

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Audit Committee
<b>Date:</b>	28 September 2022
<b>Title:</b>	Treasury Management Mid-Year Monitoring Report 2022/23
<b>Report From:</b>	Director of Corporate Operations

**Contact name:** Alan Kitcher

**Tel:** 0370 779 6597

**Email:** Alan.Kitcher@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 at the mid-year point.

#### Recommendation

2. The Audit Committee are asked to note the following recommendation that are being reported to Cabinet:
  - That the mid-year review of treasury management activities be noted.

#### Executive Summary

3. 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.
4. The County Council's treasury management strategy was most recently updated and approved at a meeting of Full County Council in February 2022. 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.

5. 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."
6. This report sets out the performance of the treasury management function from the beginning of April to the end of August 2022, to include the effects of the decisions taken and the transactions executed.
7. 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.
8. 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 2022.

## **External Context**

9. The following sections outline the key economic themes against which investment and borrowing decisions have been made so far in 2022/23.

### **Economic commentary**

10. Following Russia's invasion of Ukraine in February, global inflationary pressures have intensified sharply, leading to a sizeable deterioration in the outlook for world and UK growth.
11. The economic backdrop was characterised by higher oil, gas and commodity prices, fears of rising and persistent inflation and its damaging impact on consumers' cost of living, little indication of an imminent end to Russia-Ukraine hostilities and supply chain bottlenecks exacerbated by war in Ukraine and lockdowns in China.

12. In the UK inflation remained elevated. Ofgem, the energy regulator, increased the energy price cap by 54% in April, and in August announced that a further increase of 80% will come into effect from October. August data showed CPI reached 9.9%, whilst RPI rose to 12.3%.
13. Having increased interest rates by 0.25% in May and a further increase of 0.25% in June, the Bank of England's Monetary Policy Committee on the 4th August 2022 voted 8-1 to increase the official Bank Rate by 0.50% to 1.75%. Those members in the minority preferred to increase Bank Rate by 0.25%.

### **Financial markets**

14. Heightened uncertainty characterised financial market sentiment and bond yields were similarly volatile but with a general upward trend as concern over higher inflation and higher interest rates dominated.

### **Credit review**

15. Credit default swaps are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.
16. Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days.

### **Local Context**

17. On 31 March 2022, the County Council's underlying need to borrow for capital purposes was £780.32m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £1,032.34m. These factors are summarised in Table 1.

<b>Table 1: Balance sheet summary</b>	<b>31/03/22 Balance £m</b>
CFR	780.32
Less: Other debt liabilities*	(129.06)
<b>Borrowing CFR</b>	<b>651.26</b>
External Borrowing	(295.00)
<b>Internal Borrowing</b>	<b>356.26</b>
Less: Usable Reserves	(882.15)
Less: Working Capital	(150.19)
<b>Net Investments</b>	<b>(676.08)</b>

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

18. The County Council's current strategy is 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 August 2022 and the movement since 31 March 2022 are shown in Table 2.

<b>Table 2: Treasury management summary</b>	<b>31/03/22 Balance £m</b>	<b>Movement £m</b>	<b>31/08/22 Balance £m</b>	<b>31/08/22 Rate %</b>
Long-term borrowing	(241.2)	0.1	(241.1)	4.62
Short-term borrowing	(8.0)	2.0	(6.0)	5.42
<b>Total borrowing</b>	<b>(249.2)</b>	<b>2.1</b>	<b>(247.1)</b>	<b>4.64</b>
Long-term investments	220.6	(8.0)	212.6	4.44
Short-term investments	439.0	(51.4)	387.6	1.20
Cash and cash equivalents	22.4	148.3	170.7	1.63
<b>Total investments</b>	<b>682.0</b>	<b>88.9</b>	<b>770.9</b>	<b>2.19</b>
<b>Net investments</b>	<b>432.8</b>	<b>91.0</b>	<b>523.8</b>	

Note: the figures in Table 2 at 31 August 2022 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. For these reasons Net investments in Table 2 differs from Table 1.

