FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date: **27 November 2023**

Report of: **Head of Finance and Audit**

Subject: **TREASURY MANAGEMENT STRATEGY**

SUMMARY

In accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, the Council is required to maintain a Treasury Management Strategy and provide updates on the implementation of that Strategy.

The Audit and Governance Committee is the responsible body to examine and assess the effectiveness of the Council's Treasury Management Policy and Strategy. In accordance with this role, this report sets out the mid-year review of treasury management activity up to 30 September 2023 which confirms compliance with the strategy approved by Full Council on 24 February 2023.

RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee:

a) reviews the contents of the report; and

b) provide comments in terms of the effectiveness of the treasury management strategy.

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).

2. The Council's Treasury Management Strategy for 2023/24 was approved by Full Council on 24 February 2023 (Appendix A). 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. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

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

4. 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 Council's Capital Strategy for 2023/24 was also approved by Full Council on 24 February 2023.

BORROWING ACTIVITY

5. At 30 September 2023, the Council held £61 million of loans, (£80,000 less than the position at 31 March 2023). The Council expects to borrow up to an additional £5 million in 2023/24 to part fund the capital programme.

6. 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.

7. Borrowing activity to 30 September 2023 was:

	Balance on 31 March 2023 £'000	Balance on 30 Sept 2023 £'000	Average Rate
Long-term borrowing	48,000	48,000	3.55%
Short-term borrowing	10,000	10,000	5.20%
Portchester Crematorium	3,336	3,256	1.34%
Total Borrowing	**61,336**	**61,256**	

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

9. The Council's short-term borrowing is from other local authorities and long-term borrowing is from the Public Works Loan Board (PWLB). There has been a substantial rise in the cost of both short and long-term borrowing over the last 18 months due to rising Bank Rates. The Bank Rate rose by 1% from 4.25% at the

beginning of April to 5.25% at the end of September and the Bank Rate was 2% higher than at the end of September 2022.

10. A new PWLB HRA rate which is 0.4% below the certainty rate was made available from 15th June 2023. Initially available for a period of one year, this discounted rate is to support local authorities borrowing for the Housing Revenue Account.

INVESTMENT ACTIVITY

11. 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 £24 and £31 million due to timing differences between income and expenditure.

12. 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.

13. 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 2023/24. The policy details the high quality and secure counterparty types the Council can invest with.

14. £12 million of the Council's investments is invested in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of -0.57%, comprising a 3.79% income return which is used to support services in year, and 4.36% of unrealised capital loss.

15. These funds have no defined maturity date but are available for withdrawal after a notice period, but it is intended to hold onto the funds longer term. 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.

16. Details on investment activity to 30 September 2023 are summarised in the table below:

	Balance on 31 March 2023 £'000	Balance on 30 Sept 2023 £'000	Average Rate
Long-Term Pooled Funds	10,632	10,492	3.79%
Money Market Funds	5,200	4,700	5.35%
Banks	2,000	0	0.00%
Local Authorities	7,000	3,000	4.00%
Total Investments	**24,832**	**18,192**	

17. The decrease in investments at the end of September is mainly due to the purchase of Fareham Shopping Centre.

COMMERCIAL PROPERTIES (NON-TREASURY INVESTMENTS)

18. The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return.

19. 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 and is expected to generate rental income of £2.3 million during 2023/24.

Property Type	Value at 31 March 2022 £'000	Value at 31 March 2023 £'000
Retail	21,745	21,785
Commercial (Industrial)	11,730	11,740
Other (Healthcare)	2,210	1,960
Total	**35,685**	**35,485**

20. The Investment portfolio has effectively maintained its value. Five of the properties saw moderate increases in value, whilst the other 5 saw moderate reductions in value. The upshot was a minimal decrease in the value of the entire portfolio. The cyclical nature of property and key lease events have had an effect on the value of the portfolio, but these are set against wider changes in the property market.

21. The Council's total investment property portfolio is shown below. This is more balanced, albeit retail holdings do increase with more exposure to the High Street. This is due to longstanding strategic ownerships, rather than pure investments.

Property Type	Value at 31 March 2022 £'000	Value at 31 March 2023 £'000
Retail	34,045	33,790
Commercial	23,682	25,245
Other	4,388	4,109
Office	4,740	5,370
Leisure	1,481	1,492
Total	**68,336**	**70,006**

22. The overall investment property portfolio has increased in value by £1.67 million (increase of £8 million in 2021/22).

