HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	26 July 2021
Title:	Annual Treasury Outturn Report 2020/21
Report From:	Director of Corporate Operations

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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 2017. 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 2020/21.

Recommendations

2. The Audit Committee are asked to note the following recommendations being reported to Cabinet:

   - That the outturn 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 2020/21.

4. The County Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2021. 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 annual report sets out the performance of the treasury management function during 2020/21, to include the effects of the decisions taken and the transactions executed in the past year.

7. All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2020/21, 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 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The latest iteration of the County Council's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by Full Council in February 2021.

External Context

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

Economic commentary

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

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

but downside risks remain, such as a further increase in unemployment when the furlough scheme ends.

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

Financial markets

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

14. Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

Credit review

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

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

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

Local Context

18. At 31 March 2021, the County Council's underlying need to borrow for capital purposes was £776.46m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £877.8m. These factors are summarised in Table 1.

Table 1: Balance sheet summary	**31/03/20 Balance £m**	**Movement £m**	**31/03/21 Balance £m**
CFR	783.48	(7.02)	776.46
Less: Other debt liabilities*	(149.43)	7.96	(141.47)
Borrowing CFR	**634.05**	**0.94**	**634.99**
External Borrowing	(307.24)	6.47	(300.77)
Internal Borrowing	**326.81**	**7.41**	**334.22**
Less: Usable Reserves	(665.89)	(88.96)	(754.85)
Less: Working Capital	(204.53)	81.62	(122.91)
Net Investments	**(543.61)**	**0.07**	**(543.54)**

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

19. The CFR reduced by £7.0m during 2020/21. Other debt liabilities reduced by £8.0m in accordance with the PFI repayment models while the County Council's borrowing CFR increased by just under £1m as a result of its capital programme. External borrowing reduced by £6.5m during 2020/21 as a result of repayment of £10.0m Public Works Loan Board (PWLB) borrowing and the scheduled repayment of other borrowing of £3.4m, 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 the 2020/21 financial year the total reserves held by the County Council, including the general fund balance and individual schools' balances, but excluding the DSG deficit, total £754m an increase of nearly £89m on the previous year. Of this increase, over £28m relates to the increase in reserves held by individual schools and £30m relates to the Covid-19 financial response package. The balance includes contributions to Departmental cost of change reserves offset by agreed use of the Corporate Reserves.

20. 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 2021 and the change during the year are shown in Table 2.

Table 2: Treasury management summary	31/03/20 Balance £m	Movement £m	31/03/21 Balance £m	31/03/21 Rate %
Long-term borrowing	(261.2)	11.9	(249.3)	4.66
Short-term borrowing	(10.0)	1.5	(8.5)	4.10
Total borrowing	**(271.2)**	**13.4**	**(257.8)**	**4.67**
Long-term investments	274.3	(14.4)	259.9	4.01
Short-term investments	105.5	89.2	194.7	0.32
Cash and cash equivalents	201.7	(89.2)	112.5	0.03
Total investments	**581.5**	**(14.5)**	**567.0**	**1.95**
Net investments	**310.3**	**(1.1)**	**309.2**	

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.

21. The reduction in net investments of £1.1m shown in Table 2 reflects a reduction in investment balances of £14.5m largely offset by the repayment at maturity of borrowing of £13.4m, in line with the County Council's policy on internal borrowing. Further details are provided in the Borrowing Activity and Treasury Investments Activity sections of this report.

Borrowing Update

22. In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. The rate at which local authorities could borrow from the PWLB is defined by a margin above gilts and following the response to the consultation the margin above gilts on PWLB loans was reduced from 1.8% to 0.8%, however restrictions were introduced meaning that this rate would only be available to authorities not planning to purchase investment assets primarily for yield.

23. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Authorities planning to purchase investment assets primarily for yield will only be able to access the PWLB to refinance existing loans or externalise internal borrowing and not for other purposes.

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.