19. The increase in net investments of £91.0m shown in Table 2 reflects a large increase in total investments as well as a reduction in total borrowing. The reduction in total borrowing of £2.1m reflects the repayment of debt in line with scheduled timescales. The increase of £88.9m of investments reflects the higher balances typically seen at this time of year, due to the difference in timing between income and expenditure; investment balances have also been impacted by the three-year period that the County Council pre-paid Pension Fund contributions for, and so it is expected that underlying core balances will continue to rise until March 2023 when the pre-paid period restarts.

## **Borrowing Update**

20. 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.
21. 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.
22. 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.
23. The County Council is a net investor and as stated in the Treasury Management Strategy 2022/23, 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. Although the County Council would like to reduce its external borrowing, the premium charged by the PWLB means that it would cost more to repay the borrowing early than it would to repay at maturity, therefore at this time the County Council will not repay its external borrowing early and will continue to repay as maturities come due. Therefore, by continuing to invest core investment balances in the higher yielding strategy (and not divesting of these funds) the County Council continues to act prudently to ensure protection from high inflation, whilst acting within the guidance that is now in place.

## **Borrowing Activity**

24. At 31 August 2022 the County Council held £247.1m of loans (a decrease of £2.1m since 31 March 2022) as part of its strategy for funding previous years' capital programmes. The mid-year treasury management borrowing position and movement since 31 March 2022 are shown in Table 3.

<b>Table 3: Borrowing position</b>	<b>31/03/22 Balance</b>	<b>Net movement</b>	<b>31/08/22 Balance</b>	<b>31/08/22 Weighted average rate</b>	<b>31/08/22 Weighted average maturity</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>	<b>(years)</b>
Public Works Loan Board	(208.0)	2.0	(206.0)	4.69	9.71
Banks (LOBO)	(20.0)	0	(20.0)	4.76	10.87
Other (fixed term)	(21.2)	0.1	(21.1)	3.99	17.40
<b>Total borrowing</b>	<b>(249.2)</b>	<b>2.1</b>	<b>(247.1)</b>	<b>4.64</b>	<b>10.46</b>

Note: the figures in Table 3 at 31 August 2022 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.

25. 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.
26. Short-term interest rates have remained much lower than long-term rates and the County Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing.
27. This borrowing strategy has been monitored with the assistance of Arlingclose and has enabled the County Council to reduce borrowing costs (despite foregone investment income) and reduce overall treasury risk.
28. The County Council continues to hold £20.0m 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 during the period.

### **Treasury Investment Activity**

29. The County Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the five-month period from 1 April to 31 August 2022, the County Council's investment balances ranged between £670m and £857m due to timing differences between income and expenditure. The investment position as at 31 August 2022 and the change since 31 March 2022 are shown in Table 4.

<b>Table 4: Treasury investment position</b>	<b>31/03/22 Balance</b>	<b>Net movement</b>	<b>31/08/22 Balance</b>	<b>31/08/22 Income return</b>	<b>31/08/22 Weighted average maturity</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>	<b>(years)</b>
<b>Short term investments</b>					
Banks and building societies:					
- Unsecured	83.0	69.0	152.0	1.67	0.19
- Secured	93.5	(47.4)	46.1	0.58	0.37
Government:					
- Local authorities	203.5	(125.5)	78.0	0.34	0.27
- UK treasury bills	28.0	45.0	73.0	2.09	0.38
- UK Gilts	12.0	13.0	25.0	0.13	0.44
- Supranational	10.0	11.0	21.0	1.00	0.32
Money market funds	21.4	131.8	153.2	1.65	0.02
Cash plus funds	10.0	0.0	10.0	0.79	0.03
	<b>461.4</b>	<b>96.9</b>	<b>558.3</b>	<b>1.33</b>	<b>0.21</b>
<b>Long term investments</b>					
Banks and building societies					
- Secured	10.0	(10.0)	0.0	0.00	0.00
Government:					
- Local authorities	5.0	0.0	5.0	0.61	1.45
	<b>15.0</b>	<b>(10.0)</b>	<b>5.0</b>	<b>0.61</b>	<b>1.45</b>
Government:					
- Local authorities	22.4	0.5	22.9	4.65	10.75
Pooled funds:					
- Pooled property*	75.0	0.0	75.0	3.67	N/A
- Pooled equity*	50.0	1.0	51.0	5.79	N/A
- Pooled multi-asset*	48.0	0.0	48.0	4.40	N/A
<b>Total</b>	<b>195.4</b>	<b>1.5</b>	<b>196.9</b>	<b>4.51</b>	<b>10.75</b>
<b>Total investments</b>	<b>671.8</b>	<b>88.4</b>	<b>760.2</b>	<b>2.15</b>	<b>0.49</b>
Thames Basin Heaths pooled fund investments	10.2	0.5	10.7	4.91	
<b>Total</b>	<b>682.0</b>	<b>88.9</b>	<b>770.9</b>		