23. The Council purchased the leasehold of Fareham Shopping Centre at the end of September. The above table includes the freehold value only as at 31 March.

24. 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.

BUDGETED INCOME AND OUTTURN

25. Following the September Monetary Policy Committee meeting, our treasury advisor, Arlingclose, revised its interest forecast to reflect the view that 5.25% will now be the peak in Bank Rate.

26. The Council's net interest budget for 2023/24 is £612,000 (£879,854 actual in 2022/23). The budget will be reviewed during the revised budget setting period to reflect the latest capital spending plans.

COMPLIANCE WITH TREASURY AND PRUDENTIAL INDICATORS

27. The Council confirms compliance with its Treasury and Prudential Indicators for 2023/24, which was set on 24 February 2023 as part of the Council's Treasury Management Strategy.

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

Appendices:
A: Treasury Management Strategy and Prudential Indicators 2023-24
B: Economic Commentary and Outlook by Arlingclose
C: Treasury and Prudential Indicators – half yearly performance

Background Papers: None

Reference Papers: Treasury Management Strategy and Prudential Indicators 2023-24, Council, 24 February 2023

Prudential Code for Capital Finance in Local Authorities (2021)

Treasury Management in the Public Services Code of Practice (2021)

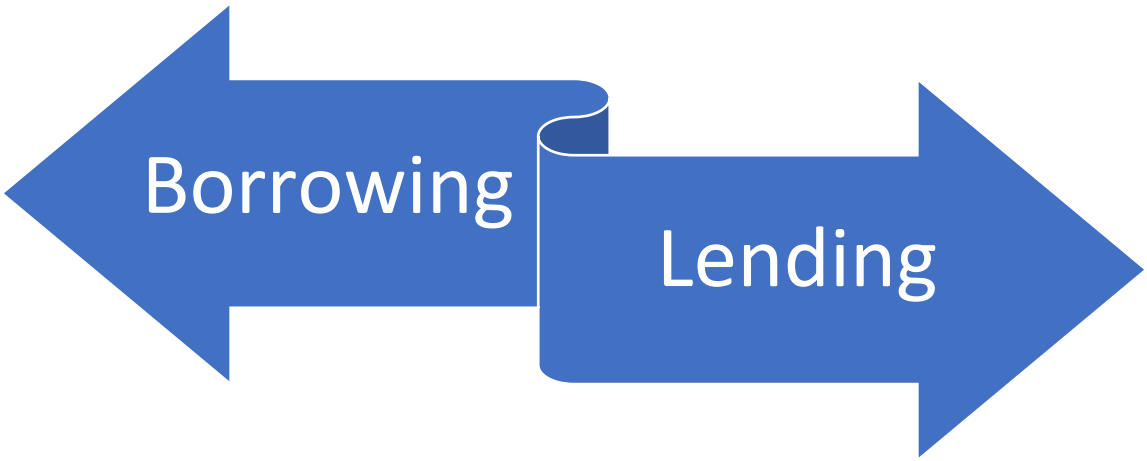
Enquiries:

For further information on this report please contact Caroline Hancock 01329 82484

APPENDIX A

FAREHAM
BOROUGH COUNCIL

TREASURY MANAGEMENT STRATEGY AND INVESTMENT STRATEGY 2023/24



INTRODUCTION

WHAT IS TREASURY MANAGEMENT?

1. Treasury Management is defined as:

> *The management of the organisation's 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.*

