FAREHAM
BOROUGH COUNCIL

Report to the Executive for Decision
07 December 2020

Portfolio:	Policy and Resources
Subject:	**Treasury Management and Capital Monitoring 2020/21**
Report of:	Deputy Chief Executive Officer
Corporate Priorities:	A dynamic, prudent and progressive Council

Purpose:
This report summarises the Council's investment activity and capital expenditure up to 30 September 2020 and provides details of the Council's money market transactions. It also provides information on the performance against the Treasury and Prudential Indicators.

Executive summary:
During the first half of the year the Council operated within the Treasury and Prudential Indicators.

The overall investment position is set out in the following table:-

	31 March 2020 Actual £'000	30 Sept 2020 Actual £'000
Total borrowing	**57,659**	**52,967**
Total investments	**(14,839)**	**(18,255)**
Net borrowing	**42,820**	**34,712**

During the Emergency Budget setting process, the net interest budget for 2020/21 was reduced by £136,000 to £559,700 (£603,300 actual in 2019/20) to reflect the reduction in investment returns.

A summary of the capital programme expenditure against budgets in the current year, is set out in the following table:-

Capital Programme	Revised Budget 2020/21 £	Budget to 30 Sep 20 £	Actual to 30 Sep 20 £	Variation £
General Fund	11,987,600	1,410,000	1,098,447	-311,553
HRA	6,662,000	3,331,000	2,867,603	-463,397
Total	**18,649,600**	**4,741,000**	**3,966,050**	**-774,950**

Recommendation:
It is recommended that the Executive notes the Treasury Management and Capital Monitoring Report for 2020/21.

Reason:
To inform the Executive of the Council's investment, borrowing and capital programme activity up to 30 September 2020.

Cost of proposals:
Not applicable.

Appendices: **A:** Economic Commentary and Outlook by Arlingclose
B: Treasury and Prudential Indicators

Background papers: None

Reference papers: Treasury Management Strategy and Prudential Indicators 2020-21, Council, 21 February 2020

Prudential Code for Capital Finance in Local Authorities (2017)

Treasury Management in the Public Services Code of Practice (2017)

FAREHAM
BOROUGH COUNCIL

Executive Briefing Paper

Date:	07 December 2020
Subject:	Treasury Management and Capital Monitoring 2020/21
Briefing by:	Deputy Chief Executive Officer
Portfolio:	Policy and Resources

INTRODUCTION

1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management at least twice yearly (mid-year and at year end). This report therefore ensures the Council is implementing best practice in accordance with the Code.

2. The Council's Treasury Management Strategy for 2020/21 was approved by Full Council on 21 February 2020.

3. The Council has borrowed and invested large sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

4. 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 Council's Capital Strategy for 2020/21 was approved by Full Council on 21 February 2020.

5. An economic commentary by the Council's Treasury Advisors, Arlingclose, can be found in Appendix A.

6. The report also includes progress to 30 September 2020 on the Capital Programme.

BORROWING ACTIVITY

7. At 30 September 2020, the Council held £53 million of loans, (a decrease of £4.7 million on 31 March 2020). The Council expects to borrow externally up to an additional £5 million in 2020/21 to part fund the capital programme.

8. The Council's main objective when borrowing continues to be striking an appropriately

low risk balance between securing low interest rates and achieving cost certainty over the period for which the funds are required.

9. With short-term interest rates remaining much lower than long-term rates and temporary investments earning Bank Rate or lower, it is more cost effective in the near term to use internal resources and short-term loans. This strategy enabled the Council to reduce net borrowing costs and reduce overall treasury risk.

10. Borrowing activity to 30 September 2020 was:

	Balance on 31 March 2020 £'000	**Balance on 30 Sept 2020 £'000**	**Average Rate**
Long-term borrowing	40,000	40,000	3.50%
Short-term borrowing	15,000	10,000	0.93%
Portchester Crematorium	2,659	2,967	0.25%
Total Borrowing	**57,659**	**52,967**	

The Council holds investments from Portchester Crematorium Joint Committee which is treated as a temporary loan.

INVESTMENT ACTIVITY

11. On 1 April 2020, the Council received central government funding to support small and medium sized businesses during the coronavirus pandemic through grant schemes. £20.2 million was received and temporarily invested in short dated, liquid instruments such as call accounts and money market funds.

12. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Council's investment balance ranged between £14 and £39 million due to timing differences between income and expenditure.