The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 August 2022 based on the market value of investments 12 months earlier. Note: the figures in Table 4 at 31 August 2022 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.

30. The County Council made a payment of £226.7m on 1 April 2020 to prepay its employer's LGPS pension contributions. By making this payment in advance the County Council was able to generate an estimated saving of £9m over 3 years on its pension contributions, which will be added to the Budget Bridging Reserve.
31. Investment balances have subsequently increased and were £88.4m higher at 31 August 2022 in comparison to the position at 31 March 2022. This is in part explained by the County Council not having to make monthly employer's pension contributions in 2022/23 (having already paid in advance) and the balance of grants received but not yet applied.
32. 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 against 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.
33. The security of investments has been maintained by following the County Council's 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.
34. In delivering investment returns, the County Council has operated against a backdrop in which the UK Bank Rate was increase to 1.75% in August 2022 in response to continued inflation. This has resulted in improved returns 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 has been slightly higher for other short-term options like fixed duration loans to other local authorities and bank notice accounts. However, investment income continues to largely come from the County Council's investments in pooled funds.
35. The County Council benchmarks the performance of its internally managed investments against that of other Arlingclose clients on a quarterly basis.



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 30 June 2022 and at 31 March 2022 for comparison.

<b>Table 5: Investment benchmarking (excluding pooled funds)</b>	<b>Credit rating</b>	<b>Bail-in exposure</b>	<b>Weighted average maturity (days)</b>	<b>Rate of return</b>
		<b>%</b>		<b>%</b>
31.03.2022	AA-	21	302	0.63
30.06.2022	AA-	43	232	0.97
Similar LAs	AA-	52	1,728	1.09
All LAs	AA-	64	16	0.92

36. Table 5 shows the average credit rating of the portfolio has remained consistent over the three-month period, whilst bail-in exposure has increased, as the County Council held a greater investment balance in unsecured bank bonds, which are subject to bail-in risk. The weighted average maturity of investments was lower due to the increase in total investment balance being held in short-term investment options, ensuring that funds will be available as required. The average rate of return (0.97%) was higher than at 31 March 2022.
37. The County Council compared favourably with the other local authorities included in the benchmarking exercise across all metrics other than the internal rate of return where on average similar local authorities achieved a return that was 0.12% greater at 30 June 2022, however the weighted average maturity for the group was around 4.7 years. This set of results is misleading as the group has been skewed by one authority investing in ultra-long bonds; excluding that authority the average return for similar authorities is 1.03% with a weighted average maturity of 121 days.

### **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 2022/23.
39. Approximately £185m of this allocation has now been invested, with the remaining balance earmarked. The total includes £10.7m 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. April to August was a difficult environment for risk assets, in particular bonds and equities engendered by central banks' determination to bring high and persistent inflation under control through increases in policy rates and strong rhetoric. With the market expecting further increases in interest rates and government bond yields in the US, UK and Europe (this, despite a weakening consumer and the prospect of a recession), there was a sell-off in bonds and equities which was reflected in the Authority's bond, equity and multi-asset income funds. Significant financial market volatility and uncertainty remain as due to stagflation fears, little sight of the war in Ukraine ending soon and ongoing supply chain issues, a lingering problem over the past 24 months, are yet to be fully resolved.
42. The County Council's investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets, but the Pooled Property Fund and Pooled Equity Funds have since recovered well reflecting improved market sentiment. Table 6 also shows the County Council's investments in fixed deposits which include long term loans to other local authorities and as part of the Manydown programme.

