REPORT TITLE: TREASURY MANAGEMENT OUTTURN REPORT 2020/21

22ND JULY 2021

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

Contact Officer: Richard Botham Tel No: 01962 848421 Email rbotham@winchester.gov.uk

WARD(S): ALL WARDS

PURPOSE

In accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, this report provides details of the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and confirmation that there were no instances of non-compliance with the council's Treasury Management Policy Statement and Treasury Management Practices, for the year 2020/21, other than has already been reported.

RECOMMENDATIONS:

1. Note the Annual Treasury Outturn Report 2020/21.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

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

2 FINANCIAL IMPLICATIONS

2.1 Effective treasury management ensures both the financial security and liquidity of the council. The 2020/21 outturn shows £381,000 of income achieved against a budget of £322,000 delivering an additional £59,000 of income above budget. This was a consequence of returns on the council's property fund investment being higher than forecast (following a downward revision due to Covid-19) and higher than anticipated balances which was primarily due to government Covid support for lost income such as car parking and slippage in the capital programme.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 The Council's Treasury Management Strategy Statement follows the latest codes of practice and the MHCLG and CIPFA guidance.

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

4 WORKFORCE IMPLICATIONS

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

5 PROPERTY AND ASSET IMPLICATIONS

5.1 None

6 CONSULTATION AND COMMUNICATION

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

7 ENVIRONMENTAL CONSIDERATIONS

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

8 EQUALITY IMPACT ASSESSEMENT

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

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 None required

10 RISK MANAGEMENT

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

11 SUPPORTING INFORMATION:

12 Introduction

12.1 The council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2017. The CIPFA Code requires the council to approve a treasury management strategy before the start of the year, a mid-year report, and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function during 2020/21.

13 Summary

13.1 The report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2020/21.

13.2 The council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2021. The council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the council's treasury management strategy.

13.3 Treasury management in the context of this report is defined as: "the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

13.4 This annual report sets out the performance of the treasury management function during 2020/21, to include the effects of the decisions taken and the transactions executed in the past year.

13.5 Hampshire County Council's Investments & Borrowing Team has been contracted to manage the council's treasury management balances since September 2014 but overall responsibility for treasury management remains with Winchester City Council. No treasury management activity is without risk and as such the effective identification and management of risk are integral to the council's treasury management objectives.

13.6 All treasury activity during 2020/21 has complied with relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the council's treasury advisers, Arlingclose.

13.7 All treasury activity has also complied with the council's Treasury Management Strategy and Investment Strategy for 2020/21, with one exception which was reported to the Committee on 28 July 2020 in the Treasury Management Outturn Report for 2019/20, whereby the limit of 50% for the proportion of the council's investment balances that can be invested in Money Market Funds (MMFs) at any one time was passively breached.

13.8 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by Full Council covering capital expenditure and financing, treasury management and non-treasury investments. The latest iteration of the council's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by Full Council in February 2021.

14 External Context

14.1 The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2020/21.

Economic commentary

14.2 The coronavirus pandemic dominated 2020/21, resulting in significant levels of government borrowing and expenditure to support the economy, with the UK also agreeing a Brexit trade deal within the period.

14.3 The Bank of England (BoE) held Bank Rate at 0.1% throughout the year and extended its Quantitative Easing programme by £150bn to £895bn in November 2020. The BoE expects Gross Domestic Product (GDP) to remain low in the near-term but believes that the easing of restrictions is likely to lead to a strong recovery in growth later in 2021, with inflation forecast to increase in the near-term. The economic outlook has improved but downside risks remain, such as a further increase in unemployment when the furlough scheme ends.

14.4 Inflation remained low during 2020/21, with the annual headline rate of UK Consumer Price Inflation (CPI) rising to 0.7% year-on-year in March 2021, below expectations and below the BoE's 2% target, but following the end of the financial year, inflation has risen with the CPI rate for May 2021 rising to 2.1% year-on-year. Unemployment was higher for the three months to March 2021 than for the same period the previous year, while periods of GDP contractions and growth over the year largely mirrored the tightening and easing of restrictions, creating some significant quarterly swings.

