TORBAY COUNCIL

Meeting: Audit Committee/Council **Date:** 27 May 2026/23 July 2026

Wards affected: All Wards in Torbay

Report Title: Treasury Management Outturn 2025/26 Report

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1. Purpose of Report

1.1 This report is to provide members with an annual report on the treasury management activities undertaken during the year 2025/26, which is compared to the 2025/26 Treasury Management Strategy.

2. Reason for Proposal and its benefits

2.1 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report

3. Recommendation(s) / Proposed Decision

That the Audit Committee recommends to Council:

i) That the Treasury Management decisions made during 2025/26, as detailed in the submitted report be noted.

Appendices

Appendix 1: Arlingclose Economic Commentary on the External Context for Treasury Management Activity – April 2026

Appendix 2: Borrowing and Investment Portfolio

Background Documents

Treasury Management Strategy 2025/26

Supporting Information

1. Introduction

1.1 In March 2023 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.

1.2 The Council's treasury management strategy for 2025/26 was approved by Council at a meeting on 25 February 2025. The Council borrows for strategic investment purposes, but also from time to time is in receipt of substantial sums of money in the form of grants and other funds in advance and is therefore potentially exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and mitigation of risk remains central to the Council's treasury management strategy.

2. External Context

2.1 An economic commentary for the year provided by the Council's treasury management advisors, Arlingclose, is provided at Appendix 1 to this report.

- The financial year was largely dominated by two periods of significant uncertainty and volatility. The first being the US trade tariff 'Liberation Day' in April 2025 and the second was the US/Israel war with Iran at the end of February 2026.
- Prior to the start of the war, headline UK consumer price inflation (CPI) inflation had generally been trending downwards, albeit the 3% in February 2026 was unchanged from January
- Financial markets: After declining sharply early in the financial year following the announcement of US tariffs, sentiment in financial markets had improved but equity and bond markets remained volatile throughout.
- The 10-year UK benchmark gilt yield started the year at 4.65% and ended at 4.86%.

3. Local Context

3.1 On 31st March 2026, the Council had net borrowing of £290m 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), which represents the amount of capital expenditure that is not funded from capital receipts, government grants, third party contributions or revenue, while usable reserves and working capital are the underlying Balance Sheet resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary (subject to finalisation and audit)

	31.3.26 Actual £m
Total CFR	**428**
Less: *Other debt liabilities	(11)
Borrowing CFR	**417**
External borrowing	350
Internal borrowing	**67**
Less: Balance Sheet resources (usable reserves, working capital and other cash backed items)	(127)
Net treasury position	**290**

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

3.2 The Council pursued its strategy of keeping borrowing and investments well below their maximum permitted levels i.e. using internal cash resources in place of borrowing, sometimes known as internal borrowing, to strike an appropriate low risk balance between securing low interest rates and achieving cost certainty over the periods for which funds are required The Authority's borrowing strategy continues to address the key metric of affordability without compromising the longer-term stability of the debt portfolio.

3.3 The treasury management position on 31st March 2026 and the change during the year is shown in Table 2 below. A further breakdown of long-term investments is added at Table 2.1 and a list of loans and investments is detailed at Appendix 2.

Table 2: Treasury Management Summary

	31.3.25 Balance £m	Movement £m	31.3.26 Balance £m	31.3.26 Rate %
Long-term borrowing	346	(3)	343	2.98
Short-term borrowing	5	2	7	3.96
Total borrowing	**351**	**(1)**	**350**	**2.99**
Long-term investments*	(25)	0	(25)	4.75
Short-term investments	(38)	6	(32)	4.48
Cash and cash equivalents	(1)	(2)	(3)	1.75
Total investments	**(64)**	**4**	**(60)**	**4.46**
Net position	**287**	**3**	**290**	**2.69**

*Long term investments include the CCLA Property Fund, Supranational and Corporate Bonds investments at market valuation and fixed deposits with over 1 year to maturity

Table 2:1 Breakdown of Long-Term Investments

	31.3.25 Balance £m	Movement £m	31.3.26 Balance £m
Fixed Deposits	(5)	0	(5)
CCLA LA Property Fund	(5)	0	(5)
Supranational and Corporate Bonds	(15)	(0)	(15)
Total Long-Term Investments	**(25)**	**(0)**	**(25)**

