North Somerset Council

Report to the Audit Committee

Date of Meeting: 21 September 2023

Subject of Report: Treasury Management Out-turn report 2022/23 and 2023/24 update.

Town or Parish: All

Officer/Member Presenting: Mark Anderson, Principal Accountant

Key Decision: N/A

Reason: This is a report for information.

Recommendations

The Audit Committee is asked to note;

- the treasury management out-turn monitoring report to 31 March 2023 which includes performance, prudential indicators, and commercial investments.
- the in-year performance to 31 July 2023
- the proposed matters for inclusion in the treasury management strategy 2024/25

1. Summary of Report

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

- treasury management activities during 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 treasury management strategy approved by Council in February 2022.

- treasury management activities during the first four months of 2023/24 and confirms that the activities have complied with the framework and the treasury management strategy approved by Council in February 2023.

- sets out the framework and issues to be considered when drafting the strategy for the 2024/25 financial year including environmental and climate change considerations.

2. Policy

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

2.2 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

3.1 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.

3.2 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 2022/23

3.3 **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 war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending. In response to inflationary pressures, interest rates increased from 0.75% in March 2022 to 4.25% in March 2023.

3.4 **Investment income** - following a series of bank base rate increases during 2022/23, gross interest income earned on all investments was £3.352m, against a budget of £0.692m.

3.5 **Investment returns** - the average rate of investment return for cash deposit type investments managed by the in-house team for 2022/23 was 1.62%, which is broadly comparable to that achieved by Tradition (1.73%); and returns of 4.32% were achieved on external pooled fund investments.

3.6 **Borrowing -** the council's treasury strategy contained a borrowing requirement of £49m for 2022/23. Changes to capital forecasts have been reported through the corporate monitoring process and at 31 March 2023, the council had not drawn down any external borrowing. £6.8m of borrowing was repaid, as planned.

3.7 **Cash flows -** £790m of cash-flows were managed and turned around during the period; this is broadly comparable with the equivalent period last year (£789m).

3.8 **Non-treasury management activity** – Commercial investments provided an annual yield of 2% in 2022/23 before a contribution into a reserve of £1.1m to smooth annual fluctuations on the council's revenue budget if needed. Details of the financial performance are contained within the following sections of the report. The council currently has no plans to dispose of its commercial investment properties.

3.9 **Compliance -** The Section 151 Officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA code of practice and the council's approved treasury management strategy. Compliance with specific indicators which were approved by Council in February 2022 is demonstrated in **Appendix 1**. All indicators were within target levels.

2022/23 Balance sheet summary

3.10 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 – 2022/23				
	Balance 31/03/22 £m	**Movement In Year £m**	**Balance 31/03/23 £m**	**Ave Rate %**
Long-term borrowing	136.8	-8.3	128.5	3.98
Short-term borrowing	7.4	1.5	8.9	3.65
Total borrowing	**144.2**	**-6.8**	**137.4**	**3.96**
Long-term investments	10.0	0.0	10.0	4.31
Short-term investments - in-house	157.0	-23.0	134.0	1.63
Short-term investments - Tradition	10.0	0.0	10.0	1.73
Total investments	**177.0**	**-23.0**	**154.0**	
Net (borrowing) / investments	**32.8**	**-16.2**	**16.6**	

3.11 Investment balances at 31 March 2023 were £23m lower than in the previous year and this is due to a combination of grants and contributions received in advance at the previous year-end, largely relating to both capital projects and ongoing funding towards Covid-19 impacts and the Government's energy rebate support package.

3.12 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.

3.13 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in the table below.

Table 2: Balance Sheet Summary – 2022/23	**31/03/22 £m**	**Movement £m**	**31/03/23 £m**
General Fund Capital Financing Requirement	183.7	-1.4	182.3
Less: Other debt liabilities *	34.2	-0.8	33.4
Borrowing Capital Financing Requirement	**149.5**	**-0.7**	**148.9**
External borrowing	144.1	-6.7	137.4
Internal borrowing (over borrowing)	**5.4**	**6.0**	**11.5**
Usable Reserves	100.2	9.9	110.1
Working Capital	82.2	-26.9	55.3
Net investments	**177.0**	**-23.1**	**154.0**

* finance leases and transferred debt that form part of the council's total debt

3.14 On 31 March 2023, the council had net borrowing of £137.4m arising from its revenue and capital income and expenditure, which is £11.5m lower than the calculated borrowing CFR.

2022/23 Summary of investment returns & activity

3.15 **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 £154m as at 31 March 2023. (CCLA – Charities, Churches & Local Authorities).

3.16 The table below shows further analysis of the investments held at 31 March 2023 and 31 March 2022 which adhered to the approved Investment strategy. The £23m reduction in total investment balances was due to the council receiving less government support grants for covid/energy compared to previous years and the timing of the expenditure relating to those grants.

Table 3: Analysis of External Investments (principal sums) – 2022/23			
	31/03/22 £m	Movement £m	31/03/23 £m
UK Banks	14.0	-8.0	**6.0**
Overseas Banks	0.0	9.0	**9.0**
UK Building Societies	32.0	-2.0	**30.0**
Debt Management Office (DMO)	28.0	-12.0	**16.0**
Local Authorities	93.0	-10.0	**83.0**
Pooled Investment Funds	10.0	0.0	**10.0**
Total	**177.0**	**-23.0**	**154.0**

3.17 **Security and liquidity** - the investment strategy continued to prioritise security and liquidity of cash-flows during 2022/23, which meant that a large proportion of funds were placed into "safe havens" for short periods of time.

3.18 **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.

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

Table 4a: Analysis of Investments – non-pooled funds – 2022/23								
	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 30 Jun	1.06%	1.131	207	56	1.09%	0.082	345	5
Qtr 2 – to 30 Sept	2.50%	0.556	112	13	3.35%	0.057	206	1
Qtr 3 – to 31 Dec	3.16%	0.539	77	21	NA	0	364	0
Qtr 4 – to 31 Mar	4.13%	0.245	156	16	4.25%	0.034	364	3
Annual Average for Fixed Term Cash Deposits	**1.62%**	**2.471**	**143**	**106**	**1.73%**	**0.173**	**325**	**9**

3.20 The above 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 below 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.

Table 4b: Analysis of Investments – pooled funds – 2022/23								
	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	4.69%	0.234	365	NA	NA	NA	NA	NA
UBS Multi Asset Fund	4.88%	0.049	365	NA	NA	NA	NA	NA
Ninety-one Diversified Income Fund	3.71%	0.148	365	NA	NA	NA	NA	NA
Annual Average for Pooled Funds	**4.31%**	**0.431**	365	NA	NA	NA	NA	NA

3.21 The council's average investment return from its fixed term cash deposits for the period was around 1.62%. However, it can be seen that the average rate achieved between January and March 2023 was 4.13%, reflecting the increases in the base rate and resultant market activity.

3.22 The council's average income return from its £10m of pooled investment funds was 4.31%.

3.23 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 medium- to long-term 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 should exceed cash interest rates.

3.24 The DLUHC published a consultation on the IFRS 9 pooled investment fund statutory override for English authorities for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and therefore remain in place for the 2023/24 and 2024/25 financial years. Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charges to the revenue account, and must be taken into an unusable reserve account.

3.25 From 1 April 2025, if the statutory override does expire, any movements in the share price of these investments would need to be recognised in the general fund, therefore where investment income has exceeded budget, the council has transferred revenue savings to an earmarked treasury management reserve to manage future volatility. This reserve was £1.2m on 31 March 2023.

2022/23 Budget implications

3.26 The table below shows that the council received **£3,351k** from interest income during the year, which is £2,659k more than budgeted. This is due to the increased interest rates and the pooled funds performing better than anticipated.

3.27 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.

Table 5: Investments Interest Budget – 2022/23						
	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	2,471	276	173	234	197	**3,351**
Investment Interest Budget	262	16	15	206	193	**692**
Variance to Budget	2,209	260	158	28	4	**2,659**

3.28 The increase in investment interest shown in the table above was 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.