Financial markets

14.5 Monetary and fiscal stimulus helped provide support for equity markets which rose over the period. In the UK, the FTSE indices performed reasonably well during the period to November 2020 before being buoyed in December by both the vaccine approval and Brexit deal.

14.6 Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated; however, following the end of the financial year, longer term yields have declined largely due to the previous pricing in of potential monetary policy changes.

Credit review

14.7 Credit default swaps are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. After spiking in March 2020, credit default swap spreads subsequently declined to broadly pre-pandemic levels.

14.8 Moody's downgraded the UK sovereign rating to Aa3 with a stable outlook during the period and this change had an impact on a number of other UK institutions, banks and local government.

14.9 The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the pandemic and the effects of lockdowns and restrictions. This uncertainty means the council's treasury management advisors, Arlingclose, continue to recommend maximum durations of 35 days for unsecured investments with banks and building societies on their list of recommended counterparties.

15 Local Context

15.1 At 31 March 2021 the Council's underlying need to borrow for capital purposes was £246.3m as measured by the Capital Financing Requirement (CFR). The Council held £23.9m of investments (principal invested plus gains on investments with a variable net asset value) and £166.7m of external borrowing. These factors are summarised in Table 1.

Table 1: Balance sheet summary	**31/03/20 Balance £m**	**Movement £m**	**31/03/21 Balance £m**
General Fund CFR	(41.1)	(27.0)	(68.1)
Housing Revenue Account CFR	(162.9)	(15.3)	(178.2)
Borrowing CFR	**(204.0)**	**(42.3)**	**(246.3)**
External borrowing	(156.7)	(10.0)	(166.7)
Internal borrowing	(47.3)	(32.3)	(79.6)
Total funding of the CFR	**(204.0)**	**(42.3)**	**(246.3)**
Total investments	**29.9**	**(6.0)**	**23.9**

15.2 The CFR rose by £42.3m during 2020/21, due to an increase in both the General Fund and Housing Revenue Account (HRA) underlying need to borrow as a result of an increase in unfinanced capital expenditure such as the new Winchester Sport & Leisure Park and the HRA new build programme. Although the increase in the total borrowing CFR is £42.3m, external borrowing only increased by £10.0m during 2020/21 due to the council having sufficient cash and investment balances to increase its internal borrowing.

15.3 This increase in borrowing is in line with the council's strategy to, as much as possible, 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 as at 31 March 2021 and the change during the year are shown in Table 2.

Table 2: Treasury management summary	**31/03/20 Balance £m**	**Movement £m**	**31/03/21 Balance £m**	**31/03/21 Rate %**
Long-term borrowing	(156.7)	(10.0)	(166.7)	3.22
Total borrowing	**(156.7)**	**(10.0)**	**(166.7)**	**3.22**
Long-term investments	12.9	(5.3)	7.6	3.21
Short-term investments	5.0	4.2	9.2	0.84
Cash and cash equivalents	12.0	(4.9)	7.1	0.01
Total investments	**29.9**	**(6.0)**	**23.9**	**1.09**
Net borrowing	**(126.8)**	**(16.0)**	**(142.8)**	

Note: the figures in Table 2 are from the balance sheet in the Council's statement of accounts

15.4 The increase in net borrowing of £16m shown in Table 2 reflects an increase in total borrowing of £10m taken out in new Public Works Loan Board (PWLB) loans, in addition to a reduction in investment balances of £6m. This additional borrowing masks the underlying reduction in in investment balances of £16m. Further details are provided in the Borrowing Activity and Treasury Investments Activity sections of this report.

16 <u>Borrowing Update</u>

16.1 In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. The rate at which local authorities could borrow from the PWLB is defined by a margin above gilts; following the response to the consultation the margin above gilts on PWLB loans was reduced from 1.8% to 0.8%; however, restrictions were introduced meaning that borrowing from the PWLB would only be available to authorities not planning to purchase investment assets primarily for yield regardless of whether they are funded from borrowing. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing from prior years. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

16.2 As part of the borrowing process authorities are now required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.

16.3 The council is not planning to purchase any investment assets primarily for yield and so is able to take advantage of the reduction in the PWLB borrowing rate if required.