13. Both the CIPFA Code and government guidance 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 to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

14. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2020/21. The policy details the high quality and secure counterparty types the Council can invest with.

15. Given the continuing risk and low returns from short-term unsecured bank investments, the Council has diversified into more secure and higher yielding asset classes. £12 million that is available for longer-term investment was moved from bank and building society deposits into externally managed strategic pooled diversified income funds.

16. These funds have no defined maturity date but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in

the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

17. Details on investment activity to 30 September 2020 are summarised in the table below:

	Balance on 31 March 2020 £'000	Balance on 30 Sept 2020 £'000	Average Rate
Long-term Pooled Funds	10,539	11,005	3.87%
Banks and Building Societies	0	4,000	0.26%
Money Market Funds	4,300	3,250	0.07%
Total Investments	**14,839**	**18,255**	

18. In 2020/21, the Council expects to receive significantly lower income from its cash and short-dated money market investments and from its externally managed funds than it did in 2019/20. Dividends and income paid will ultimately depend on factors including the duration of COVID-19 and the extent of its economic impact.

COMMERCIAL PROPERTIES

19. 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.

20. Since the Executive approval of a Commercial Property Investment Acquisition Strategy in January 2013, the Council has purchased 10 commercial investment properties as summarised below, averaging a return of 6.8% and expected to generate rental income of £2.6 million during 2020/21.

Property Type	Purchase Cost £'000	Current Value £'000
Retail	27,783	22,195
Commercial	10,100	11,078
Other	1,890	2,050
Total	**39,773**	**35,323**

21. The current value has decreased overall by £4.45 million mainly in the retail sector, offset by increases in the commercial and other sector. However, the annual rental income achieved is in line with forecast.

22. Property valuations are undertaken annually, to ensure that the Council's balance sheet reflects the current opinion of the value of the Council's assets. Fluctuations in value do not represent actual gains or losses, but do indicate market sentiment, which is often linked to rental income levels and lease terms and conditions.

23. The Council's total investment property portfolio is shown below and includes Fareham Shopping Centre, Faretec and industrial estates at Palmerston Business Park and Newgate Lane.

Property Type	Current Value £'000
Retail	36,077
Commercial	18,796
Other	4,403
Office	3,786
Leisure	1,202
Total	**64,264**

BUDGETED INCOME AND OUTTURN

24. Our treasury advisor Arlingclose expects Bank Rate to remain at 0.10% for the foreseeable future however further cuts to Bank Rate to zero or even negative territory cannot be completely ruled out.

25. During the Emergency Budget setting process, the net interest budget for 2020/21 was reduced by £136,000 to £559,700 (£603,300 actual in 2019/20) to reflect the reduction in investment returns.

COMPLIANCE WITH TREASURY AND PRUDENTIAL INDICATORS

26. The Council confirms compliance with its Treasury and Prudential Indicators for 2020/21, which was set on 21 February 2020 as part of the Council's Treasury Management Strategy.

27. Performance for the first half of the year is shown in Appendix B. During the financial year to date the Council has operated within the treasury limits and prudential indicators.

CAPITAL PROGRAMME

28. On 3 February 2020, the Executive approved the 2020/21 capital programme of £32.7 million for the General Fund and Housing Revenue Account (HRA).

29. Details of actual capital expenditure in 2019/20 were reported to the July and August Executives and a total carry forward of £2.3 million was added to the capital programme bringing the total to £35 million for 2020/21.

30. As the economy has changed significantly since the COVID-19 pandemic, capital investment plans were revisited to determine if the original business cases remained sound. At the 7 September 2020 Executive, a revised capital programme of £18.6 million for 2020/21 was approved.

31. The following table sets out the updated capital programme for 2020/21 and has been used as the basis for monitoring progress to 30 September 2020:-

	Original Programme 2020/21 £	Updated Programme 2020/21 £
Streetscene	0	30,100
Leisure and Community	12,289,300	6,097,300
Housing	749,900	500,000
Planning and Development	295,000	230,000
Policy and Resources	12,535,700	5,130,200
Total General Fund	**25,869,900**	**11,987,600**
Housing Revenue Account	6,821,700	6,662,000
Updated Capital Programme	**32,691,600**	**18,649,600**

MAJOR CAPITAL SCHEMES

32. The Council has a number of major capital schemes where budgeted expenditure for 2020/21 is in excess of £500,000. These schemes, with forecast budget to 30 September 2020, are detailed in the following table:-

