AUDIT COMMITTEE 31 MAY 2024

TREASURY MANAGEMENT ANNUAL OUTTURN REPORT 2023/24

1. PURPOSE

1.1. New Forest District 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 Treasury Management Code), last updated in 2021. The CIPFA Treasury Management Code requires the Council to approve a treasury management strategy before the start of the year and a semi-annual 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 2023/24.

2. SUMMARY

2.1. The Council has adopted the CIPFA Treasury Management Code which requires the Council to approve, as a minimum, treasury management semi-annual and annual outturn reports. This report includes the requirement in the CIPFA Treasury Management Code 2021, mandatory from April 2023, of reporting of the treasury management prudential indicators.

2.2. The Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2024. 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.

2.3. 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."

2.4. This annual report sets out the performance of the treasury management function during 2023/24, to include the effects of the decisions taken and the transactions executed in the past year.

2.5. Hampshire County Council's Investments & Borrowing Team has been contracted to manage the Council's treasury management balances since March 2014 but overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

2.6. All treasury activity has complied with the Council's Treasury Management Strategy and Investment Strategy for 2023/24, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the Council's treasury advisers, Arlingclose.

2.7. In compliance with its duties to determine affordable borrowing limit, local authorities must have regard to CIPFA's Prudential Code of Capital Finance in Local Authorities (the Prudential Code) which 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 Strategy, complying with CIPFA's requirement, was approved by full Council in February 2024.

3. EXTERNAL CONTEXT

3.1. The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2023/24.

Economic commentary

3.2. UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.4% in February 2024, but was still above the Bank of England's (BoE) 2% target at the end of the period.

3.3. The UK economy entered a technical recession in the second half of 2023. Over the 2023 calendar year GDP (gross domestic product) growth only expanded by 0.1% compared to 2022. Of the recent monthly data, the Office for National Statistics reported a rebound in activity with economy expanding 0.2% in January 2024. While the economy may somewhat recover in Quarter 1 2024, the data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.

3.4. Having begun the financial year at 4.25%, the BoE's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023. This rate was maintained to March 2024.

3.5. In the February 2024 Monetary Policy Report the BoE's expectations for the UK economy were positive for the first half of 2024, with a recovery from the mild recession in the second half of 2023 being gradual. Headline CPI was forecast to dip below the 2% target quicker than previously thought due to declining energy prices; these effects would hold inflation slightly above target for much of the forecast horizon.

3.6. Following this MPC meeting, the Council's treasury adviser, Arlingclose, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in the second half of 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

Financial markets

3.7. Sentiment in financial markets remained uncertain and bond yields continued to be volatile over the year. During the first half of the year, yields rose as interest rates continued to be pushed up in response to rising inflation. From October 2023 they started declining again before falling sharply in December 2023 as falling inflation and central bank attitudes caused financial markets to expect cuts in interest rates in 2024. When it emerged in January 2024 that inflation was stickier than expected and the BoE and the Federal Reserve were data dependent and not inclined to cut rates soon, yields rose once again, ending the period some 0.5%+ higher than when it started.

Credit review

3.8. In response to an improving outlook for credit markets, in January 2024 Arlingclose moved away from its previous temporary stance of a 35-day maximum duration and increased its advised recommended maximum unsecured duration limit on all banks on its counterparty list to 100 days.

3.9. Credit default swap (CDS) prices are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. CDS prices began the financial year at elevated levels following the fallout from Silicon Valley Bank and collapse/takeover of other lenders. From then the general trend was one of falling prices and UK lenders' CDS ended the period at similar levels to those seen in early 2023.

3.10. Heightened market volatility is expected to remain a feature, at least in the near term and, CDS levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the PCC's counterparty list recommended by Arlingclose remain under constant review.

4. LOCAL CONTEXT

4.1. At 31 March 2024 the Council's underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), was £160.2m, while usable reserves and working capital which are the underlying resources available for investment were £31.3m (principal invested plus gains on investments with a variable net asset value). These factors and the year-on-year change are summarised in Tables 1 and 2.