17 Borrowing Activity

17.1 At 31 March 2021 the council held £166.7m of loans, the vast majority of which (£156.7m) relates to the financing settlement of the HRA in 2012. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3. During 2020/21 there have been no maturing PWLB debt, and the Council has taken out an additional £10m in long-term PWLB debt.

Table 3: Borrowing position	**31/03/20 Balance £m**	**Net movement £m**	**31/03/21 Balance £m**	**31/03/21 Weighted average rate %**	**31/03/21 Weighted average maturity (years)**
Public Works Loan Board	(156.7)	(10.0)	(166.7)	3.22	21.42
Total borrowing	**(156.7)**	**(10.0)**	**(166.7)**	**3.22**	**21.42**

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

17.2 The council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low 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.

17.3 The council has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital. Having considered the appropriate duration and structure of the borrowing need based on realistic projections, it was decided to take a long-term fixed rate maturity loan of £10m to finance HRA capital expenditure, the detail of which is provided in Table 4. This new loan ensures the council can meet its cashflow obligations and provides some certainty in the cost of borrowing.

Table 4: Long dated loans	**Amount £m**	**Rate %**	**Period (years)**
PWLB maturity loan	(10.0)	1.95	50.0
Total new borrowing	**(10.0)**	**1.95**	**50.0**

17.4 This borrowing strategy has been monitored with the assistance of Arlingclose and has enabled the council to keep long-term borrowing costs low and mitigates against future interest rate increases.

18 Treasury Investment Activity

18.1 The council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year the principal value of the council's investment balances have ranged between £26.1m and £65.1m 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	**31/03/20 Balance £m**	**Movement £m**	**31/03/21 Balance £m**	**31/03/21 Income return %**	**31/03/21 Weighted average maturity (years)**
Short term investments:					
- Banks and building societies:					
- Unsecured	1.81	2.44	4.25	0.08	0.04
- Secured	3.00	0.50	3.50	1.24	0.04
- Money market funds	12.55	(2.07)	10.48	0.01	0.00
- Local authorities	-	1.50	1.50	1.33	0.20
- Cash plus funds	1.00	-	1.00	0.93	0.01
- UK treasury bills	1.00	(1.00)	-	N/A	N/A
Total	**19.36**	**1.37**	**20.73**	**0.37**	**0.03**
Long term investments:					
- Banks and building societies:					
- Secured	5.54	(3.50)	2.04	0.43	1.78
- Local authorities	1.50	(1.50)	-	N/A	N/A
Total	**7.04**	**(5.00)**	**2.04**	**0.43**	**1.78**
High yield investments					
- Pooled property fund*	5.00	-	5.00	4.34	N/A
Total	**5.00**	**-**	**5.00**	**4.34**	**N/A**
Total investments	**31.40**	**(3.63)**	**27.77**	**1.09**	**0.19**

* The rate provided for the pooled property fund investment is reflective of annualised income returns over the year to 31 March 2021 based on the market value of investments at the start of the year.

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

18.2 Investment balances have reduced (net of the additional cash received from PWLB borrowing) primarily as a result of the capital programme and reduced income due to the impact of Covid-19. A large proportion of investment balances continue to be held as short-term investments to enable the funding of the capital programme, as well as to meet the council's business as usual working capital requirements.

18.3 The CIPFA Code and government guidance both require the council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults against 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.

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

18.5 In delivering investment returns, the council has operated against a backdrop in which the UK Bank Rate was cut to 0.10% in March 2020 in response to the coronavirus pandemic. It has remained at this rate throughout the year, having an impact on rates across the market. Returns had been at or around 0% for liquid investment options such as Money Market Funds (MMFs), bank call accounts and the UK Government's Debt Management Account Deposit Facility (DMADF) and have not been significantly higher for other short-term options like fixed duration loans to other local authorities and bank notice accounts. Investment income has therefore largely come from investments arranged at fixed rates of interest prior to the pandemic and through the council's investment in a property pooled fund.

