HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	27th September 2023
Title:	Annual Treasury Outturn Report 2022/23
Report From:	Deputy Chief Executive and Director of Corporate Operations

Contact name: Daniel O'Rourke

Tel: 0370 779 1728 **Email:** Daniel.O'Rourke@hants.gov.uk

Purpose of the Report

1. The County 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 County Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function during 2022/23.

Recommendations

- That the Audit Committee notes the report that has been presented to Cabinet.

Executive Summary

2. The report fulfils the County 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 2022/23.

3. The County Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2023. The County 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 County Council's treasury management strategy.

4. 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."

5. This annual report sets out the performance of the treasury management function during 2022/23, to include the effects of the decisions taken and the transactions executed in the past year.

6. All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2022/23, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the County Council's treasury advisers, Arlingclose.

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 County Council's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by Full Council in February 2023.

External Context

8. The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2022/23.

Economic commentary

9. The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March 2023 period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

10. Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

11. Starting the 2022/23 financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October 2022. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February 2023. Annual headline CPI registered 10.4% in February, up from 10.1% in January 2023, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October 2022. In February 2023 RPI measured 13.8%, up from 13.4% in the previous month.

12. Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April 2023.

13. The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3mth/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December 2022. The most recent information for the period December-February 2023 showed an unemployment rate of 3.7%.

14. The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December 2022 and February 2023 and then 25bps in March 2023, taking Bank Rate to 4.25%. March’s rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

Financial markets

15. Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the financial year, fears around the health of the banking system following the collapse of Silicon Valley Bank (SVB) in the US and purchase of Credit Suisse by UBS caused further volatility.

Credit review

16. Credit Default Prices had been rising since the start of the financial year on the back of the invasion of Ukraine, and in the UK rose further in September/October 2022 at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the year as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

17. On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

18. As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the County Council's counterparty list recommended by Arlingclose remains under constant review.

Local Context

19. At 31 March 2023, the County Council's underlying need to borrow for capital purposes was £749.66m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £1,111.73m. These factors are summarised in Table 1.

Table 1: Balance sheet summary	**31/03/22 Balance £m**	**Movement £m**	**31/03/23 Balance £m**
CFR	780.32	(30.66)	749.66
Less: Other debt liabilities*	(129.06)	7.66	(121.4)
Borrowing CFR	**651.26**	**23.00**	**628.26**
External Borrowing	(295.00)	43.48	(251.53)
Internal Borrowing	**356.26**	**20.48**	**376.74**
Less: Usable Reserves	(882.15)	37.97	(844.19)
Less: Working Capital	(150.19)	(117.35)	(267.54)
Net Investments	**(676.08)**	**(58.91)**	**(734.99)**

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

20. The CFR decreased by £30.66m during 2022/23. Other debt liabilities reduced

by £7.66m in accordance with the PFI repayment models while the County Council's borrowing CFR decreased by £23m. External borrowing reduced by £43.48m during 2022/23 as a result of repayment of £49.1m of Treasury Management borrowing, partly offset by a change in the short-term balances held on behalf of other organisations, which vary from year to year. At the end of 2022/23 the total reserves held by the County Council, including the general fund balance and individual schools' balances, but excluding the Dedicated Schools Grant (DSG) deficit, total £845m; a decrease of £37.97m on the previous year. Of this net reduction, £34m relates to the net draw from directorate reserves used for a number of purposes including cash flow funding for delayed savings, funding to offset inflation and demand pressures and planned investment in services, £25.9m was drawn from the Budget Bridging Reserve in line with the plan to support the budget ahead of the Savings Programme for 2023 and contributions to other reserves including £5m for future capital payments, £3m revenue grants and £9.8m capital grants received ahead of the planned relevant expenditure. The balance also includes reserves held on behalf of individual schools which decreased by £2.6m in 2022/23.

21. The County Council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position at 31 March 2023 and the change during the year are shown in Table 2.

Table 2: Treasury management summary	**31/03/22 Balance £m**	**Movement £m**	**31/03/23 Balance £m**	**31/03/23 Rate %**
Long-term borrowing	(241.2)	49.1	(192.1)	4.62
Short-term borrowing	(8.0)	0.0	(8.0)	5.34
Total borrowing	**(249.2)**	**49.1**	**(200.1)**	**4.65**
Long-term investments	220.6	17.9	238.5	3.96
Short-term investments	439.0	(287.2)	151.8	3.66
Cash and cash equivalents	22.4	327.3	349.7	4.03
Total investments	**682.0**	**58.0**	**740.0**	**3.93**
Net investments	**432.8**	**107.1**	**539.9**	

Note: the figures in Table 2 are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments. Borrowing figures exclude short term balances held on behalf of others.

