North Somerset Council

REPORT TO THE AUDIT COMMITTEE

DATE OF MEETING: 24 NOVEMBER 2022

SUBJECT OF REPORT: TREASURY MANAGEMENT MID-YEAR REPORT 2022/23 & CONSIDERATIONS FOR THE 2023/24 STRATEGY

TOWN OR PARISH: ALL

OFFICER/MEMBER PRESENTING: MELANIE WATTS, HEAD OF FINANCE

KEY DECISION: N/A

REASON: Not an Executive decision – this is a report for information.

RECOMMENDATIONS

The Audit Committee is asked to note;

- the treasury management in-year monitoring report to 30th September 2022 which includes performance, prudential indicators, and commercial investments
- the proposed matters for inclusion in the Treasury Management Strategy 2023/24

1. SUMMARY OF REPORT

1.1 This report informs the Audit Committee of the council's;

- treasury management activities during the first six months of 2022/23 and confirms that the activities undertaken during the year have complied with both the requirements of the Accountability and Responsibility Framework and the approved Treasury Management Strategy approved by Council in February 2022, and also

- sets out the framework and issues to be considered when drafting the Strategy for the 2023/24 financial year

2. POLICY

1.2 Part 1 (7) of the Financial Regulations, sets out the councils' own policy framework with regards to treasury management activities.

1.3 Following the council's adoption of the 2021 edition of the Chartered Institute of Public Finance and Accountancy (CIPFA) *Treasury Management in the Public Services: Code of Practice*, Members are required to approve an annual treasury management strategy before the start of each financial year and then to receive an in-year monitoring report and an annual report after the end of each financial year. Such reports are required to include a range of core information and so the structure of this report meets those requirements.

3. DETAILS

1.4 The Section 151 Officer has the responsibility to put in place an effective framework to support the council's treasury management activities, which are undertaken by officers within the Finance Service within the Corporate Services Directorate.

1.5 The remit of the S151 and finance officers is broad and covers a range of day-to-day operational tasks relating to the management of cash-flows and resultant outcomes of borrowing and investment decisions, as well as setting and supporting the strategic direction required by the council to deliver its core services and cover key financial risks in this area, as well as linking to the council's other financial strategies and risks.

Key messages for the period 1st April 2022 to 30th September 2022

1.6 **Context** - the economic context that has prevailed during this period has clearly influenced the council's overall financial position as well as its treasury related activity and performance. In summary, the ongoing conflict in Ukraine continued to put pressure on global inflation and the economic outlook for both the UK and world growth remained weak. Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans resulting in further impacts on borrowing rates.

1.7 **Borrowing** - the council's treasury strategy contained a borrowing requirement of £49m for 2022/23. At 30 September this has been reduced to £39m following in-year changes made to the capital programme, all of which have been reported separately to the Executive through the corporate monitoring process. Final levels of borrowing will be confirmed at the end of the financial year. In terms of borrowing transactions, no new additional external borrowing has been undertaken during the period 1 April to 30 September 2022 and £0.4m of borrowing was repaid, both as planned.

1.8 **Investment income** - following a series of bank base rate increases during 2022, gross interest income earned on all investments is forecast to be £1.905m, against a budget of £0.692m.

1.9 **Investment returns** - the average rate of investment return for cash deposit type investments managed by the in-house team for the first half of 2022/23 was 1.25%, which is broadly comparable to that achieved by Tradition (1.51%); and returns of 3.95% were achieved on external pooled fund investments.

1.10 **Cash-flows** - £360m of cash-flows were managed and turned around during the period; this is broadly comparable with the equivalent period last year (£375m).

1.11 **Indicators** - the council's Treasury Management Indicators for 2022/23 were approved by Council in February 2022. Performance against the key indicators is shown in **Appendix 1**. All indicators are currently within target levels.

Balance Sheet Summary

1.12 Treasury related sums are reflected within the council's balance sheet, with some elements being shown as liabilities and others as assets. An extract of the key components is shown in the table below, together with a comparison of the previous year and the change that has occurred.

Table 1 Treasury Management Balances within the Balance Sheet				
	Balance 31/03/22 £m	**Movement In Year £m**	**Balance 30/09/22 £m**	**Ave Rate %**
Long-term borrowing	136.8	0.0	136.8	3.96
Short-term borrowing	7.4	-0.4	7.0	2.04
Total borrowing	**144.2**	**-0.4**	**143.8**	**3.87**
Long-term investments	10.0	0.0	10.0	3.95
Short-term investments - in-house	157.0	-10.0	147.0	1.25
Short-term investments - Tradition	10.0	0.0	10.0	1.51
Total investments	**177.0**	**-10.0**	**167.0**	
Net (borrowing) / investments	**32.8**	**-9.6**	**23.2**	

1.13 It should be noted that the values reflected within this table are the principal sums of borrowing and investments made which may be different to the final values reflected within the council's statutory accounts at the end of the financial year. This is because the council is required to follow accounting regulation and gross up these values to include technical adjustments such as accrued interest or reflect impairment assessments at that point.

1.14 Balances at 30th September 2022 were comparable with the equivalent in the previous year.

Summary of Investment Returns & Activity

1.15 **Overview** – Table 3 provides an overview of the council's investment portfolio, which is diversified across Money Market Funds, Local Authorities, the CCLA Property Fund, highly rated UK and Foreign Banks and UK Building Societies. The council uses AAA rated Money Market funds to maintain very short-term liquidity and had overall investments of £167m as at 30th September 2022. (CCLA – Charities, Churches & Local Authorities).

1.16 The table below shows further analysis of the investments held at 30th September 2022 and 31st March 2022 which adhered to the approved Investment Strategy.

Table 3 Analysis of External Investments (principal sums)			
	31/03/2022 £m	Movement £m	**30/09/2022 £m**
UK Banks	14.0	-8.0	**6.0**
Overseas Banks	0.0	32.0	**32.0**
UK Building Societies	32.0	15.0	**47.0**
Debt Management Office (DMO)	28.0	-17.0	**11.0**
Local Authorities	93.0	-32.0	**61.0**
Pooled Investment Funds	10.0	0.0	**10.0**
Total	**177.0**	**-10.0**	**167.0**

1.17 **Security and liquidity** - the investment strategy continued to prioritise security and liquidity of cash-flows during the first six months of 2022/23, which meant that a large proportion of funds were placed into "safe havens" for short periods of time. It can be seen from the table above that at the end of September a total of £72m was being held with other local authorities (£61m) and the governments' Debt Management Office (DMO) (£11m).