18.6 The council benchmarks the performance of its internally managed investments against that of other Arlingclose clients. Internally managed investments include all investments except externally managed pooled funds but do include MMFs. 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 2021 and at the same date in 2020 for comparison.

Table 6: Investment benchmarking (excluding pooled funds)	**Credit rating**	**Bail-in exposure %**	**Weighted average maturity (days)**	**Rate of return %**
31.03.2020	AA	56	174	0.68
31.03.2021	AA-	67	72	0.39
Similar LAs	A+	65	40	0.13
All LAs	A+	63	14	0.15

18.7 Table 6 shows the average credit rating of the portfolio was lower at 31 March 2021 than at the same time the previous year, largely as a result of the impact of the pandemic on credit ratings across the market, including that of the UK Government. Bail-in exposure was higher than at the same time in 2020, as the council has been expected to meet large capital payments during the year leading the council to hold a greater proportion of funds in shorter term investments where availability of secured investment options has been limited. The weighted average maturity of investments was lower as the council held lower long-term balances, and in addition there were timing differences between receiving and spending of Covid grants. The average rate of return (0.39%) was lower than at 31 March 2020, but with the benefit of higher rates for fixed investments made prior to the pandemic helping to offset returns at or close to 0% for many investments across the market. The council compared favourably with the other local authorities included in the benchmarking exercise across all metrics other than bail-in exposure due to the large liquidity requirement.

Externally managed pooled property fund

18.8 In order to minimise the risk of receiving unsuitably low investment income, the council has continued to invest a proportion of steady core balances in an externally managed pooled property fund as part of its higher yielding strategy.

18.9 The CIPFA Code requires the council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the council's investments targeting higher yields have been made from its most stable balances and with the intention that they will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell an asset for liquidity purposes, helping to ensure the long-term security of the council's investments.

18.10 The council's investment in the pooled property fund fell considerably in value when the coronavirus pandemic hit world markets but in the last year the capital value has stabilised, with the property sector turning the corner from recession in the last quarter of 2020/21. This recovery means this investment is now worth only marginally less in aggregate than the capital market value as at the end of 2019/20, and due to the council's long-term holding in this fund the capital market value remains significantly above the amount invested, as shown in Table 7. This demonstrates the importance of taking a longer term approach and being able to ride out periods of market volatility, ensuring the council is not a forced seller at the bottom of the market.

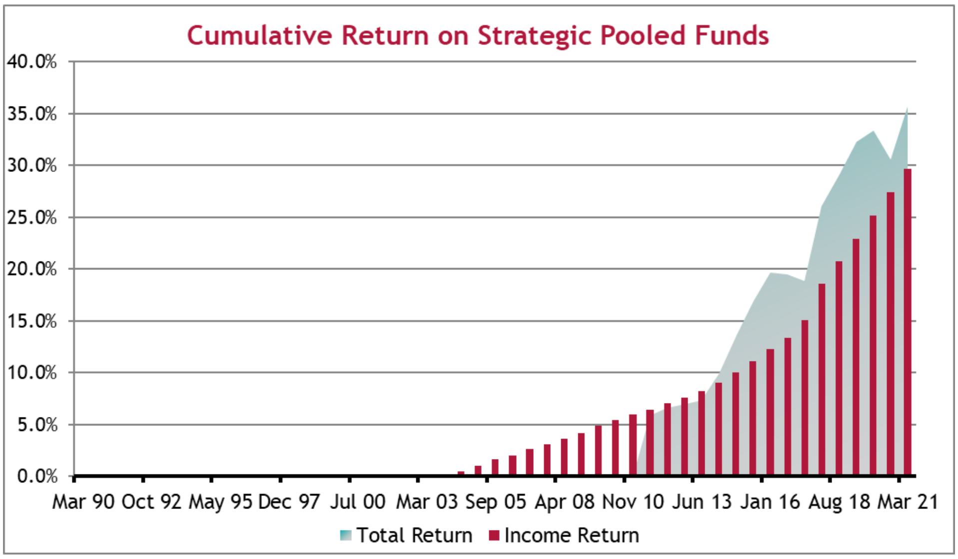
Table 7 – Higher yielding investments – market value performance	**Amount invested***	**Market value at 31/03/21**	**Gain/(fall) in capital value**	
			Since purchase	**2020/21**
	£m	**£m**	**£m**	**£m**
Pooled property fund	5.00	5.35	0.35	(0.04)
Total	**5.00**	**5.35**	**0.35**	**(0.04)**

