

TANDRIDGE DISTRICT COUNCIL

INVESTMENT SUB COMMITTEE

Minutes and report to the Strategy & Resources Committee of the meeting of the Investment Sub Committee held in the Council Chamber, Council Offices, Station Road East, Oxted on the 17 January 2025 at 10:00am.

PRESENT: Councillors Langton, Allen, Booth, Jones, Mark and Sherry

PRESENT (Virtually): Councillor Horne

10. MINUTES OF THE MEETING HELD ON 8 NOVEMBER 2024

These minutes were confirmed and signed as a correct record.

11. SUMMARY INVESTMENT AND BORROWING POSITION AT 31 DECEMBER 2024

A report with the investment analysis at Annexes A to C was presented, along with commentary from Arlingclose (the Council's treasury advisors) on the external context for treasury management activity and the performance against the Council's approved Prudential Indicators for 2024/25. The indicators showed full compliance as at 31 December 2024.

The investment analysis confirmed that, at 31 December 2024:

- i) Total long-term treasury investments (over 12 months) amounted to £8.8 million. This reflected the closure of the UBS Multi-Asset Fund on 16 September 2024, with the funds reinvested in two one-year fixed-rate bonds.
- ii) Short-term investments (less than 12 months) amounted to £19.5 million, including £2.3 million invested in one-year fixed-rate bonds.
- iii) The Council held £20.6 million in non-treasury investments, consisting of capital loans to service providers and limited companies.
- iv) The Public Works Loan Board (PWLB) loans totalled £96.3 million, comprising £43.4 million General Fund loans and £52.8 million Housing Revenue Account loans.

Investment income for 2024/25 was forecast at £1.95m which was £0.45m better than budget.

The report noted the statutory override on pooled investment funds had been extended until 31 March 2025. This allowed the Council to manage fair value movements outside its budgets. A further 1-year extension was the subject of a government consultation. An Investment Performance Equalisation Reserve had previously been established using surpluses from 2022/23 and 2023/24 investment income. This reserve was designed to mitigate capital losses, such as the £738k loss realised upon the closure of the UBS Multi-Asset Fund. The reserve now stood at £412k.

Members asked several questions of Officers, and it was confirmed:

- the value held in money market funds would fluctuate significantly. This was dependent on whether portions of captured receipts, for example Council Tax, had been paid over to other authorities.
- the rate at which the Housing Revenue Account (HRA) borrowed from the General Fund fluctuated throughout the year. This was dependent on the average rate of income from investments. Officers would include estimated rates in future reports.

RESOLVED – that the following be noted:

- A. The Council's investment and borrowing position at 31st December 2024 as detailed in Annexes A and B.
- B. The Council's performance against the indicators set within the Treasury Management Strategy 2024/25 in Annex C.
- C. The commentary from Arlingclose on the external context for treasury management in Annex D.

12. CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGY FOR 2025/26

The purpose of the Capital, Investment and Treasury Management Strategy was to provide a high-level overview of how capital expenditure, capital financing and treasury management activity contributed towards the delivery of the Council's priorities, along with an explanation of how risk, security and liquidity were managed. It comprised:

- capital and investment overviews
- a treasury management strategy statement for 2025/26
- an investment property strategy for 2025/26
- a Minimum Revenue Provision (MRP) policy statement for 2025/26, at appendix A to the report
- a statement of principles of corporate governance for the capital programme.

The Director Resources confirmed figures in tables 11 and 12 had been updated since the agenda had been published. The strategy was fundamentally the same as for 2024/25. Changes included a peak in the MRP to £1.6m in 2027/28 (compared to a peak to £1.5m in 2026/27), to ensure the Council had adequately planned for repayment of debt, and other minor amendments as outlined in paragraph 8 of the covering report.

In response to Member questions, it was confirmed:

- the strategy is amended annually and approved by Full Council. Once the Sub-Committee had approved it, a recommendation to the Strategy & Resources Committee and Full Council for approval would follow. The Strategy & Resources Committee was responsible for approving the level of borrowing for capital programmes.

