Treasury Outturn

1. Treasury management activities have been carried out throughout the period in accordance with the Treasury Management Strategy approved by Council in February 2024, without any breaches in the first quarter of 2024/25.

2. For the year ended 31/03/25, the Council's weighted average cost of borrowing was 4.32%, whilst the weighted average return on treasury investments was 4.59%. The return on investments is higher than the cost of borrowing as investments tend to be placed for a shorter period (less than one year and sometimes as short as overnight), whereas a significant proportion of the Council's borrowing has been fixed for the longer term. This means that recent increases in interest rates have been reflected relatively quickly within the investment portfolio, whereas the Council continues to benefit from lower interest rates on its borrowing where this was secured in earlier years. However, the Council's borrowing far exceeds the balances invested, and the Council remains exposed to interest rate risk on refinancing.

Treasury Outturn as at 31/03/25

	Budget £000	Outturn £000	Variance £000
Investments			
Local Authorities (inc. HRA share)	(334)	(243)	91
MMFs	(100)	(236)	(136)
FIBCA	(12)	(12)	0
Aspire	(2,416)	(2,416)	0
Sub-total Investments	**(2,862)**	**(2,907)**	**(45)**
Borrowing			
Local Authorities	6,755	5,833	(922)
PWLB	3,346	4,934	1,588
Phoenix	1,006	332	(674)
Sub-total Borrowing	**11,107**	**11,099**	**(8)**
Net	**8,245**	**8,192**	**(53)**

3. The council repaid the £35.471m loan from Phoenix Life with £25.192m (£10.279m discount). As per local government General Fund regulations, this discount is spread over 10 years. The current annuity loan is at 2.86% and the replacement loans averaged 4.925% for an average of 5 years. Therefore, in short term, the annual interest cost will be higher till it can be refinanced when interest rates are lower. There was a one-off fee cost of £97k for arranging the discount. However, the saving for 2024/25 is approximately £700k after taking account of the cost of new borrowing.

Prudential Indicators

Prudential Indicators	**Budget**	**Outturn**	**Variance**
	£'000s	**£'000s**	**£'000s**
Capital Expenditure (CAPEX)			
General Fund	4,906	5,015	109
Commercial Investments	13,732	14,750	1,018
Housing Revenue Account	9,190	5,197	(3,993)
Total CAPEX	**27,828**	**24,962**	**(2,866)**
Capital Financing Requirement as at 31/03/25*			
General Fund	18,400	17,888	(512)
Commercial Investments	253,100	260,959	7,859
Housing Revenue Account	80,900	79,269	(1,631)
Total - CFR at 31/03/25	**352,400**	**358,117**	**5,717**
Gross Debt at 31/03/25	**320,100**	**308,100**	**(12,000)**
Authorised Limit			
Authorised Limit for borrowing	415	415	0
Authorised Limit for other long-term liabilities	10	10	0
Total - Authorised limit for external debt	**425**	**425**	**0**
Operational boundary			
Operational boundary for borrowing	395	395	0
Operational boundary for other long-term liabilities	10	10	0
Total - Operational boundary for external debt	**405**	**405**	**0**
Proportion of financing costs to net revenue stream	**82%**	**78%**	**-4%**
Proportion of net income from commercial investments to net revenue stream	**64%**	**68%**	**4%**

Arlingclose Template

Introduction

The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) many years ago, which requires the Authority to approve, as a minimum, treasury management semi-annual and annual outturn reports.

This report includes the requirement in the 2021 Code, mandatory from 1st April 2023, of reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the Authority's normal periodic financial monitoring reports.

The Authority's treasury management strategy for 2024/25 was approved at a meeting in February 2024. The Authority has borrowed and invested substantial 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 remains central to the Authority's treasury management strategy.

External Context

Economic background: 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.

After revising its interest rate forecast in November following the Budget, the council's treasury management advisor, Arlingclose, maintained its stance that Bank Rate will fall to 3.75% in 2025.