Capital Scheme	Budget 2020/21 £	Budget to 30 Sep 20 £	Actual to 30 Sep 20 £	Variation £
Leisure Centres Capital Investment	3,968,000	0	0	0
Daedalus Schemes	3,628,200	200,000	177,183	-22,817
HRA Improvements to Existing Stock	2,542,000	1,271,000	712,115	-558,885
HRA Highlands Road New Build	2,295,000	1,147,500	615,331	-532,169
New Arts & Entertainment Venue	2,000,000	200,000	179,729	-20,271
HRA Stock Repurchases	1,200,000	600,000	1,263,980	663,980
Vehicles and Plant	838,000	600,000	572,028	-27,972
Disabled Facilities Grant	500,000	250,000	63,600	-186,400

33. Progress updates on the major schemes are detailed below:-

(a) The **Leisure Centre Capital Investment** programme commenced in November 2020. Therefore, there has been no expenditure in the first half of the year.

(b) The major scheme at **Daedalus** is the new industrial/business units at Faraday Business Park. The scheme was tendered for construction in February 2020 but subsequently delayed as a result of the COVID-19 pandemic. Following Executive review and approval to proceed, confirmed on 7 September 2020, contract documents have been issued to the successful tenderer and works are due to commence in January 2021 with completion programmed for August 2021.

(c) Expenditure for **HRA Improvements to Existing Stock** is underspent against the budget to date. Void expenditure is slightly ahead of budget, and dwelling extensions for the year are progressing well. A programme of external cleaning and decoration is underway along with a programme to upgrade smoke alarm systems in sheltered accommodation. Working restrictions experienced during the year has meant there have been unavoidable delays in commissioning certain works to date. This will be addressed in a planned programme to be formulated using the stock

condition survey alongside implementation of the Keystone Asset Management system over the remainder of this financial year.

(d) The new build scheme at **Highlands Road**, comprising 18 x one and two bedroom flats, commenced in August 2019 and is generally behind schedule due to the impact of COVID-19. Two blocks are progressing well and should complete at the end of January 2021. The remaining two blocks are due to complete mid-March 2021.

(e) At the 2 November 2020 Executive, members approved pausing the **New Arts and Entertainment Venue** project for an initial period of 6 months in response to the impact of the COVID-19 pandemic. Spend to date has been on project management and consultancy on the theatre design.

(f) For **HRA Stock Repurchases**, five general needs properties and two 50% shared ownership properties have been purchased. Expenditure is ahead of schedule and the scheme is £64,000 over budget. However, next year's budget will be adjusted so there is no overall impact on the HRA.

(g) Expenditure on **Vehicles and Plant** has been for two new and two second-hand refuse vehicles, a second-hand glass collection vehicle, four vans and three mower decks. There is likely to be a small underspend at the end of the year due to long lead times for the procurement of some vehicles.

(h) The processing of **Disabled Facilities Grants** (DFGs) has been passed to Portsmouth City Council. Due to the COVID-19 pandemic there has been a slowdown in visits to properties as well as a delay in invoicing for the first half of the year. In the year, an Occupational Therapist has been seconded from Hampshire County Council and will concentrate on DFGs in the Fareham area going forward.