The DMO provides a AAA rated investment and whilst the majority of local authorities are not rated by external agencies, they are also considered more stable than other types of counter-parties. Care is taken to assess all individual local authorities before investments are placed, through reviewing their own treasury management strategies as well as their published accounts.

The approach to invest in higher rated institutions would clearly have reduced some areas of risk, i.e. operational service delivery by retaining a degree of liquidity over funding, as well as counter-party and country related risks by reducing exposure to volatile organisations and countries across Europe, although it is recognised that this could have impacted on inflationary risks and returns. That being said, the council was aware that it did not want to lock in all of its longer-term cash-flows during a period whereby interest rates continued to rise rapidly as this may curtail future opportunities from being taken.

1.18 **Cash-flows and market rates** – Daily cash inflows and outflows vary over the year with semi-regular peaks and troughs in income and expenditure. Forecasts show that for the first 6 months of the year, income tends to exceed expenditure, resulting in a build-up of cash balances and this has been the case during the current financial year.

During 2022/23 investments were placed for shorter durations, in part to ensure that the council's ongoing liquidity needs continued to be met, but largely because of the ongoing expectations of continued base rate increases meaning that it would not be appropriate to lock in longer-term investments when rates would be surpassed shortly afterwards. The council's portfolio was rebalanced to ensure an increased, but not excessive, share of the council's investments were placed across a range of counterparties, e.g. banks, building societies and local authorities as well as the DMO.

1.19 **Investment returns** - the table below shows the average rates of return achieved during the first half of 2022/23 on investments placed by both treasury teams.

Table 4a Analysis of Investments – non-pooled funds

	In-house				Tradition			
	Ave Return (%)	Return (£m)	Ave Time (days)	Ave Loans (No.)	Ave Return (%)	Return (£m)	Ave Time (days)	Ave Loans (No.)
Qtr 1 – to 30th Jun	0.98%	0.984	207	56	1.09%	0.082	345	5
Qtr 2 – to 30th Sept	2.50%	0.555	112	13	3.35%	0.057	206	1
Annual Average for Fixed Term Cash Deposits	**1.25%**	**1.539**	**145**	**69**	**1.51%**	**0.139**	**299**	**6**

Table 4b Analysis of Investments – pooled funds								
	In-house				Tradition			
	Ave Return (%)	Return (£m)	Ave Time (days)	Ave Loans (No.)	Ave Return (%)	Return (£m)	Ave Time (days)	Ave Loans (No.)
CCLA pooled fund	4.31%	0.215	365	NA	NA	NA	NA	NA
UBS Multi Asset Fund	4.41%	0.044	365	NA	NA	NA	NA	NA
Ninety-one Diversified Income Fund	3.39%	0.136	365	NA	NA	NA	NA	NA
Annual Average for Pooled Funds	**3.95%**	**0.395**	365	NA	NA	NA	NA	NA

1.20 The first section covers fixed term cash deposits, which are traditional investments placed with banks, building societies, the DMO and other local authorities, where a principal sum is paid to the investor and a yield received at maturity along with the returned investment. The second section covers pooled investment funds where the councils' investment buys shares. Returns are given to the council on a quarterly basis depending on the value of the share price at that time.

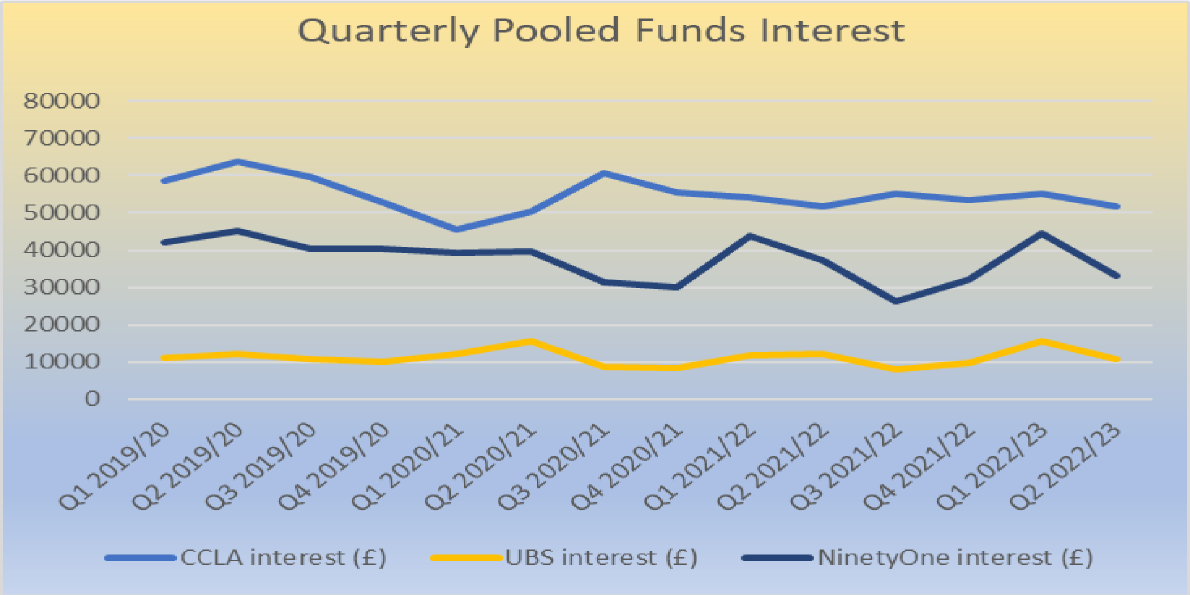
1.21 The council's average investment return from its fixed term cash deposits for the 6-month period was around 1.25%. However, it can be seen that the average rate achieved between July and September 2022 was 2.50%, reflecting the increases in the base rate and resultant market activity. This pattern is expected to improve further in the second half of the year.

1.22 The table also shows that the council's in-house team achieved a marginally lower average rate of return during the period compared to that of the external fund manager for similar types of investments. This would be expected as the primary purpose of the in-house team is to manage cash-flows to support the operational delivery of council services, whereas the external managers have no such constraints and can seek the best opportunities within the market. The number and 'duration' of investments placed by each team differs significantly with the fund manager being able to take opportunities throughout the year to assess the yield curve, which offers higher rates of return for longer investment periods.

1.23 The council's average return from its £10m of pooled investment funds returns of 3.95%.

1.24 The chart below shows the quarterly returns achieved on the council's pooled funds over recent years and whilst they are higher than returns on traditional fixed term cash deposits, they are more volatile and susceptible to changes within the market and so often act conversely to the money markets as they can be linked to bonds and gilts.