Table 1: Capital Financing Summary

	31/03/23 Balance £m	Movement £m	31/03/24 Balance £m
General Fund CFR	27.5	-1.1	26.4
Housing Revenue Account CFR	10.8	9.0	19.8
HRA Settlement	118.1	-4.1	114.0
Total CFR	**156.4**	**3.8**	**160.2**
Financed By:			
External Borrowing	118.5	5.5	124.0
Internal Borrowing	37.9	-1.7	36.2
Total Borrowing	**156.4**	**3.8**	**160.2**

4.2. The General Fund CFR (and so internal borrowing) has reduced as MRP payments for the year exceeded the new borrowing requirement for the capital programme. This was largely due to new direct property investment being suspended during 2023/24, following increases in interest rates. The Housing Revenue Account (HRA) CFR and external borrowing has increased due to expenditure on the Development Programme, offset by the repayment of the maturing HRA Public Works Loan Board (PWLB) debt. New external borrowing of £10m was undertaken for the HRA programme.

4.3. 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. The treasury management position at 31 March 2024 and the change during the year is shown in Table 2.

Table 2: Treasury Management Summary

	31/03/23 Balance £m	Movement £m	31/03/24 Balance £m	31/03/24 Rate %
Long-term borrowing	(114.0)	(5.9)	(119.9)	3.50
Short-term borrowing	(4.3)	0.2	(4.1)	2.82
Total borrowing	**(118.3)**	**(5.7)**	**(124.0)**	3.48
Long-term investments	13.6	(4.5)	9.1	5.26
Short-term investments	3.0	7.0	10.0	5.17
Cash and cash equivalents	14.9	(2.7)	12.2	5.15
Total investments	**31.5**	**(0.2)**	**31.3**	5.19
Net borrowing	**(86.8)**	**(5.9)**	**(92.7)**	

Note: the figures in Table 2 are from the balance sheet in the Council's statement of accounts adjusted to exclude operational cash, market value adjustments and accrued interest.

4.4. The increase in net borrowing of £5.9m shown in Table 2 reflects the combination of a decrease in investment balances of £0.2m following the repayment of grant and new capital expenditure as well as the net increase in external borrowing of £5.7m, in line with the Council's policy on borrowing. Further details are provided in the Borrowing Strategy and Treasury Investments Activity sections of this report.

5. BORROWING UPDATE

5.1. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

5.2. The Council has not invested in assets primarily for financial return or that are primarily related to the functions of the Council. It has no plans to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.

5.3. Further, the Council has invested in pooled funds as part of its Treasury Management strategy. This is not a policy to primarily generate yield but a part of the implementation of the wider Treasury Management strategy to invest the Council's surplus cash and reserves ensuring it is investing its funds prudently, having regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. By investing a diversified portfolio in respect of yield this meets the Council's aim of protecting reserves from high inflation.

5.4. The Council is a net borrower and as stated in the Treasury Management Strategy 2024/25, 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. Although the Council currently has taken external borrowing, this is not predicted to be sufficient to meet the CFR between 2024 and 2034 and therefore, as a result, further borrowing will be considered by the Section 151 Officer over the coming months and years, if required.

5.5. The Section 151 Officer will review the current pooled fund investment prior to making any external borrowing decisions.

6. BORROWING ACTIVITY

6.1. 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.

6.2. Interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau. Gilt yields fell in late 2023, by December 2023 they had returned to the lows previously see in April earlier that year before rebounding to an extent in the first three months of 2024. Gilt yields have remained volatile, seeing upward pressure from perceived sticker inflation at times and downward pressure from falling inflation and a struggling economy at other times.

6.3. The cost of short-term borrowing from other local authorities has generally risen with Base Rate over the year. Interest rates peaked at around 7% towards the later part of March 2024 as many authorities required cash at the same time. These rates fell back to more normal market levels in April 2024.