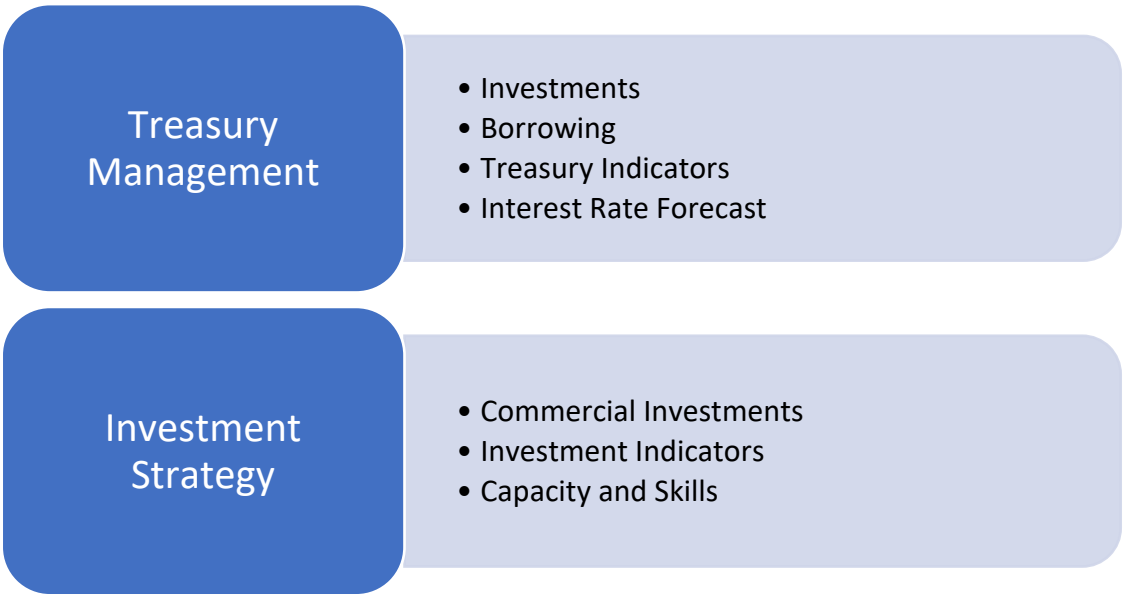
2. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. There are two aspects to the treasury management service:

   a) To ensure the cash flow is adequately planned, with **cash being available when it is needed**. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

   b) To ensure the cash flow meets the Council's **capital plans**. These capital plans provide a guide to the **borrowing need** of the Council. Essentially this is the longer term cash flow planning to ensure that the Council can meet its capital spending requirements. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CONTENT OF THE TREASURY MANAGEMENT AND INVESTMENT STRATEGIES

3. These strategies set out the expected approach to treasury management and investment activities for 2023/24. It covers two main areas:



4. The content of the Strategies is designed to cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

REPORTING REQUIREMENTS

5. The Council receives and approves three main reports each year in relation to Treasury Management, which incorporate a variety of polices, estimates and actuals. The three reports are:

6. The Executive Commmittee is responsible for the implementation and monitoring of these reports whilst the Audit and Governance Committee is responsible for the effective scrutiny of the treasury management strategy and policies.

TREASURY MANAGEMENT STRATEGY

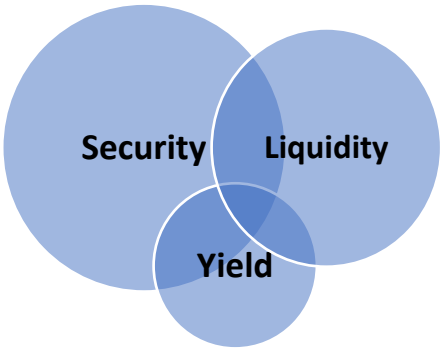
INVESTMENTS

Current Portfolio Position

7. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £21 million and £38 million, lower levels are expected in the forthcoming year due to capital programme expenditure.

Treasury Investment Strategy

8. 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 rate of return, or **yield**.



9. 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. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

10. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

11. The Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

12. Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's **business model** for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved Counterparties

13. The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the limits shown.

Sector	Time Limit	Counterparty Limit	Sector Limit
UK Government	50 years	Unlimited	n/a
Local authorities and other government entities	25 years	£4m	Unlimited
Secured investments*	25 years	£4m	Unlimited
Banks (unsecured)*	13 months	£2m	Unlimited
Building Societies (unsecured)*	13 months	£2m	£4m
Money market funds*	n/a	£4m	Unlimited
Strategic pooled funds	n/a	£5m	£20m

14. Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published **long-term credit rating is no lower than A-**. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

15. For entities without published credit ratings, investments may be either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £2 million per counterparty as part of a diversified pool.

16. Summary of counterparty types:

    a) **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

    b) **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

    c) **Banks and Building Societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies,

other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

d) **Money Market Funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

e) **Strategic Pooled Funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because 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 will be monitored regularly.

17. The Council may also invest its surplus funds in corporates (loans, bonds and commercial paper issued by companies other than banks), registered providers (loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations) and real estate investment trusts, subject to meeting the minimum credit rating criteria and time limits recommended by the Council's treasury advisers.

Operational Bank Accounts

18. The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £4 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk Assessment and Credit Ratings

19. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing

investments with the affected counterparty.

20. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

21. The Council understands that credit ratings are good, but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Council treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above credit rating criteria.

22. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

23. The following **internal measures** are also in place:

    - Investment and borrowing decisions formally recorded and endorsed using a Counterparty Decision Document.
    - Monthly officer reviews of the investment and borrowing portfolio and quarterly reviews with the Chief Executive Officer.

Investment Limits

24. The Council’s revenue reserves available to cover investment losses are forecast to be £5 million on 31st March 2023. In order to minimise risk, in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be **£5 million**. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

25. Limits are also placed on fund managers, investments in brokers’ nominee accounts and foreign countries as in the table below. Investments in pooled

funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

	Cash limit
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£4m per country

Liquidity Management

26. The Council uses a purpose-built cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

27. The Council will spread its liquid cash over at least **four providers** (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Environmental, Social and Governance Policy

28. Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.

29. The Council will seek to move towards investments that improve the environment, bring wider social benefits, and are with organisations with good governance.

30. The Council will give weight to the environmental, social and governance elements of credit ratings in making investment decisions, provided that the overall risk profile of the investment portfolio (including liquidity risk) is not compromised, and that decisions remain consistent with responsible financial management and stewardship.

BORROWING

Current Portfolio Position

31. The Council's borrowing position at 31 March 2022, with forward projections are summarised below.

£'000	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt at 1 April	53,200	50,200	52,200	51,200	50,200
Expected change in debt	(3,000)	2,000	(1,000)	(1,000)	(2,000)
Gross Debt at 31 March	**50,200**	**52,200**	**51,200**	**50,200**	**48,200**

32. Debt at 31 March 2023 is projected to be lower than originally estimated due to the use of internal borrowing rather than borrowing externally to fund the capital programme.

Borrowing Strategy

33. The Council's main objective when borrowing money is to strike an appropriately low risk balance between **securing low interest costs** and achieving **certainty of those costs** 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.

34. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

35. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short term to either **use internal resources**, or to **borrow short-term** loans instead.

36. By doing so, the Council can reduce net borrowing costs (despite foregone investment income) and **reduce overall treasury risk**. The benefits of internal borrowing or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

37. Our treasury advisers will assist the Council with this **'cost of carry'** and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

38. The Council has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

39. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield.

40. Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable

certainty of cost to be achieved without suffering a cost of carry in the intervening period.

41. In addition, the Council may borrow further short-term loans to cover unexpected cash flow shortages.

Sources of Borrowing

42. The approved sources of long-term and short-term borrowing are:
    - HM Treasury's PWLB lending facility (formerly the Public Works Loan Board).
    - Any institution approved for investments.
    - Any other bank or building society authorised to operate in the UK.
    - Any other UK public sector body.
    - UK public and private sector pension funds (expect the Hampshire County Council Pension Fund).
    - Capital market bond investors.
    - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

43. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
    - Leasing
    - Hire purchase
    - Private Finance Initiative
    - Sale and leaseback

44. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

45. **Short-Term and Variable Rate Loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