- Officers would provide details of which schemes were funded from borrowing in the report to the Strategy & Resources Committee on 30 January 2025. This information is attached as annex E to these minutes.
- it was important the Council ensured it could service its debt, and the level of borrowing was appropriate. Borrowing only took place when funding was needed, and slippage on capital spending was reported through the policy committees. The Council was marginally over-borrowed due to past borrowing levels but would need to borrow again in future years as the gap between external debt and the liability benchmark grew.
- Officers would amend the strategy by removing “The portfolio is at an early stage of development.” from paragraph 33 of the Investment Property Strategy. In the future, proposed changes to the Strategy (and similar documents being considered by the Sub-Committee) would be clearly marked in the draft revised version presented to the Sub-Committee.
- Officers would seek Member input on contents of non-technical training to establish key areas of focus. This would be done in time to ensure the training would be delivered before the next scheduled meeting in June.
- Members would be asked to consider the implications of local government reorganisation on the Council’s investments at a future meeting of the Sub-Committee.

COUNCIL DECISION
(subject to ratification by Council)

RECOMMENDED – that that the Capital Investment and Treasury Management Strategy 2025-26, as at Appendix 1 to the report, with amendments to tables 11 and 12 and paragraph 33 of the Investment Property Strategy, be approved, subject to ratification by Full Council.

13. INVESTMENT PROPERTY UPDATE - JANUARY 2025 - VERBAL UPDATE

The Sub-Committee resolved to move into private session for this item in accordance with Paragraph 3 (information relating to financial or business affairs) of Part 1 of Schedule 12A of the Local Government Act 1972.

Latest information was presented about the investment properties owned by the Council and its subsidiary company, Gryllus Property Limited. The properties concerned were:

Gryllus properties:

80-84 Station Road East, Oxted

The lease with Cook had completed.

30-32 Week Street, Maidstone

Refurbishment had been completed, and handover was expected within the next two weeks.

Castlefield House, Reigate

The lease would expire in 2029 and the Council had instructed a consultant to advise on the development options.

TDC properties:**Quadrant House, Caterham Valley**

A new logo for The Q had been designed and Officers were working on a brochure, website and other digital marketing. Two new single desk lettings had been agreed. A new letting of 1,044 sq ft had been completed. Officers were considering options for the larger suites which were proving harder to let

The McDonalds letting had received planning approval, and the lease was close to finalisation. Officers would present the final lease to Members prior to completion.

Village Health Club, Caterham on the Hill and Tandridge Leisure Pool, Oxted

Officers had served schedules of dilapidations on the tenant in respect of both centres. The latent defect at Tandridge Leisure Pool was the Council's responsibility and would be tendered shortly.

Council Offices, Oxted

No updates.

Linden House, Caterham

Regear negotiations had commenced with the tenant. Officers were considering other options for the building.