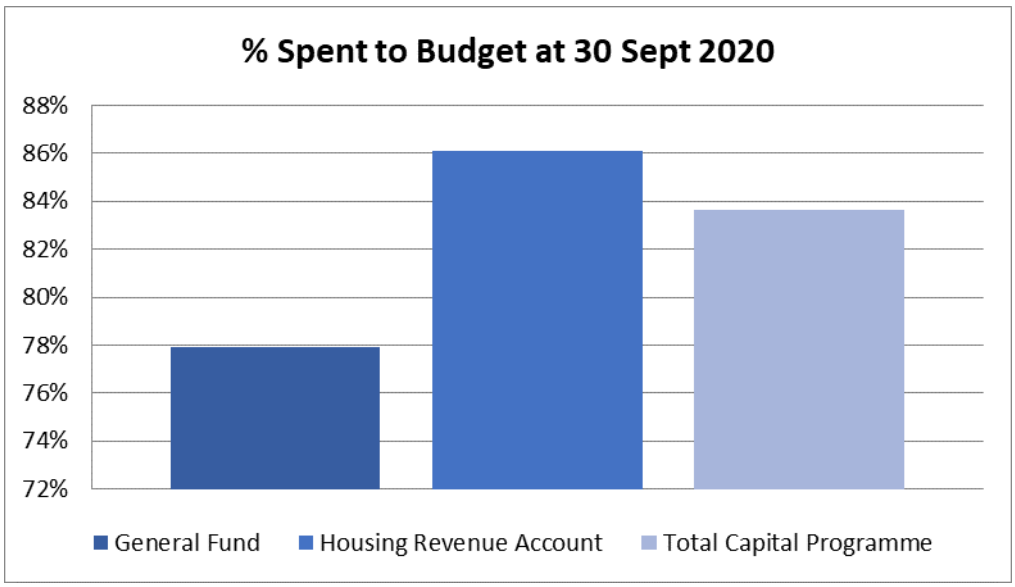
CAPITAL MONITORING

34. The following table provides summary information for the period to 30 September 2020, for all the schemes within each portfolio.

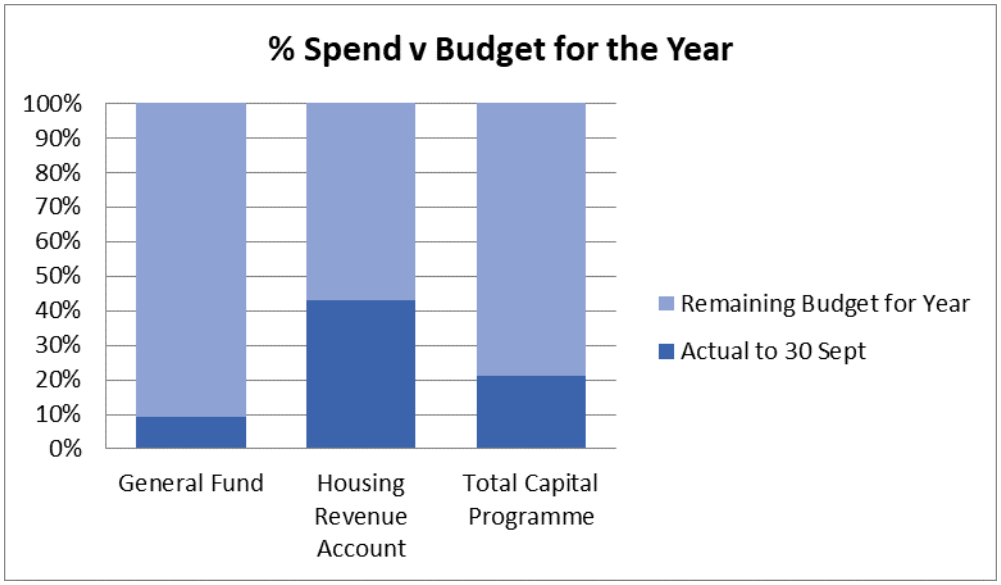
	Updated Budget 2020/21	Budget to 30 Sep 20	Actual to 30 Sep 20	Variation
	£	£	£	£
Streetscene	**30,100**	**0**	**0**	**0**
Leisure and Community	**6,097,300**	**250,000**	**236,112**	**-13,888**
- Buildings	5,981,000	200,000	193,229	-6,771
- Play and Parks	100,000	50,000	42,883	-7,117
- Other Community Schemes	16,300	0	0	0
Housing	**500,000**	**250,000**	**63,600**	**-186,400**
Planning and Development	**230,000**	**0**	**0**	**0**
Policy and Resources	**5,130,200**	**910,000**	**798,735**	**-111,265**
- Daedalus	3,628,200	200,000	177,183	-22,817
- Civic Offices	250,000	50,000	26,807	-23,193
- Vehicles and Plant	838,000	600,000	572,028	-27,972
- ICT	316,000	50,000	20,377	-29,623
- Other	98,000	10,000	2,340	-7,660
Total General Fund	**11,987,600**	**1,410,000**	**1,098,447**	**-311,553**
Housing Revenue Account				
- New Build	2,780,000	1,390,000	762,284	-627,716
- Improvements to Existing Stock	2,542,000	1,271,000	712,115	-558,885
- Stock Repurchases	1,200,000	600,000	1,263,980	663,980
- Other HRA Schemes	140,000	70,000	129,224	59,224
Total Housing Revenue Account	**6,662,000**	**3,331,000**	**2,867,603**	**-463,397**
Total Capital Programme	**18,649,600**	**4,741,000**	**3,966,050**	**-774,950**

35. The charts below show the actual expenditure to 30 September 2020 as a percentage of the programme for the equivalent period and for the whole year.