6.4. At 31 March 2024 the Council held £124.0m of loans, an increase of £5.7m from the end of March 2023. The vast majority of the outstanding loans are in relation to the resettlement of the HRA in 2012/13 but now include the £10m new borrowing undertaken during the year for the Housing Development Programme. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3.

Table 3: Borrowing Position

	31/03/23 Balance £m	Movement £m	31/03/24 Balance £m	31/03/24 Rate %	31/03/24 WAM* years
Public Works Loan Board	(118.3)	(5.7)	(124.0)	3.48	17.2
Total borrowing	**(118.3)**	**(5.7)**	**(124.0)**	**3.48**	**17.2**

* Weighted average maturity

Note: the figures in Table 3 are from the balance sheet in the Council's statement of accounts adjusted to exclude accrued interest.

6.5. The Council has seen steadily decreasing investment balances over the course of the financial year, which had been used in part to fund internal borrowing. The decrease in balances has been, in large part due to increased expenditure on the capital programme. In order to meet cash flow requirements and maintain sufficient liquidity, the decision was made in March 2024 to borrow £10m from the PWLB, at an average interest cost of 4.69%, with the borrowing maturities evenly split between March 2073 and March 2074. This external borrowing replaces the internal borrowing the Council was previously able to fund with its higher cash balances. This is in keeping with the Council's borrowing strategy and the maturity profile of the existing portfolio of loans.

6.6. This also meant that £4.1m of existing PWLB loans with an average interest cost of 2.64%, which was repaid at maturity during the year, was effectively refinanced, albeit at a higher rate. Because this additional borrowing related to the HRA, these new loans were secured using the PWLB's HRA Rate which offers a discount of 60 basis points to loans at the Standard Rate.

6.7. This borrowing strategy has been monitored by Arlingclose and has enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

7. TREASURY INVESTMENT ACTIVITY

7.1. The CIPFA Treasury Management Code now 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.

7.2. 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 £29.9m and £76.6m 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

Investments	31/03/2023 Balance £m	Movement £m	31/03/2024 Balance £m	31/03/24 Rate %	31/03/24 WAM* years
Short term Investments					
Banks and Building Societies:					
- Unsecured	5.0	(3.0)	2.0	4.48	0.01
- Secured	1.0	(1.0)	0.0	N/A	N/A
Money Market Funds	6.9	1.3	8.2	5.25	0.01
Government:					
- Local Authorities	0.0	6.0	6.0	5.59	0.27
- Supranational Banks	0.0	2.0	2.0	5.03	0.70
- UK Treasury Bills	3.0	(1.0)	2.0	5.42	0.01
Cash Plus Funds	2.0	0.0	2.0	4.09	0.01
	16.9	**4.3**	**22.2**	**5.16**	**0.14**
Long term investments					
Pooled Property Funds**	7.6	0.0	7.6	4.91	N/A
Pooled Equity Funds**	3.0	(1.5)	1.5	7.06	N/A
Pooled Multi-Asset Funds**	3.0	(3.0)	0.0	N/A	N/A
	13.6	**(4.5)**	**9.1**	**5.26**	**N/A**
TOTAL INVESTMENTS	**31.5**	**0.2**	**31.3**	**5.19**	**0.10**

* Weighted average maturity, excluding pooled funds
** The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2024 based on the market value of investments at the start of the year.

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

7.3. 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.

7.4. Bank Rate increased by 1% over the period, from 4.25% at the beginning of April 2023 to 5.25% by the end of March 2024. Short term rates peaked at 5.7% for 3-month rates and 6.7% for 12-month rates during the period, although these rates subsequently began to decline towards the end of the period. Money Market Rates also rose and were between 4.5% and 5.3% by the end of March 2024.

7.5. £9.1m that is currently available for longer-term investments is invested in pooled property and equity funds. During the financial year the Council has decreased amounts invested in these instruments due to the forecast reducing treasury investment balance.

7.6. The security of investments has been maintained by following the counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The Council should invest in liquid investments to ensure money is available when required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.