18.11 The council's investment in the pooled property fund targets long-term price stability and regular revenue income and bring significant benefits to the revenue budget. As shown in Table 8 the annualised income returns have averaged 3.31% pa (per annum) since purchase, contributing to a total return of 46.38%.

Table 8 – Higher yielding investments – income and total returns since purchase	**Annualised income return**	**Total return**
	%	**%**
Pooled property fund	3.31	46.38
Total pooled funds	**3.31**	**46.38**

18.12 Following advice from Arlingclose, the council made prudent income forecasts for 2020/21 to reflect the impact of the pandemic and the challenging market conditions being faced by the investment manager of the pooled property fund, identifying the potential impact in its forecasting. Actual income returns from the pooled property fund investment were more positive than this prudent forecast resulting in income of £0.27m, which was about 22% lower than in 2019/20. This is compared with the 25% to 30% reduction that could reasonably have been anticipated given the pandemic's impact on property rental income. The council's pooled property fund investment continues to deliver income returns far in excess of what could be generated from cash investments and accounted for 86% of the council's total income from its treasury investments, despite making up only 12% of the average investment balance.

18.13 The cumulative total return from the council's investment in pooled property, as well as the previously owned investments in pooled equity funds since purchase is shown in the following graph. This highlights that the council has benefited from strong and steady income returns over time.



18.14 The IFRS 9 accounting standard that was introduced in 2018/19 means that annual movements in the capital values of investments need to be reflected in the revenue account on an annual basis, although a five year statutory override was put in place for local authorities that exempts them from complying with this requirement.

18.15 Pooled fund investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the council's investment objectives is monitored regularly and discussed with Arlingclose.

19 Financial Implications

19.1 The outturn for debt interest paid in 2020/21 was £5.2m on an average debt portfolio of £157.5m at an average interest rate of 3.28%.

19.2 The outturn for investment income received in 2020/21 was £381,000 on an average investment portfolio of £40.7m, therefore giving a yield of 0.94%, against a budgeted £322,000. In comparison in 2019/20 investment income received was £657,000 on an average investment portfolio of £50.9m, therefore giving a yield of 1.29%.

20 Other Non-Treasury Holdings and Activity

20.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held primarily for yield and those related to regeneration activities.

20.2 This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons.

20.3 Further information on the council’s non-Treasury investments is included in CAB3309 General Fund Outturn 2020/21 presented to Cabinet on 21 July 2021.

21 Compliance Report

21.1 The council confirms compliance of all treasury management activities undertaken during 2020/21 with the CIPFA Code of Practice. It has also complied with the council’s Treasury Management Strategy for 2020/21, with one exception. This was reported to the Committee on 28 July 2020 in the Treasury Management Outturn Report for 2019/20, whereby the limit of 50% for the proportion of the council’s investment balances that can be invested in Money Market Funds (MMFs) at any one time was passively breached. This limit is no longer a part of the council’s TMSS upon the advice of the council’s treasury management advisers, Arlingclose.

21.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 9.