36. 84% of the capital programme has been spent compared to the profiled budget for the first half of the year.



37. 21% has been spent compared to the total budget for the year. The budgets will be reviewed again and re-phased where applicable as part of the forthcoming budget setting process.



RISK ASSESSMENT

38. In the current economic climate, there are continued risks that financial institutions holding Council investments could default and be unable to fulfil their commitments to repay the sums invested with them.

39. To help mitigate this risk, the Council maintains a list of approved institutions based on a grading system operated by the Council's treasury management advisors. Maximum limits are also set for investments with individual institutions.

40. There is a risk that some schemes in the capital programme may be delayed and not completed in year due to further COVID-19 restrictions.

Enquiries:

For further information on this report please contact Caroline Hancock (Ext 4589).

APPENDIX A

ECONOMIC COMMENTARY BY TREASURY ADVISORS ARLINGCLOSE – OCTOBER 2020

Economic Background: The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again. After a relatively quiet few months of Brexit news it was back in the headlines towards the end of the period as agreement between the UK and EU on a trade deal was looking difficult and the government came under fire, both at home and abroad, as it tried to pass the Internal Market Bill which could override the agreed Brexit deal, potentially breaking international law.

The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy Committee meeting minutes that the central bank was having a harder look at its potential impact than was previously suggested took financial markets by surprise.

Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses and 100 million discounted meals being claimed during the 'Eat Out to Help Out' (EOHO) offer.

GDP growth contracted by a massive 19.8% (revised from first estimate -20.4%) in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.5% (first estimate -21.7%). Construction output fell by 35% over the quarter, services output by almost 20% and production by 16%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.

The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year/year in August, further below the Bank of England's 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EOHO scheme. The Office for National Statistics' preferred measure of CPIH which includes owner-occupied housing was 0.5% y/y.

In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and was down 1.8% in real terms (-0.7% regular pay). Despite only a modest rise in unemployment over the period, the rate is expected to pick up sharply in the coming months as the furlough scheme ends in October. On the back of this, the BoE has forecast unemployment could hit a peak of between 8% and 9%.

The US economy contracted at an annualised rate of 31.7% in Q2 2020 (Apr-Jun). The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% but announced a change to its inflation targeting regime. The move is to a more flexible form of average targeting which will allow the central bank to maintain interest rates at low levels for an extended period to support the economy even when inflation is 'moderately' above the 2% average target, particularly given it has been below target for most of the last decade.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.

Financial Markets: Equity markets continued their recovery, with the Dow Jones climbing to not far off its pre-crisis peak, albeit that performance being driven by a handful of technology stocks including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up around half of their losses at the height of the pandemic in March. Central bank and government stimulus packages continue to support asset prices, but volatility remains.

Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield started and ended the June–September period at -0.06% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.23% over the same period, while the 20-year rose from 0.56% to 0.74%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.23% respectively over the period.

At the end of September, the yield on 2-year US treasuries was around 0.13% while that on 10-year treasuries was 0.69%. German bund yields remain negative across most maturities.

Credit Review: Credit default swap spreads eased over most of the period but then started to tick up again through September. In the UK, the spreads between ringfenced and non-ringfenced entities remains, except for retail bank Santander UK whose CDS spread remained elevated and the highest of those we monitor at 85bps while Standard Chartered was the lowest at 41bps. The ringfenced banks are currently trading between 45 and 50bps.

After a busy second quarter of the calendar year, the subsequent period has been relatively quiet for credit changes for the names on our counterparty list. Fitch assigned a AA- deposit rating to Netherlands lender Rabobank with a negative outlook and prior to that, while not related to our counterparty list but quite significant, revised the outlook on the US economy to Negative from Stable while also affirming its AAA rating.

There continues to remain much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic and for the UK institutions on our list there is the added complication of the end of the Brexit transition period on 31st December and what a trade deal may or may not look like. The institutions on Arlingclose's counterparty list and recommended duration remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

APPENDIX B

2020/21 INDICATORS – HALF YEARLY PERFORMANCE

PRUDENTIAL INDICATORS

1) Level of Planned Capital Expenditure

ON TRACK

This prudential indicator is a summary of the Council's capital expenditure plans and shows how these plans are being financed by capital or revenue resources.

