management Ltd (MMF) | | | £10,000.00 | 4.9663 |
| 130000 | Deutsche Bank (MMF) | | | £10,000.00 | 4.8760 |
| 140000 | CCLA (Churches, Charities and LA's) LAPF | | | £5,000,000.00 | **5.21 |
| 140500 | CCLA (Churches, Charities and LA's) B'WCF | | | £2,000,000.00 | **3.80 |

** Average rate of return

MMF - Money Market Fund

LAPF - Local Authority Property Fund

B'WCF - Better World Cautious Fund

- 1.5. Investment rates have remained elevated during the second quarter of 2024/25 but are expected to fall back through the third quarter of 2024.
- 1.6. Creditworthiness - The UK's sovereign rating has proven robust through the first half of 2024/25. There have been few changes to credit ratings over the quarter under review, however, officers continue to monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.
- 1.7. Investment counterparty criteria - The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.
- 1.8. Investment balances - The average level of funds available for investment purposes during the quarter was just shy of £46m. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.
- 1.9. The table below shows the total useable reserves compared to the investment balances at 31 March 2024 and updated for Quarter 2 (end of September 2024). The figures contained in this table are draft, and subject to revisions and external audit.

| Usable Reserves | 31-3-24 | 30-9-24 P6 | change |
|--|----------------------|-----------------------|--------------------|
| | £m | £m | £m |
| Usable Revenue Reserves | 19.677 | 18.075 | -1.60 |
| Housing Revenue Account Balance * | 0.481 | 0.981 | 0.50 |
| Usable Capital Receipts | 1.103 | 1.103 | 0.00 |
| Housing Major Repairs Reserve | 4.209 | 2.874 | -1.34 |
| Capital Grants Unapplied | 10.560 | 9.281 | -1.28 |
| Total | 36.030 | 32.314 | -3.72 |
| S106 / CIL | 8.067 | 10.200 | 2.13 |
| ADC acting as Agents for grants | 1.188 | 1.178 | -0.01 |
| Reserves + S106/CIL + Grants to repay | 45.285 | 43.692 | -1.59 |
| <i>Investments</i> | <i>42.765</i> | <i>50.220</i> | <i>7.46</i> |
| <i>Lloyds Bank current account</i> | <i>0.295</i> | <i>0.227</i> | <i>-0.07</i> |
| <i>Investments & Bank</i> | <i>43.060</i> | <i>50.447</i> | <i>7.39</i> |

- 1.10. The usable reserves and the above other elements will never match exactly to cash & investments, due to timing differences, but also there are other cash movements which are not captured in the table above.

1.11. Investment performance for quarter ended 30 September 2024

| Benchmark | Benchmark Return | Budgeted Return | Council Performance | Investment Interest Earned |
|-----------------------|------------------|-----------------|---------------------|----------------------------|
| Average O/N *Sonia | 5.12% | 4.63% | 5.15% | £1,199,913 |

** The SONIA is a risk-free rate for sterling markets administered by the Bank of England. It is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and institutional investors.*

1.12. As illustrated, the Council is outperforming the budgeted interest return and the benchmark rate (%). The Council's budgeted investment return for 2024/25 is £1.9m and performance for the year to date is £1.2m.

1.13. The estimated outturn is currently around £2.3m showing an over achievement of over £400k. This enhanced return is largely due to rates applied to investments being higher than expected plus more principal available to invest, in some cases due to large payments being delayed as works not completed.

1.14. The CCLA property fund continues to increase the returns the Council is achieving on its investments and currently £5M is invested in this fund achieving an average rate of return of approx. 4.95%, however the Capital value is down around 8.7% (at 30 September 2024). This is a long-term investment, and values will rise and fall over the years.

1.15. IFRS 9 - following the consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG), the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

1.16. The Council had the following valuations at 30 September 2024 for the CCLA pooled funds:

- CCLA property fund - £4,564,965 (£5m invested)
- CCLA better world cautious fund - £1,983,026 (£2m invested)

1.17. This would have had an adverse impact of £452,008 on the Council's revenue budget if the IFRS 9 override was not in place. In September 2024, £250k was transferred into an Earmarked reserve to lessen this impact. This was funded by an overachievement on investment income in the first half of the year.