4. Borrowing Update

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

4.2 At 31st March 2026 the Council held £350m of loans, (a decrease of £1m to the 31st March 2025 position) as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31st March are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.25 Balance £m	Net Movement £m	31.3.26 Balance £m	31.3.26 Weighted Average Rate %	31.3.26 Weighted Average Maturity (years)
Public Works Loan Board	341.0	(6)	335.0	2.93	22.2
Banks (LOBO)	5.0	0	5.0	4.700	48.5
Banks (fixed-term)	5.0	5	10.0	4.57	26.45
Total borrowing	**351.0**	**(1)**	**350.0**	**4.07**	**33.18**

4.3 In keeping with these objectives, no new long-term borrowing was undertaken, while £5m of existing loans matured without replacement

4.4 A short-term (3 months) loan was taken out to cover a shortage of available funds at the year-end. This will be repaid in full Iin June

4.5 These measures enabled the Council to maintain low net borrowing costs while maximising investment income and reduce overall treasury risk.

4.6 LOBO loans: The Council continues to hold a £5m LOBO (Lender's Option Borrower's Option) loan where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The lenders option does not become due until 2028.

5. Other Debt Activity

5.1 Private Finance Initiative liabilities remained at around £11m on 31st March 2026, taking total debt to £361m

6. Treasury Investment Activity

6.1 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.

6.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £57 million and £93 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.25 Balance £m	Net Movement £m	31.3.26 Balance £m	2025/26 Income Return %	2025/26 Weighted Average Maturity days
Banks & building societies (unsecured)	1.1	1.7	2.8	1.75	1
Local Authorities	42.0	(5.0)	37.0	4.5	303
Government Bonds	2.0	0.0	2.0	4.25	1,051
Corporate bonds	13.5	0.0	13.5	4.94	5,030
Money Market Funds	1.0	(0.8)	0.2	3.77	1
Other Pooled Funds:					

- *Property fund*	4.4	0.0	4.4	5.03	
Total investments	**64.0**	**(4.1)**	**59.9**	**4.04**	

6.3 Both the CIPFA Code and government guidance 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.

6.4 The Bank Interest Rate that we achieve on deposits reduced from 2.50% to 2.00% in September 2025, followed by a further reduction to 1.75% in January 2026. Short term interest rates have largely followed these levels. Rates on the Council's Money Market Funds were between 3.69% and 4.54%, with the average return being 3.77%.

6.5 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

At 31st March 2026	**Credit Score**	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity (days)**	**Rate of Return %**
Torbay Council	3.67	AA-	6%	1,484	4.41
17 English Unitaries	**4.63**	**A+**	**78%**	**80**	**4.69**
121 LA Average	**4.60**	**A+**	**64%**	**10**	**4.46**

6.6 At the commencement of the year £42 million of the investment portfolio was locked into fixed deposits with local authorities on varying maturities and at rates ranging from 4.20% to 5.60%. During 2025/26, £52m of new deals were undertaken, of which three matured within the year. The portfolio includes one longer-term loan maturing in 2029, with the remaining deals maturing within one year. At year-end LA deposits stood at £37m.

6.7 We continue to hold £15m in investment-grade supra-national bonds with maturities between 2029 and 2044. The published yields of these bonds range from 4.118% to 4.802%. These investments give security of return over the longer term; however, the short-term traded prices of these securities can fall below the nominal value and at the year end the indicative value in total was £14.6m. Since these investments are held to provide secure income and not to be actively traded, they are valued at cost in our Treasury Management Statements.

6.8 Throughout the year funds not required on a daily basis were placed in short UK governments' DMADF fund and in liquid overnight money market funds to earn income and to remain available to assist the delivery of internal council borrowing for capital funding and for proposed strategic investments.

6.9 **Externally Managed Pooled Funds**: £5m of the Council's investments are invested in an externally managed strategic pooled property fund where short-term value and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an income return of £0.2m (5.26%). There was no significant unrealised gain or loss for the year.

7. Non-Treasury Investments

7.1 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).