Table 6: High yielding investments – market value performance	Amount invested*	Market value at 31/08/21	Gain / (fall) in capital value	
			Since purchase	One year
	£m	£m	£m	£m
Pooled property funds	75.0	83.8	8.8	8.2
Pooled equity funds	51.0	52.5	1.5	0.9
Pooled multi-asset funds	48.0	45.2	(2.8)	(4.8)
<b>Total pooled funds</b>	<b>174.0</b>	<b>181.5</b>	<b>7.5</b>	<b>4.3</b>
Fixed deposits	22.9	22.9	0.0	0.0
<b>Total higher yielding</b>	<b>196.9</b>	<b>204.4</b>	<b>7.5</b>	<b>4.3</b>

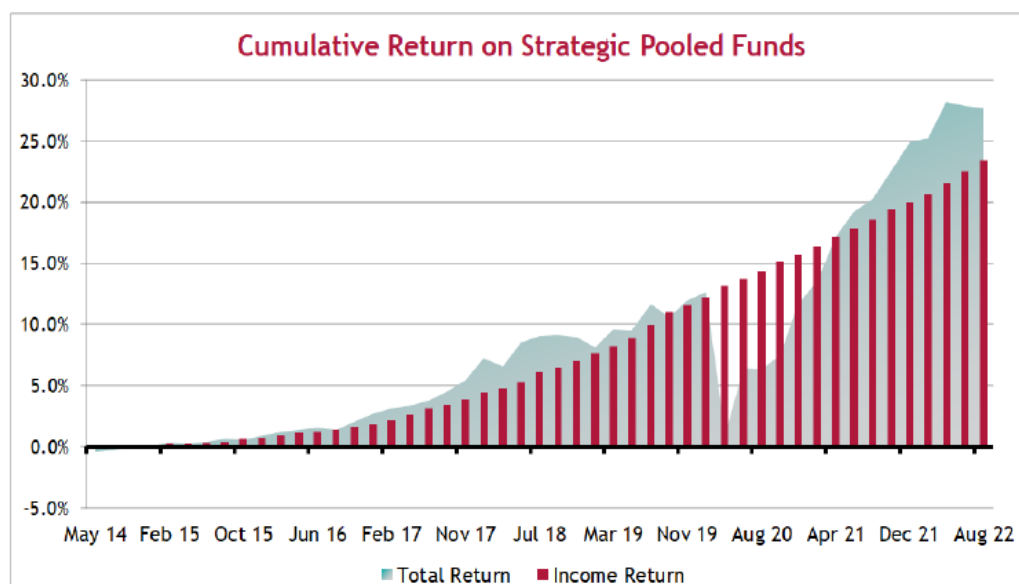
\* excludes £10.7m invested on behalf of Thames Basin Heaths JSPB

43. 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 4.21% pa (per annum) since purchase against the higher yielding strategy target of 4% pa, contributing to a total return of 27.72%.

Table 7: High yielding investments – income and total returns since purchase	Annualised income return	Total return
	%	%
Pooled property funds	3.87	40.12
Pooled equity funds	4.74	35.74
Pooled multi-asset funds	4.14	4.03
<b>Total pooled funds</b>	<b>4.21</b>	<b>27.72</b>

Note: excludes the performance related to £10.7m invested on behalf of Thames Basin Heaths JSPB.

44. The County Council's pooled fund investments continue to deliver income returns far in excess of what could be generated from cash investments and in line with the County Council's agreed objective of targeting income of 4% pa from its higher yielding strategy.
45. The cumulative total return from the County Council's investments in pooled equity, property, and multi-asset funds since purchase is shown in the following graph. This highlights that the County Council has benefited from strong and steady income returns over time and the way that capital values have recovered since March 2020.



Note: the graph above excludes the performance related to £10.7m invested on behalf of Thames Basin Heaths JSPB.

46. 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 2.5% of the total earmark of £250m.
47. In addition to the risk of realising a capital loss, 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.
48. 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 County Council's investment objectives is monitored regularly and discussed with Arlingclose.

### Non-Treasury Investments

49. 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. This is replicated in Ministry of Housing, Communities and Local Government's Investment Guidance, in which the definition of investments is

further broadened to also include all such assets held partially 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.

