North Somerset Council

Report to the Audit Committee

Date of Meeting: 23 November 2023

Subject of Report: 2023/24 Treasury Management Mid-year and 2024/25 update

Town or Parish: All

Officer/Member Presenting: Mark Anderson, Principal Accountant (Resources & Financial Planning)

Key Decision: No

Reason:
Not an Executive decision.

Recommendations
The Audit Committee is asked to note;

- the in-year treasury management performance to 30 September 2023 which includes performance, prudential indicators, and commercial investments.
- 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 the first six 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 (a non-material exception is outlined in para 3.41).
- 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 The council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the council to approve, as a minimum, treasury management semi-annual and annual outturn reports.

2.3 This report includes the new requirement in the 2021 Code, mandatory from 1 April 2023, of quarterly reporting of the treasury management and non-treasury prudential indicators.

2.4 The council's treasury management strategy for 2023/24 was approved at a meeting in February 2023. The council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the council's treasury management strategy.

3. Details

3 2023/24 in-year update

3.1 The CIPFA Codes of Practice (Treasury Code and Prudential Code (2021 version) were updated and adopted with effect from 1 April 2023.

3.2 The 2023/24 treasury management strategy reflected the updated code requirements 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 4 below.

3.3 This update report is a high level summary of the context, activity as at 30 September 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

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

3.5 **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 stance continued to be maintained at the end of the period. This advice did not apply to deposits made with government or local authorities.

3.6 **Investment income** - following a series of bank base rate increases during 2023/24, gross interest income forecast on all investments is £5.970m, against a budget of £1.542m.

3.7 **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 4.60%, which is broadly comparable to that achieved by Tradition (4.13%); and returns of 4.39% are forecast to be achieved on external pooled fund investments.

3.8 **Borrowing -** the council's treasury strategy contained a borrowing requirement of £43m for 2023/24. Changes during the year are reported separately to the Executive through the corporate monitoring process and at 30 September the borrowing requirement was revised to £21m, and the council had not drawn down any external borrowing. No new additional external borrowing has been undertaken during the period and £5.4m of borrowing was repaid, as planned.

3.9 **Cash flows -** £540m 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 (£361m). This followed guidance from the council's treasury advisers in March 2023 to limit maximum durations for unsecured deposits to 35 days.

3.10 **Non-treasury management activity** – Commercial investments are forecast to provide an annual yield of 0.0% in 2023/24 after a contribution from the smoothing reserve of £0.1m 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.

3.11 **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 1**. All indicators were within target levels. *The approved counterparty limit of £9m for the council's bank accounts was unavoidably temporarily exceeded over the final weekend in September. Further information is provided in paras 3.40-3.41 below.

2023/24 Balance sheet summary

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

Table 1: Treasury Management Balances within the Balance Sheet – 2023/24				
	Balance 31/03/23 £m	**Movement In Year £m**	**Balance 30/09/23 £m**	**Ave Rate %**
Long-term borrowing	128.5	0.0	128.5	3.97
Short-term borrowing	8.9	-5.4	3.5	2.48
Total borrowing	**137.4**	**-5.4**	**132.0**	**3.96**
Long-term investments	10.0	0.0	10.0	4.39
Short-term investments - in-house	134.0	53.0	187.0	4.6
Short-term investments - Tradition	10.0	0.0	10.0	4.13
Total investments	**154.0**	**53.0**	**207.0**	
Net (borrowing) / investments	**16.6**	**58.4**	**75.0**	

3.13 Investment balances at 30 September 2023 were £58.4m higher than at 31 March and this is due to the council's cash inflows usually exceeding its outflows during the first few months of the year. This was exacerbated by a £20.5m receipt of the annual 2023/24 Bus Service Improvement Plan funding on 29 September in a single sum, and £26m funding received from the Integrated Care Board for the annual 2023/24 Continuing Health Care and Funded Nursing Care funding values in two sums.

3.14 On 31 March 2023, the council had net investments of £16.6m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 2 below.