Rising: 11:39am

Investment	Original Investment Value £	Net Asset Value 31/03/24 £	Net Asset Value 31/12/24 £	Yield Rate Note 1 %	Forecast Return 2024/25 £	Previous Year Actual £
<u>Treasury Investments (Non-specified)- Long Term (over 12 mths)</u>						
CCLA Property Fund	4,000,000	3,922,967	3,951,003	4.40	174,000	100,524
Schroders Bond Fund	3,000,000	2,678,831	2,750,090	5.24	144,000	119,084
UBS Multi Asset Fund	3,000,000	2,207,842	-	-	57,370	109,416
CCLA Diversification Fund	2,000,000	1,956,403	1,902,627	5.31	101,000	87,261
Funding Circle		160,449	160,449	0.79	1,271	1,271
Sub Total Non-specified (Treasury Investments)		10,926,492	8,764,169		477,641	417,556
<u>Treasury Investments (Specified)-Short Term (less than 12 mths)</u>						
Liquidity Plus Funds		-	-	-	-	102,015
Inter-American Development Bank Bond		-	1,127,111	4.57	17,170	-
BNG Bank NV Bond		-	1,130,285	4.76	17,934	-
Money Market Funds		4,100,000	17,200,000	5.05	526,000	730,034
Total Specified Investments		4,100,000	19,457,396		561,104	832,049
Total Treasury Investments		15,026,492	28,221,565		1,038,744	1,249,605
<u>Non-Treasury Investments (Non-Specified)- Long Term (over 12 mths)</u>						
Gryllus Property Company Loan - Maidstone		2,394,000	2,394,000	5.81	139,023	139,023
Freedom Leisure- Loan (TLP)		193,714	96,857	5.50	14,399	23,181
Freedom Leisure- Loan (de Stafford)		124,143	62,071	7.58	12,717	20,474
Gryllus Property Company Loan - 80-84 Station Rd East		1,012,500	1,012,500	5.43	54,979	54,979
Gryllus Property Company Loan - Castlefield		11,664,000	11,664,000	6.10	711,504	711,504
Gryllus Property Company Share Capital Note 2		5,251,500	5,251,500	-	-	-
Sub Total Non-Treasury Investments		20,639,857	20,480,929		932,622	949,160
Total Investments (Treasury & Non-Treasury)		35,666,349	48,702,494		1,971,366	2,198,765
Total Investment Income Budget 2023/24					1,495,700	1,495,700
Over/(under) budget					475,666	703,065

Summary of Investments and Borrowing

Annex A

Borrowing	Balance as at 31/12/24 £	Interest %	Actual Cost 2024/25 £	Previous Year Cost £
General Fund Borrowing				
Gryllus Loan	3,420,000	2.46	84,132	84,132
Freedom Leisure Loan	2,225,000	2.45	54,513	54,513
Village Health Club	938,678	2.38	22,341	22,341
Linden House	4,175,000	2.69	112,308	112,308
Linden House	254,000	2.42	6,147	6,147
Quadrant House	15,340,000	2.41	369,694	369,694
Quadrant House	800,000	2.28	18,240	18,240
Gryllus - 80-84 Station Road	724,400	2.28	16,516	16,516
Gryllus - Castlefield	15,549,000	2.91	452,476	452,476
Sub Total General Fund Borrowing	43,426,078		1,136,366	1,136,366
Total GF PWLB Budget 2023/24			1,137,000	1,137,000
Over/(under) budget			(634)	(634)
HRA Borrowing				
Public Works Loan Board	52,839,000	2.72	1,437,221	1,596,258
Sub Total HRA Borrowing	52,839,000		1,437,221	1,596,258
Total HRA PWLB Budget 2024/25			1,520,000	1,520,000
Over/(under) budget			(82,779)	76,258
Total Borrowing	96,265,078		2,573,586	2,732,624
Total Budget 2024/25			2,657,000	2,657,000
Total Over/(under) budget			(83,414)	75,624

Notes:

1. Yield Rate:

For Non specified Investments, this is the actual return divided by net asset value as at 31/03/24;

For Specified investments, this is the actual return divided by the average investment value during the year

2. Gryllus share capital comprises of equity shares arising from loans granted - no dividend will be paid in the current year

Market Value of Long Term Investments at 31/12/2024

Annex B

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Carrying Value	Carrying Value 31.3.2018	Carrying Value 31.3.2019	Carrying Value 31.03.2020	Carrying Value 31.03.2021	Carrying Value 31.03.2022	Carrying Value 31.03.2023	Carrying Value 31.03.2024	Carrying Value 31.12.2024
	£	£	£	£	£	£	£	£
CCLA Property Fund	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Schroders Bond Fund	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
UBS Multi Asset Fund	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	-
CCLA Diversification Fund	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	9,000,000