7.7. 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 MMFs. 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 2024 and at the same date in 2023 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)

	Credit rating	Bail-in exposure	Weighted average maturity (days)	Rate of return
31.03.2023	AA-	75%	2	3.86%
31.03.2024	AA-	51%	55	5.26%
Similar LAs	A+	61%	50	5.20%
All LAs	A+	61%	9	5.17%

7.7.1. Table 5 shows the Council's average credit rating of the portfolio has remained consistent at AA- whilst bail-in exposure has reduced over the 12 month period. This reduction can be attributed to the higher proportion of balances either secured by collateral, as is the case with supranational bonds, or not subject to bail-in at all where the Council has lent to the UK government or other local authorities. The increase in the portfolio's maturity is due to a greater proportion of short dated but less liquid instruments being invested in, with less reliance on highly liquid Money Market Funds and overnight deposits. The Council's investment portfolio compares favourably to other Arlingclose clients, with a higher credit rating and average rate of return with lower risk in the form of bail-in exposure.

Externally managed pooled funds

7.8. £9.1m of the Council's investments is invested in externally managed strategic pooled equity and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. In 2023/24 these funds generated an average total return of 1.45%, comprising a 4.73% income return which is used to support services in year, and 2.28% of unrealised capital loss. Over the holding period, the Council's investments in pooled funds have contributed 4.00% income per year on average, which compares favourably in a period where base rates have generally been low.

7.9. During 2023/24 after an initial period of caution due to the likelihood of recession, the UK economy fared better than anticipated with a shallow recession, falling inflation and improved consumer confidence providing support for UK equities, with stocks trading at attractive valuations relative to their global peers. The FTSE All-Share was one of the top performing stock markets in September and December 2023. The total return on the FTSE All Share index for the 12 months ending March 2024 was 8.2%.

7.10. The market background for commercial property improved marginally in 2023 and was more stable, in contrast to the very challenging backdrop of 2022. Low transactional volumes were a constraint on valuations and made prospective sellers and buyers more cautious. Although many sectors lacked momentum, there was growing confidence in the longer-term outlook as occupier demand and rental markets held up. Industrial and retail warehousing sectors remained strong, but the retail and offices sectors remained weak, the latter continuing to be hindered by low occupancy from hybrid working practices.

7.11. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's medium-to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years and with the expectation that over a three- to five-year period total returns should exceed cash interest rates.

7.12. The Council is aware of the risks involved with investing in pooled funds that hold underlying investments in equities and property. As a result, when the Council began to specifically target higher returns from a proportion of its investments it also established an Investment Risk Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. The balance held in this reserve has been increased by £262,000 from 23/24 budget savings and is now £300,000, which equates to 3.3% of the actual allocation to pooled investments of £9.1m.

7.13. In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended until 31 March 2025, but no other changes have been made; whether the override will be extended beyond this date is unknown but commentary to the consultation outcome suggests it will not. The Council will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

8. FINANCIAL IMPLICATIONS

8.1. The outturn for investment income received in 2023/24 was £2.606m on an average investment portfolio of £52.72m, therefore giving a yield of 4.94%. By comparison, investment income received in 2022/23 was £1.53m on an average portfolio of £69.34m with a yield of 2.21%.

8.2. The outturn for debt interest paid (HRA) in 2023/24 was £4.731m which was a small saving on the budget set at £4.771m.

8.3. The budget for interest payable (HRA) has been increased within the base budget for 2024/25, in reflection of anticipated loan financed expenditure on the capital programme, offset by the continuing principal repayments of the HRA settlement.

9. NON-TREASURY INVESTMENTS

9.1. 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).

9.2. 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.

9.3. 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.