2022/23 Borrowing activities

3.29 At 31 March 2023 the council held £137.4m of external borrowing on its balance sheet which is held with the following counter-parties;

- £134.4m is held with the **Public Works Loan Board** (PWLB),
- £2.5m with SALIX,
- £0.5m with Town Councils

In addition, the council held the following other liabilities:

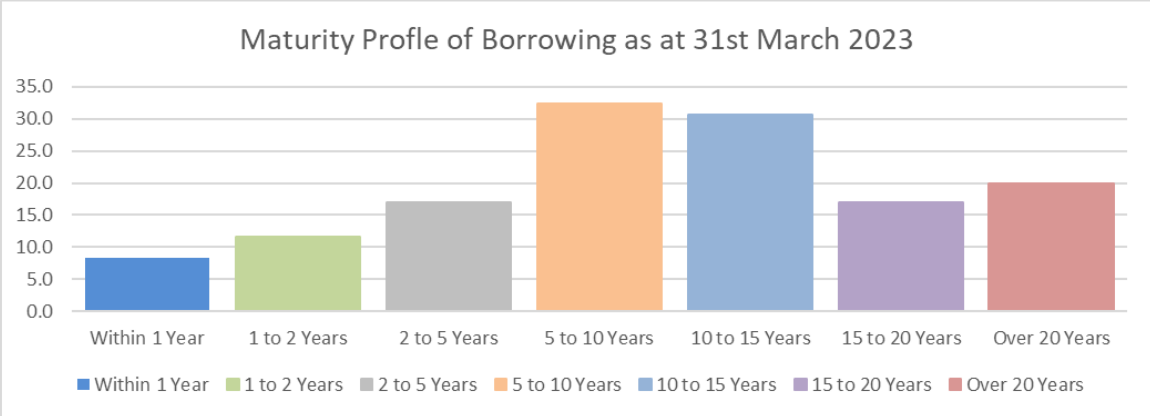
- £22.1m Leases
- £11.3m managed by Bristol City Council on behalf of 4 councils

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.

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

Table 6: Long-term PWLB debt profile (principal) as at 31 March 2023		
	Debt **£m**	**Average Rate** **%**
Less than 1 year	8.87	3.65
Between 1 and 2 years	11.57	2.77
Between 2 and 5 years	17.04	3.82
Between 5 and 10 years	32.33	4.50
Over 10 years	67.63	3.99
	137.44	**3.98**



3.31 No new PWLB borrowing was undertaken; £6m of existing PWLB loans was repaid during the year. Interest payments totalling £5.564m were paid in year.

3.32 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 repayments of £0.8m from the original loan funding from SALIX bringing the total loan balance to £2.5m. 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.

3.33 The council's balance sheet also reflects long-term borrowing obligations of £11.3m at the end of the year in respect of the former Avon County Council, which is paid off over a period. A repayment of £0.480m was paid during the year. These loans are currently held and administered by Bristol City Council.

3.34 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 2024/25 strategy. Core drivers would include capital expenditure spending profiles, market rates, current and future cash-flow forecasts.

3.35 **Economic impacts -** the council's treasury advisors' economic commentary on 2022/23 can be found in **Appendix 2**.

2022/23 Commercial Investments

3.36 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.

3.37 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 current plans to undertake any further commercial investments in the future.

3.38 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.

3.39 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.

3.40 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.

2022/23 Cost and valuation

3.41 The council's portfolio of commercial investment property was valued at £23.5m at 31 March 2023 as part of the annual review process and is not remeasured mid-year. Due to the impact of the cost of living crisis, the effects of economic downturn, and to several tenant leases approaching renewal, the value in March 2023 represented a decrease of £9.5m compared to the value at the 2021/22 year-end. The properties will be subject to a further revaluation at the end of March 2024.

Table 7: Property held for investment purposes – 2022/23

Property	Acquisition cost (Incl fees) £m	31/03/22 Valuation £m	31/03/23 Valuation £m	Change over acquisition £m	Change over prior year £m
North Worle District Centre	40.2	28.0	19.9	-20.3	-8.1
Sovereign Centre	21.0	5.0	3.6	-17.4	-1.4
Total	**61.2**	**33.0**	**23.5**	**-37.7**	**-9.5**

2022/23 Income compared to budget

3.42 After servicing costs, fees and borrowing costs and before contributions into smoothing reserve, commercial investments are budgeted to generate an annual net return to the revenue budget of £0.1m (2021/22 £0.2m).

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

3.44 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.

3.45 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.

2022/23 Yield / return on investment

3.46 As detailed in **Appendix 1**, combined the council's commercial investments provided an annual yield / return on investment of 2% in 2022/23 (0.7% in 2021/22) although this is before a contribution into smoothing reserve of £1.1m to cover potential future risks or investments.

3.47 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.

Compliance

3.48 Compliance with specific investment limits is demonstrated in table 8 below. Compliance with the authorised limit and operational boundary for external debt is demonstrated in **Appendix 1.**

Table 8: Investment Limits - 2022/23	**2022/23 Maximum [1]**	**2022/23 Actual**	**2022/23 Limit**	**Complied?** Yes/No
UK Central Government	**no limit**	£14m	50 years	Yes
UK Local Authorities[3]	**£15m**	£10m	25 years	Yes
Banks* and other organisations* (unsecured) whose lowest published long-term credit rating from Fitch, Moody's and Standard and Poor's is:				
AAA	**£30m**	£0	5 years	Yes
AA+	**£25m**	£0	5 years	Yes
AA	**£22m**	£0	4 years	Yes
AA-	**£20m**	£8m	3 years	Yes
A+	**£18m**	£4m	2 years	Yes
A	**£16m**	£4m	13 months	Yes
A-	**£13m**	£0	13 months	Yes
UK building societies* whose lowest long-term rating is A- and societies without credit ratings, that have an asset size of more than **£0.4bn**	**£10m**	£4m	6 months	Yes
UK building societies* whose lowest long-term rating is A- and societies	**£10m**	£4m	13 months	Yes

without credit ratings, that have an asset size of more than **£1bn**				
Money market funds[2] and similar pooled vehicles whose lowest published credit rating is AAA*	**£15m**	£10m max per fund	N/A	Yes
Pooled Investment funds	**£5m per Fund Type**	£5m per Fund Type	N/A	Yes

[1] *limits shown are per organisation.*
[2] *as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003*
[3] *as defined in the Local Government Act 2003*
**There is no intention to restrict investments to banks and building society deposits, and investments may be made with any public or private sector organisation that meets the credit rating criteria above.*

4 2023/24 in-year update

4.1 Although there are very similar reporting requirements year on year, the adoption of the two revised CIPFA Codes of Practice (Treasury Code and Prudential Code (2021 version) with effect from 1 April 2023 has resulted in some changes to the performance indicators, the inclusion of a new indicator, the Liability Benchmark, and a greater emphasis on environmental, social and governance (ESG) matters.

4.2 The 2023/24 treasury management strategy reflected the above changes and noted that an ESG strategy would be developed during 2023/24 for adoption within the 2024/25 treasury management strategy. This is addressed further in Section 5 below.

4.3 This update report is a high level summary of the context, activity as at 31 July 2023 and a review of compliance with the performance indicators as set out in the treasury management strategy that was approved by council in February 2023.

Key messages for 2023/24

4.4 **Economic background:** From the start of the period until May it looked like peak global monetary policy rates were in sight as inflation continued to ease and central banks turned more dovish in tone. Only a few weeks later, stronger, and more persistent inflation data, particularly in the UK, changed the picture. After a sharp rise in interest rate expectations, with clearly serious implications for mortgage markets due to higher inflation and wage data, the Bank of England’s Monetary Policy Committee reaccelerated monetary policy tightening over the period with a 0.25% rise in May, with a further 0.50% rise in June taking Bank Rate to 5.00%.

4.5 **Credit review:** Following concerns of a wider financial crisis after the collapse of Silicon Valley Bank and other well publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all unsecured deposits on its recommended counterparty list to 35 days. This advice did not apply to deposits made with government or local authorities.

4.6 **Investment income** - following a series of bank base rate increases during 2023/24, gross interest income forecast on all investments is £4.470m, against a budget of £1.165m.

4.7 **Investment returns** - the average rate of investment return for cash deposit type investments managed by the in-house team for 2023/24 is forecast to be 2.49%, which is broadly comparable to that achieved by Tradition (2.64%); and returns of 4.25% are forecast to be achieved on external pooled fund investments.

4.8 **Borrowing -** the council's treasury strategy contained a borrowing requirement of £43.5m for 2023/24. Changes during the year are reported separately to the Executive through the corporate monitoring process and at 31 July 2023, the council had not drawn down any external borrowing. No new additional external borrowing has been undertaken during the period and £0.1m of borrowing was repaid, as planned.

4.9 **Cash flows -** £326m of investment cash-flows were managed during the period; there has been a greater number of shorter duration investments compared with the equivalent period last year (£217m). This followed guidance from the council's treasury advisers in March 2023 to limit maximum durations for unsecured deposits to 35 days.

4.10 **Non-treasury management activity** – Commercial investments are forecast to provide an annual yield of 0.5% in 2023/24 before a contribution into a smoothing reserve of £0.3m to smooth annual fluctuations on the council's revenue budget if needed. Details of the financial performance are contained within the following sections of the report. The council currently has no plans to dispose of its commercial investment properties.

4.11 **Compliance -** The Section 151 Officer reports that all treasury management activities undertaken during the period complied fully with the CIPFA code of practice and the council's approved treasury management strategy. Compliance with specific indicators which were approved by Council in February 2023 is demonstrated in **Appendix 3**. All indicators were within target levels.

