

Audit Committee – 27 June 2025

Treasury Management Outturn Report 2024/25

Purpose	For Review
Classification	Public
Executive Summary	The Treasury Management Outturn Report sets out the Council's treasury activity in 2024/25, incorporating any borrowing and investment decisions made and compliance with the treasury management prudential indicators and relevant legislation and guidance.
Recommendation(s)	It is recommended that Audit Committee: 1) Approves the Treasury Management Outturn Report. 2) Notes the treasury activity in 2024/25 as laid out in the report, including compliance with both the treasury management prudential indicators and relevant legislation and guidance.
Reasons for recommendation(s)	To comply with the statutory guidance issued by the Government in January 2018 and the CIPFA 2021 Prudential and Treasury Management Codes, the Council is required to approve, as a minimum, treasury management semi-annual and annual outturn reports. This includes the requirement in the CIPFA Treasury Management Code 2021, mandatory from April 2023, of reporting of the treasury management prudential indicators. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
Ward(s)	All

Portfolio Holder(s)	Councillor Jeremy Heron – Finance and Corporate
Strategic Director(s)	Alan Bethune – Strategic Director Corporate Resources & Transformation & Section 151 Officer
Officer Contact	Daniel O’Rourke Corporate Accountant, Hampshire County Council 0370 779 1728 Daniel.O’Rourke@hants.gov.uk

Introduction and background

1. The Treasury Management Outturn Report is a high-level document, giving an overview of how the Council has managed its cash balances and its associated investments and borrowing over the course of the financial year.
2. Treasury management is the management of the Council’s cash flows, borrowing and investments, and the associated risks. 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 financial risk are therefore central to the Council’s prudent financial management.
3. Treasury risk management at the Council is conducted within the framework of the CIPFA Code which requires the Council to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year, as well as treasury management semi-annual and annual outturn reports. This includes the requirement in the CIPFA Treasury Management Code 2021, mandatory from April 2023, of reporting of the treasury management prudential indicators. This report fulfils the Council’s legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
4. Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

Corporate plan priorities

5. Management of the Council's cash flows, borrowing and investments, and the associated risks ensures we are being financially responsible which underpins the delivery of all our priorities.

Options appraisal

6. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The S151 Officer believes that the Treasury Management Strategy approved in February 2025 represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 1.

Table 1: Alternative strategies and their implications

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain

Table 1: Alternative strategies and their implications

Alternative	Impact on income and expenditure	Impact on risk management
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Consultation undertaken

7. This report has been produced in consultation with Hampshire County Council's Investments & Borrowing team.
8. In November 2024 several members attended the annual treasury management briefing session provided by the Council's treasury advisors Arlingclose.

Financial and resource implications

9. Hampshire County Council'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 the Section 151 Officer retains responsibility for strategic pooled fund investment and long-term borrowing decisions.
10. This is a financial report with any additional implications already detailed and considered in the main body of the report and appendices.

Legal implications

11. To comply with the statutory guidance issued by the Government in January 2018 and the CIPFA 2021 Prudential and Treasury Management Codes requiring all local authorities to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year, as well as treasury management semi-annual and annual outturn reports. This includes the requirement in the CIPFA Treasury Management Code 2021, mandatory from April 2023, of reporting of the treasury management prudential indicators. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
12. The Council's Treasury Management Strategy Statement, approved in February 2025, follows the latest codes of practice and the MHCLG and CIPFA guidance.
13. With effect from February 2014 Hampshire County Council (HCC) and New Forest District Council ("the Council") 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 the Council's cash balances and investment of surplus cash or sourcing of borrowing in accordance with the agreed Treasury Management Strategy Statement.