46. **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

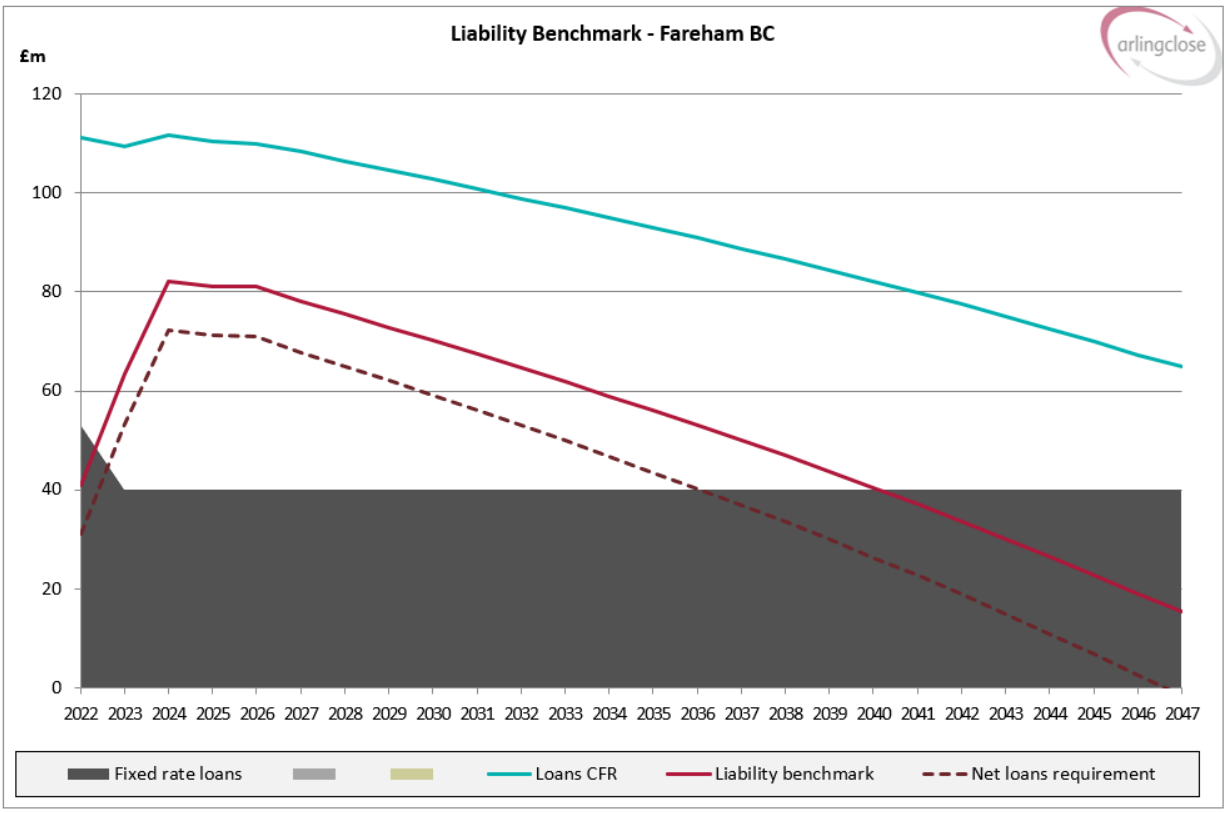
47. The Council measures and manages its exposures to treasury management risks using the following three treasury management indicators.

48. *Treasury Management Prudential Indicator 1 – Liability Benchmark:* To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

49. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

£'000	31/3/22 Actual	31/3/23 Estimate	31/3/24 Estimate	31/3/25 Estimate	31/3/26 Estimate
Capital Financing Requirement	111,300	109,400	111,600	110,500	110,100
Less: Balance sheet resources	(80,400)	(56,000)	(39,400)	(39,300)	(39,100)
Net loans requirement	**30,900**	**53,400**	**72,200**	**71,200**	**71,000**
Plus: Liquidity allowance	10,000	10,000	10,000	10,000	10,000
Liability benchmark	**40,900**	**63,400**	**82,200**	**81,200**	**81,000**

50. The long-term liability benchmark is shown in the chart below together with the maturity profile of the Council's existing borrowing:



51. If cash flows occur as forecast, the Council's level of existing borrowing remains below the liability benchmark for the next 17-18 years. This indicates a need for further external borrowing over this period, peaking at approximately an additional £40m by 2024 and then reducing over time.

52. *Treasury Management Prudential Indicator 2 – Long-term treasury management investments:* 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 prudential limits on the long-term treasury mangement investments will be:

£'000	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Limit on principal invested beyond year end	14,000	15,000	16,000	17,000	18,000

53. *Treasury Management Prudential Indicator 3 - Maturity structure of borrowing:* This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Maturity structure of borrowing	Upper Limit %	Lower Limit %
- Loans maturing within 1 year	50	0
- 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	100

54. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

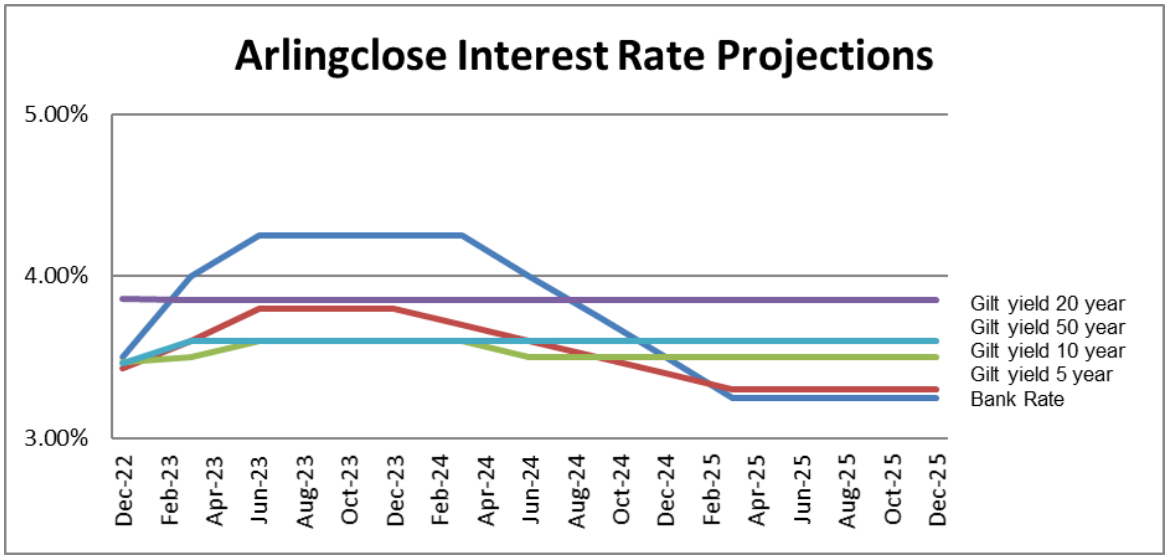
55. *Treasury Management Prudential Indicator 4 - Housing Revenue Account (HRA) ratios:* As a result of the HRA Reforms in 2012, the Council moved from a subsidy system to self-financing and was required to take on **£49.3 million** of debt. The table below shows additional local indicators relating to the HRA in respect of this debt.

	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA debt £'000	49,268	49,268	49,268	49,268	49,268
HRA revenues £'000	14,228	13,208	13,744	14,170	14,477
Number of HRA dwellings	2,419	2,419	2,411	2,403	2,395
Ratio of debt to revenues %	3.46:1	3.73:1	3.58:1	3.48:1	3.40:1
Debt per dwelling £	£20,369	£20,369	£20,437	£20,505	£20,573
Debt repayment fund £'000	£6,840	£7,980	£9,120	£10,260	£11,400

INTEREST RATE FORECAST

56. The Council's treasury management adviser, Arlingclose, assist the Council to formulate a view on interest rates. The latest detailed economic and interest rate forecast provided by Arlingclose is attached at Annex 1.

57. The following graph and commentary gives the Arlingclose's central view on interest rates.



58. Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its

2% target.

59. While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

60. Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Other Items

61. The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.

62. **Policy on Apportioning Interest to the HRA:** On 28 March 2012, the Council borrowed £40 million from the Public Works Loan Board (PWLB) to buy itself out the of the HRA subsidy System. The monies were borrowed by the General Fund on behalf of the HRA. The interest on these loans is charged to the HRA on a half-yearly basis at the rate charged by PWLB. A further £9.268 million was lent by the General Fund to the HRA to complete the buyout. Interest on this element is charged at the average weighted rate of the PWLB loans.

63. The unfunded HRA capital financing requirement is also charged to the HRA at the average weighted rate of the PWLB loans.

64. The General Fund credits the HRA with interest earned on HRA credit balances calculated on the monthly movement in reserve balances and applied at year end. The rate used is the weighted interest rate on General Fund investments and cash balances.

65. **Markets in Financial Instruments Directive**: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

66. The budget for net interest received in 2023/24 for the General Fund is £612,000 and the budget for net interest paid in 2023/24 for the HRA is £1,679,000. If actual levels of investments and borrowing, and actual interest rates differ from that forecast, performance against budget will be correspondingly different.

Other Options Considered

67. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

INVESTMENT STRATEGY

68. The Council invests its money for three broad purposes:
    - because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
    - to support local public services by lending to or buying shares in other organisations (**service investments**), and
    - to earn investment income (known as **commercial investments** where this is the main purpose).

69. This investment strategy meets the requirements of statutory guidance issued by the Government in January 2018 and focuses on the third of these categories.

70. The Council does not currently have any service investments.

COMMERCIAL INVESTMENTS

71. The Council invests in local and some regional UK commercial property with the intention of making a profit that will be spent on local public services.

72. Since the Executive approval of a Commercial Property Investment Acquisition Strategy in January 2013, the Council has purchased commercial investment properties currently valued at **£35.7 million** and expected to generate rental income of £2.3 million during 2023/24.

Property Type	Current Value £'000
Retail	21,745
Commercial	11,730
Other	2,210
Total	**35,685**

73. The Council's total Commercial property portfolio, shown below, is valued at **£68.3 million** and includes Fareham Shopping Centre, Faretec and industrial estates at Palmerston Business Park and Newgate Lane.