2023/24 Balance sheet summary

4.12 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.

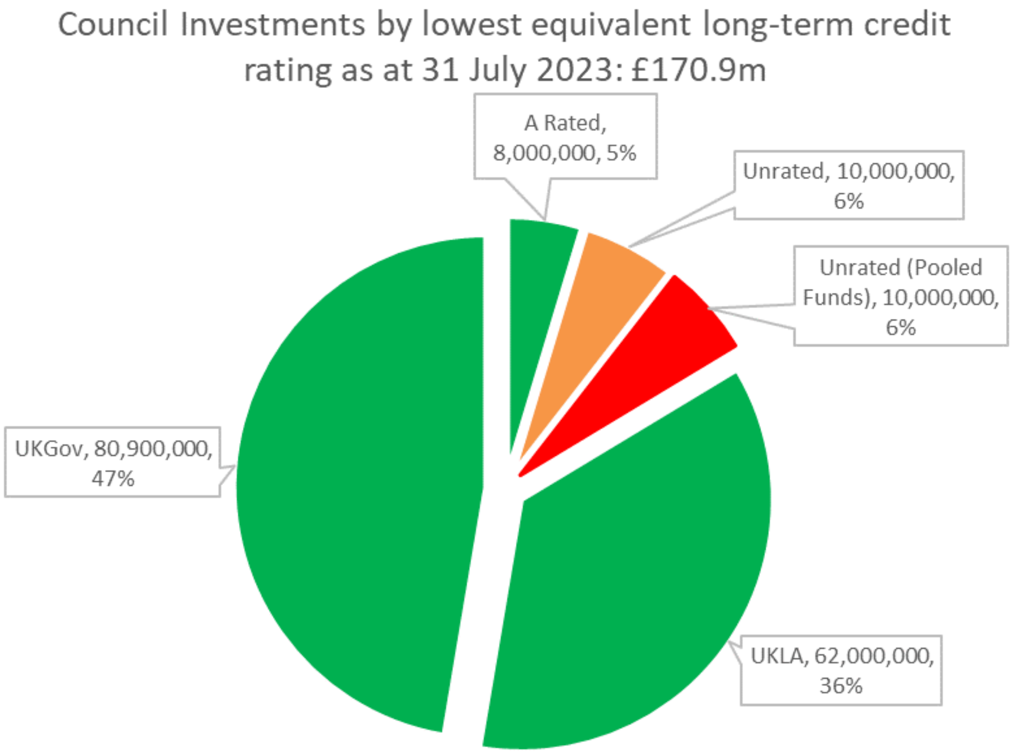
Table 9: Treasury Management Balances within the Balance Sheet – 2023/24

	Balance 31/03/23 £m	Movement In Year £m	Balance 31/07/23 £m	Ave Rate %
Long-term borrowing	128.5	0.0	128.5	3.98
Short-term borrowing	8.9	0.0	8.9	3.65
Total borrowing	**137.4**	**0.0**	**137.4**	**3.96**
Long-term investments	10.0	0.0	10.0	4.25
Short-term investments - in-house	134.0	16.9	150.9	2.49
Short-term investments - Tradition	10.0	0.0	10.0	3.15
Total investments	**154.0**	**16.9**	**170.9**	
Net (borrowing) / investments	**16.6**	**16.9**	**33.5**	

4.13 Investment balances at 31 July 2023 were £16.9m higher than at 31 March and this is due to the council's cash inflows exceeding its outflows during the first few months of the year.

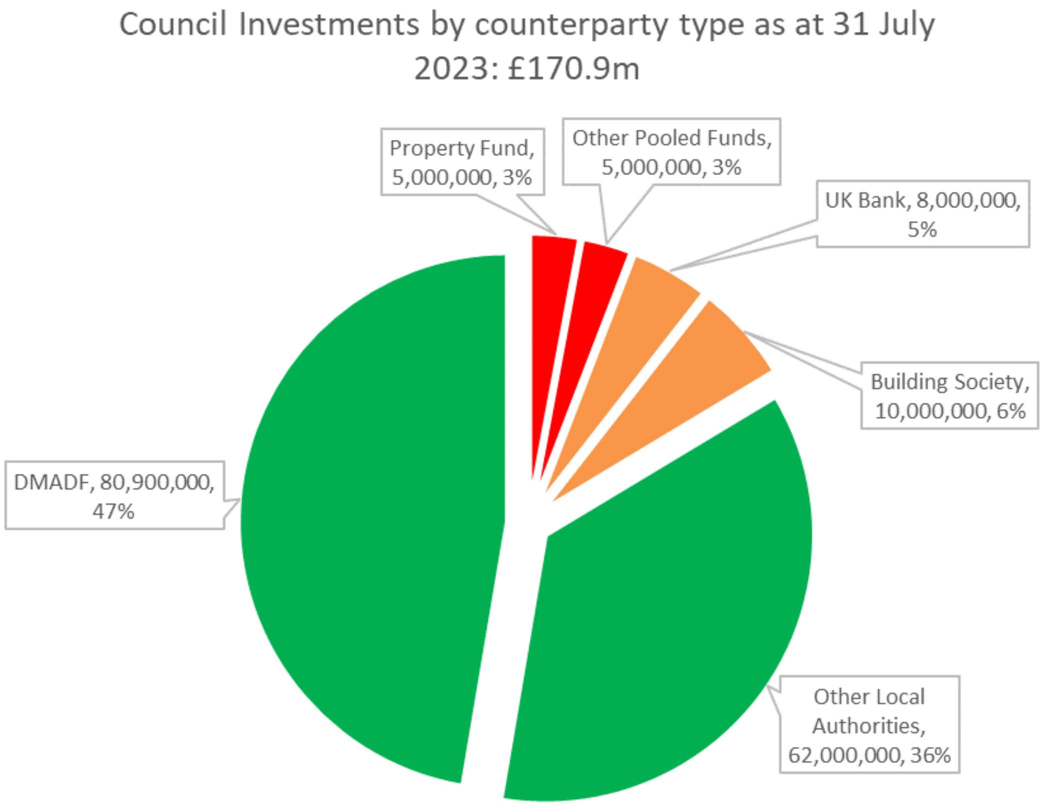
4.14 The following three charts analyse the investments at 31 July by credit rating, type, and maturity.

Figure 1: Investments by credit rating



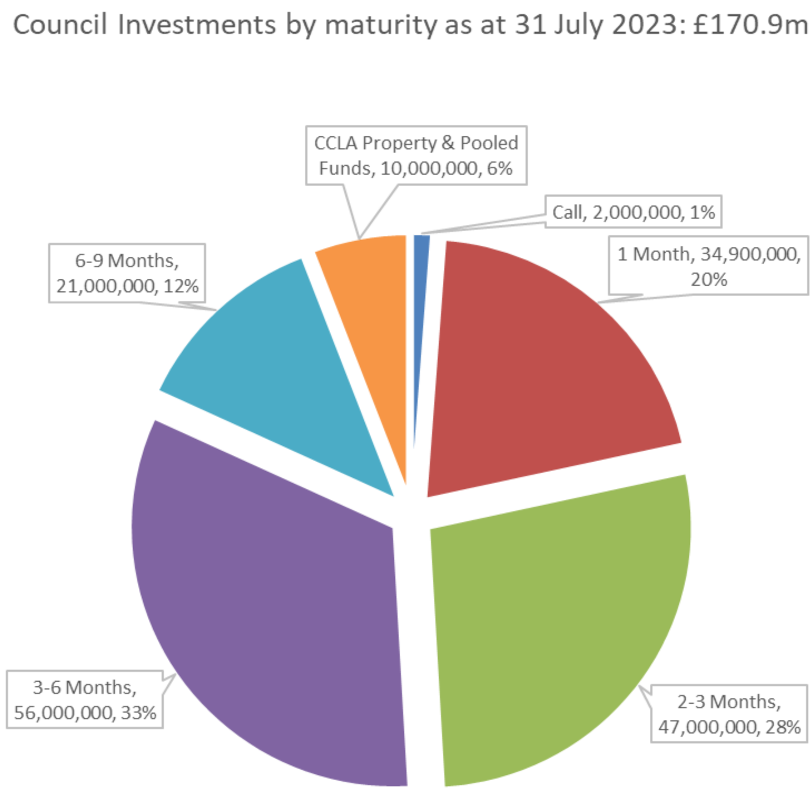
==

Figure 2: Investments by counterparty type



==

Figure 3: Investments by maturity



2023/24 Budget implications

4.15 The table below shows that the council is forecasting **£4,460k** from interest income during the year, which is £2,918k more than budgeted. This is due to the increased interest rates and the pooled funds performing better than anticipated.