Environmental / climate and nature implications

14. There are no environmental implications arising directly from this report.

Equalities implications

15. There are no equality implications arising directly from this report.

Crime and disorder implications

16. There are no crime and disorder implications arising directly from this report.

Data protection / information governance / ICT implications

17. There are no data protection, information governance or ICT implications arising directly from this report

Appendices:

Appendix 1 – Treasury
Management Outturn Report
2024/25

Background Papers:

Treasury Management
Strategy 2025/26 – 2027/28

Treasury Management
Strategy 2024/25 – 2026/27

Treasury Management Outturn
Report 2023-24

Treasury Management Mid-
Year Report 2024-25

TREASURY MANAGEMENT OUTTURN REPORT 2024/25

1. PURPOSE AND SUMMARY

- 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 2024/25.
- 1.2. 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.
- 1.3. 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. In addition, support in undertaking treasury management activities has been provided by the Council's treasury advisers, Arlingclose.
- 1.4. 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 2025.

2. EXTERNAL CONTEXT

- 1.5. The following paragraphs explain the economic and financial background against which investment and borrowing decisions were made in the final quarter of 2024/25.

Economic background

- 1.6. 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 and President Trump.
- 1.7. The Bank of England's (BoE) 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.
- 1.8. 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

- 1.9. 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 due to the unpredictable nature of policy announcements by the US President and their potential impact.

- 1.10. The period in question ended shortly before US President Donald Trump announced his package of 'reciprocal tariffs', the immediate aftermath of which saw stock prices and government bond yields falling and introduced further uncertainty over the economic outlook.

Credit review

- 1.11. 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.
- 1.12. 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.
- 1.13. 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 Council's counterparty list recommended by Arlingclose remain under constant review.

3. LOCAL CONTEXT

- 1.14. At 31 March 2025, the Council had net investments of £34.3m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) as it is the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income, while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 2.

Table 2: Balance Sheet Summary and Forecast	31/3/24 Balance £m	Movement £m	31/3/25 Balance £m
General Fund CFR	26.4	0.9	27.3
Housing Revenue Account CFR	19.8	7.6	27.4
HRA Settlement	114.0	(4.1)	109.9
Total CFR	160.2	4.4	164.6
Less: Other debt liabilities*	-	-	-
Loans CFR	160.2	4.4	164.6
Less: External borrowing:			
- Public Works Loan Board	(124.1)	4.2	(119.9)
- Other Local Authorities	(0.0)	(13.2)	(13.2)
Internal borrowing	36.1	(4.6)	31.5
Less: Balance sheet resources	(68.6)	2.8	(65.8)
Net investments	(32.5)	(1.8)	(34.3)

* Other liabilities that form part of the Council's total debt

1.15. The £4.4 million net increase in the Capital Financing Requirement was principally due to loan financed expenditure of £8 million on the Housing Development Programme, offset by the repayment of £4.1 million of the maturing HRA Public Works Loan Board (PWLB) debt. New short-term external borrowing of £13 million was undertaken partly to fund the Development Programme and to manage anticipated other cash flow.

1.16. 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 2025 and the change during the year is shown in Table 3.

Table 3: Treasury Management Summary	31/3/24 Balance £m	Movement £m	31/3/25 Balance £m	31/3/25 Rate %
Long-term borrowing	(119.9)	4.1	(115.8)	3.52
Short-term borrowing	(4.1)	(13.0)	(17.1)	4.88
Total borrowing	(124.0)	(8.9)	(132.9)	3.69
Long-term investments	9.1	0.0	9.1	5.45
Short-term investments	10.0	(8.0)	2.0	4.43
Cash and cash equivalents	12.2	9.1	21.3	4.49
Total investments	31.3	1.1	32.4	4.76
Net treasury management borrowing	(92.7)	(7.8)	(100.5)	

Note: the figures in Table 3 are from the balance sheet in the Council's statement of accounts adjusted to exclude operational cash, market value adjustments and accrued interest, and therefore differ from Table 2.

- 1.17. The increase in net borrowing of £7.8m shown in Table 2 reflects the combination of a net increase in external borrowing of £8.9m, in line with the Council's policy on borrowing, offset by an increase in investment balances of £1.1m. Further details are provided in the Borrowing Strategy and Activity and Treasury Investments Activity sections of this report.

