

REPORT TITLE: TREASURY MANAGEMENT OUTTURN REPORT 2024/25

17 JULY 2025

REPORT OF CABINET MEMBER: Cllr Neil Cutler, Deputy Leader and Cabinet Member for Finance and Performance

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WARD(S): ALL WARDS

PURPOSE

In accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, this report provides details of the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and confirmation that there were no instances of non-compliance with the council's Treasury Management Policy Statement and Treasury Management Practices, for the year 2024/25.

RECOMMENDATIONS:

1. Note the Annual Treasury Outturn Report 2024/25.

IMPLICATIONS:1 COUNCIL PLAN OUTCOME

- 1.1 Treasury management is an integral part of helping to deliver the council Strategy and all of its outcomes. Of key importance is ensuring the security and sufficient liquidity of the council's cash and investment balances whilst, where possible, optimising the yield from those investments. The income from investments is available to be used by the council in achieving its objectives.

2 FINANCIAL IMPLICATIONS

- 2.1 Effective treasury management ensures both the financial security and liquidity of the council. The 2024/25 outturn shows £1.64m of income achieved against a budget of £1.4m, delivering an additional £0.24m of income above budget. This was a consequence of interest rates remaining higher for longer than anticipated and slightly higher average balances.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 The Council's Treasury Management Strategy Statement follows the latest codes of practice and the MHCLG and CIPFA guidance.
- 3.2 With effect from September 2014 Hampshire County Council (HCC) and Winchester City Council (WCC) established arrangements for the joint discharge of functions under Section (101)(1) and (5) of the Local Government Act 1972 and Section 9EA and 9EB Local Government Act 2000. Under this arrangement, HCC's Investments and Borrowing Team provide a Treasury Service which includes the management of WCC's cash balances and investment of surplus cash or sourcing of short-term borrowing in accordance with the agreed Treasury Management Strategy Statement.

4 WORKFORCE IMPLICATIONS

- 4.1 HCC's Investments and Borrowing Team carry out the day-to-day management of the council's cash balances and investments. The council's in-house finance team undertake the accounting and retain responsibility for long-term borrowing decisions.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None

6 CONSULTATION AND COMMUNICATION

- 6.1 This report has been produced in consultation with HCC's Investments & Borrowing team.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 Following the council's declaration of a Climate Emergency in June 2019 and in line with the ethical stances in its investment policy, the council has no direct or indirect equity investments in companies directly involved in the fossil fuel industry.

8 EQUALITY IMPACT ASSESSEMENT

- 8.1 There are no actions which arise directly from this report.

9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 None required

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
<i>Returns from investments are too low</i>	A diversified strategy that manages the balance between liquidity risk, credit risk and yield within the council's risk appetite.	Returns above budgeted levels
<i>A counterparty fails</i>	A diversified strategy that has relatively low levels of counter-party risk	
<i>Cash is not available</i>	A balanced portfolio of liquid and long-term funds are held to ensure cash is available to utilise. The council also mitigates this risk through cashflow forecasting	More accurate and immediate cashflow forecasting can help improve the return on investments through more active treasury management activity

11 SUPPORTING INFORMATION:

12 Introduction

- 12.1 The council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2021. The CIPFA Code requires the council to approve a treasury management strategy before the start of the year, a mid-year report, and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function during 2024/25.

13 Summary

- 13.1 The report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2024/25.
- 13.2 The council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2025. The council has borrowed and invested 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 are therefore central to the council's treasury management strategy.
- 13.3 Treasury management in the context of this report is defined as: "the management of the organisation's 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."
- 13.4 This annual report sets out the performance of the treasury management function during 2024/25, to include the effects of the decisions taken and the transactions executed in the past year.
- 13.5 Hampshire County Council's Investments & Borrowing Team has been contracted to manage the council's treasury management balances since September 2014 but overall responsibility for treasury management remains with Winchester City Council. No treasury management activity is without risk and as such the effective identification and management of risk are integral to the council's treasury management objectives.
- 13.6 All treasury activity has complied with the council's Treasury Management Strategy and Investment Strategy for 2024/25, and all relevant statute, guidance and accounting standards. Advice in undertaking treasury management activities has been provided by the council's treasury advisers, Arlingclose.
- 13.7 The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by Full Council covering capital expenditure and financing, treasury management and non-treasury investments. The latest iteration of the council's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by Full Council in February 2025.