1.25 The chart below shows a slight dip in the performance at the end of September compared to the levels achieved at the end of the first quarter however, they remain comparable to the levels achieved at the same point last year. As per the key controls and framework in place, care will be taken to assess performance for these investments during the remainder of the current financial year to ensure that they still meet the core requirements of the council, as described in previous reports.



1.26 The council has created a pooled funds smoothing reserve as part of its risk management measures at the end of the 2021/22 financial year which will be available to smooth annual fluctuations on the council's revenue budget if needed.

Budget Implications

1.27 The table below shows that the council received **£1,905k** from interest income during the year, which is £1,213k more than budgeted. This is due to a combination of the increased interest rates in the first six months and stronger than expected CCLA income.

Table 5 Investments Interest Budget						
	In-House – Cash Deposits £000	Money Market Funds £000	Tradition UK Ltd £000	CCLA Property Fund £000	Other Pooled Funds £000	**Total £000**
Interest generated	1,360	61	82	214	188	**1,905**
Investment Interest Budget	262	16	15	206	193	**692**
Variance to Budget	1,098	45	67	8	-5	**1,213**

1.28 It can be seen through regular reports to the Executive that the current economic backdrop as referred to within para 3.3, is having a significant impact on the council's financial position, most notably as a result of rapidly rising inflation increasing its cost base. The largest increases relate to energy, pay and contract inflation, which when added to rising levels of demand for childrens services and home to schools transport provision, means that the council is projecting a net deficit of over £4m on its budget for the year.

1.29 The increase in investment interest shown in the table above is currently being reflected as a budget mitigation, i.e. as a way of reducing overspending in other areas of the budget and means that the council's financial position would be much worse without this windfall. Therefore the issue of interest rates and their projected levels for next year, should not only be a key consideration within the treasury management strategy, but also feature within the medium term financial strategy proposals.

Borrowing activity and further update

1.30 At 30th September 2022 the council held £155.6m of external borrowing on its balance sheet which is held with the following counter-parties;

- £140.4m is held with the **Public Works Loan Board** (PWLB),
- £2.9m with SALIX,
- £0.5m with Town Councils
- £11.8m managed by Bristol City Council on behalf of 4 councils

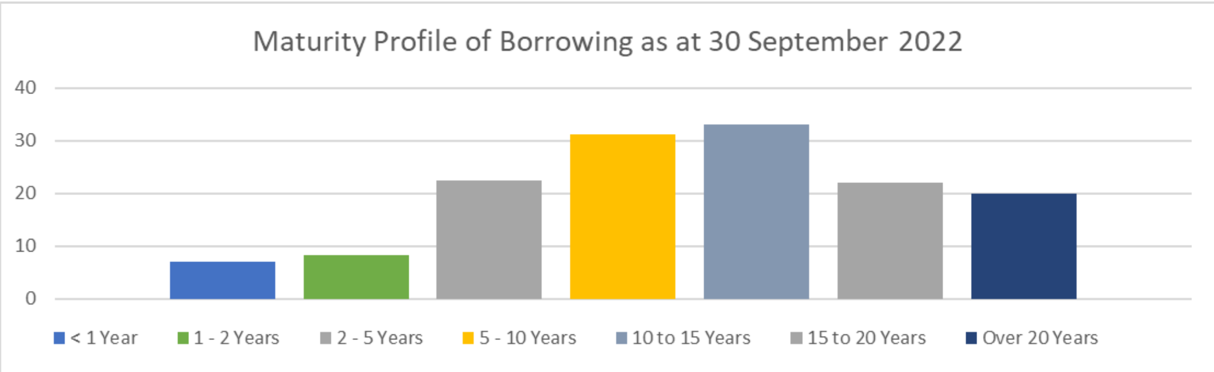
The PWLB is operated by the UK Debt Management Office on behalf of HM Treasury and provides loans to local authorities, and other specified bodies, from the National Loans Fund, with borrowing only available for capital purposes.

Salix is an executive non-departmental public body, sponsored by the Department for Business, Energy, and Industrial Strategy (BEIS) who deliver government funding to the public sector to improve energy efficiency, reduce carbon emissions and lower energy bills.

1.31 The maturity profile of PWLB debt is shown in the table and chart below.

Table 6 Long-term PWLB debt profile (principal) as at 30th September 2022

	Debt £m	Average Rate %
Less than 1 year	6.96	2.04
Between 1 and 2 years	8.31	3.65
Between 2 and 5 years	22.45	3.58
Between 5 and 10 years	31.17	4.06
Over 10 years	74.95	4.08
	143.84	**3.87**



1.32 No new PWLB borrowing was undertaken; £6m of existing PWLB loans is due to be repaid by March 2023. Interest payments totalling £5.564m are due to be paid in year.

1.33 SALIX have provided funding to North Somerset for green initiatives, in this case energy efficient replacement street lighting. During the year, the council has made a partial repayment of £0.4m from the original loan funding from SALIX bringing the total loan balance to £2.9m. Borrowing is repayable in 10 equal six-monthly instalments over 5 years. There are no interest obligations on this borrowing, although as a result the council does need to recognise this as a soft loan within its statutory accounts.

1.34 The council's balance sheet also reflects long-term borrowing obligations of £11.8m at the end of the year in respect of the former Avon County Council, which is paid off over a period. A partial repayment of £0.480m will be paid during the year. These loans are currently held and administered by Bristol City Council.

1.35 The Capital Strategy report approved in February 2022 did indicate that the council would be required to borrow £49m to fund its capital programme in 2022/23 however, following a series of reviews and rephasing, the revised borrowing forecast for 2022/23 is now £39m. Given the surplus cash-flow position, as expected the council has not drawn down any external borrowing in 2022/23. Capital spending plans and forecasts will continue to be reviewed to provide an updated assessment to inform future borrowing decisions and will be a consideration within the 2023/24 Strategy. Core drivers would include capital expenditure spending profiles, market rates, current and future cash-flow forecasts.

Economic Impacts

1.36 Our treasury management advisor's detailed economic and market review for 2022/23 is included in **Appendix 3,** although highlights are listed below.

1.37 The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

1.38 Having increased Bank Rate from 0.75% to 1.00% in May and again to 1.25% in June, the Bank of England raised it further to 1.75% in August and 2.25% in September 2022.

1.39 Arlingclose expects Bank Rate to rise further during 2022/23 to reach 5% by the end of the year.

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.25	4.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.25
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

1.40 The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages.

1.41 The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year.

1.42 This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

1.43 The market volatility seen in September and October, and the impact of the chancellor's fiscal event and accompanying Office for Budget Responsibility (OBR) report in November may affect the scale and timing of the above assumptions.