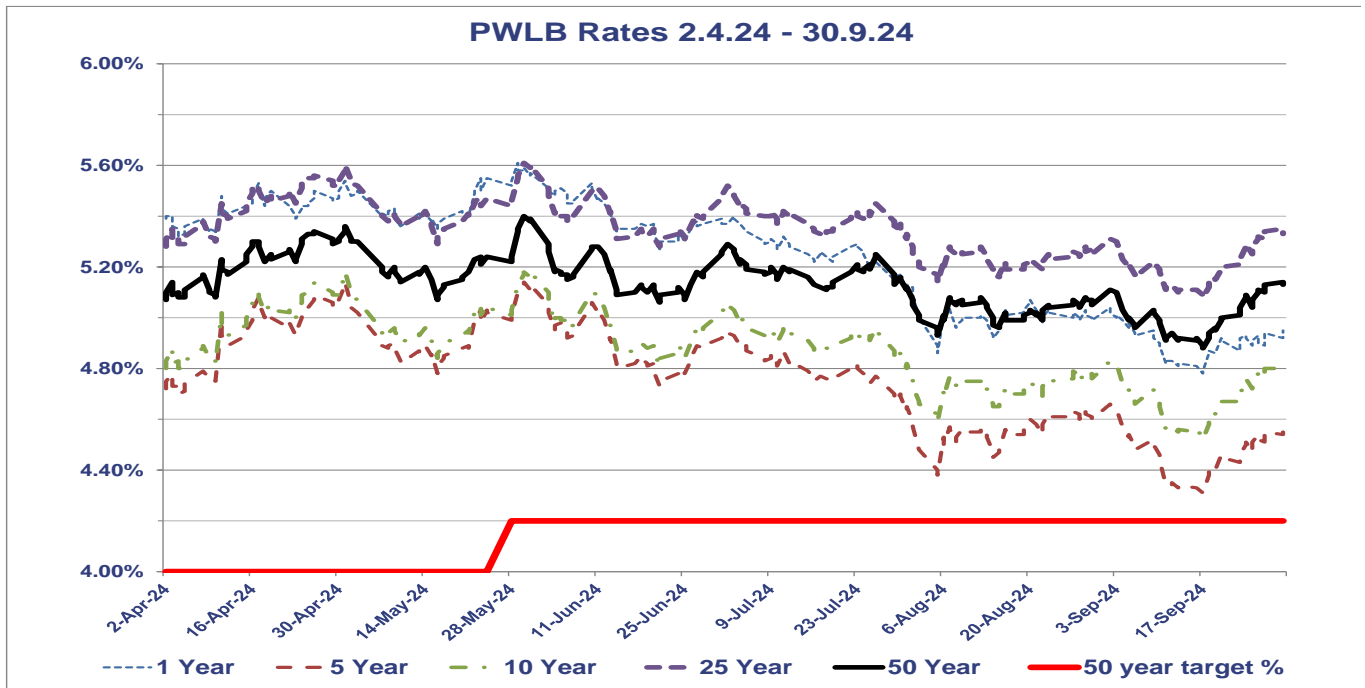
1.18. Approved limits - Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 September 2024.

1. Borrowing position

- 1.1 The Council's capital financing requirement (CFR) for 2024/25 is £61.9m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing).
- 1.2 No borrowing was undertaken during the quarter ended 30th September 2024.
- 1.3 The Council has no immediate plans to borrow externally for capital expenditure in the current financial year, although funding will need to be arranged for approved schemes. We will look to borrowing internally for these in the first instance, until interest rates reduce further.
- 1.4 Currently Arun's only borrowing relates to the HRA Self-Financing settlement (£35.46m), summarised in the table below:

| <u>Lender</u> | <u>Principal</u> | <u>Type</u> | <u>Interest Rate</u> | <u>Maturity</u> |
|----------------------|-------------------------|--------------------|-----------------------------|------------------------|
| PWLB | £8.870m | Maturity | 3.21% | 28/3/2030 |
| PWLB | £8.870m | Maturity | 3.40% | 28/3/2035 |
| PWLB | £8.860m | Maturity | 3.53% | 28/3/2050 |
| PWLB | £8.860m | Maturity | 3.48% | 28/3/2062 |
| | £35.46m | | | |

1.5 PWLB rates 2 April to 30 September 2024 are shown in the chart below:



1.6 Officers will continue to keep borrowing policy under review and use internal balances where possible to minimise borrowing costs.