14 External Context

- 14.1 The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2024/25.

Economic commentary

- 14.2 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.
- 14.3 The BoE's Monetary Policy Committee (MPC) voted to lower Bank Rate by 0.25% to 4.25% at its May 2025 meeting, having held it at 4.5% in March 2025. This follows earlier 0.25% cuts in November and August 2024 from the 5.25% peak.
- 14.4 Arlingclose, the council's treasury adviser, maintained its central view that Bank Rate would continue to fall, down to around 3.75% by the end of 2025.

Financial markets

- 14.5 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 the peak in January 2025, 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 related to policy announcements by the US President and their potential impact.

Credit review

- 14.6 In October 2024, 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 was kept to a maximum of 100 days. This advice remained in place at the end of the period.
- 14.7 Credit default swap (CDS) prices are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. Prices generally trended lower over the period but did start to rise modestly in March 2025, but not to any levels considered concerning. Once again, price volatility over the period remained generally more muted compared to previous periods
- 14.8 Heightened market volatility is expected to remain a feature, at least in the near term, and CDS levels will be monitored by Arlingclose for signs of

ongoing credit stress. As ever, the institutions and durations on the council's counterparty list recommended by Arlingclose remain under constant review

15 Local Context

- 15.1 At 31 March 2025 the council had net investments of £16.3m.
- 15.2 The council's Balance Sheet is presented once a year as part of the annual Statement of Accounts. The Balance Sheet represents the council's assets, liabilities, and reserves at the end of the financial year. Table 1 summarises the Balance Sheet for Treasury Management purposes.
- 15.3 The Capital Financing Requirement (CFR) is the underlying need to borrow for capital purposes. It is the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. The table shows a mixture of internal and external borrowing has been utilised, which is explained in more detail later in this report.
- 15.4 Although the council has borrowed to fund elements of its capital programme, it also holds investment balances. These arise due to the timing difference between income and expenditure, the council's reserves balances, and the difference between the timing of accounting postings and cash flows (e.g. debtors and creditors).
- 15.5 Usable reserves and working capital are the underlying balance sheet resources available for investment.

Table 1: Balance sheet summary	31/03/24 Balance £m	Movement £m	31/03/25 Balance £m
General Fund CFR	70.2	0.2	70.4
Housing Revenue Account CFR	212.5	0.0	212.5
Total CFR	282.7	0.2	282.9
Less: Other debt liabilities*	(2.2)	(1.1)	(3.3)
Loans CFR	280.5	(0.9)	279.6
Less: External borrowing**			
- Public Works Loan Board	(159.8)	5.2	(154.6)
-			
Internal borrowing	120.7	4.3	125.0
Less: Balance sheet resources	(132.1)	(9.2)	(141.3)
Net investments	(11.4)	(4.9)	(16.3)

* other liabilities that form part of the council's total debt.

** shows only loans to which the council is committed and excludes optional refinancing.

- 15.6 Table 1 shows that during 2024/25 the council's Borrowing CFR decreased slightly. The Borrowing CFR is financed by external and internal borrowing. External borrowing is made up of external loans such as loans secured via the market or Public Works Loan Board (PWLb), whilst internal borrowing is where the council borrows from its own cash balances. During 2024/25 the council's external borrowing reduced by £5.2m due to the repayment of Treasury Management borrowing on maturity. These changes to the external borrowing in combination with the decrease in Borrowing CFR led to internal borrowing increasing/decreasing by £4.3m in 2024/25.
- 15.7 The council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. This has meant that internal funds have been utilised in lieu of taking on external borrowing debt. The treasury management position as at 31 March 2025 and the change during the year are shown in Table 2.