Commercial Investments

1.44 As noted in previous reports the council's Commercial Investment Strategy was initially approved by Council in July 2017 although was subsequently revised and updated as part of the Capital Strategy in February 2019, following recommendation by the Executive. In line with this Strategy, the council made two investments in commercial property within the geographical boundary of North Somerset with the aim of earning both an annual return into the revenue budget as well as the potential for long-term capital appreciation. Investment income is received in year through a combination of rental and car parking income at the sites.

1.45 The investments made under the strategy were all agreed in previous years and consist of one outright purchase funded from long term borrowing, the North Worle District Centre, and one property acquired under a finance lease, the Sovereign Centre in Weston-super-Mare. Indicative sums have been set aside for potential improvements to the Sovereign Centre although no decisions to approve spending have taken place because the Council has been able to access grant funding to progress projects. There were no purchases or sale of assets during the 2022/23 financial year and there are no plans to undertake any further commercial investments in the future.

1.46 Performance and management of these assets is supported by specialist property advisors Montagu Evans and their activity is tailored to the specific requirements of each site. The North Worle site is leased to a single tenant and performance since purchase has been as expected within the original business plan. The Sovereign Centre site is more complex as it is an internal shopping centre within the town centre and has been impacted by several factors since acquisition. Monthly meetings are held on site to discuss all aspects of operational delivery and performance.

1.47 Any financial impacts or issues arising from these commercial investments are within the council's regular budget monitoring framework which is presented to the Executive throughout the year. Decisions surrounding capital investments would follow the council's capital governance routes, which will include Boards such as the Capital Programme, Planning and Delivery Board or the Capital Delivery Strategic Group.

1.48 Details of the financial performance are contained within the following sections of the report and these investments continued to be accounted for as investment properties within the balance sheet. The council currently has no plans to dispose of its commercial investment properties.

Cost and valuation

1.49 The council's portfolio of commercial investment property was valued at £33.0m at 31st March 2022 as part of the annual review process and is not remeasured mid-year. The value in March 2022 represented an increase of £0.4m compared to the value at the 2020/21 year-end, although a reduction of £28.2m compared to the original acquisition cost. The properties will be subject to a further revaluation at the end of March 2023.

Table 7 Property held for investment purposes					
Property	Acquisition cost (Incl fees) £m	31/03/2021 Valuation £m	31/03/2022 Valuation £m	Change over acquisition £m	Change over prior year £m
North Worle District Centre	40.2	29.0	28.0	-12.2	-1.0
Sovereign Centre	21.0	3.6	5.0	-16.0	1.4
Total	**61.2**	**32.6**	**33.0**	**-28.2**	**0.4**

Income compared to budget

1.50 After servicing costs, fees and borrowing costs and contributions into smoothing reserve, commercial investments are budgeted to generate an annual net return to the revenue budget of £0.0m (2021/22 £0.2m). **Appendix 2** contains budget forecasts for each of the council's commercial investments.

1.51 The main Sainsbury's store at North Worle has remained open and trading through the first six month of the financial year, and the council has continued to receive income as planned.

1.52 Trading operations at the Sovereign Centre have also remained as planned, including the opening of the office accommodation and touch down spaces, which was an investment funded through the Getting Britain Building Fund to diversify the Centre away from purely retail markets. Monitoring also shows that the council expects to receive car parking income in line with budget.

1.53 The council has created a commercial investment smoothing reserve as part of its risk management measures which is available to smooth annual fluctuations on the council's revenue budget if needed. This would not only cover periods of higher cost prices or income reductions from vacant units, but the reserve would also cover income reductions that may arise because of lease renewals, as they often include rent free periods as part of the renewal terms.

Yield / Return on investment

1.54 As detailed in **Appendix 2**, combined the council's commercial investments are forecast to provide an annual yield / return on investment of 0% in 2022/23 (0.7% in 2021/22) although this is after a proposed contribution into smoothing reserve of £0.5m to cover potential future risks or investments.

1.55 Whilst the annual yields are currently below both the original acquisition terms and those defined within the Strategy, the council recognises the longer-term place-making impacts that these assets have on the geographical area and the benefits that they provide to residents and the wider community.

Revisions to CIPFA Codes

1.56 In December 2021 CIPFA issued the revised Codes and Guidance Notes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes.

1.57 Due to the timing of the codes' publication councils were able to defer reflecting the changes until 2023/24. The changes are laid out in **Appendix 6**.

Initial considerations in relation to the draft Treasury Management Strategy for 2023/24

Background

1.58 Each year the Council is required to prepare and approve a Strategy that covers its proposed treasury management related activity for the year ahead and this will set out the proposed framework, activity, risks and approaches that the council will use within its operational arrangements.

1.59 The process shows that the draft Strategy is reviewed by the Audit Committee each year, it is then considered by the Executive at their meeting in February who then recommend it onto Council for their approval.

1.60 Much of the Strategy **framework**, its format and component parts are driven by external legislation, regulation or good practice, as well as the council's own internal financial regulations and governance arrangements, and so are likely to remain unchanged unless specific changes are made to any of these cornerstones.

1.61 Council Performance indicators and information, which feed into the Strategy, are variable and could change year-on-year which means that the Strategy will need to be updated for these at the appropriate time, i.e. the amount the council may need to borrow to fund its capital programme, the cash-flows associated with the delivery of services, the amount of investment balances available, how many commercial properties are owned or the financial risks reflected within the revenue budget and broader medium term financial plan.

1.62 There are also a range of external facts and information which either feed into the Strategy, or which may influence the council's approach to risk and so could result in a future change within the Strategy, examples of these might include inflation and interest rate forecasts or events or risk profiles of countries or individual counter-parties.

Draft proposal

1.63 It is anticipated that the annual Strategy for 2023/24 **will be updated** to include the amendments mandated by the Code. Given that the council has adopted the Code of Practice it is appropriate that we reflect these within our Strategy, for example;

- Borrowing Strategy - PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; this will be addressed either via a statement that the council intends to avoid this activity to retain its access to PWLB loans; or via an explanatory note on the liquidity implications of losing access to PWLB funding.

- Borrowing Strategy - the liability benchmark - this 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.

- Investment Strategy - the requirements of the 2018 MHCLG Investment Guidance mostly refers to non-treasury investments. The 2021 Code requires the treasury management strategy, to address all the organisation's financial investments, including those which are not treasury management investments, as well as any non-financial assets held primarily for financial return (such as commercial property). Much of the information is already disclosed within the Strategy and so the presentation will be updated.

- Investment Strategy – the framework and ability to introduce Environmental, Social and Governance investment-based decisions (ESG) and / or increasing Greener investment opportunities will be included within the Strategy.

