AUDIT COMMITTEE 29 JULY 2022

TREASURY MANAGEMENT ANNUAL OUTTURN REPORT 2021/22

1. PURPOSE

1.1. New Forest District 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 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 2021/22.

2. SUMMARY

2.1. This 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.

2.2. 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.

2.3. 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."

2.4. 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.

2.5. Hampshire County Council's Investments & Borrowing Team has been contracted to manage the Council's treasury management balances since March 2014 but overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

2.6. All treasury activity has complied with the Council's revised 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.

2.7. 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 Strategy, complying with CIPFA's requirement, was approved by full Council in February 2022.

3. EXTERNAL CONTEXT

3.1. The following sections outline the key economic themes currently in the UK against which investment and borrowing decisions were made in 2021/22.

Economic commentary

3.2. 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.

3.3. 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 9.0% in April 2022.

3.4. In efforts to bring inflation down the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate from 0.10% to 0.25% in December 2021, with further increases to 0.50% in February 2022, 0.75% in March, 1.00% in May and 1.25% in June. 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.

3.5. In its June 2022 interest rate announcement, the MPC noted that global inflationary pressures have intensified sharply as a result of supply chain bottlenecks exacerbated by war in Ukraine and lockdowns in China. In the UK April saw 12-month CPI inflation rise to 9%, driven by the rising price of energy, core goods and to some extent the rising price of food and services. Global inflationary pressures are predicted to develop further in the near term, reaching as high as 10% in September 2022 and above 11% in October 2022. Although short term expectations are for inflation to rise, the outlook over the longer term is for inflation to come back under control but remain elevated compared to the historic average.

3.6. This report is focused on the outturn position for the 2021/22 financial year. However, it is worth noting how the forward looking themes have continued to evolve since the Treasury Management Strategy for 2022/23 was approved by the Council in February 2022.

Financial markets

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

3.8. 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

3.9. 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.

3.10. 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.

3.11. 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.

4. REVISED CIPFA CODES, UPDATED PWLB LENDING FACILITY GUIDANCE

4.1. 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.

4.2. 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.

4.3. 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.

4.4. 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.

4.5. 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.

4.6. 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, far beyond those in the 2017 version.

4.7. 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.

5. LOCAL CONTEXT

5.1. At 31 March 2022 the Council's underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), was £144.2m, while usable reserves and working capital which are the underlying resources available for investment were £86.5m (principal invested plus gains on investments with a variable net asset value). These factors and the year-on-year change are summarised in Table 1.

Table 1: Capital Financing Summary

	31/03/21 Balance £m	Movement £m	31/03/22 Balance £m
General Fund CFR	9.6	6.5	16.1
Housing Revenue Account CFR	6.0	(0.1)	5.9
HRA Settlement	126.3	(4.1)	122.2
Total CFR	141.9	2.3	144.2
Financed By:			
External Borrowing	126.9	(4.3)	122.6
Internal Borrowing	15.0	6.6	21.6
Total Borrowing	141.9	2.3	144.2

5.2. The General Fund CFR (and so internal borrowing) has increased as resources have been required to finance direct property investment during 2021/22, albeit mitigated in part through the application of Minimum Revenue Provision (MRP). The Housing Revenue Account (HRA) CFR and external borrowing has reduced as a result of the repayment of the maturing HRA Public Works Loan Board (PWLB) debt. No new borrowing requirement arose from expenditure incurred in the year on the housing delivery strategy.

5.3. 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 at 31 March 2022 and the change during the year is 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	(122.6)	4.3	(118.3)	(3.34)
Short-term borrowing	(4.3)	0.0	(4.3)	(2.56)
Total borrowing	(126.9)	4.3	(122.6)	(3.32)
Long-term investments	16.5	(0.6)	15.9	3.84
Short-term investments	25.1	21.4	46.5	0.39
Cash and cash equivalents	8.3	15.8	24.1	0.50
Total investments	49.9	36.6	86.5	1.05
Net borrowing	(77.0)	40.9	(36.1)	

Note: the figures in Table 2 are from the balance sheet in the Council's statement of accounts adjusted to exclude operational cash.

5.4. The reduction in net borrowing of £40.9m shown in Table 2 reflects the combination of an increase in investment balances of £36.6m as well as the repayment at maturity of borrowing of £4.3m, in line with the Council's policy on borrowing. Further details are provided in the Borrowing Strategy and Treasury Investments Activity sections of this report.