Table 9: Debt limits	**2020/21 Maximum £m**	**31/03/21 Actual £m**	**2020/21 Operational Boundary £m**	**2020/21 Authorised Limit £m**	**Complied?**
Borrowing	(166.7)	(166.7)	(253.2)	(270.1)	✓
Other long term liabilities	0.0	0.0	0.0	0.0	✓
Total debt	**(166.7)**	**(166.7)**	**(253.2)**	**(270.1)**	✓

22 Treasury Management Indicators

22.1 The council measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures

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

Table 10 – Interest rate risk indicator	**31/03/21 Actual**	**Impact of +/-1% interest rate change**
Sums subject to variable interest rates:		
Investments	£27.8m	+/- £0.2m
Borrowing	£0.0m	N/A

22.3 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

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

Table 11: Refinancing rate risk indicator	**31/03/21 Actual**	**Upper Limit**	**Lower Limit**	**Complied**
Under 12 months	0%	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	18%	30%	0%	✓
10 years and within 20 years	24%	50%	0%	✓
20 years and within 30 years	12%	50%	0%	✓
30 years and within 40 years	12%	75%	0%	✓
40 years and within 50 years	22%	100%	0%	✓

Principal sums invested for periods longer than a year

22.5 The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 12: Price risk indicator	**2020/21**	**2021/22**	**2022/23**
Actual principal invested beyond year end	£7.18m	£5.00m	£5.00m
Limit on principal invested beyond year end	£15m	£15m	£10m
Complied	✓	✓	✓

22.6 The table includes investments in strategic pooled funds of £5m as although these can usually be redeemed at short notice, the council intends to hold these investments for at least the medium term.

23 Other

CIPFA consultations

23.1 In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These were principles-based consultations which would be followed by more specific proposals later in the year. The council must follow both the Prudential Code and the Treasury Management Code and therefore any changes to either Code will be applicable to the council. Officers and the council's treasury management advisers, Arlingclose, submitted responses to this initial phase of the consultation highlighting some areas of concern.

23.2 In the Prudential Code the key area being addressed was the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes included the sustainability of capital expenditure in accordance with an authority's corporate objectives, such as recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.

23.3 Proposed changes to the Treasury Management Code included requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance (ESG) Risk Management.

23.4 In June 2021 CIPFA published feedback following its consultations on changes to its Prudential Code and Treasury Management Code of Practice, which is summarised in the following paragraphs.

23.5 It is intended that the Prudential Code be updated to state that "an authority must not borrow to invest for the primary purpose of commercial return", and the Code will publish the acceptable reasons for local authorities to borrow money from the PWLB. There will be a specific objective introduced around commercial investment with the intention to embed good practice across local authorities, as well as further clarification on the definitions of investments primarily for yield and those related to regeneration activities.

23.6 There will be additional direction to support sustainable behaviour without subscription. There will also be revisions to various prudential indicators for reporting purposes.

23.7 It is intended that the Treasury Management Code be updated with the implementation of a treasury management knowledge and skills framework but will add a level of scalability or maturity to enable flexibility for small to large organisations of various complexity and resources. There will not be a separate TMP on ESG Risk Management, however CIPFA will incorporate ESG issues as a consideration within TMP 1 Risk Management. In addition, the proposal for local authorities to constitute a dedicated treasury management committee has been removed, but proposals will be included to ensure that appropriate resource is dedicated to the review and scrutiny of treasury management decisions.

23.8 CIPFA intends to consult on the proposed new wording in July 2021 and to publish revised Codes in December 2021.

IFRS 16

23.9 CIPFA/LASAAC has delayed the implementation of the new IFRS 16 Leases accounting standard for a further year to 2022/23.

24 OTHER OPTIONS CONSIDERED AND REJECTED

24.1 The council could elect to bring all treasury management activity back in-house. This option has been rejected as the arrangement with Hampshire County Council's Investments and Borrowing team provides significant resilience and economies of scale.

24.2 The council could make more risky investments than those proposed in the Strategy to increase its yield. This has been rejected as priority is given to ensuring security and liquidity in line with the key principles of the CIPFA Treasury Management Code.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

AUD119: Treasury Management Practices, 22 June 2015

CAB3218: Treasury Management Strategy 2020/21, 12 February 2020

AG0029: Treasury Management Outturn 2019/20, 28 July 2020

AG034: Treasury Management Mid-Year Monitoring Report 2020/21, 12 November 2020

CAB3282: Treasury Management Strategy 2021/22, 11 February 2021

Other Background Documents:-

None

APPENDICES:

None