Table 10: Investments Interest Budget – 2023/24						
	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	3,566	155	315	233	191	**4,460**
Investment Interest Budget	1,112	16	15	206	193	**1,542**
Variance to Budget	2,454	139	300	27	-2	**2,918**

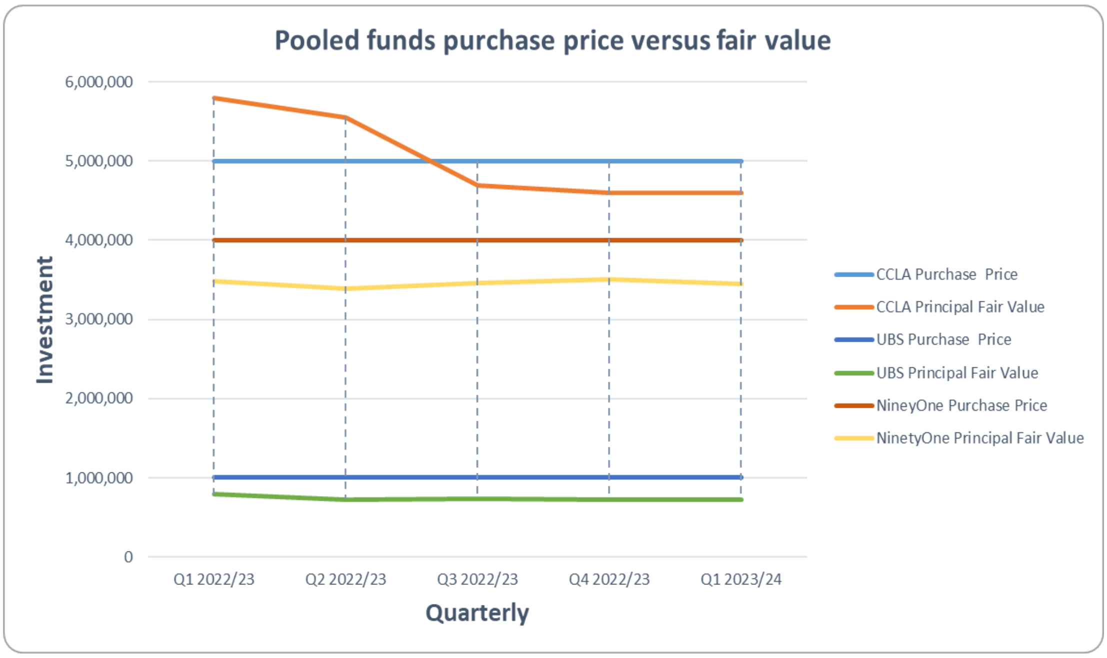
4.16 It can be seen through regular reports to the Executive that the current economic backdrop as referred to within para 3.52, continues to have a significant impact on the council's financial position, most notably as a result of rapidly rising inflation increasing its cost base.

4.17 The council's average income return from its £10m of pooled investment funds was 4.25%.

4.18 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 medium- to long-term 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 should exceed cash interest rates.

4.19 The combined share price as at 31 July has stabilised after the decreases experienced in the latter half of 2022/23. At 31 July 2023, there is a combined unrealised capital loss of £1.2m, compared with an unrealised capital gain of £0.1m at 31 March 2022. The economic climate's impact on property funds and on bonds and shares is explored further in **Appendices 2 and 4**.

Figure 4: Pooled funds purchase price versus fair value



2023/24 Commercial Investments

4.20 Commercial investments are revalued annually, with the next revaluation due at 31 March 2024. As a result, the valuation of the council's commercial investments is as described in the 2022/23 out-turn report above.

4.21 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.

2023/24 Income compared to budget

4.22 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 £0.1m (2022/23 £0.1m).

2023/24 Yield / return on investment

4.23 As detailed in **Appendix 3**, combined the council's commercial investments is forecast to provide an annual yield / return on investment of 0.2% in 2023/24 (0.2% in 2022/23) although this is before a contribution into smoothing reserve of £0.3m to cover potential future risks or investments.

4.24 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.

2023/24 Compliance

4.25 Compliance with specific investment limits is demonstrated in table 11 below and compliance with the authorised limit and operational boundary for external debt is demonstrated in **Appendix 3.**

Table 11: Investment Limits – 2023/24	2023/24 Maximum	31/07/23 Actual	2023/24 Limit	Complied? Yes/No

UK Central Government	**no limit**	£19m	50 years	Yes
UK Local Authorities[3]	**£15m**	£5m	25 years	Yes
Banks* and other organisations* (unsecured) whose lowest published long-term credit rating from Fitch, Moody's and Standard and Poor's is:				
AAA	**£30m**	£0	5 years	Yes
AA+	**£25m**	£0	5 years	Yes
AA	**£22m**	£0	4 years	Yes
AA-	**£20m**	£8m	3 years	Yes
A+	**£18m**	£0	2 years	Yes
A	**£16m**	£6m	13 months	Yes
A-	**£13m**	£0	13 months	Yes
UK Building societies (unsecured) that have an asset size of more than £0.4bn*	**£10m**	£2m	13 months	Yes
Money market funds[2] and similar pooled vehicles whose lowest published credit rating is AAA*	**£15m**	£10m max per fund	N/A	Yes
Pooled Investment funds	**£5m per fund**	£5m per fund	N/A	Yes
ESG-focussed short term deposits	**£6m**	£6m	13 months	Yes
The Council's Bank accounts	**net £9m**	net £9m	no limit	Yes

[1] limits shown are per organisation.
[2] as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003
[3] as defined in the Local Government Act 2003
**There is no intention to restrict investments to banks and building society deposits, and investments may be made with any public or private sector organisation that meets the credit rating criteria above.*

5 2024/25 TM strategy

Initial considerations in relation to the draft treasury management strategy for 2024/25

5.1 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 sets out the framework, activity, risks, and approaches that the council will use within its operational arrangements.

5.2 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.

5.3 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.

5.4 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.

5.5 It is proposed that the annual strategy will be updated to reflect the corporate plan refresh and will 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.

5.6 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.

5.7 The above together with the current economic climate and future outlook will all impact on the strategy. There is currently lots of uncertainty therefore we will report back to the Committee with the latest thinking at the next meeting. (Refer timeline in **Appendix 6)**

Environmental Social & Governance (ESG) strategy

5.8 The 2023/24 treasury management strategy contained a commitment to develop a strategy for Environmental, Social and Governance (ESG) considerations and incorporating this ESG strategy within the 2024/25 treasury management strategy.

ESG work carried out to date:

5.9 In 2022/23 two ESG workshops were held with the previous Audit Committee, facilitated by the council's treasury advisors. The purpose of the workshops was to identify member priorities relating to environmental, social or governance issues as seen through the lens of treasury activities, with a view to developing an ESG strategy for treasury management and to include this in the 2024/25 treasury management strategy.

5.10 Following an initial training workshop, a questionnaire was used to collate the Committee's views and priorities in a second workshop. The questionnaire is reproduced in **Appendix 5.**

5.11 CIPFA Treasury Management Code 2021 includes the requirement that a council's credit and counterparty policies should set out its policies and practices relating to ESG investment considerations, although it is not implied that this policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

5.12 The workshop identified the following priorities:

5.12.1 Governance and environmental considerations ranked as the highest priorities, followed by social factors.

5.12.2 The Committee were most in favour of an ESG strategy that balanced financial return with ESG outcomes, with two members supporting ESG outcomes ahead of financial considerations.

5.12.3 Evaluation of potential counterparties should prioritise banks that are signatories to the UN Principles for responsive banking, or for funds, that the fund is operated by managers that are signatories to UN Principles for responsible investment, the net zero asset managers alliance, and/or the UK stewardship code.

5.12.4 Unsuitable industries were discussed at length with most recognising there is a nuanced view around transition vs blanket divestment, and the opportunity to influence via engagement/ stewardship.

5.12.5 It was also recognised that any ESG strategy wording would need to be carefully considered to avoid unintended consequences – e.g., a blanket ban on organisations involved in the sale of arms would preclude transactions with the UK Government.

5.12.6 Questions 6 & 7 (low carbon and energy transition) highlighted the need to seek advice from suitably qualified experts with ESG experience and expertise before considering any such longer-term investments.

5.12.7 Although Members recognised that ESG considerations would in practice need to be applied to all areas, not just treasury investment, the ESG investment policy will focus on investments and will form part of the treasury management strategy from 2024/25.

5.13 This has the following implications on potential counterparties, durations, but also a potential impact on yields:

5.14 Initially the ESG strategy will only apply for potential short-term investments as longer-dated options are currently unsuitable given the council's forecast borrowing requirement and the prohibition on "borrowing to invest".

5.15 Consideration of specific investment assets within the policy will be restricted to fixed term cash deposits with financial institutions or short term (<12 months) money market funds.