7.2 The outturn position of the Council's non-treasury investments will form part of the Statement of Accounts 2025/26 and will be reported with the usual level of detail within the Treasury Management 2026/27 mid-year review.

8. Treasury Performance

8.1 The financial performance of the Council's direct treasury management activities in terms of its impact on the revenue budget is shown in table 6 below.

Table 6: Performance

As at 31st March 2026	**Budget 2025/26**	**Outturn 2025/26**	**Variation**
	£M	**£M**	**£M**
Investment Income	(1.9)	(3.3)	(1.4)
Interest Paid on Borrowing	13.4	9.9	(3.5)
Net Position (Interest)	**11.5**	**6.6**	**(4.9)**
Minimum Revenue Provision (excl. PFI)	8.0	7.2	(0.8)
Gross premium/(discount) on PWLB repayment	0.0	(0.0)	(0.0)
Net Position (Other)	**8.0**	**7.2**	**(0.8)**
Net Position Overall	**19.5**	**13.8**	**(5.7)**

The interest payable on borrowing is determined from Capital expenditure across the council and does not reflect performance of the treasury function. The council has a policy to recharge costs of borrowing to teams incurring capital expenditure and the total of the charge for 2025/26 was £13.4M.

9. Compliance

9.1 The Chief Finance Officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

Compliance with specific limits is demonstrated in table 7 below.

Table 7: Investment Limits

	2025/26 Maximum	31.3.26 Actual	2025/26 Limit	Complied? Yes/No
Any single organisation, except the UK Government	£10m	£5m	£15m	Yes
Unsecured investments with banks and building societies	£5m	-	£6m	Yes
Money Market Funds – per fund Total held across all MM funds at y/e	£10m	£0.2m	£15m	Yes
Strategic pooled funds	£5m	£5m	£10m	Yes