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Market Value	Market Value 31.3.2018	Market Value 31.3.2019	Market Value 31.03.2020	Market Value 31.03.2021	Market Value 31.03.2022	Market Value 31.03.2023	Market Value 31.03.2024	Market Value 31.12.2024
	£	£	£	£	£	£	£	£
CCLA Property Fund(mid-market value)	4,276,854	4,276,005	4,188,063	4,158,183	4,888,056	4,082,278	3,922,967	3,951,003
Schroders Bond Fund	2,912,837	2,865,130	2,539,938	2,908,911	2,775,151	2,550,204	2,678,831	2,750,090
UBS Multi Asset Fund	2,918,160	2,868,479	2,520,713	2,777,398	2,639,592	2,208,433	2,207,842	-
CCLA Diversification Fund(indicative market value)	1,921,257	1,982,167	1,804,193	1,955,874	2,046,513	1,864,707	1,956,403	1,902,627
Total	12,029,108	11,991,781	11,052,907	11,800,366	12,349,313	10,705,622	10,766,043	8,603,720

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Surplus/(Deficit) on capital values	Surplus/ (Deficit) 31.3.2018	Surplus/ (Deficit) 31.3.2019	Surplus/ (Deficit) 31.03.2020	Surplus/ (Deficit) 31.03.2021	Surplus/ (Deficit) 31.03.2022	Surplus/ (Deficit) 31.03.2023	Surplus/ (Deficit) 31.03.2024	Surplus/ (Deficit) 31.12.2024
	£	£	£	£	£	£	£	£
CCLA Property Fund	276,854	276,005	188,063	158,183	888,056	82,278	(77,033)	(48,997)
Schroders Bond Fund	(87,163)	(134,870)	(460,062)	(91,089)	(224,849)	(449,796)	(321,169)	(249,910)
UBS Multi Asset Fund	(81,840)	(131,521)	(479,287)	(222,602)	(360,408)	(791,567)	(792,158)	(737,746)
CCLA Diversification Fund	(78,743)	(17,833)	(195,807)	(44,126)	46,513	(135,293)	(43,597)	(97,373)
Total	29,108	(8,219)	(947,093)	(199,634)	349,313	(1,294,378)	(1,233,957)	(1,134,026)

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Market Value of Long Term Investments at 31/12/2024

Annex B

Gross Revenue Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Full Year forecast at 31/12/2024	
	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23	2022/23	2023/24	2023/24	Yield	Yield
	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	193,758	4.53%	183,989	4.30%	185,240	4.42%	179,910	4.33%	158,867	3.25%	173,997	3.56%	100,524	2.56%	174,000	4.40%
Schroders Bond Fund	105,413	3.62%	120,508	4.21%	124,418	4.90%	125,529	4.32%	128,455	4.63%	149,038	5.37%	119,084	4.45%	144,000	5.24%
UBS Multi Asset Fund	146,788	5.03%	116,513	4.06%	137,531	5.46%	140,171	5.05%	120,654	4.57%	145,657	5.52%	109,416	4.96%	57,370	-
CCLA Diversification Fund	62,732	n/a	67,030	3.38%	66,284	3.67%	62,069	3.17%	48,871	2.39%	56,357	2.75%	87,261	4.46%	101,000	5.31%
Total	508,691		488,040		513,473		507,679		456,847		525,050		416,285		476,370	

Surplus/(Deficit)- Capital Value	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Full Year forecast at 31/12/2024	
	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23	2022/23	2023/24	2023/24	Surplus/ (Deficit)	Surplus/ (Deficit)
	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	193,868	4.53%	(849)	-0.02%	(87,942)	-2.10%	(29,880)	-0.72%	729,873	14.93%	(805,778)	-19.74%	(159,311)	-4.06%	28,036	0.71%
Schroders Bond Fund	(50,726)	-1.74%	(47,707)	-1.67%	(325,192)	-12.80%	368,973	12.68%	(133,760)	-4.82%	(224,947)	-8.82%	128,627	4.80%	71,259	2.59%
UBS Multi Asset Fund	(100,545)	-3.45%	(49,681)	-1.73%	(347,766)	-13.80%	256,685	9.24%	(137,805)	-5.22%	(431,159)	-19.52%	(591)	-0.03%	54,412	-
CCLA Diversification Fund	(78,743)	n/a	60,910	3.07%	(177,974)	-9.86%	151,682	7.76%	90,639	4.43%	(181,806)	-9.75%	91,696	4.69%	(53,776)	-2.83%
Total	(36,146)		(37,327)		(938,874)		747,460		548,946		(1,643,691)		60,421		99,931	