5.16 The current treasury management strategy includes counterparty limits for amounts and durations, and it is not proposed that these would be exceeded.

5.17 We would like to test these priorities with the current Audit Committee with a view to include them within the treasury management strategy 2024/25. This will fall within the timeline for the development and production of the 2024/25 Strategy (timeline included in **Appendix 6**).

6. Consultation

6.1 Financial information and performance details are included within the council's monthly budget monitoring processes and key messages are described within the narrative report where required.

7. Financial Implications

7.1 Financial implications are contained throughout the 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 12 - Budget impacts – capital financing and interest – 2022/23			
	2022/23 Budget £000	**2022/23 Out-turn £000**	**2022/23 variance £000**
Interest payable on borrowing	5,809	5,578	-231
Interest receivable on investments	-692	-3,351	-2,659
Minimum revenue provision	7,121	7,062	-59
Total	**12,238**	**9,289**	**-2,949**
MRP analysis;			
- Supported Borrowing Minimum Revenue Provision	900	900	0
- Prudential Borrowing Minimum Revenue Provision	5,410	5,342	-68

- Ex-Avon Loan Debt Minimum Revenue Provision	461	470	9
- Finance Leases Minimum Revenue Provision	350	350	0

Table 13 - Budget impacts – capital financing and interest – 2023/24			
	2023/24 Budget £000	**2023/24 Forecast Out-turn £000**	**2023/24 variance £000**
Interest payable on borrowing	5,741	5,300	-441
Interest receivable on investments	-1,542	-4,460	-2,918
Minimum revenue provision	9,212	9,219	7
Total	**13,411**	**10,059**	**-3,352**
MRP analysis;			
- Supported Borrowing Minimum Revenue Provision	900	900	0
- Prudential Borrowing Minimum Revenue Provision	7,502	7,502	0
- Ex-Avon Loan Debt Minimum Revenue Provision	445	452	7
- Finance Leases Minimum Revenue Provision	365	365	0

8. Legal Powers and Implications

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

8.2 Treasury risk management at the council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

9. Climate Change and Environmental Implications

9.1 Over recent years the council has made concerted efforts to better understand the extent to which its overarching treasury management strategy has or may have on climate change and other environmental implications. This has been a challenge because many of the decisions relating to either borrowing or investments will have few direct impacts although there could be many indirect impacts though the ongoing actions or decisions of other organisations.

9.2 For example, when the council places a short-term fixed cash deposit type investment with either a bank, building society or another local authority, then its contractual arrangement is linked to the terms of that trade deal (e.g., value, maturity date, interest rate etc). The details relate to the temporary exchange of the cash sum and there are no other restrictions about what will happen with money. The counter-party 'could' then choose to invest it into something that is not supported by the council.

9.3 Until recently the council recognises that it has had limited choice or options in this area however, some degree of change is expected to happen following the emergence of Environmental, Social and Governance (ESG) policies. This is where organisations are choosing to bring other considerations into their treasury strategies and decision-making processes and also introduce new investment products or services to the market.

9.4 The council welcomes the introduction of ESG policies and hopes that they will provide a broader range of opportunities that can be considered within future investment decisions, particularly those that will deliver positive outcomes for climate change and the environment more generally.

9.5 Note that the treasury management strategy for 2023/24, provides for the S151 Officer to develop a framework for up to £6m of ESG related investments through consultation with the members of the Audit Committee and also the council's treasury management advisors Arlingclose.

9.6 The development of the ESG investment policy will not detract from the core functions that need to take place within the existing treasury management strategy, i.e., the management of cash-flows and also meeting the requirements within the approved revenue budget, but it will provide an opportunity to ensure that climate and other environmental implications are considered and reported on.

9.7 When developed, the council's new ESG investment policy must still be compliant with the external and internal regulatory framework and would therefore continue to give focus to security and liquidity, then yield.

9.8 An update of work carried out to date is set out in paragraphs 5.1 onwards in the main report.

9.9 Until the new policy is fully developed and implemented the council will continue to;

- avoid any <u>direct</u> treasury management investments in fossil fuel related companies;
- engage with advisors to explore and assess the potential for any future investment opportunities in funds with a Renewable Energy & Sustainability focus;
- maintain funds placed in a "Green Deposit Account", which is an investment facility that ensures deposits are linked to a wide range of projects in the pursuit of transition to a lower carbon economy. These projects cover a variety of themes including energy efficiency renewable energy, green transport, sustainable food, agriculture and forestry and greenhouse gas emission reductions.

10. Risk Management

10.1 Members will be aware that there is a direct link between the levels of risk and the levels of return achieved on investment, although there are many other factors which also affect the capital financing budgets.

10.2 The council's treasury management activities expose it to a variety of financial risks, notably:

a. credit risk – the risk that other parties might fail to pay amounts due to the council. Includes bail-in risk – the risk that shareholders and depositors in banks and building societies bear losses in the event of counter-party's failure or reduction in net asset value,
b. liquidity and re-financing risk – the risk that the council might not have funds available to meet its commitments to make payments as they fall due,
c. market risk (interest rate and price risks) – the risk that financial loss might arise for the council because of changes in such measures as interest rates, investment valuations, and stock market movements.

10.3 It should be noted that the council's Treasury Management Strategy sets out how the council manages and mitigates these risks but cannot eliminate risks completely.

10.4 The priority of the Treasury Management Strategy will continue to be the reduction of risk to safeguard public resources.

10.5 The risk appetite of the council is low to give priority to the security of its investments. The council will also aim to achieve the optimum return on its investments commensurate with desired levels of security and liquidity.

11. Equality Implications

11.1 Not applicable, this report is for information only.

12. Corporate Implications

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

12.2 The safeguarding of public money is critical to the council's reputation, and the measures contained within the report are intended to address member and public concerns and ensure an appropriate balance of return on investment whilst ensuring managing associated risks.

13. Options Considered

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

Author:
Mark Anderson, Principal Accountant (Resources & Financial Planning),
Mark.Anderson@n-somerset.gov.uk

Appendices:

Appendix 1 2022/23 Out-turn performance indicators
Appendix 2 2022/23 External context provided by Arlingclose Ltd (treasury advisers)
Appendix 3 2023/24 In-year performance indicators
Appendix 4 2023/24 External context provided by Arlingclose Ltd (treasury advisers)
Appendix 5 2023/24 Climate change & ESG questionnaire
Appendix 6 2024/25 Strategy timeline
Appendix 7 Glossary of terms

Background Papers:
Treasury Management strategy 2022/23, Executive & Council – February 2022
Treasury Management strategy 2023/24, Executive & Council – February 2023

Appendix 1 2022/23 Out-turn performance 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.

Table 1.1: Authorised Limit for External Debt

Authorised Limit for External Debt	**2022/23 Limit £m**	**2022/23 Actual £m**
Borrowing – NSC	213.0	137.4
Other Long-Term Liabilities (Avon debt, leases, temporary borrowing etc)	30.0	33.4
Authority Total	**243.0**	**170.8**

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.

Table 1.2: Operational Limit for External Debt

Operational Limit for External Debt	**2022/23 Limit £m**	**2022/23 Actual £m**
Borrowing – NSC	208.0	137.4
Other Long-Term Liabilities (Avon debt, leases etc)	30.0	33.4
Authority Total	**238.0**	**170.8**

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.

Table 1.3: Maturity Structure of Borrowings

Maturity Structure of Borrowing	Upper Limit	Lower Limit	Actual 2022/23	Complied?
Under 12 months	50%	0%	6.07%	Yes
12 months and within 24 months	30%	0%	8.45%	Yes
24 months and within 5 years	40%	0%	12.45%	Yes
5 years and within 10 years	50%	0%	23.62%	Yes
10 years and above	100%	0%	49.41%	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.

Table 1.4: Principal sums invested for periods longer than 364 days

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.

Table 1.5: Proportion of financing costs to net revenue stream

Proportion of financing costs to net revenue stream	Actual 2021/22	Actual 2022/23	Forecast 2023/24	Affordable? Y/N
Net Financing costs (£m)	£10.7m	£9.3m	£9.3m	
Proportion of net revenue (%)	6.0%	5.0%	4.4%	Y

Total investment exposure in £millions

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

Table 1.6: Total investment exposure

Total investment exposure	Actual Held as at 31/03/22 £m	Actual Held as at 31/03/23 £m	Actual Held as at 31/07/23 £m
Treasury management investments	177.0	154.0	170.9
Service investments: Loans	0.8	0.8	0.8
Commercial investments: Property*	33.0	23.5	23.5
TOTAL EXPOSURE	**210.8**	**178.3**	**195.2**

** Commercial investment properties are re-valued annually by the council's valuers - valuations as at 31/3/24 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.