Table 2: Treasury management summary	31/03/24 Balance £m	Movement £m	31/03/25 Balance £m	31/03/25 Rate %
Long-term borrowing	(154.7)	5.4	(149.3)	3.22
Short-term borrowing	(5.0)	(0.2)	(5.2)	3.00
Total borrowing	(159.7)	5.2	(154.5)	3.22
Long-term investments	5.0	0.0	5.0	5.09
Short-term investments	4.0	(3.0)	1.0	4.44
Cash and cash equivalents	3.4	6.2	9.6	4.49
Total investments	12.4	3.2	15.6	4.68
Net borrowing	(147.3)	8.4	(138.9)	

Note: the figures in Table 2 are from the balance sheet in the council's statement of accounts but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

- 15.8 The decrease in net borrowing of £8.4m shown in Table 2 occurred due to a reduction in total borrowing of £5.2m coupled with an increase in total investments of £3.2m. Further details are provided in the Borrowing Strategy and Activity and Treasury Investments Activity sections of this report.
- 16 **Borrowing Strategy and Activity**
- 16.1 As outlined in the treasury strategy, the council's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the council's long-term plans change being a secondary objective. The council's

borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. During the majority of the period short term interest rates have been higher than long term interest rates.

- 16.2 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 UK government will be inflationary and lead to higher levels of government borrowing, while increased tariffs on global trade would also be expected to be inflationary.
- 16.3 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The council has no new plans to borrow to invest primarily for financial return.
- 16.4 At 31 March 2025 the council held £154.5m of loans, all of which relate to the HRA including the financing settlement in 2012. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3.

Table 3: Borrowing position	31/03/24 Balance	Net movement	31/03/25 Balance	31/03/25 Weighted average rate %	31/03/25 Weighted average maturity (years)
	£m	£m	£m		
Public Works Loan Board	(159.7)	5.2	(154.5)	3.22	19.0
Total borrowing	(159.7)	5.2	(154.5)	3.22	19.0

Note: The figures in the table above are from the balance sheet in the council's statement of accounts but adjusted to exclude accrued interest.

- 16.5 £5m of borrowing was repaid at maturity in 2024/25 alongside £0.2m of Equal Instalments of Principal (EIP) loans, all of which was from the PWLB. No new borrowing was taken on in the period.
- 17 Treasury Investment Activity
- 17.1 The CIPFA Treasury Management Code defines treasury management investments as investments that arise from the authority'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.

- 17.2 The council holds invested funds representing income received in advance of expenditure plus balances and reserves held. During the year the council's investment balances have ranged between £11.8m and £55.5m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4.

Table 4: Treasury investment position	31/03/24 Balance	Movement	31/03/25 Balance	31/03/25 Income return	31/03/25 Weighted average maturity
	£m	£m	£m	%	(years)
Short term investments:					
Banks and building societies:					
- Unsecured	1.1	1.0	2.1	4.37	0.00
Money market funds	2.3	5.2	7.5	4.52	0.00
Government:					
- Local authorities	3.0	(3.0)	0.0	0.00	0.00
Cash plus funds	1.0	0.0	1.0	4.44	0.01
Total	7.4	3.2	10.6	4.48	0.00
Long term investments					
- Pooled property fund*	5.0	0.0	5.0	5.09	N/A
Total	5.0	0.0	5.0	5.09	N/A
Total investments	12.4	3.2	15.6	4.68	0.00

* The rate provided for the pooled property fund investment is reflective of annualised income returns over the year to 31 March 2025.

Note: the figures in Table 4 are from the balance sheet in the council's statement of accounts but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

- 17.3 The CIPFA Treasury Code and government guidance both 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. The council's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.
- 17.4 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 strategic pooled fund will be maintained to boost investment income and diversify away from cash investments exposed to interest rate risk.

- 17.5 Bank Rate reduced from 5.25% to 5.00% in August 2024, again to 4.75% in November 2024, 4.5% in February 2025 and finally to 4.25% in May 2025 with short term interest rates largely being around these levels. The rates on money market funds ranged between 4.50% and 4.53% by the end of March 2025.
- 17.6 The council benchmarks the performance of its internally managed investments against that of other Arlingclose clients. Internally managed investments include all investments except externally managed pooled funds but do include Money Market Funds. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5, providing data for the quarter ended 31 March 2025 and at the same date in 2024 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)	Credit rating	Bail-in exposure	Weighted average maturity (days)	Rate of return
		%		%
31.03.2024	A+	53	38	5.29
31.03.2025	A+	100	1	4.49
Similar LAs	A+	63	54	4.60
All LAs	A+	64	8	4.55