9.4. The Council's existing non-treasury investments are listed in Table 6.

Table 6 – Non-treasury investments

	31/03/24 Asset value £m	31/03/24 Annual rate of return
Hythe Marina	2.798	5.90
Saxon Inn Calmore	0.179	7.04
Meeting House Lane	0.188	-
New Milton Health Centre	2.489	5.51
Ampress Car Park	2.141	4.52
The Parade Salisbury Road Totton	1.511	6.34
1-3 Queensway New Milton	1.620	-
Unit 1 Nova Business Park	0.548	6.38
Drive -Thru Salisbury Road, Totton	1.372	4.83
Units 1-3 27 Salisbury Road, Totton	1.900	8.02
85 Station Road, New Milton	5.000	5.00
1b Junction Road, Totton	0.128	-
Unit 800 Ampress Park, Lymington	1.903	4.97

Platinum Jubilee Business Park	8.550	1.48
Total investment properties	**30.325**	**4.34**
Lymington Town Hall	3.321	2.91
Hardley Industrial Estate	5.088	4.42
Total income earning properties	**8.409**	**3.83**
Grand total	**38.734**	**4.01**

9.5. The Investment Property note within the Annual Financial Report gives further information on the net gains / losses and fair value movements.

10. CONSULTATIONS

10.1. Following three rounds of consultation, the Department for Levelling Up, Housing and Communities (DLUHC) has published its final consultation response, amendment regulations and revised statutory guidance on Minimum Revenue Provision (MRP). The statutory guidance also incorporates an informal commentary. There are three main changes:

• Local authorities (including police and crime commissioners) cannot exclude any amount of their Capital Financing Requirement (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, with specific exceptions for capital loans and leased assets.

• 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 minus any expected credit loss.

10.2. Changes will take effect from the 2025/26 financial year, except in respect of expected credit losses which take effect from the current 2024/25 year.

11. COMPLIANCE REPORT

11.1. The Council confirms compliance of all treasury management activities undertaken during 2023/24 with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

11.2. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 7.

Table 7: Debt limits

	2023/24 Maximum £m	31/03/24 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied
Total debt	124.0	124.0	211.5	230.5	✓

11.3. 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.

12. TREASURY MANAGEMENT INDICATORS

12.1. As required by the 2021 CIPFA Treasury Management Code, the Council measures and manages the following treasury management prudential indicators.