Table 1.7: Investments net rate of return

Investments net rate of return	Actual 2021/22 %	Actual 2022/23 %	Forecast 2023/24 %
Treasury management investments	0.37	1.79	2.47
Service investments: Loans	2.36	4.62	6.92
Commercial investments: Property	-0.70	1.81	0.50
ALL INVESTMENTS	**0.35**	**1.85**	**2.02**

Appendix 2 2022/23 External context provided by Arlingclose Ltd (treasury advisers)

2022/23 Economic background:

2.1 The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

2.2 Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

2.3 Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

2.4 Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.

2.5 The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3mth/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%.

2.6 The inactivity rate was 21.3% in the December-February quarter, slightly down from the 21.4% in the first quarter of the financial year. Nominal earnings were robust throughout the year, with earnings growth in December-February at as 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.

2.7 Despite household budgets remaining under pressure, consumer confidence rose to -36 in March, following readings of -38 and -45 in the previous two months, and much improved compared to the record-low of -49 in September. Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

2.8 The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

2.9 After reaching 9.1% in June, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting.

2.10 From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

2022/23 Financial markets:

2.11 Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

2.12 Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

2022/23 Credit review:

2.13 Early in the period, Moody's affirmed the long-term rating of Guildford BC but revised the outlook to negative. The agency also downgraded Warrington BC and Transport for London.

2.14 In July Fitch revised the outlook on Standard Chartered and Bank of Nova Scotia from negative to stable and in the same month Moody's revised the outlook on Bayerische Landesbank to positive. In September S&P revised the outlook on the Greater London Authority to stable from negative and Fitch revised the outlook on HSBC to stable from negative.

2.15 The following month Fitch revised the outlook on the UK sovereign to negative from stable. Moody's made the same revision to the UK sovereign, following swiftly after with a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank (and related entities) and Santander.

2.16 During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March the collapse of Silicon Valley Bank (SVB) in the US quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.

2.17 Credit Default Prices had been rising since the start of the period on the back of the invasion of Ukraine, and in the UK rose further in September/October at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the period as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

2.18 On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

2.19 As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the council's counterparty list recommended by Arlingclose remains under constant review.

2.20 Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

Appendix 3 2023/24 In-year performance indicators

Prudential Indicators 31 July 2023/24

3.1 The council measures and manages its capital expenditure, borrowing and commercial and service investments with references to the following indicators. It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

3.2 **Capital Expenditure:** The council has undertaken and is planning capital expenditure as summarised below:

Table 3.1 Capital Expenditure

	Actual 2022/23 £m	Forecast 2023/24 £m	Estimate 2024/25 * £m	Estimate 2025/26 £m
Capital investments (£m)	66.5	185.5	148.0	78.9

* There will be some capital expenditure in 2024/25 that arises from a change in the accounting for leases and does not represent cash expenditure. This will be quantified in the 2024/25 strategy.

3.3 There has been £13.5m spend on main General Fund capital projects to date which has included two school expansions £6.5m, Housing £0.9m and various Place schemes (£4.6m) including Banwell Bypass design and planning £1.5m, and Bus Service Improvement Plan £0.7m. The council has not incurred any capital expenditure on its commercial investments.

3.4 **Capital Financing Requirement:** The council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £22m during 2023/24. Based on the forecast figures for expenditure and financing, the council's estimated CFR is as follows:

3.5 The actual CFR is calculated on an annual basis and is included in each year's statutory accounts. The relationship between total CFR and Loans CFR is shown in the table below.

Table 3.2: Estimates of Capital Financing Requirement in £ millions

	Actual 2022/23 £m	Forecast 2023/24 £m	Estimate 2024/25 * £m	Estimate 2025/26 £m
CFR	182.2	203.6	227.1	257.8
Less: CFR re finance leases	22.1	21.8	21.5	21.2
Less: CFR re ex Avon debt	11.3	10.8	10.3	9.8
Loans CFR	**148.8**	**171.0**	**195.3**	**226.8**

* There will be changes to the CFR in 2024/25 that arise from a change in the accounting for leases and does not represent cash expenditure. This will be quantified in the 2024/25 strategy.

3.6 **Gross Debt and the Capital Financing Requirement:** Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The council has complied and expects to continue to comply with this requirement in the medium term as is shown below.

Table 3.3: Gross Debt and the Capital Financing Requirement

	Actual 2022/23 £m	Forecast 2023/24 £m	Estimate 2024/25 * £m	Estimate 2025/26 £m	Debt at 31/07/23 £m
Debt (incl. leases)	170.3	167.5	194.3	223.0	170.8
Capital Financing Requirement	182.2	203.6	227.1	257.8	

* There will be changes to the CFR in 2024/25 that arise from a change in the accounting for leases and does not represent cash expenditure. This will be quantified in the 2024/25 strategy.

3.7 **Debt and the Authorised Limit and Operational Boundary:** The council is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 3.4: Debt and the Authorised Limit and Operational Boundary

	Maximum debt 2023/24 £m	Debt at 31/07/23 £m	2023/24 Authorised Limit £m	2023/24 Operational Boundary £m	Complied? Yes/No
Borrowing	138	137	225	208	Yes
Other (ex-Avon debt and finance leases)	33	33	40	35	Yes
Total debt	**171**	**170**	**265**	**243**	Yes

3.8 Since the operational boundary is a management tool for in-year monitoring it is not significant if the boundary is breached.

3.9 **Net Income from Commercial and Service Investments to Net Revenue Stream:** The council’s income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below.

Table 3.5: Net Income from Commercial and Service Investments to Net Revenue Stream

	Actual 2022/23 £m	Forecast 2023/24 £m	Estimate 2024/25 £m	Estimate 2025/26 £m
Total net income from service and commercial investments	1.1	0.3	0.0	0.0
Proportion of net revenue stream	0.6%	0.1%	0%	0%

3.10 **Proportion of Financing Costs to Net Revenue Stream:** Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. [Note investment income has been removed from the definition of financing costs].

3.11 The net annual charge is known as financing costs; this is compared to the net revenue stream i.e., the amount funded from council Tax, business rates and general government grants.

Table 3.6: Proportion of Financing Costs to Net Revenue Stream

	Actual 2022/23 £m	Forecast 2023/24 £m	Estimate 2024/25 * £m	Estimate 2025/26 £m
Financing costs (£m)	12.7	11.9	13.0	14.1
Proportion of net revenue stream	6.9%	5.7%	5.9%	6.1%

* There will be changes to the financing costs in 2024/25 that arise from a change in the accounting for leases and does not represent additional cost to the council. This will be quantified in the 2024/25 strategy.

Treasury Management Indicators:

3.12 As required by the 2021 CIPFA Treasury Management Code, the council monitors and measures the following treasury management prudential indicators.

Liability Benchmark:

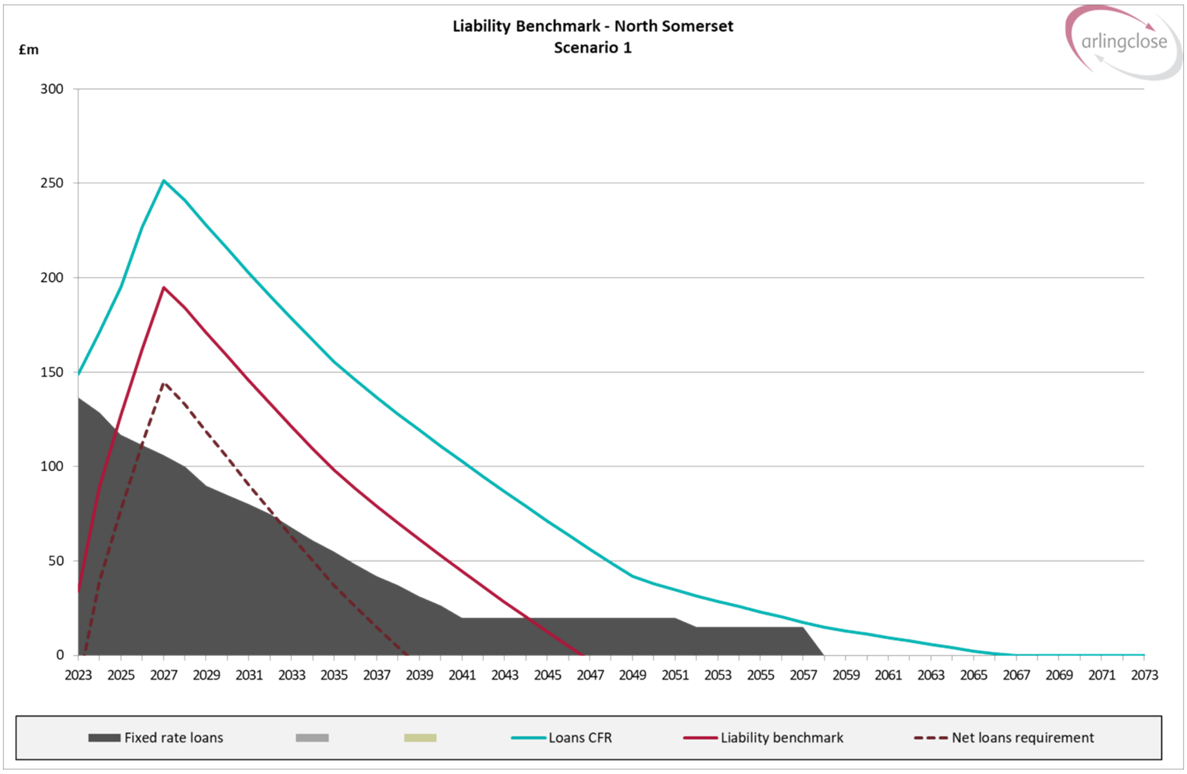
3.13 This new indicator compares the council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It 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 of £50m required to manage day-to-day cash flow.

