AG0081
AUDIT & GOVERNANCE COMMITTEE

REPORT TITLE: TREASURY MANAGEMENT OUTTURN REPORT 2021/22

21ST JULY 2022

REPORT OF CABINET MEMBER: Cllr Margot Power, Cabinet Member for Finance and Value

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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 2021/22.

RECOMMENDATIONS:

1. Note the Annual Treasury Outturn Report 2021/22.

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 (to be reviewed by s151 officer)

2.1 Effective treasury management ensures both the financial security and liquidity of the council. The 2021/22 outturn shows £258,000 of income achieved against a budget of £210,000 delivering an additional £48,000 of income above budget. This was a consequence of higher average cash and investment balances than forecast due to slippage in significant one-off budgets and 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 2021. 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 2021/22.

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 2021/22.

13.2 The council’s treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2022. 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 2021/22, 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 has also complied with the council’s Treasury Management Strategy and Investment Strategy for 2021/22, 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.

13.7 The 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 2022.

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 2021/22.

Economic commentary

14.2 The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over 2021/22.

14.3 UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices as well as the concern about further supply chain disruption due to Russia's invasion of Ukraine and recent Covid-19 developments in China led to elevated inflation expectations and 12-month CPI inflation rose to 7.0% in March 2022.

14.4 In efforts to bring inflation down the Bank of England's Monetary Policy Committee (MPC) increased the Bank Rate from 0.10% to 0.25% in December 2021, with further increases to 0.50% in February 2022, 0.75% in March and 1.00% in May. Also, at its meeting in February, the MPC voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

14.5 In its May 2022 interest rate announcement, the MPC noted that global inflationary pressures have intensified sharply following the invasion of Ukraine. This reflects the further sharp increases in energy and other commodity prices. Global inflationary pressures are predicted to develop further in the near term before falling back sharply largely reflecting the assumption that global commodity prices remain constant beyond six months and that supply chain disruption will start to ease at the end of this year.

Financial markets

14.6 The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period which impacted global stock markets.

14.7 Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

Credit review

14.8 Credit default swaps (CDS) are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. In the first half of the financial year CDS spreads were flat and broadly in line with pre-pandemic levels. In September CDS spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back.

However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher between January and March, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

14.9 Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the council's counterparty list to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

14.10 Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the council's counterparty list recommended by Arlingclose remains under constant review.

15 Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

15.1 In August 2021 HM Treasury significantly revised guidance for the Public Works Loan Board (PWLB) lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. 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. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing, and treasury management.

15.2 CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20 December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

15.3 The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. Due to the timing of publication being towards the end of the budget preparation period for 2022/23 it was agreed that the council would introduce the revised reporting requirements from 2023/24.

15.4 To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make an investment or spending decision that will increase the Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

15.5 Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

15.6 Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management (TM) Code. The TM Code now includes extensive additional requirements for service and commercial investments, beyond those in the 2017 version.

15.7 The council will follow the same process as the Prudential Code and so will be reporting in line with the new reporting requirements from 2023/24 other than the new liability benchmark requirement which was implemented from 2022/23.

16 <u>Local Context</u>

16.1 At 31 March 2022 the council's underlying need to borrow for capital purposes was £258.8m as measured by the Capital Financing Requirement (CFR). The Council held £47.6m of investments and £166.7m of external borrowing. These factors are summarised in Table 1.

Table 1: Balance sheet summary	**31/03/21 Balance £m**	**Movement £m**	**31/03/22 Balance £m**
General Fund CFR	(71.6)	(1.2)	(72.8)
Housing Revenue Account CFR	(178.2)	(7.8)	(186.0)
Borrowing CFR	**(249.8)**	**(9.0)**	**(258.8)**
External borrowing	(166.7)	-	(166.7)
Internal borrowing	(83.1)	(9.0)	(92.1)
Total funding of the CFR	**(249.8)**		**(258.8)**
Total investments	**23.9**	**23.7**	**47.6**

16.2 The CFR rose by £9.0m during 2021/22, 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 £9.0m, external borrowing did not increase during 2021/22 due to the council having sufficient cash and investment balances to increase its internal borrowing.

16.3 The council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position as at 31 March 2022 and the change during the year are shown in Table 2.