Net Yield (revenue yield + capital surplus/(deficit))	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Full Year forecast at 31/12/2024	
	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23	2022/23	2023/24	2023/24	Net Yield	Net Yield
	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	387,626	9.06%	183,140	4.28%	97,298	2.32%	150,030	3.61%	888,740	18.18%	(631,781)	-15.48%	(58,787)	-1.50%	202,036	5.11%
Schroders Bond Fund	54,687	1.88%	72,801	2.54%	(200,774)	-7.90%	494,503	17.00%	(5,305)	-0.19%	(75,909)	-2.98%	247,711	9.25%	215,259	7.83%
UBS Multi Asset Fund	46,243	1.58%	66,832	2.33%	(210,235)	-8.34%	396,856	14.29%	(17,152)	-0.65%	(285,502)	-12.93%	108,825	4.93%	111,782	-
CCLA Diversification Fund	(16,011)	-0.83%	127,940	6.45%	(111,690)	-6.19%	213,751	10.93%	139,510	6.82%	(125,449)	-6.73%	178,957	9.15%	47,224	2.48%
Total	472,545		450,713		(425,401)		1,255,139		1,005,794		(1,118,641)		476,706		576,301	

Peer to Peer Investment Funding Circle	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23	2022/23	2023/24	2023/24
	£	%	£	%	£	%	£	%	£	%	£	%	£	%
Carrying Value	2,075,341		2,056,664		1,831,028		863,160		391,191		160,449		160,449	
Interest Paid by Borrowers	181,014		184,654		193,170		127,982		66,749		28,664		9,869	
Less FC Service fee	(19,668)		(19,729)		(19,611)		(12,462)		(6,279)		(2,531)		(770)	
Promotions/Transfer payment					470		0		0		0		0	
Bad Debts	(61,288)		(111,152)		(127,649)		(80,881)		(36,103)		(1,969)		(7,828)	
Recoveries	14,780		27,428		30,253		42,431		62,769		15,057		18,051	
Net Yield	114,838	5.53%	81,201	3.95%	76,634	4.19%	77,070	8.93%	87,136	22.27%	39,221	24.44%	19,322	12.04%
Provisions for future losses	0		(10,000)											

Annex C: Prudential Indicators – Q3 2024/25

The 2021 Prudential and Treasury Management Codes require the Council to report on prudential indicators on a quarterly basis. These indicators report on capital expenditure, borrowing and commercial and service investments in light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long-run financing implications and potential risks to the Council.

Table 1 – Estimates of Capital Expenditure

Capital expenditure refers to Council spending on assets such as infrastructure, property or vehicles that will be used for more than one year. In Local Government this includes spending on assets owned by other bodies and loans and grants to other bodies, enabling them to buy assets.

At month 9 the Council was forecasting total capital expenditure for 2024/25 of £28.5m. This is a positive variance of £0.9m compared to the updated capital programme.

	2023/24 Actual £m	2024/25 Budget *	2024/25 Forecast £m	2025/26 Budget £m	2026/27 Budget £m	Total – 2024/25 to 2026/27 £m
General Fund services	1.8	7.3	6.8	3.7	4.2	14.7
Council Housing (HRA)	13.7	22.2	21.7	26.4	16.0	64.1
Total	15.5	29.5	28.5	30.1	20.2	78.8

*The 2024/25 Budget is the latest including carry forwards from 2023/24, approved additions and additional slippage

Table 2 – Capital Financing Requirement

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure on service delivery and on investments and reduces with MRP and capital receipts used to replace debt.