Table 3.7: Liability Benchmark

	Actual 2022/23 £m	Forecast 2023/24 £m	Estimate 2024/25 * £m	Estimate 2025/26 £m
Loans CFR	148.8	171.0	195.3	226.8
Less: Balance sheet resources	-164.8	-132.0	-117.9	-115.0
Net loans requirement	**-16.0**	**39.0**	**77.4**	**111.8**
Plus: Liquidity allowance	50.0	50.0	50.0	50.0
Liability benchmark	**34.0**	**89.0**	**127.4**	**161.8**

3.14 The liquidity allowance has been calculated as the strategic pooled funds balance of £10m plus an amount that we don't want cash balances to fall below. This would therefore be around £50m.

3.15 Following on from the medium-term forecast above, the long-term liability benchmark assumes no capital expenditure funded by borrowing after 2027/28, minimum revenue provision on new capital expenditure based on asset life and income, expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the council's existing borrowing.



3.16 The chart is indicating that the current debt portfolio (the grey shaded area) is initially more than the projected borrowing requirement (the red line, liability benchmark) illustrated where the top of grey area is above the red line. The difference between the two is surplus cash. However, it also indicates that there may be a c.£39m net borrowing requirement in 2024/25 (where the red line moves above the grey area).

3.17 The actual net borrowing requirement will change based on many factors including, timing of delivery against the approved capital programme, the level of balance sheet resources available, (e.g., new funding from government, or changes to spending patterns.

3.18 Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

3.19 **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 all borrowing were:

Table 3.8: Maturity Structure of Borrowing

	Upper Limit	Lower Limit	31/07/23 Actual	Complied?
Under 12 months	50%	0%	13.29%	Yes
12 months and within 24 months	30%	0%	5.28%	Yes
24 months and within 5 years	40%	0%	15.97%	Yes
5 years and within 10 years	50%	0%	21.11%	Yes
10 years and above	100%	0%	44.35%	Yes

3.20 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.

3.21 **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 management limits are:

Table 3.9: Long-term Treasury Management Investments

	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond a year	£40m	£40m	£40m	£10m
Actual principal invested beyond a year	£0m	£0m	£0m	£10m
Complied?	Yes	Yes	Yes	Yes

3.22 Long-term investments with no fixed maturity date include strategic pooled funds but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Additional indicators

3.23 **Security:** The council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Table 3.10: Security

Credit risk indicator	2023/24 Target	31/07/23 Actual	Complied?
Portfolio average credit score	6.1	4.63	Yes

3.24 **Interest Rate Exposures:** This indicator is set to control the council's exposure to interest rate risk. Bank Rate rose by 0.75% during the period, from the prevailing rate of 4.25% on 1st April to 5% by 30th June.

Table 3.11: Interest rate exposure

Interest rate risk indicator	2023/24 Target	31/07/23 Actual	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1m	£0.3m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1m	£0.3m	Yes

3.25 For context, the changes in interest rates during the quarter were:

	31/03/23	30/06/23
Bank Rate	4.25%	5.00%
1-year PWLB certainty rate, maturity loans	4.78%	6.22%
5-year PWLB certainty rate, maturity loans	4.31%	5.71%
10-year PWLB certainty rate, maturity loans	4.33%	5.25%
20-year PWLB certainty rate, maturity loans	4.70%	5.36%
50-year PWLB certainty rate, maturity loans	4.41%	4.95%

3.26 The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.

Appendix 4 2023/24 External context provided by Arlingclose Ltd (treasury advisers)

2023/24 Economic background:

4.1 From the start of the quarter until May it looked like peak global monetary policy rates were in sight as inflation continued to ease and central banks turned more dovish in tone. Only a few weeks later, stronger, and more persistent inflation data, particularly in the UK, changed the picture.

4.2 The UK situation was not welcome news for the Bank of England. GDP growth was weak, confirmed at 0.1% in Q1, although more recent monthly GDP data has been somewhat better. The housing market has stalled, consumer demand is weak but seemingly recovering despite higher interest rates, and labour demand remained strong, with repercussions for wage growth which is accelerating.

4.3 April data showed the unemployment rate increased to 3.8% (3mth/year) while the employment rate rose to 76.0%. Pay growth was 6.5% for total pay (including bonuses) and 7.2% for regular pay, the largest growth rate of the latter outside of the Covid pandemic. Once adjusted for inflation, however, growth in total pay and regular pay remained negative.

4.4 Inflation fell from its peak of 11.1% reached in October 2022, but annual headline CPI in May 2023 was higher than the consensus forecast at 8.7% (8.4% expected), largely driven by services inflation, while the annual measure of underlying core inflation rose to 7.1% from 6.8%.

4.5 After a sharp rise in interest rate expectations, with clearly serious implications for mortgage markets due to higher inflation and wage data, the Bank of England's Monetary Policy Committee reaccelerated monetary policy tightening over the period with a 0.25% rise in May to a 0.5% rise in June, taking Bank Rate to 5.0%. At both meetings the vote was 7-2 in favour of increasing rates, with the two dissenters preferring to keep rates on hold.

4.6 Interest rate expectations priced in further hikes in policy rates. Arlingclose, the authority's treasury adviser, revised its forecast to forecast a further 0.5% of monetary tightening to take Bank Rate to 5.5%. The risks, however, are that rates could be higher; financial markets are forecasting policy interest rates above 6%.

4.7 With many mortgages at low fixed rates now systematically being re-set over the next 12-24 months at higher rates at the end of their fixed rate period, there has been a lagged effect of the feed through of monetary policy on households' disposable income. The economic slowdown is expected to develop over time and therefore, despite the GfK measure of consumer confidence rising to -24 in June, it is likely confidence will be negatively affected at some point. The manufacturing sector contracted during the quarter according to survey data, which will eventually feed into services, whose expansion is slowing.

4.8 Despite the US Federal Reserve increasing its key interest rate to 5.00-5.25% over the period, activity in the region continued to defy monetary tightening, particularly in labour markets which have so far appeared robust, supporting the Fed's assertations of two more rate hikes after it paused in June. Annual US inflation continued to ease, falling from 4.9% in April to 4.0% in May, the lowest level since March 2021. US GDP growth at 2% annualised in the first calendar quarter of 2023 was also significantly stronger than expected against the initial estimate of 1.3%.

4.9 In the euro zone, the picture was somewhat different. The European Central Bank maintained its hawkish tone and increased its key deposit, main refinancing, and marginal lending interest rates to 3.50%, 4.00% and 4.25% respectively. There were signs of weakening activity, particularly in Germany whose manufacturing sector has taken a hit from high energy prices and weaker global demand. However, inflation remained sticky, annual headline CPI fell to 5.5% in June while annual core inflation rose to 5.4% from 5.3%, which means the ECB is unlikely to stop monetary tightening.

2023/24 Financial markets:

4.10 Financial market sentiment and bond yields remained volatile, the latter continuing their general upward trend as uncertainty and concern over higher inflation and higher interest rates continued to dominate.

4.11 Gilt yields rose over the period. The 5-year UK benchmark gilt yield rose from 3.30% to 4.67%, the 10-year gilt yield from 3.43% to 4.39%, and the 20-year yield from 3.75% to 4.51%. The Sterling Overnight Rate (SONIA) averaged 4.37% over the quarter.

2023/24 Credit review:

4.12 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.

4.13 Over the period S&P upgraded NatWest Group and related entities to A+ (except NatWest Markets which was upgraded to A), revised the UK sovereign outlook to stable from negative, and upgraded both Barclays Bank PLC and Barclays Bank UK PLC to A+.

4.14 Fitch put the US sovereign rating on Rating Watch Negative following increased political partisanship which at the time was hindering the latest resolution to raise the debt ceiling. It also upgraded the outlook on United Overseas Bank to stable, the outlook on Clydesdale to positive, and the outlook on Bank of Montreal to stable.