Liability benchmark

12.2. This new 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.

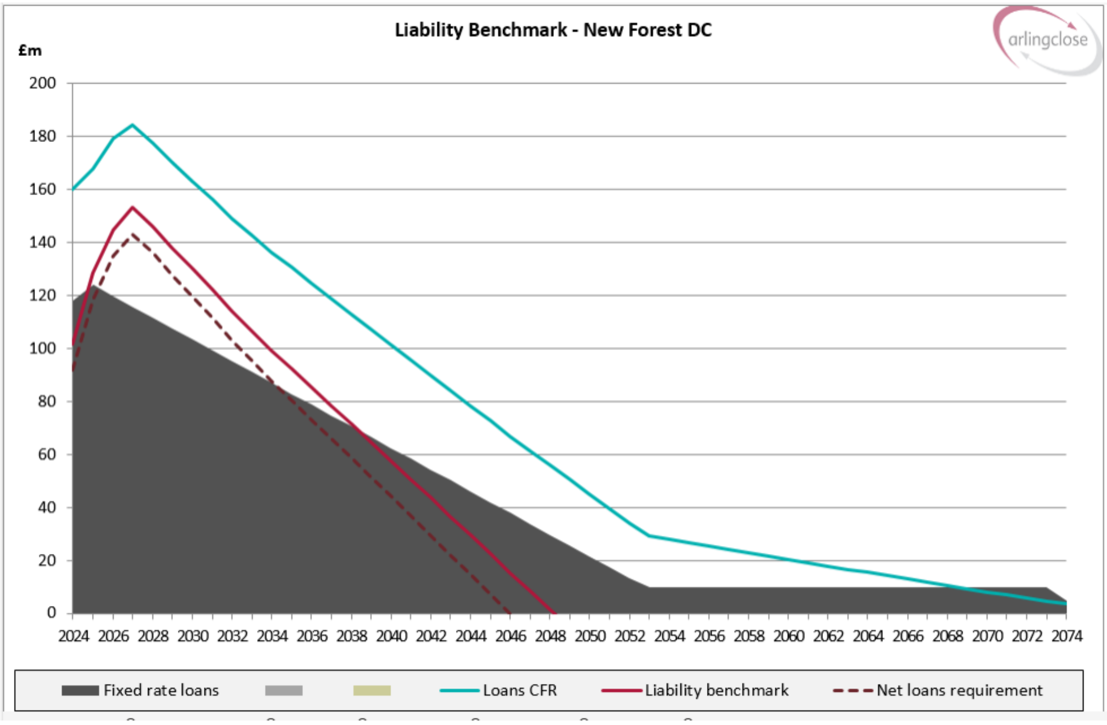
Table 8: Liability benchmark

	31/03/23 Actual £m	31/03/24 Actual £m	31/03/25 Forecast £m	31/03/26 Forecast £m
Loans CFR	156.4	160.2	170.3	180.5
Less: Balance sheet resources	(70.5)	(62.1)	(45.4)	(43.2)
Net loans requirement	**85.9**	**98.1**	**124.9**	**137.3**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	**95.9**	**108.1**	**134.9**	**147.3**
Existing borrowing	**118.3**	**124.0**	**119.9**	**115.8**

12.3. The Liability Benchmark at 31/3/24 is £13.2m less than predicted in the Treasury Strategy report in January 2024. This is the result of a combination of a £3.9m lower Capital Financing Requirement, due to reduced capital expenditure financing from loan and higher reserves/working capital of £9.3m due to budget savings and expenditure rephasing.

12.4. Liability benchmark figures for forecast years 2025/26 and 2026/27 have remained unaltered from the January report but will be reviewed for a future report now that 23/24 closedown has been finished and its impact into future years can be assessed in detail.

Chart 1: Liability Benchmark



Interest rate exposures

12.5. The following indicator shows the sensitivity of the Council's current investments and borrowing to a change in interest rates.

Table 9 – Interest Rate Risk Indicator

	31/03/24 Actual	Impact of +/- 1% interest rate change
Sums subject to variable interest rates		
Investment	£17.6m	+/- £0.2m
Borrowing	(£0.0m)	+/- £0.0m

12.6. 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

12.7. 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 Treasury Management Strategy Statement.

Table 10: Maturity structure of borrowing

	31/03/24 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	3%	25%	0%	✓
12 months and within 24 months	3%	25%	0%	✓
24 months and within 5 years	10%	25%	0%	✓
5 years and within 10 years	17%	25%	0%	✓
10 years and above	67%	100%	0%	✓

Long-term Treasury Management Investments

12.8. The purpose of this indicator is to control the Council’s exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

Table 11: Price risk indicator

	2023/24	2024/25	2025/26	No fixed date
Actual principal invested beyond a year	£9.1m	£9.1m	£9.1m	£9.1m
Limit on principal invested beyond a year	£25m	£20m	£15m	£10m
Complied	✓	✓	✓	✓

12.9. 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.

13. CRIME AND DISORDER AND ENVIRONMENTAL IMPLICATIONS

13.1. None arising directly from this report.

14. RECOMMENDATIONS

Members are recommended to:

14.1. consider the performance of the treasury function detailed in this report.

Further information	**Background papers**
Please contact: Daniel O’Rourke Corporate Accountant Investments & Borrowing Hampshire County Council Daniel.O’Rourke@hants.gov.uk	The Prudential Code, CIPFA Guidance Notes and ODPM Investment Guidance Local Government Act 2003 SI 2003/3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 Treasury Management Strategy Report 2023/24

Alan Bethune Strategic Director of Corporate Resource, and Transformation Section 151 Officer New Forest District Council alan.bethune@nfdc.gov.uk	Audit Committee – 27 January 2023 Council – 27 February 2023 Treasury Management Mid-Year Monitoring Report 2023/24 Audit Committee – 27 October 2023 Treasury Management Strategy Report 2024/25 Audit Committee – 26 January 2024 Council – 26 February 2024