UK annual Consumer Price Index (CPI) inflation continued to stay above the 2% Bank of England (BoE) target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices at 2.8% in February 2025, down from 3.0% in the previous month and below expectations. Core CPI also remained elevated, falling slightly in February to 3.5% from 3.7% in January, just below expectations for 3.6% but higher than the last three months of the calendar year.

The UK economy Gross Domestic Product (GDP) grew by 0.1% between October and December 2024, unrevised from the initial estimate. This was an improvement on the zero growth in the previous quarter, but down from the 0.4% growth between April and June 2024. Of the monthly GDP figures, the economy was estimated to have contracted by 0.1% in January, worse than expectations for a 0.1% gain.

The labour market continued to cool, but the ONS data still require treating with caution. Recent data showed the unemployment rate rose to 4.4% (3mth/year) in the three months to January 2025 while the economic inactivity rate fell again to 21.5%. The ONS reported pay growth over the same three-month period at 5.9% for regular earnings (excluding bonuses) and 5.8% for total earnings.

The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.5% at its March 2025 meeting, having reduced it in February. This follows earlier 0.25% cuts in November and August 2024 from the 5.25% peak. At the March MPC meeting, members voted 8-1 to maintain Bank Rate at 4.5%, with the one dissenter preferring another 25 basis points cut. The meeting minutes implied a slightly more hawkish tilt compared to February when two MPC members wanted a 50bps cut. In the minutes, the Bank also upgraded its Q1 2025 GDP forecast to around 0.25% from the previous estimate of 0.1%.

The February Monetary Policy Report (MPR) showed the BoE expected GDP growth in 2025 to be significantly weaker compared to the November MPR. GDP is forecast to rise by 0.1% in Q1 2025, less than the previous estimate of 0.4%. Four-quarter GDP growth is expected to pick up from the middle of 2025, to over 1.5% by the end of the forecast period. The outlook for CPI inflation showed it remaining above the MPC's 2% target throughout 2025. It is expected to hit around 3.5% by June before peaking at 3.7% in Q3 and then easing towards the end of the year, but staying above the 2% target. The unemployment rate was expected to rise steadily to around 4.75% by the end of the forecast horizon, above the assumed medium-term equilibrium unemployment rate of 4.5%.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would continue to fall throughout 2025. From the cuts in August and November 2024 and February 2025, which took Bank Rate to 4.50%, May is considered the likely month for the next reduction, with other cuts following in line with MPR months to take Bank Rate down to around 3.75% by the end of 2025.

The US Federal Reserve paused its cutting cycle in the first three months of 2025, having reduced the Fed Funds Rate by 0.25% to a range of 4.25%-4.50% in December, the third cut in succession. Fed policymakers noted uncertainty around the economic outlook but were anticipating around 0.50% of further cuts in the policy rate in 2025. Economic growth continued to rise at a reasonable pace, expanding at an annualised rate of 2.4% in Q4 2024 while inflation remained elevated over the period. However, growth is now expected to weaken by more than previously expected in 2025, to 1.7% from 2.1%. The uncertainty that President Trump has brought both before and since his inauguration in January is expected to continue.

The European Central Bank (ECB) continued its rate cutting cycle over the period, reducing its three key policy rates by another 0.25% in March, acknowledging that monetary policy is becoming meaningfully less restrictive. Euro zone inflation has decreased steadily in 2025, falling to 2.2% in March, the lowest level since November 2024. Over the current calendar year, inflation is expected to average 2.3%. GDP growth stagnated in the last quarter of the 2024 calendar year, after expanding by 0.4% in the previous quarter. For 2025, economic growth forecasts were revised downwards to 0.9%.

Financial markets: 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 a January peak, 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.

The 10-year UK benchmark gilt yield started the period at 3.94% and ended at 4.69%, having reached a low of 3.76% in September and a high of 4.90% in January in between. While the

20-year gilt started at 4.40% and ended at 5.22%, hitting a low of 4.27% in September and a high of 5.40% in January. The Sterling Overnight Rate (SONIA) averaged 4.90% over the period.