4.15 Moody's withdrew Guildford BC's rating (who chose not to continue being rated) and affirmed the Aaa rating of the European Investment Bank.

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

Appendix 5 2023/24 Climate change & ESG questionnaire

NORTH SOMERSET COUNCIL
Determining ESG Policy - Questionnaire

Background

5.1 The council's 2023/24 Treasury Management Strategy includes a new strand to its investment strategy – to actively consider ESG principles when investing in the short term. Therefore, part of the council's investment activity in 2023/24 will include up to £6m for up to 12 months, centred on delivering ESG outcomes. The framework, scope, and governance for this is being developed with Audit Committee members and the council's treasury advisors, Arlingclose. This questionnaire aims to capture members' priorities in this complex area.

5.2 The council's **investment objectives**:

- **Security**: protecting the capital sum invested from loss
- **Liquidity**: ensuring the funds invested are available for expenditure when needed

5.3 The generation of **yield** is distinct from the above objectives. The council doesn't ignore potential revenues but reasonably considers what yield could be obtained commensurate with the principles of security and liquidity and the council's appetite for risk.

Environmental, Social, Governance (ESG) definitions?

5.4 There are no universally agreed and accepted set of definitions and metrics for ESG or sustainability. ESG investing takes into consideration non-financial risks in assessing an organisations' future long-term performance. As the emphasis of what constitutes ESG differs widely, so do priorities and approaches to assessment of these risks.

5.5 This questionnaire is to assist with drawing out members' views and priorities as an important step in articulating, as a starting point, an ESG policy for its financial investments. Some *examples* of 'E', 'S' and 'G':

Environmental	Agree/disagree	Your additions
Climate change		
Greenhouse gas emissions		
Resource depletion		
Water consumption		
Waste and pollution		

Social issues	Agree/disagree	Your additions
Human rights		
Employee relations		
Modern slavery		
Use of child labour		
Just Transition		

Governance issues	Agree/disagree	Your additions
Employee/Board diversity and structure		
Executive pay		
Tax strategy		
Transparency and probity		

1. **Please tick what you believe to be the more important issue(s) for the council and state which particular aspect(s) of 'E', 'S' or 'G' you believe the council should focus on.**

Environmental	Social	Governance	All equally important

2. **The council's framework for investing should move from 'value-driven' (i.e., financial outcomes) to 'values-driven' (financial outcome is secondary to ESG outcomes).**

Strongly disagree	Disagree	No strong view	Agree	Strongly agree

3. **Therefore, how should the council align its treasury investments whilst always complying with statute/regulation)? *Tick one***

Financial outcome has priority		Financial outcomes are secondary		
Aim to maximise financial Return	Aim to maximise financial return, incorporating ESG principles	Balance financial return (likely lower) with ESG outcomes	Focus on ESG outcomes, with financial outcomes secondary	Maximise ESG outcomes, with no consideration of financial outcomes

Any comments/views:

4. **Short-dated investment instruments.**

5.6 The framework for evaluating short-dated investment instruments in local authority portfolios is still developing and they do not currently include ESG scoring or other real-time ESG criteria at an individual investment level. Therefore, when investing in banks and funds, the council wishes to prioritise:

(a) banks that are signatories to the UN Principles for Responsible Banking
(b) funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code

	Agree	Disagree	No strong view
Banks			
Funds			

5.7 The council budgeted approximately £0.6m income from its in-house and externally managed investments in 2022/23 and the budget requirement for 2023/24 is £1.6m.

5. **The council should only consider investments which explicitly aim to deliver a positive ESG outcome, even if it may negatively impact expected investment returns, in particular income received from these investments.**

1 Strongly disagree	2 Disagree	3 No strong view	4 Agree	5 Strongly agree

Any comments/views: If you agree or strongly agree, what percentage of income would you be willing to forego?

5.8 *For example, the stocks of many clean energy companies are mainly growth stocks distributing little or no income and, likewise, funds invested primarily in such companies.*

6. **Provide examples of industries / securities / types of funds you would rather the council include or exclude from its direct and indirect investments in the future. It would also be useful if you can provide examples where you have no strong views.**

	Include	Exclude	No strong view
Companies involved in exploration/ extraction /refining industries (such as oil and gas)			
Extractive industries (such as oil and gas) but which are also investing in renewables/new energies and committed to net zero targets			
Companies involved in mining			
Companies involved in tobacco / alcohol production			
Companies with some involvement in oil or tobacco - e.g., supermarkets that sell petrol and cigarettes - but generate less than (say) 10% of their revenue from this source			
Manufacturers/purchasers of armaments (this would include the UK government)			

5.9 *Comment: It would be ideal if members can give their own examples, but you may want to provide the above to give them a steer. I am conscious that tobacco and alcohol are examples straying into personal ethics (a minefield!), but the impact of ill-effects of tobacco/alcohol ultimately put a strain on the public purse.*

5.10 *The oil majors like BP, Shell etc are perceived as polluters but their investment in renewables and cleaner energy is growing – these are stocks which would be in the second row of this table – and which are used in income strategies.*

7. **Investing in the low-carbon transition may appear to be the correct way forward, but it may not mean having zero exposure to fossil fuels/mining in the near term.**

1 Strongly disagree	2 Disagree	3 No strong view	4 Agree	5 Strongly agree

5.11 Any comments/views:

8. The council should recognise that energy transition should also be a Just (social) Transition even though this might lengthen the climate change timetable.

1	2	3	4	5
Strongly disagree	Disagree	No strong view	Agree	Strongly agree

5.12 *Energy transition = (moving from energy sources which have high environmental and greenhouse impact such as oil, gas, and coal to those which have a lower environmental impact such as renewables, solar, wind etc).*

5.13 A 'Just Transition' takes into account the human cost of going green, so that workers *stranded by the transition are also considered and are not left without their only source of employment or livelihood.*

5.14 *Individuals and businesses pay for this energy transition through their energy bills. Therefore, transition costs could entail a disproportionate burden on poor or vulnerable consumers, further exacerbating fuel poverty.*

Any comments/views:

<u>STEWARDSHIP</u>

9. Through both direct and indirect investments in securities (equities), investors can also have an effective stewardship role in influencing and improving corporate behaviour for wider societal benefit. It is therefore preferable to engage as a shareholder and drive that improvement*, rather than divest a holding.

5.15 *Equity investors can use their position as partial owners of companies to engage with company management and use their legal voting rights to influence, modify or improve investee companies' social and environmental activities/operations and corporate behaviour; the long-term sustainable value thus derived benefits investors, the entity as well as wider society.*

****For the council's treasury investments, this stewardship role would be through its externally managed pooled multi-asset and property funds.***

1	2	3	4	5
Strongly disagree	Disagree	No strong view	Agree	Strongly agree

Any comments/views:

10. The council's preference is for investment fund managers who take their stewardship role seriously and, through dialogue and use of voting rights, are key influencers for more responsible corporate behaviour and long-term sustainability. These are managers who will also provide regular reports on ESG / Sustainability and voting records.

1	2	3	4	5
Strongly disagree	Disagree	No strong view	Agree	Strongly agree

Any comments/views:

OTHER ASSETS

11. For the council's ESG policy to be effective and consistent, it should be applied to its financial investments and to real assets, i.e., land, property, and infrastructure through property funds.

5.16 *The built environment contributes significantly to UK's total carbon footprint, mainly from energy used in buildings (heating homes) and infrastructure (e.g., roads and railways).*

5.17 *Therefore, the council should demonstrably be seen to embed environmental performance and sustainability into the acquisition/development/refurbishment process: identifying suitable assets which are accredited to environmental standards, (where relevant) engaging with tenants to promote greater awareness of energy efficiency and developing structured programmes for energy usage/reduction, waste audits and, (where possible) utility data collection and information sharing.*

1	2	3	4	5
Strongly disagree	Disagree	No strong view	Agree	Strongly agree

Any comments/views:

Appendix 6 2024/25 strategy timeline

- **September 2023**: 2022/23 out-turn and 2023/24 in-year report (this report).
- **October 2023:** Informal audit committee briefing by treasury advisors including validation of ESG priorities, and to seek member views on proposed local TM indicators to include in the 2024/25 strategy.
- **November 2023:** Audit Committee – 2023/24 Mid-year report and draft 2024/25 strategy.
- **November 2023:** Engagement with the Audit Committee Chair to capture feedback from the November reports regarding the 2024/25 strategy.
- **January 2024**: Updated 2024/25 strategy and 2023/24 Q3 update.
- **January/February 2024**: 2024/25 strategy to Executive for onward recommendation to Council.
- **February 2024:** Council approval of 2024/25 strategy.

Appendix 7 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.

ESG – Environmental, Social and Governance based investment decisions.

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.

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.