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

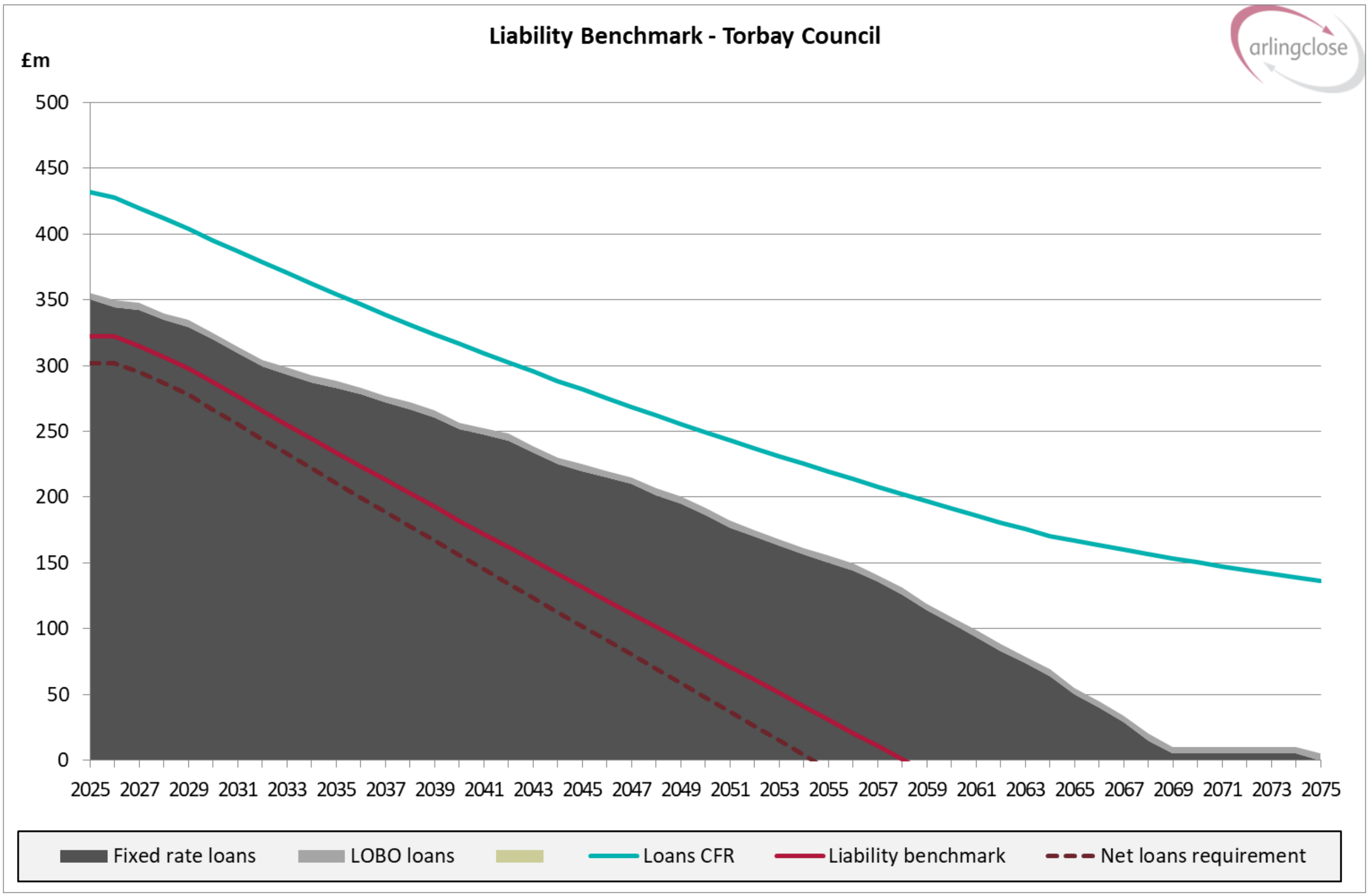
Table 8: Debt Limits

	2025/26 Maximum	31.3.26 Actual	2025/26 Operational Boundary	2025/26 Authorised Limit	Complied? Yes/No
Borrowing	£351m	£350m	£450m	£500m	Yes
PFI & Finance Leases	£12m	£11m	£20m	£20m	Yes
Total Debt	**£363m**	**£361m**	**£470m**	**£520m**	Yes

9.2 **Treasury Management Indicators:** The Council measures and manages its exposures to treasury management risks using the following indicators.

Liability Benchmark 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 of £10m required to manage day-to-day cash flow.

The latest estimate of the Liability Benchmark is illustrated in the graph below demonstrating maturing borrowing levels remaining above the benchmark over the long term with scope for future treasury management decisions to reduce the margin.



Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating/credit score of its investment portfolio. The Council understands that credit ratings are good, but not perfect predictors of investment default. Regard is also given to other available sources of information on the credit quality of the organisations in which it invests, including default swap process, financial statements and reports in the quality financial press, amongst others. The credit score is calculated by applying a value to each investment (AAA=1, AA+=2, …. A=6 etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.26 Actual	**2025/26 Target**	**Complied?**
Portfolio average credit rating (score)	AA- (4)	A (6)	Yes

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 one-month period, without additional borrowing.

	31.3.26 Actual	2025/26 Target	Complied?
Total cash available within one month	£10M	£10M	Yes

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

	31.3.26 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	1%	10%	0%	Yes
12 months - within 24 months	1%	15%	0%	Yes
24 months and within 5 years	7%	30%	0%	Yes
5 years and within 10 years	9%	40%	10%	Yes
10 years and within 20 years	19%	50%	10%	Yes
20 years and within 30 years	19%	50%	10%	Yes
30 years and within 40 years	30%	50%	10%	Yes
40 years and over	14%	50%	0%	Yes

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2025/26	2026/27	2027/28
Actual principal invested beyond year end	£15m	£15m	£15m
Limit on principal invested beyond year end	£40m	£40m	£40m
Complied?	Yes	Yes	Yes

10. Other

10.1 **Statutory override**: Further to consultations in April 2023 and December 2024 MHCLG wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. On the assumption that when published regulations follow this policy announcement, the statutory override will be extended up until the 1st April 2029 for investments already in place before 1st April 2024. The override will not apply to any new investments taken out on or after 1st April 2024.

The Authority has reserves available to mitigate the impact of the statutory override not being extended after 1st April 2029. The Council's investment which is impacted by the override is the £5m investment in the CCLA Property Fund. This investment was made before 1st April 2024 meaning it falls within the parameters of the extension of the override to 1st April 2029.