- 17.7 There has been no change to the portfolio's credit rating, which continues to reflect the council's greater requirement for short-term liquidity. This means surplus cash has increasingly been placed with unsecured bank accounts and Money Market Funds (MMFs) owing to their greater liquidity. Whilst the MMFs themselves are AAA rated, for the purposes of benchmarking the underlying assets in the portfolio are examined and the credit rating of the lowest-rated instruments taken. The portfolio's average rating still remains in line with other Arlingclose clients.
- 17.8 In line with the increased liquidity requirement, bail-in exposure for this portfolio has increased and the weighted average maturity has reduced. It should be noted that the Money Market Funds (MMFs) are themselves diversified and highly liquid and considered by Arlingclose to be bail-in 'light'. The rate of return has decreased over the last 12 months in line with the backdrop of several cuts to interest rates in the same period. It is similar to the return of other local authorities, reflecting the limited options for investing a relatively small overall amount that has to be kept very liquid to meet the council's ongoing obligations.

Externally managed pooled property fund

- 17.9 £5m of the council's investments are invested in an externally managed strategic pooled property fund where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. In 2024/25 this fund generated an average total return of 7.02%, comprising a 5.09% income return which is used to support services in year, and 1.92% of unrealised capital gain. Over the holding period, the council's investments in pooled funds have contributed 4.62% income per year on average, which compares favourably in a period where base rates have generally been low.
- 17.10 Having had a challenging time since 2022, UK commercial property generally experienced a recovery during the period, with improved investment activity, capital values stabilising or improving, particularly towards the end of the period, and income remaining relatively robust.
- 17.11 Because pooled 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 and with the expectation that over a three- to five-year period total returns should exceed cash interest rates.
- 17.12 Further to consultations in April 2023 and December 2024 the Ministry for Housing, Communities and Local Government (MHCLG) wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. MHCLG confirmed that the statutory override will be extended up until 1 April 2029 for investments already in place before 1 April 2024. The override will not apply to any new investments taken out on or after 1 April 2024. It is assumed that published regulations will follow this policy announcement.
- 17.13 The council's pooled fund investment was made prior to 1 April 2024 and therefore will be able to continue to take advantage of the statutory override. This means that any unrealised gains or losses on the pooled fund investment will not be charged to the Comprehensive Income and Expenditure Statement up until 1 April 2029. The council does not plan to make any further pooled fund investments.

Financial Implications

- 17.14 The outturn for debt interest paid in 2024/25 was £5.24m on an average debt portfolio of £159.6m at an average interest rate of 3.22%.
- 17.15 The outturn for investment income received in 2024/25 was £1.64m on an average investment portfolio of £34.1m, therefore giving a yield of 4.81%, against a budgeted £1.4m. In comparison in 2023/24 investment income received was £1.7m on an average investment portfolio of £33.8m, therefore giving a yield of 5%.

18 Non-Treasury Investments

- 18.1 The definition of investments in CIPFA's revised 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).
- 18.2 Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.
- 18.3 This could include loans made to local businesses or the direct purchase of land or property and such loans and investments will be subject to the council's normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.
- 18.4 Further information on the council's non-Treasury investments will be included in the General Fund Outturn 24-25 which will be presented to Cabinet on 10 September 2025.

19 MRP Regulations

- 19.1 On 10 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 7 May 2024 sufficient MRP must be charged so that the outstanding CFR in respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for that loan. The council has no such loans in its CFR.
- 19.2 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).

20 Compliance Report

- 20.1 All treasury management activities undertaken during 2024/25 were compliant with the CIPFA Code of Practice and the council's approved Treasury Management Strategy.
- 20.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 6.

Table 6: Debt limits	2024/25 Maximum £m	31/03/25 Actual £m	2024/25 Operational Boundary £m	2024/25 Authorised Limit £m	Complied?
Borrowing	(159.7)	(154.5)	(295.5)	(309.1)	✓
Finance leases	(3.9)	(3.3)	(4.5)	(5.0)	✓
Total debt	(163.6)	(157.8)	(300.0)	(314.1)	✓

- 20.3 Provided that the total Authorised Limit and the total Operational Boundary for external debt for a year are unchanged, movement may be made between the separately identified figures within these prudential indicators for borrowing and other long-term liabilities by the Chief Finance Officer.
- 20.4 As a result of the implementation of IFRS16 from 1 April 2024 which requires the recognition of most leases previously treated as operating leases to be recognised on the council's balance sheet as right-of-use assets, a virement of £2.8m has been made to the 2024/25 Operational Boundary and Authorised Limit, between the Borrowing and Finance leases headings, with no change to the total debt limit. This change has been made to ensure that the proper valuation of principal for leases can fall within the individual leases element of the Operational Boundary and Authorised Limit.
- 20.5 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. However, this limit was not breached during the financial year.