Borrowing Activity

25. At 31 March 2021 the County Council held £257.8m of loans (a decrease of £13.4m from 31 March 2020) 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	**31/03/20 Balance £m**	**Net movement £m**	**31/03/21 Balance £m**	**31/03/21 Weighted average rate %**	**31/03/21 Weighted average maturity (years)**
Public Works Loan Board	(226.5)	10.0	(216.5)	4.7	10.7
Banks (LOBO)	(20.0)	-	(20.0)	4.8	12.3
Other (fixed term)	(24.7)	3.4	(21.3)	4.0	18.7
Total borrowing	**(271.2)**	**13.4**	**(257.8)**	**4.7**	**11.5**

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.

26. 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.

27. 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 external borrowing. In line with this strategy, £10.0m of PWLB loans were allowed to mature without refinancing and a further £3.4m of other borrowing was repaid, predominantly related to the repayment of borrowing from the Solent LEP for the Solent Economic Zone (Daedalus) Phase 1 programme.

28. 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.

29. The County Council also continues to hold £20m 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

30. The County Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the County Council's investment balances ranged between £336m and £611m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4.

Table 4: Treasury investment position	**31/03/2020 Balance £m**	**Net movement £m**	**31/03/2021 Balance £m**	**31/03/21 Income return %**	**31/03/21 Weighted average maturity (years)**
Short term investments					
- Banks and Building Societies:					
- Unsecured	26.3	43.2	69.5	0.04	0.04
- Secured	15.0	(4.4)	10.7	0.31	0.78
- Money Market Funds	175.3	(97.3)	78.0	0.04	0.00
- Local Authorities	80.5	58.5	139.0	0.34	0.34
- Cash Plus funds	10.0	-	10.0	0.93	-
Total	**307.1**	**-**	**307.1**	**0.21**	**0.19**
Long term investments					
- Banks and Building Societies:					
- Secured	33.2	(13.2)	20.0	0.35	1.84
- Local Authorities	40.0	(5.0)	35.0	1.28	1.24
Total	**73.2**	**(18.2)**	**55.0**	**0.94**	**1.46**
Long term investments – higher yielding strategy					
- Local Authorities					
- Fixed deposits	20.2	1.5	21.7	4.32	12.49
- Fixed bonds	10.0	(10.0)	-	-	-
- Pooled Funds					
- Pooled property*	75.0	-	75.0	4.03	N/A
- Pooled equity*	50.0	-	50.0	6.45	N/A
- Pooled multi-asset*	40.0	8.0	48.0	4.53	N/A
Total	**195.2**	**(0.5)**	**194.7**	**4.80**	**12.49**
Total investments	**575.5**	**(18.7)**	**556.8**	**1.89**	**0.76**
Thames Basin Heaths pooled fund investments	6.0	4.2	10.2		
Total	**581.5**	**(14.5)**	**567.0**		

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

Note: the figures in 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.

31. 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.

32. Investment balances have subsequently increased and were £14.5m lower at 31 March 2021 than immediately prior to the pension prepayment. This is in part explained by the County Council not having to make monthly employer's pension contributions throughout 2020/21 (having already paid in advance) but also represents the impact of departmental underspends in 2020/21 and the balance of grants received but not yet applied. The impact of the coronavirus pandemic has created significant uncertainty, resulting in the need for significant assumptions within financial forecasts and a difference in timing between income and expenditure, both in terms of the direct response to the pandemic and in carrying out regular service delivery plans.

33. 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.

34. 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.

35. In delivering investment returns, the County Council has operated against a backdrop in which the UK Bank Rate was cut to 0.10% in March 2020 in response to the coronavirus pandemic. It has remained at this rate throughout the year, having an impact on rates across the market. Returns had been at or around 0% for liquid investment options such as Money Market Funds (MMFs), bank call accounts and the UK Government's Debt Management

Account Deposit Facility (DMADF) and have not been significantly higher for other short-term options like fixed duration loans to other local authorities and bank notice accounts. Investment income has therefore largely come from investments arranged at fixed rates of interest prior to the pandemic and through the County Council's investments in pooled funds.