22. The increase in net investments of £107.1m shown in Table 2 reflects an increase in investment balances of £58m in conjunction with repayment at maturity of borrowing of £8.1m and early repayment of borrowing of £41m, in line with the County Council's policy on internal borrowing. Further details are provided in the Borrowing Strategy and Treasury Investments Activity sections of this report.

Borrowing Update

23. The County Council has no plans to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.

24. The County Council is not planning to purchase any investment assets primarily for yield, so is able to retain full access to the PWLB, however there are no plans to take on any new external borrowing.

25. Further, the County Council has and may continue to invest in pooled funds 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 County 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 County Council's aim of protecting reserves from high inflation.

26. The County Council is a net investor and as stated in the Treasury Management Strategy 2023/24, the County Council expects a negative liability benchmark across the forecast period, meaning that there is not a requirement to borrow and that the County Council could potentially repay its current external borrowing and still fund the planned capital programme. Given the favourable change in the interest rate environment, after consultation with its advisor – Arlingclose, £41m of external borrowing was repaid early during 2022/23.

Borrowing Strategy

27. At 31 March 2023 the County Council held £200.1m of loans (a decrease of £49.1m from 31 March 2022) as part of its strategy for funding previous years' capital programmes. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3.

Table 3: Borrowing position	**31/03/22 Balance £m**	**Net movement £m**	**31/03/23 Balance £m**	**31/03/23 Weighted average rate %**	**31/03/23 Weighted average maturity (years)**
Public Works Loan Board	(208.0)	20.0	(188.0)	4.7	8.8
Banks (LOBO)	(20.0)	16.0	(4.0)	4.8	11.6
Other (fixed term)	(21.2)	13.1	(8.1)	3.9	16.6
Total borrowing	**(249.2)**	**49.1**	**(200.1)**	**4.7**	**9.2**

Note: the figures in Table 3 are from the balance sheet in the County Council's statement of accounts but adjusted to exclude short term balances held on behalf of others, and accrued interest.

28. The County 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 County Council's long-term plans change is a secondary objective.

29. The County Council has considered it to be more cost effective in the near term to use internal resources than to use additional external borrowing. In line with this strategy, £8m of PWLB loans were allowed to mature without refinancing and a further £0.1m of other borrowing was repaid which related to Salix loans (this is interest-free Government funding to the public sector to improve energy efficiency, reduce carbon emissions and lower energy bills).

30. As a result of the changes to interest rates £41m of loans were repaid early in 2022/23 following consultation with Arlingclose. This consisted of £12m of PWLB loans, £16m of LOBO (Lender's Option Borrower's Option) loans, and £13m of other fixed term loans (former LOBOs).

31. This borrowing strategy has been monitored with the assistance of Arlingclose and has enabled the County Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

32. The County Council continues to hold £4m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBO loan options were exercised by the lender in the year.

Treasury Investment Activity

33. 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.

34. The County Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held for specific purposes. During the year, the County Council's investment balances ranged between £670m and £866m due to timing differences between income and

expenditure. The year-end investment position and the year-on-year change are shown in Table 4. As at the 31 March the County Council was holding significant balances in overnight Money Market Funds in order that it could pay three years of employer pension contributions at the start of the new financial year.