2. BORROWING STRATEGY AND ACTIVITY

- 2.1. 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.
- 2.2. 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. The election of Donald Trump in the US in November 2024 is also expected to lead to inflationary trade policies.

- 2.3. 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 the authority 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.
- 2.4. At 31 March 2025 the Council held £132.9m of loans (an increase of £8.9m from 31 March 2024) as part of its strategy for funding previous years' capital programmes. The year-end treasury management borrowing position, and year-on-year change are summarised in Table 4.

Table 4: Treasury Management Summary	31/3/24 Balance £m	Net movement £m	31/3/25 Balance £m	31/3/25 Rate %	31/3/25 WAM* (years)
Public Works Loan Board	(124.0)	4.1	(119.9)	3.50	16.79
Other Local Authorities	(0.0)	(13.0)	(13.0)	5.50	0.47
Total borrowing	(124.0)	(8.9)	(132.9)	3.69	15.20

*Weighted average maturity

Note: the figures in Table 4 are from the balance sheet in the Council's statement of accounts but adjusted to exclude accrued interest.

- 2.5. In 2025/26 the Council expects to see decreasing investment balances, which have historically been used in part to fund internal borrowing. The decrease in balances is, in large part, due to increased expenditure on the capital programme.

- 2.6. In order to meet cash flow requirements, maintain sufficient liquidity and ensure cost certainty in 2024/25, the decision was made in December 2024 to borrow £13m on a short-term basis from the local authority market, at an average interest cost of 5.50%. These loans were secured in advance of a forecast cashflow deficit which was expected in the final quarter of the financial year when typically, the interest rates available in the local authority lending market are inflated by 2-3% due to demand. As the borrowing costs associated with the PWLB are currently also high, this short-term borrowing decision was made to avoid the Council being forced to accept paying high borrowing costs and so ensured cost certainty for 2024/25 into 2025/26. Any surplus was invested into the money market funds.
- 2.7. This external borrowing replaces the internal borrowing the Council was previously able to fund with its higher cash balances and has been secured on an interim basis given current high borrowing costs. By borrowing short-term, the aim is to see rates reduce sufficiently at the longer end of the curve before locking in long-term at better value. This is in keeping with the Council's borrowing strategy, the maturity profile of the existing portfolio of loans and advice received from Arlingclose.
- 2.8. This also meant that £4.1m of existing PWLB loans with an average interest cost of 2.82% which was repaid at maturity was effectively refinanced, albeit at a higher rate. This was however lower than what was offered through the local authority lending market and PWLB in March 2025.
- 2.9. 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.

3. TREASURY INVESTMENT ACTIVITY

- 3.1. The CIPFA Treasury Management Code now defines treasury management investments as investments that arise from the organisation'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.

- 3.2. 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 £29.7m and £82.4m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 5.

Table 5: Treasury investment position	31/3/24 Balance £m	Net movement £m	31/3/25 Balance £m	31/3/25 Income return %	31/3/25 WAM (years)
Short term Investments					
Banks and building societies:					
Unsecured	2.0	2.2	4.2	4.37	0.00
Money Market Funds	8.2	8.9	17.1	4.52	0.00
Government:					
Local authorities	6.0	-6.0	0.0	N/A	N/A
Supranational banks	2.0	-2.0	0.0	N/A	N/A
UK Treasury Bills	2.0	-2.0	0.0	N/A	N/A
Cash plus funds	2.0	0.0	2.0	4.44	0.01
	22.2	1.1	23.3	4.49	0.00
Long term investments					
Pooled property*	7.6	0.0	7.6	5.01	N/A
Pooled equity*	1.5	0.0	1.5	7.64	N/A
	9.1	0.0	9.1	5.45	N/A
TOTAL INVESTMENTS	31.3	1.1	32.4	4.76	0.00

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2025 based on the market value of investments 12 months earlier.

Note: the figures in Table 5 are from the balance sheet in the Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

- 3.3. The CIPFA Treasury Management Code and government guidance both require the Council to invest its funds prudently, and to have regard to the security and liquidity

of its investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults alongside 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.