Property Type	Current Value £'000
Retail	34,045
Commercial	23,682
Other	4,388
Office	4,740
Leisure	1,481
Total	**68,336**

74. A fair value assessment of the Council's more recent commercial property purchases has been made within the past twelve months, and the underlying assets provide security for capital investment.

75. The Council assesses the risk of loss before entering into and whilst holding property investments. These risks are managed by ensuring:
    - funds available for new purchases are disaggregated to limit the overall impact that any single investment would have on the Council's finances;
    - there is a mix of property types in the portfolio e.g. retail, industrial, etc.;
    - new purchases are only considered with existing tenants of "high quality" and sufficiently long tenancy term;
    - appropriate checks are carried out to ascertain the tenant's reliability;
    - other "due diligence" is undertaken to protect the Councils investment as

far as possible such as checks on planning conditions, land contamination issues and planning policy issues.

Proportionality

76. 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	2021/22 Actual	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Gross service expenditure	49,432	45,915	46,524	47,320	47,640	48,029
Investment income	4,476	4,463	4,222	4,758	4,758	4,758
Proportion	**9.1%**	**9.7%**	**9.1%**	**10.1%**	**10.0%**	**9.9%**

INVESTMENT INDICATORS

77. The Council has set the following three investment indicators to assess the Council's total risk exposure as a result of its investment decisions.

78. *Investment Indicator 1 - Total risk exposure:* The first indicator shows the Council's total exposure to potential investment losses.

£'000	2021/22 Actual	2022/23 Revised	2023/24 Estimate
Treasury Management Investments	22,189	15,000	15,000
Commercial Investments	68,336	68,336	68,336
Total	**90,525**	**83,336**	**83,336**

79. *Investment Indicator 2 - How investments are funded:* 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.

£'000	2021/22 Actual	2022/23 Revised	2023/24 Estimate
Treasury Management Investments	0	0	0
Commercial Investments	30,272	29,479	28,663
Total	**30,272**	**29,479**	**28,663**

80. *Investment Indicator 3 - Rate of return received:* This indicator shows the investment income received less the associated costs, including the cost of

borrowing where appropriate, as a proportion of the sum initially invested.

	2021/22 Actual	2022/23 Revised	2023/24 Estimate
Treasury Management Investments	3.2%	4.1%	3.1%
Commercial Investments	3.3%	3.5%	3.7%
Total	**3.3%**	**3.7%**	**3.6%**

CAPACITY AND SKILLS

Training

81. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

82. Treasury management officers regularly attend training courses, seminars and conferences provided by the Council's treasury management advisers and CIPFA.

83. Property services officers also regularly attend training courses, seminars and conferences provided RICS (Royal Institution of Chartered Surveyors) accredited/approved providers.

Use of Treasury Management Consultants

84. The Council has appointed Arlingclose as treasury management advisers and receives specific advice on investment, debt and capital finance issues.

85. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

86. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

ANNEX 1

ARLINGCLOSE ECONOMIC AND INTEREST RATE FORECAST

Economic Background – January 2023

The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The December decision was voted for by a 6-3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25%-4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been

slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation rose consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.50% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.

Credit outlook:

Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Underlying assumptions – December 2022

- The influence of the mini-budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.

- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.

- The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.

- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.

- Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.

- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight, and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.

- While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short-term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

Forecast – December 2022

- The MPC raised Bank Rate by 50bps to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25%, with further 25bps rises February, March and May 2023.

- The MPC will cut rates in the medium term to stimulate a stuttering UK economy but will be reluctant to do so until wage growth eases. We see rate cuts in the first half of 2024.

- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.

- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.

APPENDIX B

ECONOMIC COMMENTARY AND OUTLOOK BY ARLINGCLOSE – OCTOBER 2023

Economic background: UK inflation remained stubbornly high over much the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.4%, beating expectations of a 0.2% increase. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

Following the September MPC meeting, Arlingclose, the authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, the GfK measure hit -21 in September, it is likely this will reverse at some point. Higher rates will also impact business and according to S&P/CIPS survey data, the UK manufacturing and services sector contracted during the quarter with all measures scoring under 50, indicating contraction in the sectors.

The US Federal Reserve increased its key interest rate to 5.25-5.50% over the period, pausing in September following a 0.25% rise the month before, and indicating that it may have not quite completed its monetary tightening cycle.