Capital Expenditure and Financing	Revised Estimate £'000	Actual to 30 Sept £'000
Streetscene	30	0
Leisure and Community	6,097	236
Housing	500	64
Planning Development	230	0
Policy and Resources	5,130	799
Total General Fund	**11,987**	**1,099**
HRA	**6,662**	**2,868**
Total Expenditure	**18,649**	**3,967**
Capital Receipts	555	37
Capital Grants/Contributions	3,680	376
Capital Reserves	5,464	1,541
Revenue	2,034	1,939
Internal Borrowing	6,916	74
Total Financing	**18,649**	**3,967**

Expenditure to 30 September is within the overall revised budget for the year. The budgets will be reviewed and re-phased where applicable as part of the forthcoming budget setting process.

2) The Council's Borrowing Need (Capital Financing Requirement)

ON TRACK

The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure financed by borrowing will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing in line with the asset's life.

	Estimate £'000	Actual to 30 Sept £'000
General Fund	63,440	52,649
HRA	51,141	51,141
Total CFR	**114,581**	**103,790**

The CFR is slightly lower than projected due to lower internal borrowing for Daedalus capital expenditure.

3) Financing Costs as % of Net Revenue Stream

ON TRACK

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

	Estimate	Actual to 30 Sept
General Fund	6%	5%
HRA	13%	14%

4) Housing Revenue Account (HRA) Ratios

ON TRACK

Due to the HRA Reforms in 2012, the Council moved from a subsidy system to self-financing and was required to take on £49.3 million of debt. The table below shows additional local indicators relating to the HRA in respect of this debt.

	Estimate	End of Year Forecast
HRA debt £'000	49,268	49,268
HRA revenues £'000	12,668	12,142
Number of HRA dwellings	2,400	2,402
Ratio of debt to revenues %	3.89	4.06
Debt per dwelling £	20,528	20,509
Debt repayment fund £'000	4,560	4,560

TREASURY INDICATORS

5) Investments - Principal Sums Invested for Periods Longer than a year

ON TRACK

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.

£M	Estimate	Actual
Limit on principal invested beyond year end	15	11

£12 million is placed with externally managed strategic pooled diversified income funds which are long-term investments. The remaining investments are currently placed for less than a year to allow cash to be available for schemes in the capital programme that require internal borrowing.

6) Borrowing - Gross Debt and the Capital Financing Requirement

ON TRACK

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The indicator shows that total debt is expected to remain below the CFR.

£'000	Estimate £'000	Actual to 30 Sept £'000
Debt at 1 April	72,510	52,967
Capital Financing Requirement (CFR)	114,581	103,790

7) Borrowing - Limits to Borrowing Activity

ON TRACK

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

£'000	Limit	Actual to 30 Sept
Operational Boundary	114,000	52,967
Authorised Limit	122,000	52,967

Total debt at 30 September was £53 million. During the first half of 2020/21 the Authorised Limit of £122 million was not breached at any time.

8) Interest Rate Exposures

ON TRACK

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed are, shown in the table below.

Upper limits on interest rate exposures	Limit %	Actual %
Upper limit on variable interest rate exposures	25	24
Upper limit on fixed interest rate exposures	100	76

9) Maturity Structure of Borrowing

ON TRACK

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are:

Maturity structure of borrowing	Upper Limit %	Actual %
Loans maturing within 1 year	50	24
Loans maturing within 1 - 2 years	50	0
Loans maturing within 2 - 5 years	50	0
Loans maturing within 5 - 10 years	50	0
Loans maturing in over 10 years	100	76

The £40m HRA loans represent 76% of loans maturing in over 10 years. The Council holds investments from Portchester Crematorium which is treated as a temporary loan and £10 million short-term loan. These represent 24% of loans maturing within 1 year.

10) Commercial Investments - Proportionality

ON TRACK

The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Strategy.

£'000	2020/21 Budget	Actual to 30 Sept
Gross service expenditure	48,324	17,072
Investment income	4,576	2,613
Proportion	**9.5%**	**15.3%**

11) Total Risk Exposure

ON TRACK

This indicator shows the Council's total exposure to potential investment losses.

Total Investment Exposure	2020/21 Forecast £'000	Actual to 30 Sept £'000
Treasury Management Investments	12,000	18,255
Commercial Investments	69,872	64,254
Total	**81,872**	**82,509**

12) How Investments are Funded

ON TRACK

Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Investments funded by borrowing	2020/21 Forecast £'000	Actual to 30 Sept £'000
Treasury Management Investments	0	0
Commercial Investments	31,242	31,042
Total	**31,242**	**31,042**

Enquiries:

For further information on this report please contact Caroline Hancock (Ext 4589)