The forecast CFR for 2024/25 has been updated in line with the latest Capital Budget 2024/25. This is based on forecast capital expenditure at month 9.

	31/03/2024 Actual £m	31/03/2025 Budget £m	31/03/2025 Forecast £m	31/03/2026 Budget £m	31/03/2027 Budget £m
General Fund services	46.1	47.6	47.7	47.8	47.4
Council Housing (HRA)	62.0	72.5	72.5	85.8	92.8
Total CFR	108.1	120.1	120.2	133.6	140.2

Table 3 – 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 Council has complied and expects to continue to comply with this requirement in the medium term as is shown below.

The current estimated level of gross debt is in line with what was estimated in the 2024/25 Capital, Investment and Treasury Management Strategy. This is based on forecast capital expenditure at M6.

	31/03/2024 Actual £m	31/03/2025 Budget £m	31/03/2025 Forecast £m	31/03/2026 Budget £m	31/03/2027 Budget £m
Debt (incl. PFI & leases)	96.3	104.2	104.2	117.1	123.7
Capital Financing Requirement	108.1	120.1	120.2	133.6	140.2

Table 4 – Debt and the Authorised Limit and Operational Boundary

The Council is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit. These limits were set in the 2024/25 Capital, Investment and Treasury Management Strategy. The Council has complied with the limits at Q3 2024/25.

	Maximum Debt Q3 2024/25 £m	Debt at 31/12/2024 £m	2024/25 Authorised Limit £m	2024/25 Operational Boundary £m	Complied?
Borrowing	96.3	96.3	150.0	140.0	✓
PFI and Finance Leases	-	-	-	-	
Total debt	96.3	96.3	150.0	140.0	

Table 5 – Net Income from Commercial and Service Investments to Net Revenue Stream

The Council'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. This is unchanged from the 2024/25 Capital, Investment & Treasury Management Strategy.

	2023/24 Actual £m	2024/25 Budget (Capital Strategy) £m	2024/25 Forecast £m	2025/26 Budget £m	2026/27 Budget £m
Total net income from service and commercial investments	1.7	1.7	1.7	1.7	1.7
Proportion of net revenue stream	14%	14%	14%	13%	13%

Table 6 – 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 proportion of financing costs to net revenue stream is expected to remain in line with what was reported in the 2024/25 Capital, Investment & Treasury Management Strategy.

	2023/24 Actual £m	2024/25 Estimate (Capital Strategy) £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
General Fund – Financing costs	2.4	2.4	2.2	2.6	2.8
Proportion of net revenue stream	17%	17%	16%	19%	19%

Table 7 – 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 are as below, all of which the Council complied with as at Q3 of 2024/25.

	Upper Limit 2024/25	Lower Limit 2024/25	Actual at 31/12/24	Complied?
Under 1 year	15%	-	4%	✓
1 to 2 years	15%	-	4%	
2 to 5 years	25%	-	16%	
5 to 10 years	50%	-	14%	
10 to 20 years	50%	-	9%	
Over 20 years	60%	-	53%	
Total			100%	

Table 8 – Long-term Treasury Management Investments

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. 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. The prudential limits on the long-term treasury management limits are as below, and the Council has complied with these as at Q3 of 2024/25.

	2024/25 £m	2025/26 £m	No fixed date £m
Limit on principal invested beyond year end	16.0	16.0	16.0
Actual principal invested beyond year end	-	-	9.0
Complied?	✓	✓	✓

Annex D

Arlingclose commentary on the External Context for Treasury Management activity

Economic background

The impact on the UK from the government's Autumn Budget, slower expected interest rate cuts, a short-term boost to but modestly weaker economic growth over the medium term, together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Authority's treasury management strategy for 2025/26.