6. BORROWING UPDATE

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

6.2. The Council is not planning to purchase any investment assets primarily for yield, so is able to retain full access to the PWLB.

6.3. Further, the Council has invested 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 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.

6.4. 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 between 2023 and 2033 and therefore, as a result, further borrowing will be considered by the Section 151 Officer over the coming months and years, if required.

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

7. BORROWING ACTIVITY

7.1. At 31 March 2022 the Council held £122.6m of loans, a decrease of £4.3m which was a maturity in the year. The vast majority of the outstanding loans are in relation to the resettlement of the HRA in 2012/13. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3.

Table 3: Borrowing Position

	31/03/21 Balance £m	Movement £m	31/03/22 Balance £m	31/03/22 Rate %	31/03/22 WAM* years
Public Works Loan Board	(126.9)	4.3	(122.6)	3.32	15.4
Total borrowing	(126.9)	4.3	(122.6)	3.32	15.4

* Weighted average maturity

Note: the figures in Table 3 are from the balance sheet in the Council's statement of accounts adjusted to exclude accrued interest.

7.2. 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.

7.3. Short-term interest rates have remained much lower than long-term rates and the Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing. In line with this strategy £4.3m of PWLB loans was allowed to mature without refinancing.

7.4. This borrowing strategy has been monitored by Arlingclose and has enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

8. TREASURY INVESTMENT ACTIVITY

8.1. 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.

8.2. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year the Council's investment balances have ranged between £50.4m and £105.4m due to timing differences between income and expenditure. During 2021/22 the UK central government distributed funding through non-repayable grant schemes to support residents and small and medium-sized businesses, which resulted in more pronounced movements in the Council's liquid investment balances. The year-end investment position and the year-on-year change are shown in Table 4.

Table 4: Treasury investment position

Investments	31/03/2021 Balance £m	Movement £m	31/03/2022 Balance £m	31/03/22 Rate %	31/03/22 WAM* years
Short term Investments					
Banks and Building Societies:					
- Unsecured	9.1	2.6	11.7	0.42	0.03
- Secured	-	21.7	21.7	0.51	0.53
Money Market Funds	5.2	15.0	20.2	0.52	0.00
Government:					
- Local Authorities	17.0	(10.0)	7.0	0.10	0.27
- Supranational Banks	-	3.9	3.9	0.15	0.71
- UK Treasury Bills	-	3.0	3.0	0.20	0.09
- UK Gilts	-	1.0	1.0	0.28	0.31
Cash Plus Funds	2.0	-	2.0	0.67	0.01
	33.3	**37.2**	**70.5**	**0.43**	**0.24**
Long term investments					
Banks and Building Societies:					
- Secured	3.0	(2.0)	1.0	0.75	1.03
	3.0	**(2.0)**	**1.0**	**0.75**	**1.03**

Table 4: Treasury investment position

Investments	31/03/2021 Balance £m	Movement £m	31/03/2022 Balance £m	31/03/22 Rate %	31/03/22 WAM* years
High yield investments					
Pooled Property Funds**	7.6	-	7.6	3.83	N/A
Pooled Equity Funds**	3.0	-	3.0	5.15	N/A
Pooled Multi-Asset Funds**	3.0	-	3.0	4.05	N/A
	13.6	**-**	**13.6**	**4.17**	**N/A**
TOTAL INVESTMENTS	**49.9**	**35.1**	**85.0**	**1.03**	**0.25**

* Weighted average maturity, excluding pooled funds ** The rates provided for pooled fund investments are 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, market value adjustments and accrued interest.

8.3. The Council made a payment of £3.717m 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% (£79,735) over the year on its pension contributions.

8.4. Investment balances have increased for the reasons above set out in paragraph 8.2. The Government requested some funds to be repaid in April 2022, therefore for this reason, as well as to pay a further pre-payment of LGPS pension contributions of £3.976m on 1 April 2022 (saving the council 2.1% (£85,278) over the forthcoming year on its pensions contributions), the additional investment balances were held as short term investments at 31 March 2022, much of it being in money market funds for liquidity purposes.

8.5. 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.

8.6. 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.

8.7. In delivering investment returns, the Council has operated against a backdrop in which the UK Bank Rate was 0.10% from March 2020 with significant 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 0.49% - 0.57% per annum (p.a.).

8.8. 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.