- Investment Strategy - the status of the statutory over-ride for Pooled funds capital gains / losses will be updated when a final decision, given that the future of the statutory override is currently out for consultation.

1.64 It is proposed that there will be **no material changes** made to the current operational framework of the Strategy itself, although investment risk levels will be reviewed in light of current economic forecasts, focused upon market changes, counterparties and ratings to ensure the current levels and counter-parties reflect the council's current risk appetite.

1.65 The rationale to support this statement is because;

- the current Strategy has been prepared through detailed consultation and engagement with the Members of the Audit Committee over the past three financial years, and also reflects the advice and guidance of the council's treasury management advisors,

- Members of the Audit Committee have been provided with several training sessions in this area, have received a series of mid-year and out-turn reports and are assured that the current framework meets the legislative requirements and good practice,

- The current Strategy is considered to be aligned to the council's current risk approach, i.e. it sets out very clear risks and ensures that robust mitigations are put in place to cover these,

- The current Strategy is fairly broad in nature and is robust enough to cover most eventualities that could occur within the council or within the financial markets. The key components ensure that the council has the choice and flexibility to adapt and adjust to a variety of events, operational requirements or opportunities that we may face during the year ahead without the need to request emergency powers or invoke remedial actions.

1.66 It is proposed that the annual Strategy **will be updated** to include the council's latest financial information when known, examples are listed below;

- Capital expenditure levels, reserves, borrowing requirement, cash-flow forecasts, updated budgets for borrowing costs, investment income, MRP etc

1.67 Local Treasury Management Indicators will consider the following updates:

- Introducing new indicators which look at ways to measure and assess Security, Liquidity and Interest Rate risk exposure.

4. CONSULTATION

1.68 A range of financial information and performance details are included within the council's monthly budget monitoring framework which sees reports presented to the Executive throughout the year and scrutinised by the relevant Policy and Scrutiny Panels, where an opportunity is provided for further consultation and engagement on financial matters. Given the scale of financial information and decisions, reports are focused on exceptions, drawing attention to material variances or pertinent highlights.

5. FINANCIAL IMPLICATIONS

1.69 Financial implications are contained throughout this body of the report within the relevant sections however, an additional summary has been included to provide a high-level overview of the key components linked with capital financing and investment decisions.

Table 8 - Budget impacts – capital financing and interest

	2022/23 Budget £000	2022/23 Forecast £000	2022/23 variance £000
Interest payable on borrowing	5,809	5,564	-245
Interest receivable on investments	-692	-1,905	-1,213
Minimum revenue provision	7,121	6,730	9
Total	**12,238**	**10,789**	**-1,449**
MRP analysis;			
- Supported Borrowing Minimum Revenue Provision	900	900	0
- Prudential Borrowing Minimum Revenue Provision	5,410	5,410	0
- Ex-Avon Loan Debt Minimum Revenue Provision	461	470	9
- Finance Leases Minimum Revenue Provision	350	350	0

6. LEGAL POWERS AND IMPLICATIONS

1.70 This report is for information only and covers the council's required obligations.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

1.71 The council will continue to avoid any direct treasury management investments in fossil fuel related companies and will engage with its advisors to explore and assess the potential for any future investment opportunities in funds with a Renewable Energy & Sustainability focus as these products continue to be developed by the market in response to the Climate & Nature Emergency agenda.

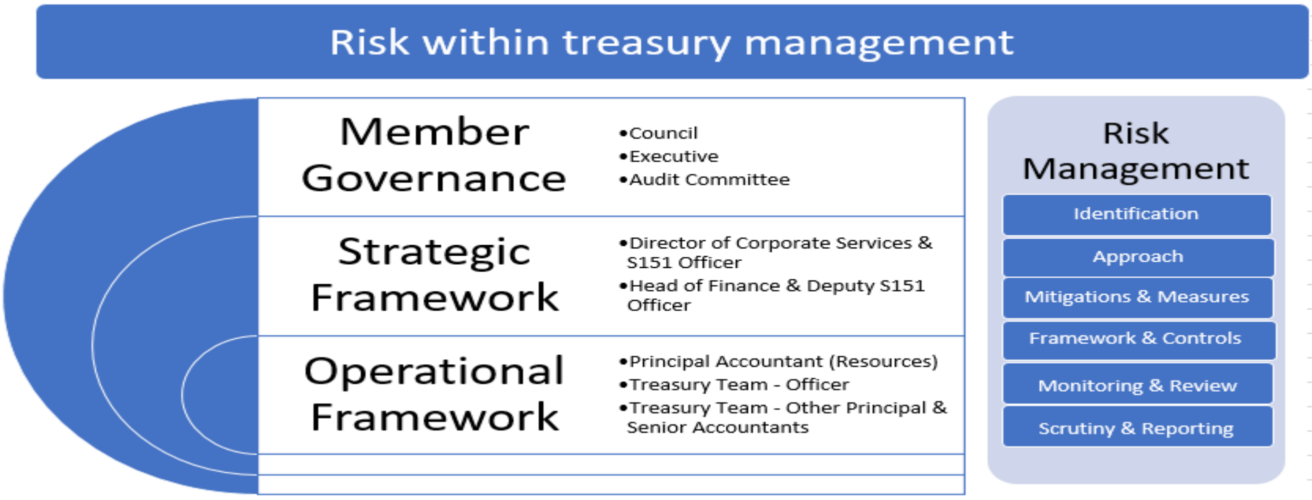
1.72 The council continued to hold an investment in a Green Deposit account with Barclays Bank. This forms part of the council's fixed term cash deposits and so will earn some interest in the usual way however, the Bank confirms that it will use these funds to support its Green Bond Purchase Programme which is an initiative whereby monies are used to invest in a variety of projects which support the environment such as tree plantation, renewable energy schemes and water waste management activities.