Table 4: Treasury investment position	**31/03/2022 Balance £m**	**Net movement £m**	**31/03/2023 Balance £m**	**31/03/23 Income return %**	**31/03/23 Weighted average maturity (years)**
Short term investments					
Banks and Building Societies:					
- Unsecured	83.0	(44.2)	38.8	3.78	0.12
- Secured	93.5	(83.5)	10.0	4.24	0.03
Money Market Funds	21.4	284.6	306.0	4.08	0.00
Government:					
- Local Authorities	203.5	(125.5)	78.0	3.64	0.58
- UK Gilts	12.0	(12.0)	0.0	0.00	0.00
- UK Treasury Bills	28.0	30.7	58.7	3.87	0.16
- Supranational	10.0	(10.0)	0.0	0.00	0.00
Cash Plus funds	10.0	0.0	10.0	1.65	0.01
Total	**461.4**	**40.1**	**501.5**	**3.92**	**0.12**
Long term investments					
Banks and Building Societies:					
- Secured	10.0	17.2	27.2	2.32	2.51
Government:					
- Local Authorities	5.0	(5.0)	0.0	0.00	0.00
Total	**15.0**	**12.2**	**27.2**	**2.32**	**2.51**
Long term investments – higher yielding strategy					
Government:					
- Local Authorities	22.4	0.9	23.3	5.21	10.04
Pooled Funds:					
- Pooled property*	75.0	0.0	75.0	3.51	N/A
- Pooled equity*	50.0	1.0	51.0	5.42	N/A
- Pooled multi-asset*	48.0	0.5	48.5	4.52	N/A
Total	**195.4**	**2.4**	**197.8**	**4.45**	**10.04**

Table 4: Treasury investment position	31/03/2022 Balance £m	Net movement £m	31/03/2023 Balance £m	31/03/23 Income return %	31/03/23 Weighted average maturity (years)
Total investments	**671.8**	**54.7**	**726.55**	**3.93**	**0.54**
Thames Basin Heaths pooled fund investments	10.2	3.3	13.5		
Total	**682.0**	**58.0**	**740.0**		

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2023 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 County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

35. The CIPFA Code and government guidance both require the County 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 County Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults alongside managing the risk of receiving unsuitably low investment income. The County Council's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.

36. 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 County 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.

37. The County 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 2023 and at the same date in 2022 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)	Credit rating	Bail-in exposure %	Weighted average maturity (days)	Rate of return %
31.03.2022	AA-	21	302	0.63
31.03.2023	AA-	64	241	4.04
Similar LAs	AA-	42	1,894	3.38
All Las	A+	59	12	3.67

Table 5 shows the average credit rating of the portfolio has remained consistent at AA-. Bail-in exposure has increased as a result of holding higher liquid balances. A significant proportion of which were used to pay pension contributions which were due on 1st April 2023, removing some of the risk, and which is further mitigated by the fact that a high percentage of the County Council's liquid balances are invested in money market funds, which are technically exposed to bail-in risk but are diversified products and are considered by Arlingclose to be 'bail-in risk light'. The County Council otherwise compared favourably with the other local authorities included in the benchmarking exercise across all other metrics.

Externally managed pooled funds

38. In 2019 the County Council agreed to increase the amount of its cash balances earmarked for investments targeting higher yields of around 4% to £235m. This allocation was increased to £250m as part of the Capital and Investment Strategy for 2021/22 and the approach to investing this allocation was most recently set out in the Treasury Management Strategy Statement for 2023/24, with a recommendation to increase the allocation further to £320m, if opportunities allowed and total cash balances were sufficiently high.

39. Approximately £211m of this allocation has now been invested, with the remaining balance earmarked. The total includes £13.5m invested on behalf of the Thames Basin Heaths Joint Strategic Partnership Board (TBH JSPB), where the County Council acts as the administrative body. Any investments made from cash held on behalf of the TBH JSPB are made with the agreement that the TBH JSPB has received its own financial advice and assumes all risks associated with these investments.

40. The CIPFA Code requires the County 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 County 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 County Council's investments.

41. The negative correlation between bonds and equities, which had featured for some years, turned positive in 2022 as both bonds and equities sold off simultaneously against an outlook of sticky inflation and high interest rates. Simultaneously, tighter financial conditions, higher bond yields and challenges in some segments of commercial real estate (e.g. offices post-COVID, high street shops and shopping centres) saw commercial property values fall during 2022, with a large fall in the final calendar quarter.