36. 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 2021 and at the same date in 2020 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)	**Credit rating**	**Bail-in exposure %**	**Weighted average maturity (days)**	**Rate of return %**
31.03.2020	AA	50	551	0.97
31.03.2021	AA-	40	393	0.50
Similar LAs	AA-	39	983	0.42
All LAs	A+	63	14	0.15

37. Table 5 shows the average credit rating of the portfolio was lower at 31 March 2021 than at the same time the previous year, largely as a result of the impact of the pandemic on credit ratings across the market, including that of the UK Government. Bail-in exposure was lower than at the same time in 2020, as the County Council held a greater investment balance with other local authorities, who are not subject to bail-in risk, while the weighted average maturity of investments was lower as the County Council held lower long-term balances and sold at a gain £10m of very long term bonds, reinvesting the money in externally managed pooled funds. In addition there were timing differences between receiving and spending of Covid grants. The average rate of return (0.5%) was lower than at 31 March 2020, but with the benefit of higher rates for fixed investments made prior to the pandemic helping to offset returns at or close to 0% for many investments across the market. The County Council compared favourably with the other local authorities included in the benchmarking exercise across all 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 recently 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 2021/22.

39. Approximately £205m of this allocation has now been invested, with the remaining balance earmarked. The total includes £10.4m 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 County Council's investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets but have since recovered well. These investments are now worth marginally 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 County Council is not a forced seller at the bottom of the market. The table 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 – Higher yielding investments – market value performance	**Amount invested***	**Market value at 31/03/21**	**Gain/(fall) in capital value**	
			Since purchase	**2020/21**
	£m	**£m**	**£m**	**£m**
Pooled property funds	75.0	75.0	0.0	0.2
Pooled equity funds	50.0	49.5	(0.5)	12.0
Pooled multi-asset funds	48.0	48.7	0.7	1.3
Total pooled funds	**173.0**	**173.2**	**0.2**	**13.5**
Fixed deposits**	21.7	21.7	0.0	0.0
Total higher yielding	**194.7**	**194.9**	**0.2**	**13.5**

* excludes £10.4m 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 4.41% pa (per annum) since purchase against the higher yielding strategy target of 4% pa, contributing to a total return of 17.5%.

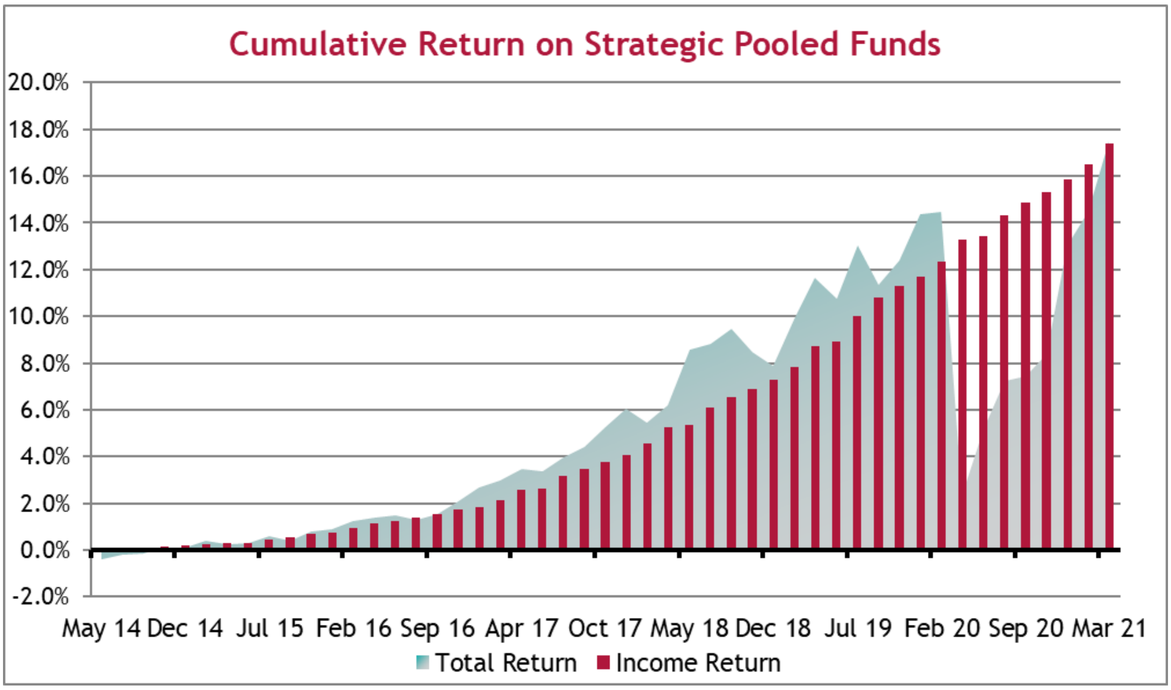
Table 7 – Higher yielding investments – income and total returns since purchase	**Annualised income return**	**Total return**
	%	**%**
Pooled property funds	4.16	20.0
Pooled equity funds	5.02	18.4
Pooled multi-asset funds	4.19	12.6
Total pooled funds	**4.41**	**17.5**