8.9. 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-	42%	106	0.22%
31.03.2022	AA+	46%	95	0.43%
Similar LAs	AA-	61%	43	0.46%
All LAs	AA-	60%	14	0.46%

8.10. Table 5 shows the average credit rating of the portfolio has improved from AA- to AA+; this is as a result of the further diversification into secured and government investments whilst using AAA-rated money market funds for liquidity purposes. Bail-in exposure was fairly consistent with the same time in 2021, as although the Council held greater total investment balances, a similar proportion was held over-night when compared to the position at 31 March 2021. The weighted average maturity of investments was slightly lower in comparison to the position at 31 March 2021 as the Council held lower long-term balances due to both the cashflow requirements in April 2022 as well as the availability of suitable investment options providing adequate interest return. The average rate of return (0.43%) has increased over the year as a result of the UK Bank Rate increases which have favourably impacted the short-term investment portfolio. The Council compared either similar to or favourably with the other local authorities included in the benchmarking exercise across all metrics.

Externally managed pooled funds

8.11. 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 externally managed pooled funds as part of its higher yielding strategy.

8.12. 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.

8.13. 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, equity and multi-asset income funds in the Council's portfolio. The prospect of higher inflation and rising bond yields did however result in muted bond fund performance. 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.

8.14. 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.

8.15. The Council's investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets starting in March 2020 but have since recovered well. These investments are now worth more in aggregate than the initial sums 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

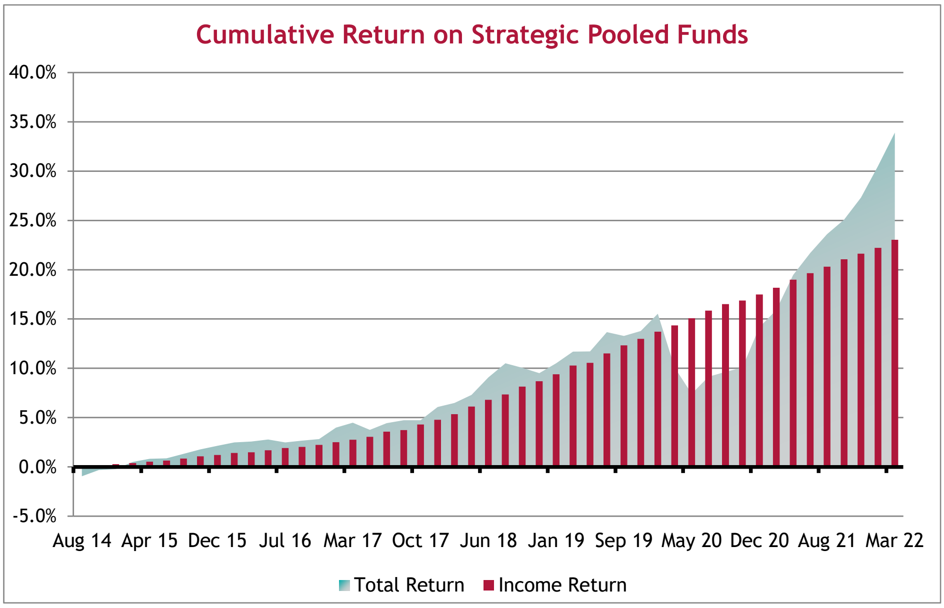
	Amount invested	Market value at 31/03/22	Gain / (fall) in capital value	
			Since purchase	2021/22
	£m	£m	£m	£m
Pooled property funds	7.6	8.7	1.1	1.2
Pooled equity funds	3.0	3.4	0.4	0.3
Pooled multi-asset funds	3.0	2.8	-0.2	-0.1
Total	13.6	14.9	1.3	1.4

8.16. The 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 4.12% pa (per annum) since purchase, contributing to a total return of 33.91%.

Table 7: Higher yielding investments – income and total returns since purchase

	Annualised income return	Total return
	%	%
Pooled property funds	4.00	39.22
Pooled equity funds	4.64	40.46
Pooled multi-asset funds	3.94	14.00
Total	4.12	33.91

8.17. The Council's pooled fund investments continue to deliver income returns far in excess of what could be generated from cash investments. The cumulative total return from the Council's investments in pooled equity, property and multi-asset funds since purchase is shown in the following graph. This highlights that the Council has benefited from strong and steady income returns over time and the way that capital values have recovered since March 2020.



8.18. 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.

8.19. 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.