<b>Table 8: Non-Treasury Investments</b>	<b>31/08/22 Asset value £m</b>	<b>31/08/22 Rate %</b>
Loans to Hampshire based business	9.5	4.0
<b>Total</b>	<b>9.5</b>	<b>4.0</b>

### Compliance Report

52. The County Council confirms compliance of all treasury management activities undertaken during the period covered by this report 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 debt, is demonstrated in Table 9.

<b>Table 9: Debt Limits</b>	<b>2022/23 Maximum £m</b>	<b>31/08/22 Actual £m</b>	<b>2022/23 Operational Boundary £m</b>	<b>2022/23 Authorised Limit £m</b>	<b>Complied?</b>
Borrowing	282	247	720	790	✓
PFI and Leases	133	141	130	160	✓
<b>Total debt</b>	<b>415</b>	<b>388</b>	<b>850</b>	<b>950</b>	✓

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. There are no plans for any increase in PFI liabilities.

### 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.

<b>Table 10: Interest rate risk indicator</b>	<b>31/08/22 Actual</b>	<b>Impact of +/-1% interest rate change</b>
Sums subject to variable interest rates		
Investment	£558m	+/- £5.58m
Borrowing	£6m	+/- £0.06m

57. Fixed rate investments and borrowings are those where the rate of interest is fixed for a year. Instruments that mature within the year are classed as variable rate.

## Maturity structure of borrowing

58. 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.

<b>Table 11: Refinancing rate risk indicator</b>	<b>31/08/22 Actual</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied</b>
Under 12 months	2%	50%	0%	✓
12 months and within 24 months	4%	50%	0%	✓
24 months and within 5 years	14%	50%	0%	✓
5 years and within 10 years	21%	75%	0%	✓
10 years and within 20 years	52%	75%	0%	✓
20 years and within 30 years	6%	75%	0%	✓
30 years and above	0%	100%	0%	✓

59. The County Council holds £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as 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, these loans have an average maturity date of 12 years (minimum 6 years; maximum 24 years).

## Principal sums invested for periods longer than a year

60. 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:

<b>Table 12: Price risk indicator</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Actual principal invested beyond year end	£212m	£205m	£205m
Limit on principal invested beyond year end	£330m	£300m	£300m
Complied?	✓	✓	✓

61. The table includes investments in strategic pooled funds of £185m as although these can usually be redeemed at short notice, the County Council and Thames Basin Heaths intend to hold these investments for at least the medium-term.

## CIPFA consultations

62. 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 CIPFA/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 County Council intends to adopt the new standard on 1st April 2023 or later.

## Prudential Code

63. The new Prudential Code is expected to add clarification and definitions for commercial activity and investment, and state that an authority must not borrow to invest for the primary purpose of commercial return.
64. The Prudential Code is expected to include the acceptable reasons to borrow money:
- i. financing capital expenditure primarily related to delivering a local authority's functions,
  - ii. temporary management of cash flow within the context of a balanced budget,

- iii. securing affordability by removing exposure to future interest rate rises and
  - iv. refinancing current borrowing, including replacing internal borrowing.
65. In addition, proportionality will be included as an objective, and so will include new indicators for net income from commercial and service investments to net revenue stream. There will also be a specific objective around commercial investment with the intention of embedding good practice across authorities.

### **Treasury Management Code**

66. The new Treasury Management Code will be adopted by the County Council for 2023/24 as recommended. The change will include increasing the frequency of Treasury Management reporting to a quarterly basis. The liability benchmark will be included as a mandatory treasury indicator in order to strengthen decision making. Changes to the knowledge and skills framework will be adopted as part of the training plans to improve knowledge in a specialist area. In addition, CIPFA has incorporated Environmental, Social and Governance (ESG) issues as a consideration within TMP (Treasury Management Practice).

### **Consultation, Equalities and Climate Change Impact Assessment**

67. This report deals with the treasury management mid-year position for 2022/23, which is within year reporting matter and therefore no consultation or Equality Impact Assessments are required.
68. 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°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
69. 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.

70. 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.**

**Other Significant Links**

**Links to previous Member decisions:**

<u>Title</u>	<u>Date</u>

**Direct links to specific legislation or Government Directives**

<u>Title</u>	<u>Date</u>

**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.)**

<u>Document</u>	<u>Location</u>
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 disproportionately low.

### **2. Equalities Impact Assessment:**

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