Note: excludes the performance related to £10.4m invested on behalf of Thames Basin Heaths JSPB

43. Following advice from Arlingclose, the County Council made prudent income forecasts for 2020/21 to reflect the impact of the pandemic and the challenging market conditions being faced by the investment managers of its pooled funds, identifying that any shortfall at the end of the year to budgeted income would be met from the Covid-19 financial response package. Actual income returns from pooled fund investments were more positive than this prudent forecast resulting in income of £7.1m, which was about 10% lower than in 2019/20. This is compared with the 25% to 30% reduction that could reasonably have been anticipated given the pandemic's impact on property rental income, company dividends and bond yields.

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 £10.4m 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 approximately £5m and it is proposed to increase this to £6.25m. This equates to 2.5 % of the total earmark of £250m (in line with the recommendation to hold reserves of 2.5% for the general fund balance).

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.

Financial Implications

49. The outturn for debt interest paid in 2020/21 was £13.0m against a budgeted

£13.2m on an average debt portfolio of £267.4m.

50. The outturn for investment income received in 2020/21 was £13.17m. Excluding the £2.9m gain made by the County Council from the sale of bonds from its portfolio of investments targeting higher yields the investment income was £10.23m on an average investment portfolio of £485m giving a yield of 2.11%. By comparison, investment income received in 2019/20 was £13.4m on an average portfolio of £617m with a yield of 2.17%.

Non-Treasury Investments

51. 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 & 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.

52. 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.

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

Table 8 – Non-treasury investments	31/03/21 Asset value £m	31/03/21 Rate %
Loans to Hampshire based business	9.5	4.00
Joint venture recruitment agency	0.2	5.00
Total	9.7	4.02

Compliance Report

54. The County Council confirms compliance of all treasury management activities undertaken during 2020/21 with the CIPFA Code of Practice and the County Council's approved Treasury Management Strategy.

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

Table 9 – Debt limits	2020/21 Maximum £m	31/03/21 Actual £m	2020/21 Operational Boundary £m	2020/21 Authorised Limit £m	Complied?
Borrowing	279	258	730	800	✓
PFI and Finance Leases	150	141	150	180	✓
Total debt	**429**	**399**	**880**	**980**	✓

Treasury Management Indicators

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

Interest rate exposures

57. 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	31/03/21 Actual	Impact of +/-1% interest rate change
Sums subject to variable interest rates		
Investment	£262m	+/- £2.6m
Borrowing	£2m	+/-£0.0m

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

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.

Table 11 – Refinancing rate risk indicator	31/03/21 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	3%	50%	0%	✓
12 months and within 24 months	3%	50%	0%	✓
24 months and within 5 years	11%	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	9%	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 duration to maturity of 13 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:

Table 12 – Price risk indicator	2020/21	2021/22	2022/23
Actual principal invested beyond year end	£260m	£215m	£205m
Limit on principal invested beyond year end	£340m	£330m	£330m
Complied?	✓	✓	✓

61. 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.

Other

CIPFA consultations

62. In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some

authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.

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

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

IFRS 16

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

Consultation, Equalities and Climate Change Impact Assessment

66. This report deals with the treasury management outturn position for 2020/21, which is an end of year reporting matter and therefore no consultation or Equality Impact Assessments are required.

67. 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.

68. 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.

69. 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.