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: In October, 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, including the newly added Lloyds Bank Corporate Markets, was kept to a maximum of 100 days. This advice remained in place at the end of the period.

Fitch revised the outlook on Commonwealth Bank of Australia (CBA) to positive from stable while affirming its long-term rating at AA-, citing its consistent strong earnings and profitability.

Other than CBA, the last three months of the period were relatively quiet on the bank credit rating front, with a small number of updates issued for a number of lenders not on the Arlingclose recommended counterparty list.

On local authorities, S&P assigned a BBB+ to Warrington Council, having previously withdrawn its rating earlier in 2024, and also withdrew its rating for Lancashire County Council due to the council deciding to stop maintaining a credit rating. However, it still holds a rating with Fitch and Moody's. Moody's withdrew its rating of Cornwall Council after it chose to no longer maintain a rating.

Credit default swap prices generally trended lower over the period but did start to rise modestly in March, but not to any levels considered concerning. Once again, price volatility over the period remained generally more muted compared to previous periods.

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

Local Context

On 31st March 2025, the Authority had net borrowing of £8.2m 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), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.24 Actual £m	31.3.25 Actual £m
General Fund CFR	19.5	17.9
Commercial CFR	249.0	261.0
HRA CFR	79.1	79.3
Total CFR	**347.6**	**358.1**
Less: *Other debt liabilities	0.2	0.3
Borrowing CFR	**347.4**	**357.8**
External borrowing**	310.1	313.6
Internal/(over) borrowing	37.3	44.2
Less: Balance sheet resources	48.6	59.4
Net borrowing	**298.8**	**298.4**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

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

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

Table 2: Treasury Management Summary

	31.3.24 Balance £m	2024/25 Movement £m	31.3.25 Balance £m	31.3.25 Weighted Average Rate %
Long-term borrowing	193.6	5.3	198.9	4.12
Short-term borrowing	116.5	-1.8	114.7	5.39
Total borrowing	**310.1**	**3.5**	**313.6**	**4.58**
Long-term Investments	0	3	3.0	4.5
Short-term investments	8.0	-3.0	5.0	4.75
Cash and cash equivalents	3.3	3.9	7.2	3.06
Total investments	**11.3**	**3.9**	**15.2**	**3.90**
Net borrowing	**298.8**	**-0.4**	**298.4**	

There was away from short term borrowing and investments to long term borrowing to give more certainty in incomings and outgoings but with a very low impact overall.

Borrowing Strategy and Activity

As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriate 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 Authority's long-term plans change being a secondary objective. The Authority'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.

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 Labour government will be inflationary and lead to higher levels of government borrowing. The election of Donald Trump in the US in November is also expected to lead to inflationary trade policies.

The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the period and 5.42% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.71%. Rates for 20-year maturity loans ranged from 5.01% to 6.14% during the period, and 50-year maturity loans from 4.88% to 5.88%.

For the majority of the year the cost of short-term borrowing from other local authorities closely tracked Base Rate at around 5.00% - 5.25%. However from late 2024 rates began to rise, peaking at around 6% in February and March 2025.

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. The Authority has no new plans to borrow to invest primarily for financial return.

The Authority currently holds £250.8m in commercial investments primarily for financial return that were purchased prior to the change in the CIPFA Prudential Code. This includes £171.2m in investment properties and £79.6m in long term investments in a shareholding company. Before undertaking further additional borrowing the Authority will review the options for exiting these investments.

The PWLB HRA rate which is 0.4% below the certainty rate is available up to March 2026. This discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans, providing a window of opportunity for HRA-related borrowing.