The Bank of England's (BoE) Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting. At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%.

The November quarterly Monetary Policy Report (MPR) expected Gross Domestic Product (GDP) growth to pick up to around 1.75% (four-quarter GDP) in the early period of the BoE's forecast horizon before falling back. The impact from the Budget pushes GDP higher in 2025 than was expected in the previous MPR, before becoming weaker. Current GDP growth was shown to be zero (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the Office for National Statistics (ONS).

ONS figures reported the annual Consumer Price Index (CPI) inflation rate at 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, to 3.6% against a forecast of 3.5% and 3.3% in the previous month. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget, and a projected margin of economic slack. Over the medium-term, once these pressures ease, inflation is expected to stabilise around the 2% target.

The labour market appears to be easing slowly, but the data still require treating with some caution. The latest figures reported the unemployment rate rose to 4.3% in the three months to October 2024 and economic inactivity fell to 21.7%. Pay growth for the same period was reported at 5.2% for both regular earnings (excluding bonuses) and for total earnings. Looking ahead, the BoE MPR showed the unemployment rate is expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

The US Federal Reserve has continued cutting interest rates, bringing down the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected, but uncertainties around the potential inflationary impact of incoming President Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, rising at an (upwardly revised) annual rate of 3.1% in the third quarter of 2024, and inflation remains elevated suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

Euro zone inflation rose above the European Central Bank (ECB) 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Despite the rise, the ECB continued its rate cutting cycle and reduced its three key policy rates by 0.25% in December. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

Credit outlook

Credit Default Swap (CDS) prices have typically followed a general trend downwards during 2024, reflecting a relatively more stable financial period compared to the previous year. Improved credit conditions in 2024 have also led to greater convergence in CDS prices between ringfenced (retail) and non-ringfenced (investment) banking entities again.

Higher interest rates can lead to a deterioration in banks' asset quality through increased loan defaults and volatility in the value of capital investments. Fortunately, the rapid interest rate hikes during this monetary tightening cycle, while putting some strain on households and corporate borrowers, has not caused a rise in defaults, and banks have fared better than expected to date, buoyed by strong capital positions. Low unemployment and robust wage growth have also limited the number of problem loans, all of which are positive in terms of creditworthiness.

Moreover, while a potential easing of US financial regulations under a Donald Trump Presidency may aid their banks' competitiveness compared to institutions in the UK and other regions, it is unlikely there will be any material impact on the underlying creditworthiness of the institutions on the counterparty list maintained by Arlingclose, the authority's treasury adviser.

Overall, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2024)

Arlingclose expects the Bank of England's MPC will continue reducing Bank Rate through 2025, taking it to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as pushing up the rate at the end of the loosening cycle.

Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued volatility), but to end the forecast period modestly lower compared to now. Yields will continue remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events.

Annex E – Proposed Capital Programme

At the request of Investment Sub Committee, this supplementary appendix expands on the Capital Programme information previously provided to include a breakdown on which capital schemes are funded by borrowing. Overall, General Fund borrowing is set to reduce by £0.7m over the period as minimum revenue provision (amounts set aside for repayment) exceed new borrowing.