Table 2: Treasury management summary	**31/03/21 Balance £m**	**Movement £m**	**31/03/22 Balance £m**	**31/03/22 Rate %**
Long-term borrowing	(166.7)	5.0	(161.7)	(3.24)
Short-term borrowing	-	(5.0)	(5.0)	(2.56)
Total borrowing	**(166.7)**	**-**	**(166.7)**	**(3.22)**
Long-term investments	7.6	(2.6)	5.0	3.88
Short-term investments	9.2	11.9	21.1	0.28
Cash and cash equivalents	7.1	14.4	21.5	0.50
Total investments	**23.9**	**23.7**	**47.6**	**0.76**
Net borrowing	**(142.8)**	**23.7**	**(119.1)**	

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

16.4 The reduction in net borrowing of £23.7m shown in Table 2 reflects an increase in total investments of £23.7m, with no change in total borrowing. The increase in total investments is a result of an increase in the capital receipts reserve of £7m in year (mainly related to the sale of Right to Buy and Shared Ownership properties in the HRA), grant funding and funding for the energy rebate scheme received in March 2022 (distributed to council tax payers in 2022/23), and the repayment of £8m NDR relief grant in April 2022 rather than in March. Further details are provided in the Borrowing Strategy and Treasury Investments Activity sections of this report.

17 <u>Borrowing Update</u>

17.1 The council has no plans to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code. The council is not planning to purchase any investment assets primarily for yield, so is able to retain full access to the PWLB.

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

17.3 The council is a net borrower and as stated in the Treasury Management Strategy 2022/23, the council expects a positive liability benchmark across the forecast period, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR. Although the council currently has taken external borrowing, this is not predicted to be sufficient to meet the CFR and, depending on the internal borrowing position, further borrowing will be considered by the Section 151 Officer if required.

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

18 Borrowing Strategy

18.1 At 31 March 2022 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 2021/22 there have been no maturing PWLB debt, and the council has not taken out any additional borrowing.

Table 3: Borrowing position	**31/03/21 Balance £m**	**Net movement £m**	**31/03/22 Balance £m**	**31/03/22 Weighted average rate %**	**31/03/22 Weighted average maturity (years)**
Public Works Loan Board	(166.7)	-	(166.7)	(3.22)	20.4
Total borrowing	**(166.7)**	**-**	**(166.7)**	**(3.22)**	**20.4**

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.

18.2 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. The flexibility to renegotiate loans should the council's long-term plans change is a secondary objective.

18.3 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.

19 Treasury Investment Activity

19.1 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define 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.

19.2 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 £26.3m and £64.6m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4.

Table 4: Treasury investment position	**31/03/21 Balance £m**	**Movement £m**	**31/03/22 Balance £m**	**31/03/22 Income return %**	**31/03/22 Weighted average maturity (years)**
Short term investments:					
Banks and building societies:					
- Unsecured	4.25	3.72	7.97	0.42	0.02
- Secured	3.50	0.54	4.04	0.43	0.52
Money market funds	10.48	7.61	18.09	0.52	0.00
Government:					
- Local authorities	1.50	1.50	3.00	0.09	0.11
- UK treasury bills	-	3.00	3.00	0.15	0.08
- Debt Management Office	-	4.50	4.50	0.09	0.14
- UK Gilt	-	1.00	1.00	0.28	0.31
Cash plus funds	1.00	-	1.00	0.67	0.01
Total	**20.73**	**21.87**	**42.60**	**0.39**	**0.09**
Long term investments:					
Banks and building societies:					
- Secured	2.04	(2.04)	-	N/A	N/A
Total	**2.04**	**(2.04)**	**-**	**N/A**	**N/A**
High yield investments					
- Pooled property fund*	5.00	-	5.00	3.88	N/A
Total	**5.00**	**-**	**5.00**	**3.88**	**N/A**
Total investments	**27.77**	**-**	**47.60**	**0.76**	**0.09**

* The rate provided for the pooled property fund investment is reflective of annualised income returns over the year to 31 March 2022 based on the market value of investments at the start of the year.

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

19.3 The council made a payment of £2.5m on 1 April 2021 to prepay its employer's LGPS pension contributions for one year only. By making this payment in advance the council was able to generate an estimated saving of 2.1% (£54,000) over the year on its pension contributions.

19.4 Investment balances have increased for the reasons above set out in paragraph 16.4. The availability of appropriate longer term investments combined with the prudent management of shorter term investment balances during an uncertain economic market meant that the additional investment balances were held as short term investments at 31 March 2022, much of it in money market funds to ensure appropriate liquidity was available to pay a further pre-payment of LGPS pension contributions of £2.6m on 1 April 2022, saving the council 2.1% (£56,000) over the forthcoming year on its pensions contributions.