- 3.4. 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 portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.
- 3.5. 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.
- 3.6. The Council benchmarks the performance of its internally managed investments (excluding pooled funds) 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 6, providing data for the quarter ended 31 March 2025 and at the same date in 2024 for comparison.

Table 6: Investment benchmarking (excluding pooled funds)	Credit rating	Bail-in exposure	Weighted average maturity (days)	Rate of return
31.03.2024	AA-	51%	55	5.26%
31.03.2025	A+	100%	1	4.48%
Similar LAs	A+	63%	54	4.60%
All LAs	A+	64%	8	4.55%

3.7. The Council's requirement for short-term liquidity has increased over 2024/25 as underlying investment balances have reduced. As a result, Table 6 shows the average credit rating of the portfolio has weakened slightly to A+, as the increase in cash has been placed with unsecured bank accounts (AA-/A+) and money market funds. Whilst the money market funds 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. Because these money market funds now represent a higher proportion of the Council's overall portfolio and have replaced higher-rated investments with the government and supranational banks, the average credit rating has therefore reduced. However, this average rating remains in line with other clients.

3.8. 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'. Whilst the rate of return has decreased over the last 12 months, this should be considered against the backdrop of several cuts to interest rates in the same period.

Externally managed pooled funds

3.9. £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 2024/25 these funds generated an average total return of 7.65%, comprising a 5.41% income return which is used to support services in year, and 2.24% of unrealised capital gain. Over the holding period (just over 10 years), the Council's investments in pooled funds have contributed 3.96% income per year on average, which compares favourably in a period where base rates have generally been low.

- 3.10. In financial markets the 2024/25 year was characterised by overall positive equity market performance, market volatility, elevated global yields, central bank interest rate cuts and uncertainties surrounding the impact of UK and European fiscal policy and particularly US President Donald Trump's tariff plans.
- 3.11. US, UK & European stock markets hit highs in early 2025 but started to decline towards the very end of the period, particularly in the US, reflecting investor concerns over escalating trade tensions and economic uncertainty. The FTSE All Share index was higher at the end of the 12-month period at 4,623 on 31 March 2025 versus 4,324 on 1 April 2024.
- 3.12. 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.
- 3.13. 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.
- 3.14. 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.

- 3.15. The Council's pooled fund investments were made prior to 1 April 2024 and therefore the Council will be able to continue to take advantage of the statutory override. This means that any unrealised gains or losses on the pooled fund investments will not be charged to the Comprehensive Income and Expenditure Statement up until 1 April 2029.
- 3.16. The Council does not plan to make any further pooled fund investments, and whilst the unrealised loss at 31 March stood at £0.67m there is no intention at this stage to crystallise that through further divestment. It should also be noted that when divestment from some of the pooled funds took place in the summer of 2023, this resulted in a realised gain of £0.26m. This was subsequently added to the Treasury Management Reserve with the intention of mitigating against potential investment losses in the future.

6. FINANCIAL IMPLICATIONS

- 3.17. The outturn for debt interest payable by the HRA in 2024/25 was £4.432m, which was £141,000 less than had been estimated. Interest payable by the General Fund was £57,260 for its share of the temporary borrowing detailed in paragraph 4.6.
- 3.18. The budget for interest payable has been increased for 2025/26, in reflection of anticipated loan financed expenditure on the capital programme, offset by the continuing principal repayments of the HRA settlement.
- 3.19. The outturn for investment income received in 2024/25 was £2.519m, on an average investment portfolio of £51.4m, therefore giving an average yield for the year of 4.9%. By comparison, investment income in 2023/24

was £2.606m on an average portfolio of £52.72m, with a yield of 4.94%.

7. NON-TREASURY INVESTMENTS

- 3.20. 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).
- 3.21. Investment Guidance issued by DLUHC (the Department of Levelling Up, Housing and Communities, now known as MHCLG) also broadens the definition of investments to include all such assets held partially or wholly for financial return.
- 3.22. 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.
- 3.23. The Council's existing non-treasury investments are listed in Table 7.