Proposed Capital Programme	2024/25	2025/26	2026/27	2027/28	Total 2025-28	Borrowing 2025-28
Housing HRA						
Structural Works	838,300	1,225,000	2,087,200	1,215,000	4,527,200	
Modernisation & Improvements	516,100	641,000	1,178,000	641,000	2,460,000	
Energy Efficiency Works	1,415,900	628,500	1,421,200	845,700	2,895,400	
Service Renewals	732,300	570,000	1,300,300	570,000	2,440,300	
Void Works	429,300	500,000	946,700	500,000	1,946,700	
Health & Safety	232,400	245,000	485,700	245,000	975,700	
Adaptations for the Disabled	724,000	250,000	250,000	250,000	750,000	
Essential Structural Works	186,900	110,000	304,400	110,000	524,400	
Communal Services	0	70,000	81,500	50,000	201,500	
Condition Surveys	0	1,000,000	0	0	1,000,000	
Warm Homes Wave 3	0	3,254,700	3,254,700	3,254,700	9,764,100	
Council House Building	16,941,300	17,852,800	16,172,400	12,175,100	46,200,300	34,195,348
Digital FTP HRA	15,000	0	0	0	0	
HRA IT Hardware/infrastructure Projects	193,000	49,500	46,300	47,100	142,900	
Agresso Upgrade HRA	0	69,700	0	0	69,700	
HRA GM Equipment	0	100,000	20,000	20,000	140,000	
HRA Vehicle Replacement Programme	0	0			0	
TOTAL HRA	22,224,500	26,566,200	27,548,400	19,923,600	74,038,200	34,195,348
Housing GF						
Disabled Facilities Grant	420,000	420,000	420,000	420,000	1,260,000	0
Total- Housing GF	420,000	420,000	420,000	420,000	1,260,000	0
Community Services						
Children's Playground Improvements	442,700	275,500	137,100	139,800	552,400	552,400
Felbridge Playground	90,000	0	0	0	0	0
Parks, Pavilions & Open Spaces	271,500	206,800	119,100	121,500	447,400	447,400
LTA Funding for Whyteleafe & Queen's Park	47,000	0	0	0	0	0
Grange Meadow access works	7,000	0	0	0	0	0
UKSPF and Rural England Prosperity Fund	158,400	799,600	0	0	799,600	0
Vehicle Fleet Renewals	383,600	245,400	119,700	122,100	487,200	487,200
Car Park Equipment/Maintenance	92,700	35,800	36,500	37,200	109,500	109,500
Public Conveniences	300,000	347,000	156,100	159,200	662,300	662,300
Litter Bins	8,500	8,700	8,900	9,100	26,700	26,700
Roads&Paths at St.Mary's Church Cemetery	7,600	0	0	0	0	0
Land Drainage	20,000	10,200	10,400	10,600	31,200	31,200
Plant & Machinery Replacement Programme	15,000	10,000	10,200	10,400	30,600	30,600
Waste Vehicles	0	0	0	0	0	0
Garden Waste Bins	56,100	25,500	26,000	26,500	78,000	78,000
Recycling, food waste and refuse bins	208,900	91,800	93,600	95,500	280,900	280,900
Playground Improvements (Match Funding Pot)	0	42,000	0	0	42,000	42,000
Total- Community Services	2,109,000	2,098,300	717,600	731,900	3,547,800	2,748,200
Resources						
Council Offices Minor Works Programme	25,000	25,000	25,000	25,000	75,000	75,000
Digital FTP	70,000	0	0	0	0	0
IT - Hardware/infrastructure Projects	553,590	219,500	214,500	218,600	652,600	652,600
Agresso Upgrade GF	0	162,700	0	0	162,700	162,700
Quadrant House	0	0	0	0	0	0
Land / Asset Development	0	0	0	0	0	0
Croydon Road Regeneration	2,103,500	0	0	0	0	0
Queens Park flood alleviation & enhancement	0	1,806,600	0	0	1,806,600	49,600
Quadrant House Solar Panels and Suite refurb	100,000	50,000	0	0	50,000	50,000
Total- Resources	2,852,090	2,263,800	239,500	243,600	2,746,900	989,900
Planning Policy						
Capital Contributions from CIL	1,801,300	3,579,400	0	0	3,579,400	0
Total-Planning Policy	1,801,300	3,579,400	0	0	3,579,400	0
TOTAL GENERAL FUND	7,182,390	8,361,500	1,377,100	1,395,500	11,134,100	3,738,100
Total Capital Programme	29,406,890	34,927,700	28,925,500	21,319,100	85,172,300	37,933,448

MRP over MTFs 4,400,000
Net decrease in General Fund Borrowing from 2025/26 (661,900)

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