21 Treasury Management Indicators

- 21.1 As required by the 2021 CIPFA Treasury Management Code, the council monitors and measures the following treasury management prudential indicators.

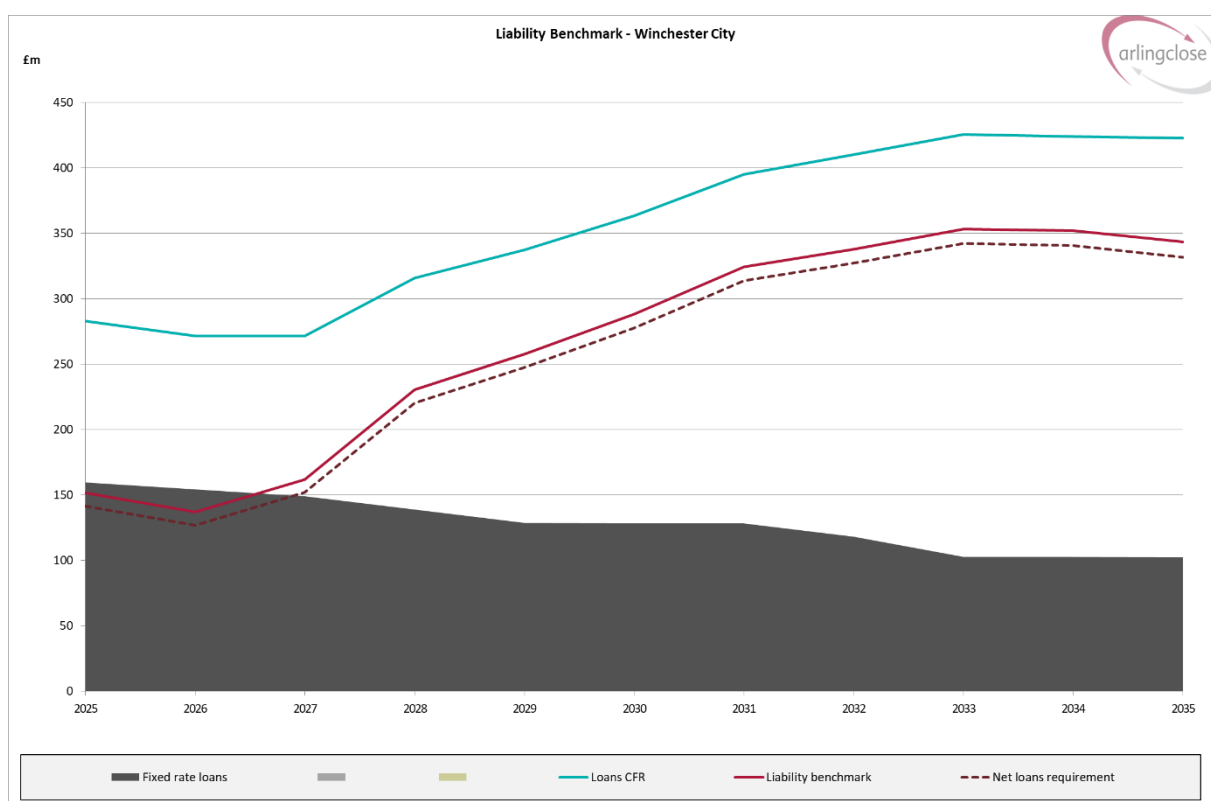
Liability benchmark

- 21.2 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 required to manage day-to-day cash flow.