Table 6 – Higher yielding investments – market value performance	**Amount invested***	**Market value at 31/03/23**	**Gain/(fall) in capital value**	
			Since purchase	**2022/23**
	£m	**£m**	**£m**	**£m**
Pooled property funds	75.0	72.1	(2.9)	(13.9)
Pooled equity funds	51.0	53.9	2.9	(1.9)
Pooled multi-asset funds	48.5	43.1	(5.4)	(4.1)
Total pooled funds	**174.5**	**169.1**	**(5.4)**	**(20.0)**
Fixed deposits	20.0	20.0	0.0	0.0
Total higher yielding	**194.5**	**189.1**	**(5.4)**	**(20.0)**

* excludes £13.5m invested on behalf of Thames Basin Heaths JSPB

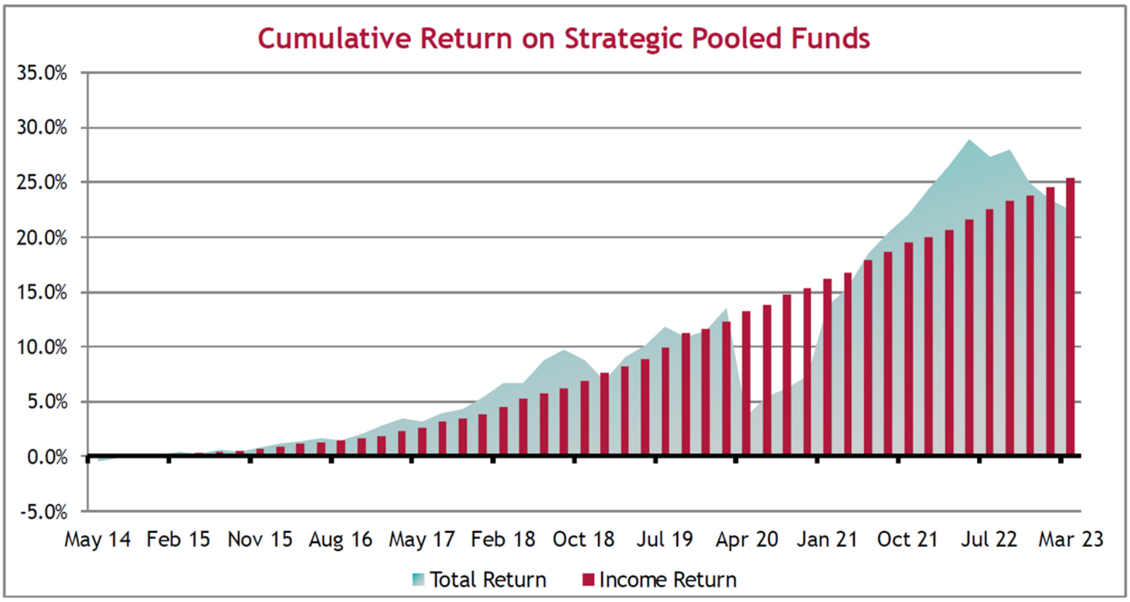
42. The County Council's investments in pooled funds target long-term price stability and regular revenue income and bring significant benefits to the revenue budget. As shown in Table 7 the annualised income returns have averaged 4.15% pa since purchase against the higher yielding strategy target of 4% pa, contributing to a total return of 22.9%.

Table 7 – Higher yielding investments – income and total returns since purchase (from 2014)	**Annualised income return**	**Total return since purchase (from 2014)**
	%	**%**
Pooled property funds	3.88	25.1
Pooled equity funds	4.78	38.0
Pooled multi-asset funds	3.93	5.3
Total pooled funds	**4.15**	**22.9**

Note: excludes the performance related to £13.5m invested on behalf of Thames Basin

Heaths JSPB

43. The margin between cash and non-cash (pooled fund) investments was negligible by the end of March 2023. The existing allocation of £174.5m to pooled funds has provided good income returns for the County Council (as shown in the return figures above), mostly in contrast to very low interest rates prior to 2022. This allocation will continue to provide protection against a return to lower interest rates but the position remains under review with the assistance of Arlingclose.



Note: the graph above excludes the performance related to £13.5m invested on behalf of Thames Basin Heaths JSPB

44. The County Council is aware of the risks involved with investing in pooled funds that hold underlying investments in bonds, equities, property and other financial instruments. As a result, when the County Council began to specifically target higher returns from a proportion of its investments, it also established an Investment Risk Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. The balance held in this reserve is currently £6.25m which equates to 3.5% of the actual allocation to pooled investments of £174.5m (currently above the aim to hold reserves of 2.5%).

45. The Department for Levelling Up, Housing & Communities (DLUHC) published a consultation on the IFRS 9 pooled investment fund statutory override for English authorities for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and

therefore remain in place for the 2023/24 and 2024/25 financial years. Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charged to the revenue account, and must be taken into an unusable reserve account.