Loans Portfolio: At 31st March 2025 the Council held £313.6m of loans, (an increase of £3.5m of to 31st March 2024, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31st March 2025 are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.24 Balance £m	2024/25 Movement £m	31.3.25 Balance £m	31.3.25 Weighted Average Rate %	31.3.25 Weighted Average Maturity (years)
Public Works Loan Board	158.1	55	213.1	4.12	11.9
Phoenix Life Ltd	35.5	-35.5	0	2.86	0.0
Building Societies	0	3	3	4.85	1.0
Local authorities (short-term)	116.5	-19.0	97.5	5.39	0.4
Total borrowing	**310.1**	**3.5**	**313.6**	**4.52**	**8.22**

The Council's short-term borrowing cost has continued to increase with the rise in Bank Rate and short-dated market rates. The average rate on the Council's short-term loans at 31st March 2025 of £100.5m was 5.37%, this compares with 5.57% on £116.5m loans 12 months ago.

Table 3B: Long-dated Loans borrowed

	Amount £m	Rate %	Period (years)
PWLB Maturity Loan	3,000,000	3.01	2
PWLB Maturity Loan	3,000,000	3.08	3
PWLB Maturity Loan	3,000,000	3.15	4
PWLB Maturity Loan	4,000,000	3.21	5
PWLB Maturity Loan	4,000,000	3.26	6
PWLB Maturity Loan	4,000,000	3.30	7
PWLB Maturity Loan	4,000,000	3.34	8
PWLB Maturity Loan	4,000,000	3.37	9
PWLB Maturity Loan	4,000,000	3.40	10
PWLB Maturity Loan	4,000,000	3.42	11
PWLB Maturity Loan	5,000,000	3.44	12
PWLB Maturity Loan	5,000,000	3.46	13
PWLB Maturity Loan	5,000,000	3.47	14
PWLB Maturity Loan	5,000,000	3.48	15
PWLB Maturity Loan	5,000,000	3.49	16
PWLB Maturity Loan	5,407,000	3.50	17
PWLB Annuity Loan	29,518,982	4.28	47
PWLB Maturity Loan	50,000,000	4.16	6
PWLB Maturity Loan	3,000,000	4.26	6
PWLB Maturity Loan	6,300,000	4.96	4
PWLB Maturity Loan	6,300,000	4.91	5
PWLB Maturity Loan	6,300,000	4.93	5
PWLB Maturity Loan	6,300,000	4.90	6
PWLB EIP Loan	30,000,000	4.91	130
Total Borrowing	**205,125,982**	**3.78**	**14.97**

The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

Other Debt Activity

After £0.3m repayment of prior years' Private Finance Initiative liabilities, total debt other than borrowing stood at £3.6m on 31st March 2025, taking total debt to £317.2m.

Treasury Investment Activity

The CIPFA Treasury Management Code now defines treasury management investments as those investments which 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.

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held and money borrowed in advance of need. During the year, the Council's investment balances ranged between £8.4 and £36.4 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.24 Balance £m	2024/25 Movement £m	31.3.25 Balance £m	31.3.25 Weighted Average Rate %	31.3.25 Weighted Average Maturity years
Government (incl. local authorities)	8.0	0	8	4.66	1.0
Money Market Funds	2.7	1.9	4.6	4.52	0.1
Banks (unsecured)	0.6	2.0	2.6	0.44	0.0
Total investments	**11.3**	**3.9**	**15.2**	**3.89**	**0.56**

Both the CIPFA Code and government guidance require the Authority 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 Authority'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.

As demonstrated by the liability benchmark in this report, the Authority 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.

Bank Rate reduced from 5.25% to 5.00% in August 2024, again to 4.75% in November 2024 and again to 4.5% in February 2025 with short term interest rates largely being around these levels. The rates on DMADF deposits ranged between 4.7% and 5.19% and money market rates between 4.5% and 5.3%.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure %	Weighted Average Maturity (days) days	Rate of Return %
31.03.2024	5.46	A+	29	96	5.44
31.03.2025	5.38	A+	47	171	3.90
31.03.2025 - Similar LAs	4.81	A+	63	57	4.59
31.03.2025 - All LAs	4.77	A+	63	8	4.54

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.

Non-Treasury Investments

The definition of investments in the Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority 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).

Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

The Council has invested the following total principal sums in directly owned property:

Commercial Property - Sums Invested	31.03.24 Actual £m	31.03.25 Actual £m
Skyway House, Parsonage Road, Takeley – Offices	21.3	21.3
Deer Park Road, Livingston, Scotland – Veterinarian Practice	5.2	5.2
Stane Retail Park, Colchester – Retail Park	27.7	27.7
Chorley – Regional Distribution Centre	58.3	58.3
Gloucester – Distribution Centre	43.3	43.7
Tewkesbury – Offices and warehouse	38.2	38.5
TOTAL	**194.0**	**194.7**

These investments generated £10.4m of investment income for the Authority after taking account of direct costs, representing a rate of return of 5.3%.

In addition, as at 31 March 2025 the Council had invested £77.2 million in loans to its subsidiary, Aspire (CRP) Ltd, which holds a 50% share in investment property at Chesterford Research Park. These loans generated income of £2.5 million of investment income during the year.

All non-treasury investments are acquired and managed in line with the Commercial Strategy approved each year by Full Council, and available on the Council's website. This sets out in more detail the risks to the Council of holding such investments, mitigating actions taken, and governance and oversight arrangements.

The principal risks of tenant defaults, void periods, and unexpected refurbishment costs are managed by setting aside sums in a commercial asset reserve. There is provision in the Medium Term Financial Plan to contribute £0.5 million to a commercial reserve in each of the following 5 years.

Treasury Performance

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

MRP Regulations

On 10th 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 7th 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 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).

Compliance

All treasury management activities undertaken during the year complied fully with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy with one exception. The investment limit for banks (unsecured) was breached on one occasion during the year. This was due to the deadline for authorising the external investments being missed. The excess amount remained within the Council's operational bank (Barclays), and action was taken to rectify the situation on the following working day.

Table 7: Investment Limits

	2024/25 Maximum £m	31.03.25 Actual £m	2024/25 Limit £m	Complied
Banks (unsecured)	30.0	2.6	3.0	☒
UK Central Government	25.7	0.0	Unlimited	✓
UK Local Authorities including Police and Fire per authority	5.0	5.0	5.0	✓

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

	2024/25 Maximum £m	31.03.25 Actual £m	2024/25 Operational Boundary £m	2024/25 Authorised Limit £m	Complied
Borrowing	313.6	313.6	395.0	415.0	✓
Other long-term liabilities (PFI)	3.8	3.6	10.0	10.0	✓
TOTAL	**317.4**	**317.2**	**405.0**	**425.0**	✓

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.

Treasury Management Prudential Indicators

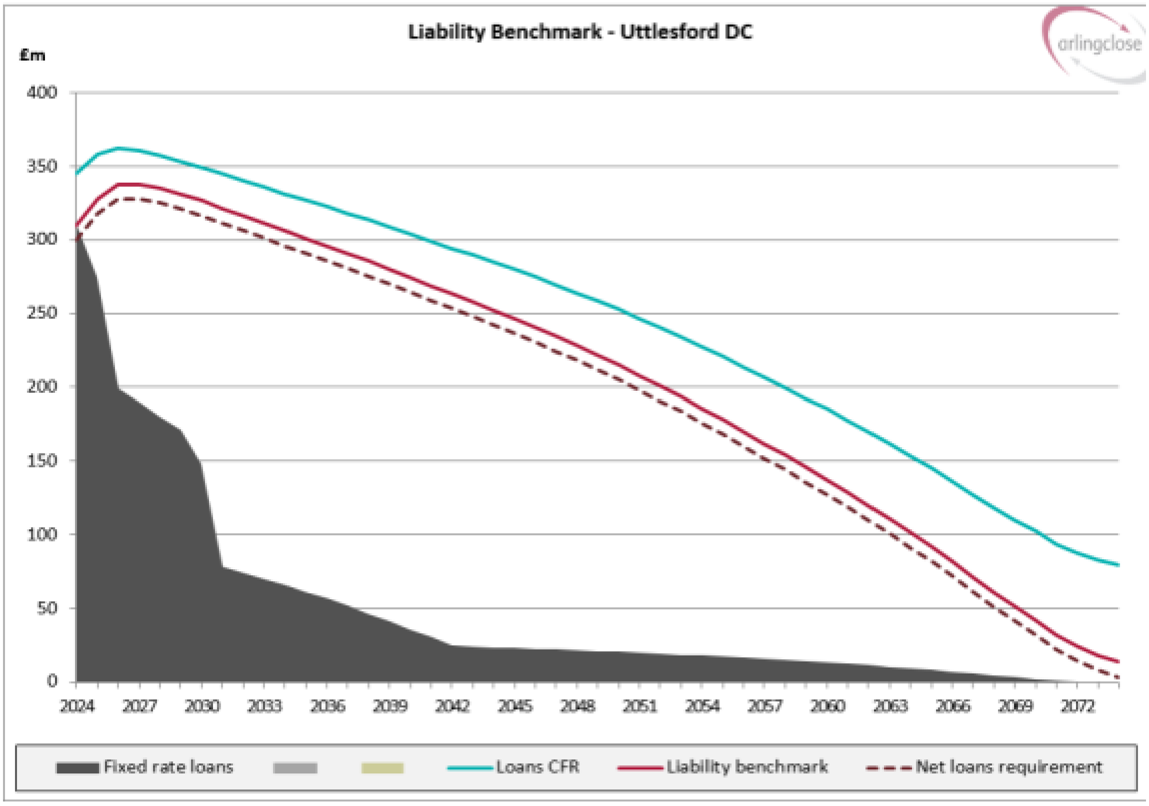
As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