8. RISK MANAGEMENT

<u>Overview</u>

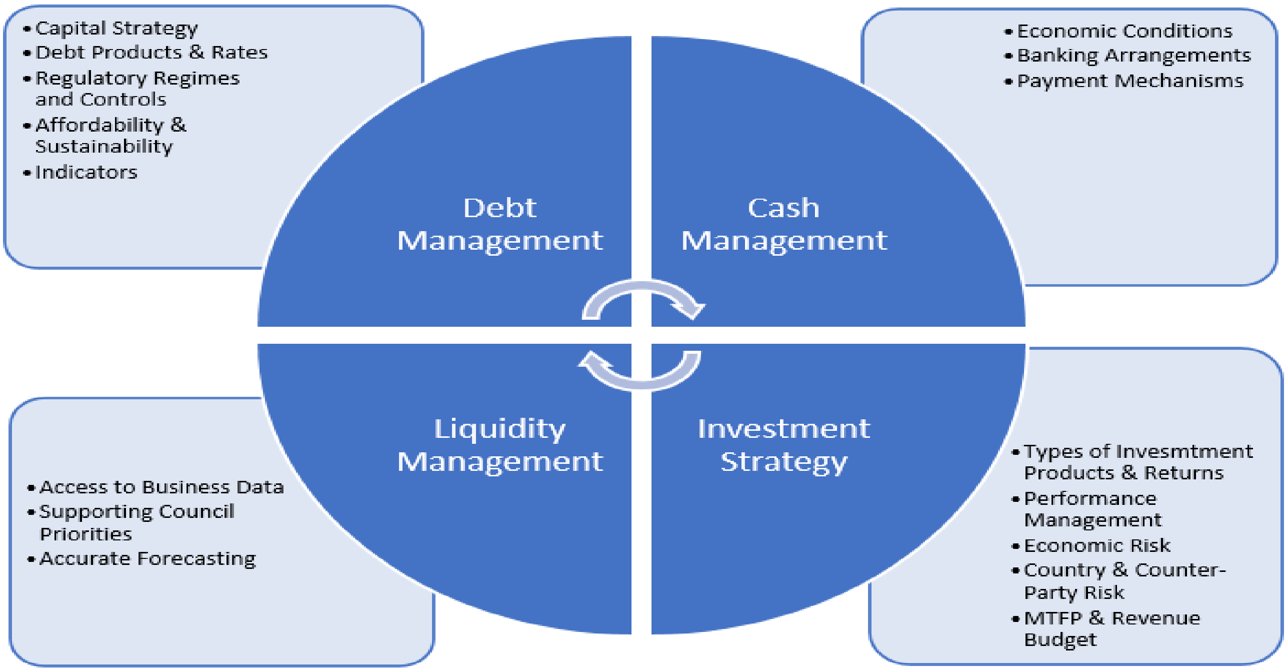
1.73 The council faces a myriad of risks when undertaking its treasury management function and activities, indeed it is not possible to deliver this function without encountering various types and degrees of risk, which could impact in a variety of ways and many of these have been referred to throughout the report.

1.74 The caption below summarises the key stakeholders and roles involved with the council's treasury management function and indicates that risk management can be seen within all of these roles. The chart also indicates points of escalation so that it is possible to understand how treasury management related decisions are made and issues escalated upwards.



1.75 The Treasury Management Strategy approved by Council each year provides the framework for officers to work within throughout the course of the year. It describes how the council will manage its money, whether it expects to have surplus or negative cash-flows, and goes into a lot of detail of what should be done in those instances by confirming 'acceptable' investment products, 'approved' categories of financial institutions and setting limits for potential investments.

1.76 The Strategy therefore identifies the strategic risks inherent within the treasury function and the caption below shows some of the most significant risks within the council's treasury function. Identification is clearly one of the most important stages in the management of risk because policies, strategies and mitigation measures cannot be put in place until that work has been completed.



1.77 Once identified, the council ensures that it implements, and adheres to, strict policies, principles and internal controls to mitigate such risks although it should be noted that these measures have been developed alongside the council's broader financial strategies to ensure that information is fully integrated. This is because it would not be appropriate to develop a policy for treasury activity, which then has an adverse impact within the council's revenue budget or vice versa.

Strategic Risk Management

1.78 Listed below are some of the council's more strategic risks together with commentary on how they are managed through the strategy and associated frameworks;

- The CIPFA Treasury Management in the Public Services: Code of Practice requires the council nominate a committee to be responsible for ensuring effective review of the Treasury Management Strategy. Within North Somerset the Audit Committee carries out this function and members have been provided with specific training sessions and workshops to support their role.

- The council's primary objectives for the management of its **investments** are to give priority to the security and liquidity of its funds, before seeking the best rate of return. Most of its surplus cash is therefore held as short-term cash-based investments and utilises a combination of UK Government and other highly rated financial institutions and / or pooled funds where appropriate.

- The council's primary objective for the management of its **debt** is to ensure its long-term affordability. Most of its loans have therefore been borrowed from the Public Works Loan Board at long-term fixed rates of interest.

- The council recognises however, that the increased level of security through the combination of short duration investments and long duration debt could expose the council to the risk of falling investment income during periods of low interest rates. This risk is partially mitigated by holding some longer-term investments and reviewing the option to prematurely repay long-term loans.

Operational Risk Management

1.79 The council also manages risk on an operational basis through undertaking a series of daily, weekly, monthly, quarterly and annual activities. Examples of some of these activities and decisions are described below all of which fall within the scope of the Strategy approved by Council and the guidelines of the Prudential Code;

- The council undertakes a daily assessment of its banking position and compares this to both the cash-flow forecast and operational business needs of the day.

  Should this daily review present a negative cash-flow position outside of permitted levels then the Principal Accountant (Resources) would take steps to bring additional resources into the bank accounts to ensure that the council does not breach any overdraft agreements with the Bank.

  Similarly, should the daily review present a surplus cash-flow position, then the Principal Accountant (Resources) would follow the appropriate process to ensure that funds are placed securely and not left within the bank account as this does not provide optimum levels of security or return in comparison to other options within the Investment Strategy.

- The council maintains a detailed analysis of its borrowing and lending transactions and these schedules are reviewed and updated on a daily basis to ensure that current and potential future counter-parties and countries still meet the council's required credit ratings and that balances do not exceed the limits defined within the approved Strategy.

  If these schedules are not updated then there is the risk that the council could place an investment with a counter-party that would either breach the limits set within the Strategy or which would not meet the highest security criteria. Clearly any change in credit rating could increase the risk of default by the investor.

- The council maintains detailed records of the transactions linked to borrowing and investment decisions, such as interest payments, receipts and the repayment of principal sums. These records are reconciled to both the bank account and the financial management system and provide the basis for all of the council's reporting requirements.

  Given the risks involved in this area they are extensive and information is regularly shared with a range of stakeholders at appropriate levels, for example, detailed analysis is provided to the Head of Finance, exception based reporting is provided to the Section 151 Officer, the Executive and the Audit Committee, detailed transactions are tested by internal and external auditors, summarised information is shared with Department for Levelling Up Communities and Housing through the Monthly Borrowing and Lending (MBL) return and more detailed information is shared annually shared within the Whole of Government Accounts (WGA) return.

1.80 The latest monitoring shows that all treasury related activity undertaken during the six-month period to September 2022 fell within approved limits and with approved institutions.