Financial Implications

46. The outturn for debt interest paid in 2022/23 was £11.9m against a budgeted £11.4m on an average debt portfolio of £214.3m.

47. The outturn for investment income received in 2022/23 was £18.3m on an average investment portfolio of £778.6m giving a yield of 2.49%. By comparison, investment income received in 2021/22 was £10.43m on an average portfolio of £708m with a yield of 1.47%.

Non-Treasury Investments

48. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the County 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).

49. 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.

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

51. The County Council's existing non-treasury investments are listed in Table 8..

Table 8 – Non-treasury investments	31/03/23 Asset value £m	31/03/23 Rate %
Hampshire County Council:		
Loans to Hampshire based business	4.5	4.00
On behalf of Enterprise M3 LEP:		
Loans to Hampshire based business	12.2	2.33
Total non-treasury investments	**16.7**	**2.78**

Compliance Report

52. The County Council confirms compliance of all treasury management activities undertaken during 2022/23 with the CIPFA Code of Practice and the County Council's approved Treasury Management Strategy.

53. Compliance with the authorised limit and operational boundary for external treasury management debt, is demonstrated in Table 9.

Table 9 – Debt limits	2022/23 Maximum £m	31/03/23 Actual £m	2022/23 Operational Boundary £m	2022/23 Authorised Limit £m	Complied?
Borrowing	247	200	750	785	✓
PFI and Finance Leases	129	121	145	150	✓
Total debt	**376**	**321**	**895**	**935**	✓

54. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. However this limit was not breached during the financial year.

Treasury Management Indicators

55. The County Council measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures

56. The following indicator shows the sensitivity of the County Council's current investments and borrowing to a change in interest rates.

Table 10 – Interest rate risk indicator	31/03/23 Actual	Impact of +/-1% interest rate change
Sums subject to variable interest rates		
Investment	£389m	+/- £3.9m
Borrowing	£7m	+/-£0.1m

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

57. This indicator is set to control the County 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 Treasury Management Strategy Statement.

Table 11 – Refinancing rate risk indicator	31/03/23 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	7%	50%	0%	✓
12 months and within 24 months	5%	50%	0%	✓
24 months and within 5 years	13%	50%	0%	✓
5 years and within 10 years	29%	75%	0%	✓
10 years and within 20 years	46%	75%	0%	✓
20 years and within 30 years	0%	75%	0%	✓
30 years and above	0%	100%	0%	✓

58. The County Council holds £4m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. If not repaid before maturity, this loan has a duration to maturity of just over 11 years.

Principal sums invested for periods longer than a year

59. The purpose of this indicator is to control the County 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	2022/23	2023/24	2024/25
Actual principal invested beyond year end	£239m	£239m	£231m
Limit on principal invested beyond year end	£330m	£400m	£400m
Complied?	✓	✓	✓

60. The table includes investments in strategic pooled funds of £183m as although these can usually be redeemed at short notice, the County Council intends to hold these investments for at least the medium-term.

Consultation, Equalities and Climate Change Impact Assessment

61. This report deals with the treasury management outturn position for 2022/23, which is an end of year reporting matter and therefore no consultation or Equality Impact Assessments are required.

62. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

63. This report deals with the outturn position for the treasury management aspect of the County Council's business. In line with the CIPFA code, the County Council's treasury management investment balances are invested prioritising security, liquidity and then yield. The County Council's investments in pooled funds, which include investments in equities and bonds issued by a number of companies with exposures to a variety of issues, including those associated with Climate Change. All of the County Council's pooled funds are managed by investment managers who are signatories to the PRI (Principles for Responsible Investment), managing investments in line with their own individual responsible investment policies. The County Council's Treasury Management Advisers, Arlingclose, have advised the County Council on the suitability and selection of its pooled funds, including the investment managers' management of Environmental, Social and Governance (ESG) issues including the impact of Climate Change.

64. There are no further climate change impacts as part of this report which are concerned with financial reporting.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because it relates to the effective management of the County Council's cash balances.

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

   The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

   - Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
   - Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
   - Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

   Due regard in this context involves having due regard in particular to:

   - The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
   - Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
   - Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally low.

2. Equalities Impact Assessment:

Equalities objectives are not expected to be adversely impacted by the proposals in this report.