Liability Benchmark:

This new indicator compares the Authority'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 of £[X]m required to manage day-to-day cash flow.

	31.3.24 Actual	31.3.25 Actual	31.3.26 Forecast	31.3.27 Forecast
Loans CFR	347	358	362	359
Less: Balance sheet resources	49	59	43	42
Net loans requirement	**299**	**298**	**319**	**317**
Plus: Liquidity allowance	10	10	10	10
Liability benchmark	**309**	**308**	**329**	**327**
Existing borrowing	**310**	**313**	**317**	**314**

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £0.5m a year, minimum revenue provision on new capital expenditure based on a 25 year asset life and income, expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



In the chart above, the loans CFR (green line) represents the need to finance capital expenditure through borrowing. The net loans requirement (dotted line) represents the minimum level of borrowing required once reserves and working capital have been taken into account. The liability benchmark (solid red line) represents the minimum level of borrowing required once reserves and working capital have been taken into account, but allowing for investment balances being maintained at a minimum level of £10 million. Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

<u>Maturity Structure of Borrowing</u>: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.3.25 Actual %	Upper Limit %	Complied
Under 12 months	37	50	✓
12 months and within 24 months	3	50	✓
24 months and within 5 years	9	50	✓
5 years and within 10 years	32	80	✓
10 years and within 20 years	12	80	✓
20 years and above	7	100	✓

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: 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:

	2024/25	2025/26	2026/27
Actual long-term principal invested beyond year end	£3m	£3m	0
Limit on long-term principal invested beyond year end	£10m	£10m	£10m
Complied	✓	✓	✓

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.

Additional indicators

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.25 Actual	2024/25 Target	Complied
Portfolio average credit rating	A+	A	✓

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	31.3.25 Actual	2024/25 Target	Complied
Total cash available within 3 months	£2.3m	£2.0m	✓

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. Bank Rate fell by 0.75% from 5.25% on 1st April 2024 to 4.5% by 31st March 2025.

	31.3.25 Actual	2024/25 Target	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates	£0.8m	£1.5m	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.8m	£1.5m	✓

For context, the changes in interest rates during the year were:

	31/3/24	31/3/25
Bank Rate	5.25%	4.50%
1-year PWLB certainty rate, maturity loans	5.36%	4.82%
5-year PWLB certainty rate, maturity loans	4.68%	4.97%
10-year PWLB certainty rate, maturity loans	4.74%	5.42%
20-year PWLB certainty rate, maturity loans	5.18%	5.91%
50-year PWLB certainty rate, maturity loans	5.01%	5.67%

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.