9. EQUALITY IMPLICATIONS

1.81 Not applicable, this report is for information only.

10. CORPORATE IMPLICATIONS

1.82 Treasury management is an integral part of the council's wider financial strategies.

11. OPTIONS CONSIDERED

1.83 The council is required to undertake a treasury management function to support its financial affairs and there are many options within the component parts.

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APPENDICES:

Appendix 1 Performance against Treasury Management Prudential Indicators
Appendix 2 Performance of Non-Treasury Management commercial investments
Appendix 3 External context provided by Arlingclose Ltd (treasury advisers)
Appendix 4 Summary Guide to Credit Ratings
Appendix 5 Glossary of Terms
Appendix 6 Revisions to CIPFA Codes

BACKGROUND PAPERS:

Treasury Management Strategy 2022/23, Executive & Council – February 2022

Appendix 1: Performance against Treasury Management Prudential Indicators

Prudential Indicators: 'Prudential' Code

1.1 CIPFA published its revised Treasury Management Code of Practice [the TM Code] and Prudential Code for Capital Finance in December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The principles within the two Codes took immediate effect although local authorities could defer introducing the revised reporting requirements within the revised Codes until the 2023/24 financial year if they wish which the Authority has elected to do.

1.2 The following Treasury Management prudential indicators were set in the Treasury Management Strategy for 2022/23. The limits are shown below, together with the actual indicators for 2022/23.

Affordable borrowing limit / Authorised limit

1.3 The council is legally obliged to set an affordable borrowing limit (also termed the 'authorised limit' for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the affordable limit.

1.4 The council approved the following authorised limit for its total external debt gross of investments for 2022/23. This limit separately identifies borrowing from other long-term liabilities, such as finance leases or lease premium incentives. The actual level of external debt is shown and is well within the limits set at the start of the year.

Authorised Limit for External Debt	**2022/23 Limit £m**	**2022/23 Actual £m**
Borrowing – NSC Other Long-Term Liabilities (Avon debt, leases, temporary borrowing etc)	213.0 30.0	155.6 22.1
Authority Total	**243.0**	**177.7**

1.5 The council also approved the following operational boundary for external debt for the same period. The operational boundary for external debt was based on the same estimates as the authorised limit, but reflected estimates of the most likely, prudent, but not worst-case scenario, without the additional headroom included within the authorised limit to allow for unusual cash movements. As can be seen below, the actual level of external debt is well within the operational boundary set at the start of the year.

Operational Limit for External Debt	**2022/23 Limit £m**	**2022/23 Actual £m**
Borrowing – NSC Other Long-Term Liabilities (Avon debt, leases etc)	208.0 30.0	155.6 22.1
Authority Total	**238.0**	**177.7**

Treasury Management Indicators: 'Treasury Code'

Interest rate exposures

1.6 The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also inform whether new borrowing is taken out at fixed or variable interest rates.

Maturity structure of borrowing

1.7 The maturity date of borrowing is the earliest date on which the lender can demand repayment. This indicator is set to control the council's exposure to refinancing risk. These limits are shown below, together with the actual percentage of borrowing that is maturing in each period.

Maturity Structure of Borrowing	Upper Limit	Lower Limit	Actual 2022/23	Complied?
Under 12 months	50%	0%	4.84%	Yes
12 months and within 24 months	30%	0%	5.78%	Yes
24 months and within 5 years	40%	0%	15.60%	Yes
5 years and within 10 years	50%	0%	21.67%	Yes
10 years and above	100%	0%	52.11%	Yes

Principal sums invested for periods longer than 364 days

1.8 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 total principal sums invested to final maturities beyond the period end are shown below. The council is required to set a maximum amount to be invested beyond the end of the financial year for the forthcoming financial year and the following two years.

Principal sums invested for periods longer than 364 days	2022/23 £m	2023/24 £m	2024/25 £m
Upper Limit of Principal sums invested beyond the year	60	50	50
Actual principal sums invested beyond one year	10	N/A	N/A
Complied?	Yes	N/A	N/A

Proportion of financing costs to net revenue stream

1.9 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans, the MRP, and loans fund repayments are charged to revenue, offset by any investment income receivable. The net annual charge is known as the council's financing costs. In this indicator, financing costs are compared to the net revenue stream i.e., the amount funded from Council Tax, business rates and general government grants, to provide a measure of the affordability of the council's forecast borrowing.

	Actual 2020/21	Actual 2021/22	Forecast 2022/23
Net Financing costs (£m)	£10.3m	£10.7m	£9.3m
Proportion of net revenue (%)	5.1%	6.0%	5.0%

Total investment exposure in £millions

1.10 The indicator below shows the council's total exposure to potential investment losses.

Total investment exposure	**Actual Held as at 31/03/2021 £m**	**Actual Held as at 31/03/2022 £m**	**Actual Held as at 30/09/2022 £m**
Treasury management investments	143.0	177.0	167.0
Service investments: Loans	0.8	0.8	0.8
Commercial investments: Property*	32.6	33.0	33.0
TOTAL EXPOSURE	**176.4**	**210.8**	**200.8**

** Commercial investment properties are re-valued annually by the council's valuers - valuations as at 31/3/23 are not yet available and cannot be forecast with reasonable certainty*

Investment rate of return (net of all costs)

1.11 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. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investments net rate of return	**Actual 2020/21 %**	**Actual 2021/22 %**	**Forecast 2022/23 %**
Treasury management investments	0.56	0.37	1.66
Service investments: Loans	2.38	2.36	3.90
Commercial investments: Property	-0.20	-0.70	0.00
ALL INVESTMENTS	**0.42**	**0.35**	**1.15**

Appendix 2: Performance of Non-Treasury Management commercial investments

1.12 The council's commercial investments are forecast to provided net income of £0.0m in 2022/23, after a £0.5m transfer to reserves. Net income from commercial investments for the year 2021/22 was £0.1m.

Property held for investment – Net return compared to budget (£)

Property	Budget 2021/22 £m	Out-turn 2021/22 £m	Budget 2022/23 £m	Forecast 2022/23 £m
North Worle District Centre	-0.6	-0.6	-0.6	**-0.7**
Sovereign Centre	0.2	0	0.6	**0.5**
Fees	0.2	0.2	0.2	**0.2**
Total (income) / expenditure	**-0.2**	**-0.4**	**0.2**	**0.0**

1.13 After a £0.5m contribution into a smoothing reserve in 2022/23, the council's commercial investments are forecast to provide a yield / return on investment of 0.0% in 2022/23, compared to 0.2% in 2021/22.