Table 7 – Non-treasury investments	31/03/25 Asset Value £m	31/03/25 Annual rate of return
Hythe Marina	2.946	6.48
Saxon Inn, Calmore	0.179	7.04
Meeting House Lane, Ringwood	0.213	-
New Milton Health Centre	2.489	5.51
Ampress Car Park, Lymington	1.926	4.97
The Parade Salisbury Road, Totton	1.510	5.98
Unit 1 Nova Business Park, New Milton	0.554	4.07
Drive -Thru Salisbury Road, Totton	1.405	4.71
Units 1-3 27 Salisbury Road, Totton	1.841	8.07

85 Station Road, New Milton	5.000	5.00
1b Junction Road, Totton	0.138	6.58
Unit 800 Ampress Park, Lymington	1.902	4.98
Platinum Jubilee Business Park, Ringwood	8.154	3.22
Total investment properties	28.256	4.92
Lymington Town Hall	3.271	3.46
Hardley Industrial Estate	6.388	3.54
Total income earning properties	9.659	3.51
Grand total	37.915	4.53

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

8. NON-TREASURY INVESTMENTS

3.25. 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.

3.26. 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).

9. COMPLIANCE REPORT

3.27. The Council confirms compliance of all treasury management activities undertaken during 2024/25 with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

3.28. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 8.

Table 8: Debt limits	2024/25 Maximum £m	31/3/25 Actual £m	2024/25 Operational Boundary £m	2024/25 Authorised Limit £m	Complied?
Borrowing	(137.0)	(132.9)	(214.3)	(233.3)	✓
Other long-term liabilities	0	0	0	0	✓
Total debt	(137.0)	(132.9)	(214.3)	(233.3)	✓

3.29. 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.