9. FINANCIAL IMPLICATIONS

9.1. The outturn for investment income received in 2021/22 was £0.63m on an average investment portfolio of £81.98m, therefore giving a yield of 0.77%. By comparison, investment income received in 2020/21 was £0.82m on an average portfolio of £88.45m with a yield of 0.93%. The interest earning target for 2022/23 has been set based on an average investment portfolio of £70m and a return of 0.90%.

9.2. The outturn for debt interest paid (HRA) in 2021/22 matched the budget set at £4.2m.

9.3. The budget for interest payable (HRA) has been increased within the base budget for 2022/23, in reflection of increasing interest rates and anticipated loan financed expenditure on the capital programme, offset by the continuing principal repayments of the HRA settlement.

10. NON-TREASURY INVESTMENTS

10.1. 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).

10.2. 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.

10.3. 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.

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

Table 8 – Non-treasury investments

	31/03/22 Asset value £m	31/03/22 Annual rate of return
Hythe Marina	2.54	5.96%
Saxon Inn Calmore	0.18	7.26%
Meeting House Lane	0.15	-
New Milton Health Centre	2.54	5.35%
Ampress Car Park	2.14	4.48%
The Parade Salisbury Road Totton	1.60	5.86%
1-3 Queensway New Milton	1.07	8.89%
Unit 1 Nova Business Park	0.54	6.31%
Drive -Thru Salisbury Road, Totton	1.26	5.25%
Units 1-3 27 Salisbury Road, Totton	1.90	7.88%
Total investment properties	**13.92**	**4.75%**
Lymington Town Hall	3.41	2.79%
Hardley Industrial Estate	5.60	4.66%
Total income earning properties	**9.01**	**3.95%**
Grand total	**22.93**	**4.44%**
Property Under Construction		
Employment Land at Crow Lane	**4.54**	**-**

10.5. The Investment Property note within the Annual Financial Report gives further information on the net gains / losses and fair value movements.

11. COMPLIANCE REPORT

11.1. 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.

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

Table 9: Debt limits

	2021/22 Maximum £m	31/03/22 Actual £m	2021/22 Operational Boundary £m	2021/22 Authorised Limit £m	Complied
Total debt	130.9	122.6	184.3	201.6	✓

11.3. 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.

12. TREASURY MANAGEMENT INDICATORS

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

Interest rate exposures

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

Table 10 – Interest Rate Risk Indicator

	31/03/22 Actual	Impact of +/- 1% interest rate change
Sums subject to variable interest rates		
Investment	£59.1m	+/- £0.6m
Borrowing	(£0.1m)	+/- £0.0m

12.3. 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

12.4. 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 Treasury Management Strategy Statement.

Table 11: Refinancing rate risk indicator

	31/03/22 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	4%	25%	0%	✓
12 months and within 24 months	4%	25%	0%	✓
24 months and within 5 years	10%	25%	0%	✓
5 years and within 10 years	17%	25%	0%	✓
10 years and above	66%	100%	0%	✓

Principal sums invested for periods longer than a year

12.5. 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 total principal sum invested to final maturities beyond the period end were:

Table 12: Price risk indicator

	2021/22	2022/23	2023/24
Actual principal invested beyond a year	£14.6m	£13.6m	£13.6m
Limit on principal invested beyond a year	£40m	£35m	£30m
Complied	✓	✓	✓

12.6. The table includes investments in strategic pooled funds of £13.6m as although these can usually be redeemed at short notice, the Council intends to hold these investments for at least the medium-term.

13. OTHER

CIPFA Consultation – IFRS 16

13.1. 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.

14. CRIME AND DISORDER AND ENVIRONMENTAL IMPLICATIONS

14.1. None arising directly from this report.

15. RECOMMENDATIONS

Members are recommended to:

15.1. consider the performance of the treasury function detailed in this report.

Further information	Background papers
Please contact: Gemma Farley Principal Accountant Investments & Borrowing Hampshire County Council gemma.farley@hants.gov.uk Alan Bethune Executive Head of Financial (S151) and Corporate Services New Forest District Council alan.bethune@nfdc.gov.uk	The Prudential Code, CIPFA Guidance Notes and ODPM Investment Guidance Local Government Act 2003 SI 2003/3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 Treasury Management Strategy Report 2021/22 Audit Committee – 29 January 2021 Council – 25 February 2021 Treasury Management Mid-Year Monitoring Report 2021/22 Audit Committee – 29 October 2021 Treasury Management Strategy Report 2022/23 Audit Committee – 28 January 2022 Council – 21 February 2022