Table 7 – Liability Benchmark	31/03/2024 Actual	31/03/2025 Actual	31/03/2026 Forecast	31/03/2027 Forecast
Loans CFR	280.5	279.6	271.7	271.7
Less: Balance sheet resources	(132.1)	(141.4)	(130.4)	(104.1)
Net loans requirement	148.4	138.2	141.3	167.6
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	158.4	148.2	151.3	177.6
Existing borrowing	(159.7)	(154.5)	(149.3)	(139.0)

Chart 1: Liability Benchmark (10 year view)



21.3 At the start of the period, 31 March 2024, the council had a Loans CFR of £280.5m, external borrowing of £159.7m, balance sheet resources of

£132.1m and a liability benchmark of £158.4m. The difference of £120.8m between the CFR and external borrowing is internal borrowing which is where the council has used its own resources to fund its borrowing requirement.

- 21.4 Table 7 and Graph 1 illustrate the council expects a positive liability benchmark across the forecast period, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR. The chart shows that if it is to deliver its capital programme as planned, the council will need to take out additional external borrowing as reflected in the gap between the liability benchmark (the red line) and the existing borrowing (the grey area). This requirement will be considered by the Section 151 Officer in consultation with Arlingclose and the Investments & Borrowing team at Hampshire County Council to ensure borrowing is undertaken at the most appropriate time.
- 21.5 The liability benchmark is the lowest level of debt the council could hold if it used all of its balances, reserves and cash flow surpluses to fund its CFR. The liability benchmark graph is created based on the current capital programme and this explains why the Loans CFR line reduces past the initial five-year period as the diagram does not assume any future capital spend not already in the programme. This is a very unlikely scenario but a reflection of the current horizon for capital expenditure forecasts.
- 21.6 The full liability benchmark spanning 50 years is available at Appendix A to this report.
- 21.7 A limitation of liability benchmarking is that the further out the forecast, the less it can be relied upon and so as time passes, the requirement to borrow may change and either may not be there for the whole period, or alternatively cash flow requirements that are not known about today may become present later which may require the council to take additional external borrowing in the future. The Section 151 Officer will continue to work closely with the council's treasury management advisor, Arlingclose, to borrow in the most effective way.

Interest rate exposures

- 21.8 The following indicator shows the sensitivity of the council's current investments and borrowing to a change in interest rates:

Table 8 – Interest rate risk indicator	31/03/25 Actual	Impact of +/-1% interest rate change
Sums subject to variable interest rates:		
Investments	£15.6m	+/-£0.1m
Borrowing	(£5.2m)	+/-0.0m

- 21.9 Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity structure of borrowing

- 21.10 This indicator is set to control the council's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the TMSS:

Table 9: Maturity structure of borrowing	31/03/25 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	3%	25%	0%	✓
12 months and within 24 months	7%	25%	0%	✓
24 months and within 5 years	7%	25%	0%	✓
5 years and within 10 years	27%	35%	0%	✓
10 years and within 20 years	13%	50%	0%	✓
20 years and within 30 years	13%	50%	0%	✓
30 years and within 40 years	24%	75%	0%	✓
40 years and within 50 years	6%	100%	0%	✓

Long-term Treasury Management Investments

- 21.11 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 limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 10: Long-term Treasury Management Investments	2024/25	2025/26	2026/27	No fixed date
Actual principal invested beyond year end	-	-	-	£5m
Limit on principal invested beyond year end	£20m	£20m	£20m	£5m
Complied	✓	✓	✓	✓

- 21.12 Long-term investments with no fixed maturity date can 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.

22 OTHER OPTIONS CONSIDERED AND REJECTED

- 22.1 The council could elect to bring all treasury management activity back in-house. This option has been rejected as the arrangement with Hampshire County Council's Investments and Borrowing team provides significant resilience and economies of scale.
- 22.2 The council could make more risky investments than those proposed in the Strategy to increase its yield. This has been rejected as priority is given to ensuring security and liquidity in line with the key principles of the CIPFA Treasury Management Code.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

AUD119: Treasury Management Practices, 22 June 2015

CAB3446: Treasury Management Strategy 2024/25, 22 February 2024

AG133: Treasury Management Outturn 2023/24, 18 July 2024

AG145: Treasury Management Mid-Year Monitoring Report 2024/25, 28 November 2024

CAB3496: Treasury Management Strategy 2025/26, 12 February 2025

Other Background Documents:-

None

APPENDICES:

Appendix A – Liability Benchmark Graph (50 year view)

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