1. Treasury and Prudential Indicators

- 1.1. As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following Treasury Management Prudential Indicators.
- 1.2. The borrowing activity is controlled by prudential indicators for net borrowing, the Capital Financing Requirement (CFR), and by the authorised limit which is summarised in the table below and in 1.6.

| Prudential Indicators | *31 March 2024 Actual £'000 | **2024/25 Original Forecast £'000 | 2024/25 Q1 (June) Forecast £'000 | 2024/25 Current Forecast £'000 |
|--|--|--|---|---|
| Capital Expenditure: | | | | |
| Non - HRA | 7,224 | 24,020 | 31,302 | ***25,509 |
| HRA | 7,114 | 15,151 | 26,897 | 26,897 |
| TOTAL | 14,338 | 39,171 | 58,200 | 52,406 |
| Ratio of financing costs to net revenue stream: | | | | |
| Non - HRA | (8.37)% | (6.22)% | (7.14)% | (7.61)% |
| HRA | 18.25% | 16.96% | 17.91% | 17.57% |
| Capital Financing Requirement (CFR): | | | | |
| Total opening CFR | 52,858 | 55,212 | 51,884 | 51,884 |
| <u>Closing CFR</u> | | | | |
| Non - HRA | 119 | 6,451 | 6,640 | 3,625 |
| HRA | 51,765 | 60,538 | 58,304 | 58,288 |
| TOTAL | 51,884 | 66,989 | 64,944 | 61,913 |
| Annual change in CFR: | | | | |
| Non – HRA | 138 | 5,707 | 4,915 | 3,506 |
| HRA | (1,111) | 6,069 | 8,145 | 6,522 |
| TOTAL | (973) | 11,776 | 13,060 | 10,028 |
| Unfinanced capital expenditure | 2,654 | 16,277 | 25,724 | ****22,708 |

- (*) Some of these figures have been amended since the annual report was presented at the July 2024 meeting as there have been changes to the 23-24 accounts.
- (**) As per the 2024-25 Treasury Management Strategy Statement (TMSS) presented at the February 2024 meeting.
- (***) This has reduced in quarter 2 due to some expenditure on the Alexandra Theatre and Bognor Regis Arcade not required till 2025-26.
- (****) Of the £52.4m capital expenditure - £22.7m is currently funded from internal balances.

1.3. The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need: or
- If insufficient financing is available, or a decision is taken not to apply internal resources, the capital expenditure will give rise to a borrowing need.

1.4. In the table in 1.2, all "unfinanced capital expenditure" results in a financing or borrowing need which will come from either internal or external borrowing.

1.5. The ratio of Financing Costs to the Net Revenue Stream is estimated to be (7.61)% by the end of the financial year (non-HRA) which is a change of (1.39)% on original forecast. This is largely due to better than expected interest rates.

1.6. The treasury Indicators are shown in the table below:

| Treasury indicators | 31 March 2024 Actual £'000 | 2024/25 Original £'000 | Septemer 2024 Position £'000 |
|--|----------------------------|------------------------|------------------------------|
| Authorised Limit for External Debt: | | | |
| Borrowing | 59,000 | 75,000 | 75,000 |
| Other long-term liabilities | 4,000 | 8,000 | 8,000 |
| TOTAL | 63,000 | 83,000 | 83,000 |
| Operational Boundary for External Debt: | | | |
| Borrowing | 55,000 | 70,000 | 70,000 |
| Other long-term liabilities | 4,000 | 8,000 | 8,000 |
| TOTAL | 59,000 | 78,000 | 78,000 |
| Gross External Debt (Actual) | | | |
| Non – HRA | 0 | 0 | 0 |
| HRA | 35,460 | 35,460 | 35,460 |
| TOTAL | 35,460 | 35,460 | 35,460 |
| Remaining Authorised Limit for External debt: | 27,540 | 47,540 | 47,540 |
| Total Investments | 42,765 | 40,000 | 50,220 |
| Net borrowing (Net debt) | 7,305 | 4,540 | 14,760 |

1.7. There is one treasury borrowing related prudential indicator against the maturity structure of the Council’s borrowing portfolio. Gross upper and lower percentage limits are set to limit exposure to large sums falling due for refinancing.

1.8. The current limits are shown in the table below:

| Maturity structure of borrowing – upper & lower limits: | Actual fixed borrowing 30 September 24 | lower limit | upper limit |
|--|---|------------------------|------------------------|
| Under 12 months | 0% | 0% | 40% |
| 12 months and within 24 months | 0% | 0% | 40% |
| 24 months and within 5 years | 0% | 0% | 50% |
| 5 years and within 10 years | 25% | 0% | 60% |
| 10 years and above | 75% | 0% | 100% |

1.9. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 30 September 2024, the Council has operated within the treasury and prudential indicators set out in the Council’s Treasury Management Strategy Statement for 2024/25 (table in 1.6). The Group Head of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.