10. TREASURY MANAGEMENT INDICATORS

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

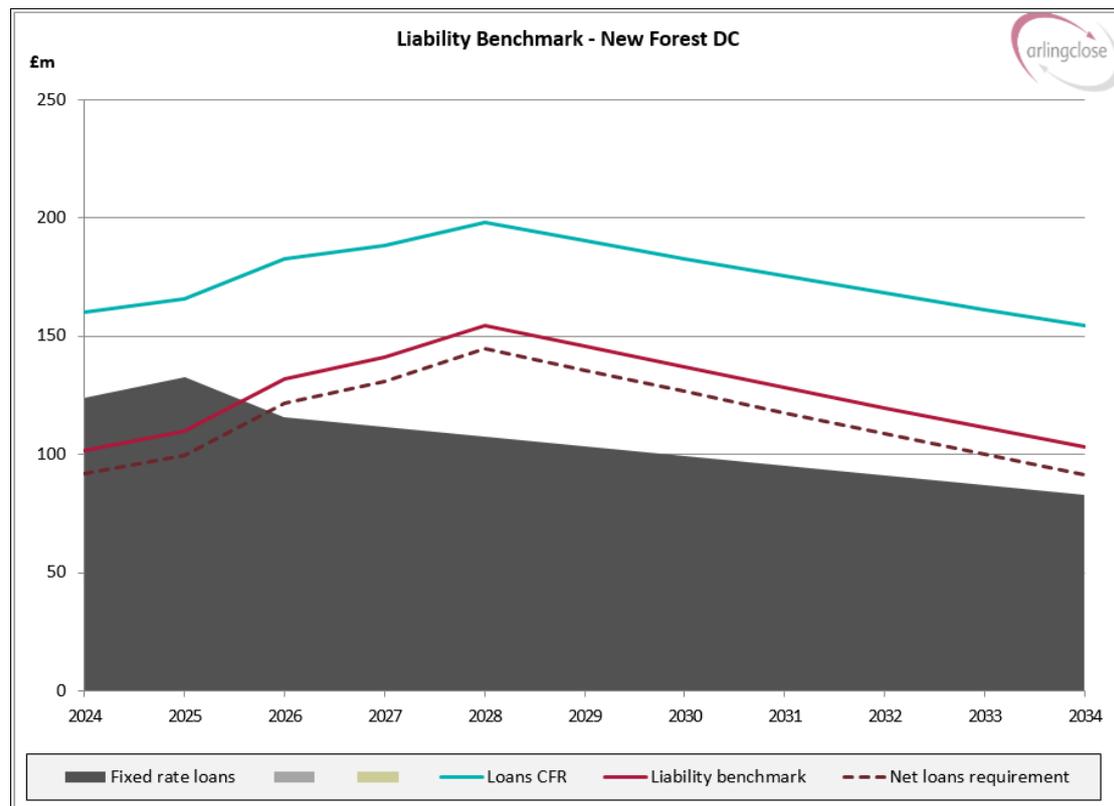
Liability benchmark

3.31. 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 9: Liability benchmark	31/03/24 Actual £m	31/03/25 Estimate £m	31/03/26 Forecast £m	31/03/27 Forecast £m
Loans CFR	160.2	164.6	184.2	190.0
Less: Balance sheet resources	(68.6)	(65.8)	(60.8)	(57.5)
Net loans requirement	91.6	98.8	123.4	132.5
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	101.6	108.8	133.4	142.5
Existing borrowing	124.0	132.9	128.8	124.7

3.32. At the start of the period, 31 March 2024, the Council had a Loans CFR of £160.2m, external borrowing of £124.0m, balance sheet resources of £68.6m and a liability benchmark of £101.6m. The difference of £36.2m between the CFR and external borrowing is internal borrowing which is where the Council has used its own resources to fund its borrowing requirement.

3.33. Liability benchmark figures for forecast years 2025/26 and 2026/27 will be reviewed for a future report now that 24/25 closedown has been finished and its impact into future years can be assessed in more detail.

Graph 1: Liability Benchmark (10 year view)

The full liability benchmark spanning 50 years is available at Annex A to this report.

- 3.34. 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 based on five years of data which explains why the Loans CFR line in Graph 1 continues to reduce past the initial five-year period – the diagram assumes that no new capital projects will begin after 2027/28, which is a very unlikely scenario but a reflection of the current horizon for capital expenditure forecasts.
- 3.35. The Council expects a positive liability benchmark across the forecast period, due to a rising CFR in combination with an expectation that balance sheet resources will drop, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR.
- 3.36. The chart shows that it is expected that the external borrowing the Council has already arranged will not be sufficient, with it being below the minimum borrowing

requirement, and so indicates that additional borrowing may be required to rectify this.

3.37. Unfortunately, a limitation of liability benchmarking is that the further out the forecast, the less it can be relied upon (particularly after 2028/29 after the end of the current capital expenditure forecast period) 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.

Interest rate exposures

3.38. The following table shows the sensitivity of the Council's current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

Table 10: Interest rate exposures	31 March 2025 Actual £m	Impact of +/- 1% interest rate change £m
Sums subject to variable interest rates		
Investment	32.4	+/- 0.2
Borrowing	(17.1)	+/- (0.1)

3.39. 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

3.40. 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: Maturity structure of borrowing	31/03/25 Actual	Upper	Lower	Complied?
Under 12 months	13%	25%	0%	✓
12 months and within 24 months	3%	25%	0%	✓
24 months and within 5 years	9%	25%	0%	✓
5 years and within 10 years	15%	35%	0%	✓
10 years and above	59%	100%	0%	✓

3.41. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long-term Treasury Management Investments

3.42. 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 will be:

Table 12: Long-term Treasury Management Investments	2024/25	2025/26	2026/27	No fixed date
Actual principal invested beyond year end	-	-	-	£9.1m
Limit on principal invested beyond year end	£20m	£15m	£15m	£10m
Complied	✓	✓	✓	✓

3.43. Long-term investments with no fixed maturity date include strategic pooled funds but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Annex A- 50 year Liability Benchmark graph