Property held for investment – Net return compared to budget (Yield)

Property	Budget 2021/22 £m	Out-turn 2021/22 £m	Budget 2022/23 £m	Forecast 2022/23 £m
North Worle District Centre				
- Net return	-0.6	-0.6	-0.5	-0.7
- Cost	40.2	40.2	40.2	40.2
- (Return) / Loss on investment	**-1.5%**	**-1.5%**	**1.2%**	**-1.7%**
Sovereign Centre				
- Net return	0.2	0.0	-0.8	0.5
- Cost	21.0	21.0	21	21
- (Return) / Loss on investment	**1.0%**	**0.0%**	**-3.8%**	**2.4%**
Fees	**0.2**	**0.2**	**0.1**	**0.2**
Total (Return) / Loss on all investments	**-0.3%**	**-0.7%**	**-0.3%**	**0.0%**

Appendix 3: External context provided by Arlingclose Ltd (treasury advisers)

1.1. **Economic background:** The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

1.2. The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation, and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

1.3. Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were likely recessions in those regions.

1.4. UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

1.5. The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and –2.8% for regular pay.

1.6. **With** disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of –44 in August, down –41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.

1.7. The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. the September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

1.8. On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

1.9. Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

1.10. After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July, and September, taking policy rates to a range of 3% - 3.25%.

1.11. Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from –0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

1.12. **Financial markets:** Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

1.13. Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

1.14. Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

1.15. **Credit review:** In July Fitch revised the outlook on Standard Chartered from negative to stable as it expected profitability to improve thanks to the higher interest rate environment. Fitch also revised the outlook for Bank of Nova Scotia from negative to stable due to its robust business profile.

1.16. Also in July, Moody's revised the outlook on Bayerische Landesbank to positive and then in September S&P revised the GLA outlook to stable from negative as it expects the authority to remain resilient despite pressures from a weaker macroeconomic outlook coupled with higher inflation and interest rates.

1.17. Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

1.18. Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Appendix 4: Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk is currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan, or other material financial obligation but which has not entered bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicates an issuer that has entered bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, or which has otherwise ceased business.

Appendix 5: Glossary of Terms

Authorised Limit – the maximum amount of external debt at any one time in the financial year.

Bank Rate – the Bank of England base rate.

Capital Financing Requirement – financing needs of the council – i.e., the requirement to borrow.

CIPFA - the Chartered Institute of Public Finance and Accountancy. The institute is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public sector. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work, in public service bodies, in the national audit agencies and major accountancy firms.

CLG – Communities and Local Government – see MHCLG.

Counterparty – the organisation the council is investing with.

Credit Rating – an assessment of the credit worthiness of an institution.

Creditworthiness – a measure of the ability to meet debt obligations.

DLUHC, which is the **Department for Levelling Up, Housing and Communities**. The Government department that sets policy on supporting local government, communities and neighbourhoods, regeneration, housing, planning building and the environment and fire. (Formerly known as MHCLG)

Finance Lease - a finance lease is a lease that is primarily a method of raising finance to pay for assets, rather than a genuine rental. The latter is an operating lease. The key difference between a finance lease and an operating lease is whether the lessor (the legal owner who rents out the assets) or lessee (who uses the asset) takes on the risks of ownership of the leased assets. The classification of a lease (as an operating or finance lease) also affects how it is reported in the accounts.

Gilts – long term fixed income debt security (bond) issued by the UK Government and traded on the London Stock Exchange.

Liability Benchmark - The liability benchmark 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.

LIBID – London Interbank BID Rate – the interest rate at which London banks are willing to borrow from one another.

MHCLG – Ministry of Housing, Communities and Local Government. The Government department that sets policy on supporting local government, communities and neighbourhoods, regeneration, housing, planning building and the environment and fire. The name for this Government department has recently changed and is now known as **DLUHC**, which is the **Department for Levelling Up, Housing and Communities**.

Minimum Revenue Provision - the minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing.

Money Market - the market in which institutions borrow and lend.

Money Market Rates – interest rates on money market investments.

Ninety-One – one of the council's cash managers who invest in multi-asset funds. They were previously known as Investec.

Operational Boundary – the most likely, prudent but not worst-case scenario of external debt at any one time.

Pooled Funds – investments are made with an organisation who pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification, and professional money management.

Prudential Code – a governance procedure for the setting and revising of prudential indicators. Its aim is to ensure, within a clear framework, that the capital investment plans of the council are affordable, prudent, and sustainable and that treasury management decisions are taken in accordance with good practice.

Prudential Indicators – indicators set out in the Prudential Code that calculates the financial impact and sets limits for treasury management activities and capital investment.

PWLB (Public Works Loans Board) - a central government agency which provides long and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities can borrow to finance capital spending from this source.

Sovereign – the countries the council can invest in.

Tradition UK Ltd – is one of the council's cash managers who manage £10m of investments on our behalf. Tradition place funds in fixed term cash deposits with a range of financial institutions.

Treasury Management – the management of the council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risk associated with those activities and the pursuit of optimum performance with those risks.

Treasury Management Practices – schedule of treasury management functions and how those functions will be carried out.

Variable Net Asset Value money market funds – the principal invested may fluctuate below that invested.

Appendix 6: Revision to CIPFA Codes

1.19. Revisions to CIPFA Codes

1.20. In December 2021 CIPFA updated their treasury management and capital financing Codes of practice - formally the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (TM Code) and The Prudential Code for Capital Finance in Local Authorities (Prudential Code). There are changes that will need to be included in 2023/24 treasury and capital strategy documents, having been able to delay reflecting these in 2022/23 reports given the timing of the Codes' publication.

1.21. The changes include:

- Clarification that (a) local authorities must not borrow to invest primarily for financial return (b) it is not prudent for authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the council.

- Categorising investments as those (a) for treasury management purposes, (b) for service purposes and (c) for commercial purposes.

- Defining acceptable reasons to borrow money: (i) financing capital expenditure primarily related to delivering a local authority's functions, (ii) temporary management of cash flow within the context of a balanced budget, (iii) securing affordability by removing exposure to future interest rate rises and (iv) refinancing current borrowing, including replacing internal borrowing.

- For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the council's overall financial capacity (i.e., whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).

- The code does not require existing commercial investments to be sold, but options to exit investments as an alternative to borrowing should be reviewed in the strategy.

1.22. Prudential Indicators

- New indicator for net income from commercial and service investments to the budgeted net revenue stream.

- Inclusion of the liability benchmark as a mandatory treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the council's full debt maturity profile.

1.23. Incorporating Environmental Social and Governance (ESG) issues as a consideration within investment counterparty approach.

1.24. Additional focus on the knowledge and skills of officers and elected members involved in decision making.