Having fallen throughout 2023, annual US inflation started to pick up again in July 2023, rising from 3% in June, which represented the lowest level since March 2021, to 3.2% in July and then jumping again to 3.7% in August, beating expectations for a rise to 3.6%. Rising oil prices were the main cause of the increase. US GDP growth registered 2.1% annualised in the second calendar quarter of 2023, down from the initial estimate of 2.4% but above the 2% expansion seen in the first quarter.

The European Central Bank increased its key deposit, main refinancing, and marginal lending interest rates to 4.00%, 4.50% and 4.75% respectively in September, and hinted these levels may represent the peak in rates but also emphasising rates would stay high for as long as required to bring inflation down to target.

Although continuing to decline steadily, inflation has been sticky, Eurozone annual headline CPI fell to 5.2% in August while annual core inflation eased to 5.3% having stuck at 5.5% in the previous two months. GDP growth remains weak, with recent data showing the region expanded by only 0.1% in the three months to June 2023, the rate as the previous quarter.

Financial markets: Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.
Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.

Credit review: Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.

During the second quarter of the period, Moody's revised the outlook on Svenska Handelsbanken to negative from stable, citing concerns around the Swedish real estate sector.

Having put the US sovereign rating on Rating Watch Negative earlier in the period, Fitch took further action in August, downgrading the long-term rating to AA+, partly around ongoing debt ceiling concerns but also an expected fiscal deterioration over the next couple of years.

Following the issue of a Section 114 notice, in September Arlingclose advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on Warrington Borough Council to a maximum of 100 days.

APPENDIX C

2023/24 INDICATORS – HALF YEARLY PERFORMANCE

PRUDENTIAL INDICATORS

1) Capital Expenditure and Financing

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. The revised budget includes £1.7 million carried forward from 2022/23.

Capital Expenditure and Financing	Revised Estimate £'000	Actual to 30 Sept £'000
Streetscene	330	0
Leisure and Community	12,484	3,357
Housing	960	431
Planning and Development	128	0
Policy and Resources	25,811	17,721
Total General Fund	**39,713**	**21,509**
HRA	**3,518**	**2,148**
Total Expenditure	**43,321**	**23,657**
Capital Receipts	8,160	3,952
Capital Grants/Contributions	16,135	4,035
Capital Reserves	2,762	2,255
Revenue	1,643	483
Internal Borrowing	14,531	12,932
Total Financing	**43,231**	**23,657**

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)

NEEDS REVISING

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	56,192	67,779
HRA	53,713	53,118
Total CFR	**109,905**	**120,897**

The CFR is higher than projected due to internal borrowing for the purchase of Fareham Shopping Centre.

3) 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	Actual to 30 Sept
Debt at 1 April	52,200	61,256
Capital Financing Requirement (CFR)	109,905	120,897

4) 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	159,000	61,256
Authorised Limit	167,000	61,256

Total debt at 30 September was £61 million. During the first half of 2023/24 the Authorised Limit of £167 million was not breached at any time.

5) 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	7%	5%
HRA	12%	13%

TREASURY INDICATORS

6) 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	10

£10 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.

7) 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	22
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	78

The £40m HRA loans represent 65% 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 loans. These represent 22% of loans maturing within 1 year.

8) 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	13,208	13,208
Number of HRA dwellings	2,419	2,419
Ratio of debt to revenues	3.73	3.73
Debt per dwelling £	£20,369	£20,369
Debt repayment fund £'000	£7,980	£7,980

INVESTMENT INDICATORS

9) 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	2023/24 Budget	Actual to 30 Sept
Gross service expenditure	46,524	17,335
Investment income	4,222	2,868
Proportion	**9.1%**	**16.5%**

10) Total Risk Exposure

ON TRACK

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

Total Investment Exposure	2023/24 Forecast £'000	Actual to 30 Sept £'000
Treasury Management Investments	15,000	18,192
Commercial Investments	68,336	70,006
Total	**83,336**	**88,198**

ON TRACK

11) How Investments are Funded

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	2023/24 Forecast £'000	Actual to 30 Sept £'000
Treasury Management Investments	0	0
Commercial Investments	28,663	28,663
Total	**28,663**	**28,663**

ON TRACK

12) Rate of Return Received

This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested.

Investments Net Rate of Return	2023/24 Estimate	Actual to 30 Sept
Treasury Management Investments	3.1%	2.4%
Commercial Investments	3.7%	4.4%
Total	**4.7%**	**3.9%**