19.5 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.

19.6 The security of investments has been maintained by following the counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The council 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.

19.7 In delivering investment returns, the council has operated against a backdrop in which the UK Bank Rate was 0.10% from March 2020 with rises in the final four months of 2021/22. Ultra low short-dated cash rates, which were a feature since March 2020, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds (MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank Rate in December 2021, February and March 2022. At 31 March 2022, the 1-day return on the council's MMFs ranged between 0.48% - 0.56% per annum (p.a.).

19.8 Given the risk and low returns from short-term unsecured bank investments, the council further diversified into more secure asset classes as shown in Table 4.

19.9 The council benchmarks the performance of its internally managed investments against that of other Arlingclose clients. Internally managed investments include all investments except externally managed pooled funds but do include MMFs. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5, providing data for the quarter ended 31 March 2022 and at the same date in 2021 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)	**Credit rating**	**Bail-in exposure %**	**Weighted average maturity (days)**	**Rate of return %**
31.03.2021	AA-	67	72	0.39
31.03.2022	AA-	63	35	0.39
Similar LAs	AA-	61	43	0.46
All LAs	AA-	60	14	0.46

19.10 Table 5 shows the average credit rating of the portfolio has remained consistent at AA-. Bail-in exposure has reduced as the council has diversified further into government investments which are not subject to bail-in risk. The weighted average maturity of investments was lower in comparison to the position at 31 March 2021 as the council held lower long-term balances due to the availability of suitable investment options providing adequate interest return. The average rate of return (0.39%) has remained consistent in comparison to the position at 31 March 2021, which is the result of favouring security over yield in short term investments, in combination with holding lower long-term balances.

Externally managed pooled property fund

19.11 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.

19.12 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.

19.13 In the nine months to December improved market sentiment was reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the investments in property in the council’s portfolio. In the fourth quarter of the financial year the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets.

19.14 In light of Russia’s invasion, Arlingclose contacted the fund managers of the council’s MMF, cash plus and strategic funds and confirmed no direct exposure to Russian or Belarusian assets had been identified. Indirect exposures were immaterial. It should be noted that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within MMFs and other pooled funds cannot be identified easily or with any certainty as that level of granular detail is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.

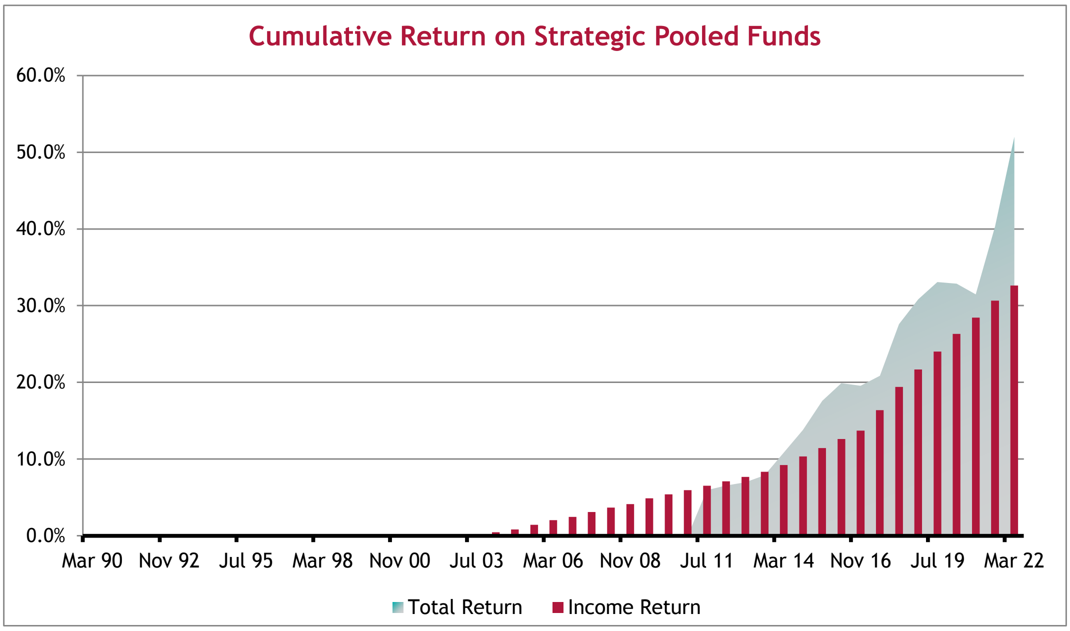
19.15 The council's investment in the pooled property fund fell considerably in value when the coronavirus pandemic hit world markets but has since recovered well. This investment is now worth more than the initial sum invested, as shown in Table 6, demonstrating the importance of taking a longer term 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 6 – Higher yielding investments – market value performance	**Amount invested***	**Market value at 31/03/22**	**Gain/(fall) in capital value**	
			Since purchase	**2021/22**
	£m	**£m**	**£m**	**£m**
Pooled property fund	5.00	6.29	1.29	0.94
Total	**5.00**	**6.29**	**1.29**	**0.94**

19.16 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 7 the annualised income returns have averaged 3.28% pa (per annum) since purchase, contributing to a total return of 69.32%.

Table 7 – Higher yielding investments – income and total returns since purchase	**Annualised income return**	**Total return**
	%	**%**
Pooled property fund	3.28	69.32
Total pooled funds	**3.28**	**69.32**

19.17 The council's pooled property fund investment continues to deliver income returns far in excess of what could be generated from cash investments. 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.



19.18 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.

19.19 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.

20 Financial Implications

20.1 The outturn for debt interest paid in 2021/22 was £5.4m on an average debt portfolio of £166.7m at an average interest rate of 3.24%.

20.2 The outturn for investment income received in 2021/22 was £258,000 on an average investment portfolio of £45.4m, therefore giving a yield of 0.57%, against a budgeted £210,000. In comparison in 2020/21 investment income received was £381,000 on an average investment portfolio of £40.7m, therefore giving a yield of 0.94%.

21 Non-Treasury Investments

21.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the council as well as other non-financial assets which the council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

21.2 Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

21.3 This could include loans made to local businesses or the direct purchase of land or property and such loans and investments will be subject to the council's normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.

21.4 Further information on the council's non-Treasury investments is included in CAB3352 General Fund Outturn 2021/22 presented to Cabinet on 19 July 2022.

22 Compliance Report

22.1 The council confirms compliance of all treasury management activities undertaken during 2021/22 with the CIPFA Code of Practice and the council's approved Treasury Management Strategy.

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

Table 8: Debt limits	**2021/22 Maximum £m**	**31/03/22 Actual £m**	**2021/22 Operational Boundary £m**	**2021/22 Authorised Limit £m**	**Complied?**
Borrowing	168.7	166.7	282.6	299.5	✓
Total debt	**168.7**	**166.7**	**282.6**	**299.5**	✓

23 Treasury Management Indicators

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

Interest rate exposures

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

Table 9 – Interest rate risk indicator	**31/03/22 Actual**	**Impact of +/-1% interest rate change**
Sums subject to variable interest rates:		
Investments	£38.03m	+/-£0.38m
Borrowing	(£0.04m)	+/-0.00m

23.3 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

23.4 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 10: Refinancing rate risk indicator	**31/03/22 Actual**	**Upper Limit**	**Lower Limit**	**Complied**
Under 12 months	3%	25%	0%	✓
12 months and within 24 months	3%	25%	0%	✓
24 months and within 5 years	12%	25%	0%	✓
5 years and within 10 years	21%	30%	0%	✓
10 years and within 20 years	21%	50%	0%	✓
20 years and within 30 years	12%	50%	0%	✓
30 years and within 40 years	22%	75%	0%	✓
40 years and within 50 years	6%	100%	0%	✓

Principal sums invested for periods longer than a year

23.5 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 11: Price risk indicator	**2021/22**	**2022/23**	**2023/24**
Actual principal invested beyond year end	£5m	£5m	£5m
Limit on principal invested beyond year end	£10m	£20m	£18m
Complied	✓	✓	✓

23.6 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.

24 Other

CIPFA consultation – IFRS 16

24.1 The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022. However, following a consultation, CIFPA/LASAAC announced an optional two year delay to the implementation of this standard - a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The council intends to adopt the new standard on 1st April 2024.

25 OTHER OPTIONS CONSIDERED AND REJECTED

25.1 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.

25.2 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

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

AG0057: Treasury Management Outturn 2020/21, 22 July 2021

AG065: Treasury Management Mid-Year Monitoring Report 2021/22, 16 December 2021

CAB3333: Treasury Management Strategy 2022/23, 17 February 2022

Other Background Documents:-

None

APPENDICES:

None