Table 2: Balance Sheet Summary – 2023/24	**31/03/23 Actual £m**	**31/03/24 Forecast £m**
General Fund Capital Financing Requirement	182.3	197.4
Less: Other debt liabilities *	33.4	32.5
Borrowing Capital Financing Requirement	**148.9**	**164.9**
External borrowing**	137.4	132.0
Internal borrowing (over borrowing)	**11.5**	**32.9**

* finance leases and transferred debt that form part of the council's total debt
** shows only loans to which the council is committed and excludes optional refinancing

Treasury investments

3.15 The following three charts analyse the investments at 30 September by credit rating, type, and maturity.

Figure 1: Investments by credit rating

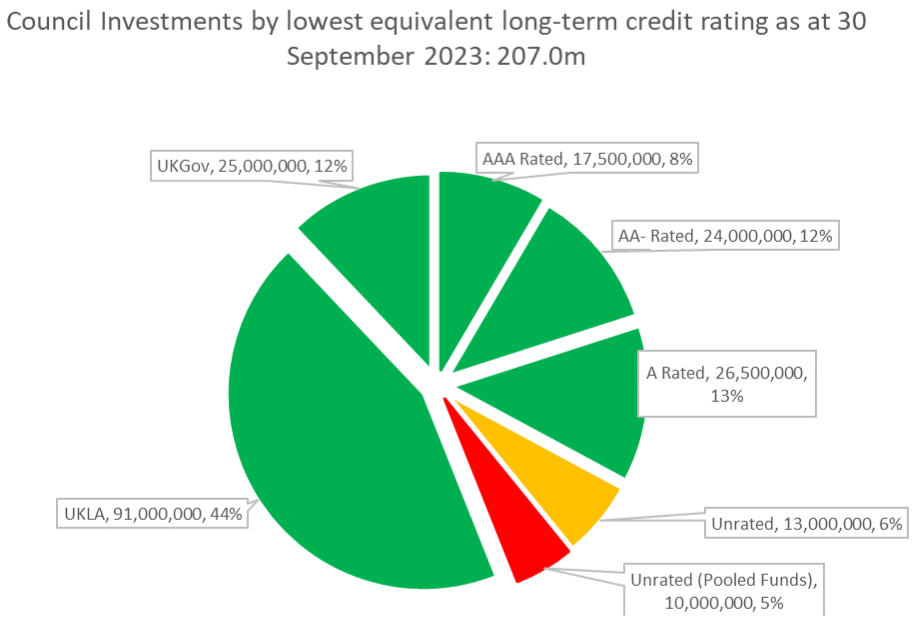


Figure 2: Investments by counterparty type

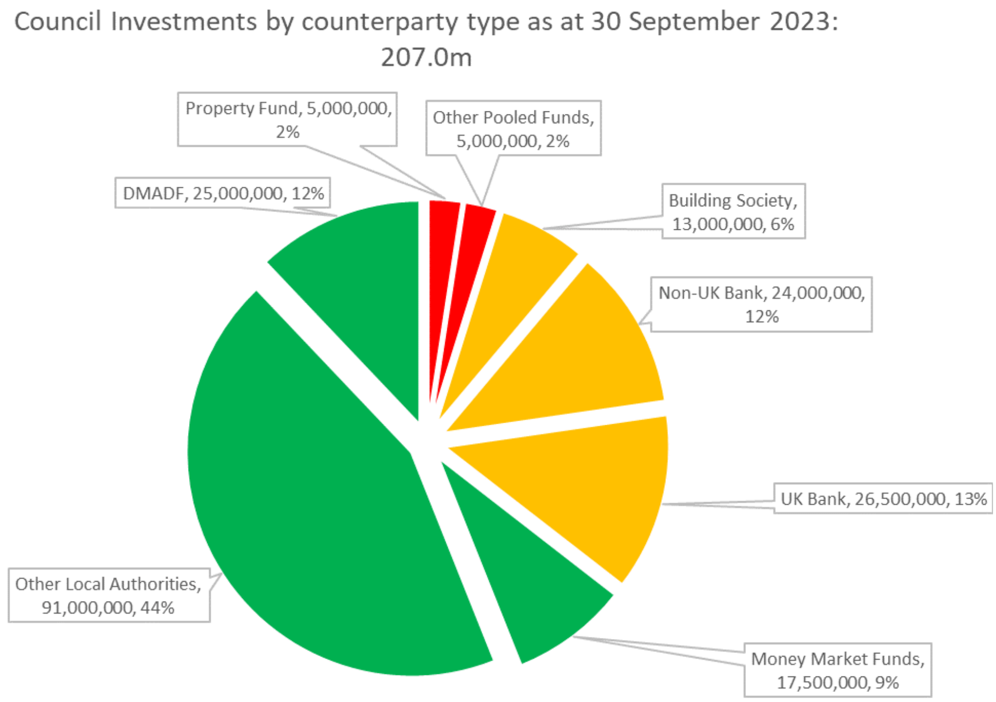
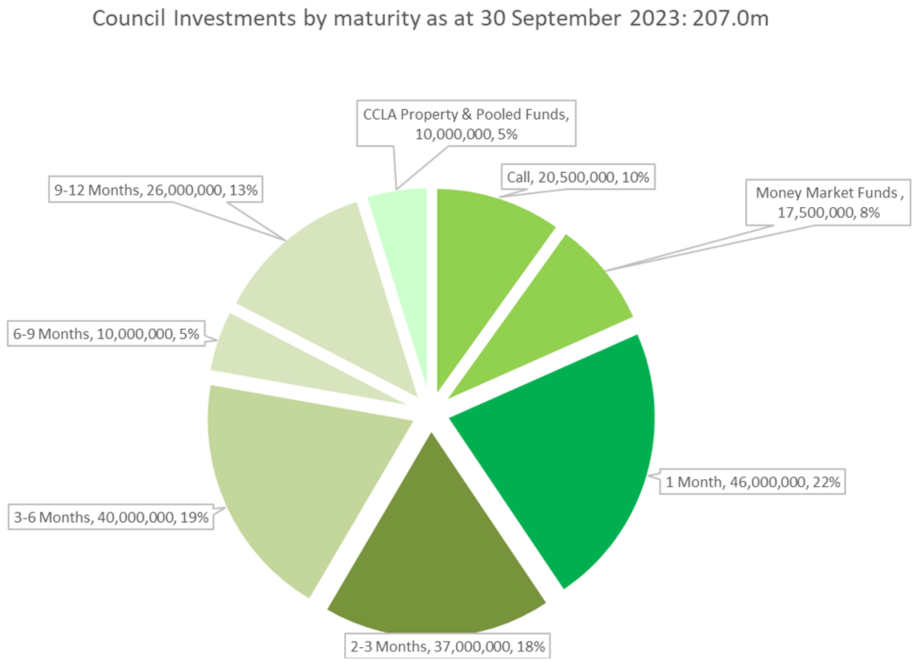


Figure 3: Investments by maturity



3.16 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 3 below.

Table 3: Investment Benchmarking – Treasury investments managed in-house.

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity days**	**Rate of Return %**
31.03.2023	5.58	A	25%	117	3.29%
30.09.2023	4.81	A+	32%	93	4.74%
Similar LAs	**4.57**	**A+**	**65%**	**42**	**4.93%**
All LAs	**4.47**	**AA-**	**59%**	**13**	**4.92%**

3.17 When interest rates were rising maturities were kept short, partly to take maximum advantage of rate increases. Since the last update report, market sentiment Is indicating bank rates may be at or near their peak, therefore subject to liquidity requirements, the durations of investment deals placed in recent weeks has increased and we would expect an increase in average maturity days in the council's next update report.

2023/24 Budget implications

3.18 The table below shows that the council is forecasting **£5,970k** from interest income during the year, which is £4,428k more than budgeted. This is due to the increased interest rates.

Table 4: 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	5,075	155	315	240	185	**5,970**
Investment Interest Budget	1,112	16	15	206	193	**1,542**
Variance to Budget	3,963	139	300	34	-8	**4,428**

3.19 It can be seen through regular reports to the Executive that the current economic backdrop as referred to within para 3.4, 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.

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

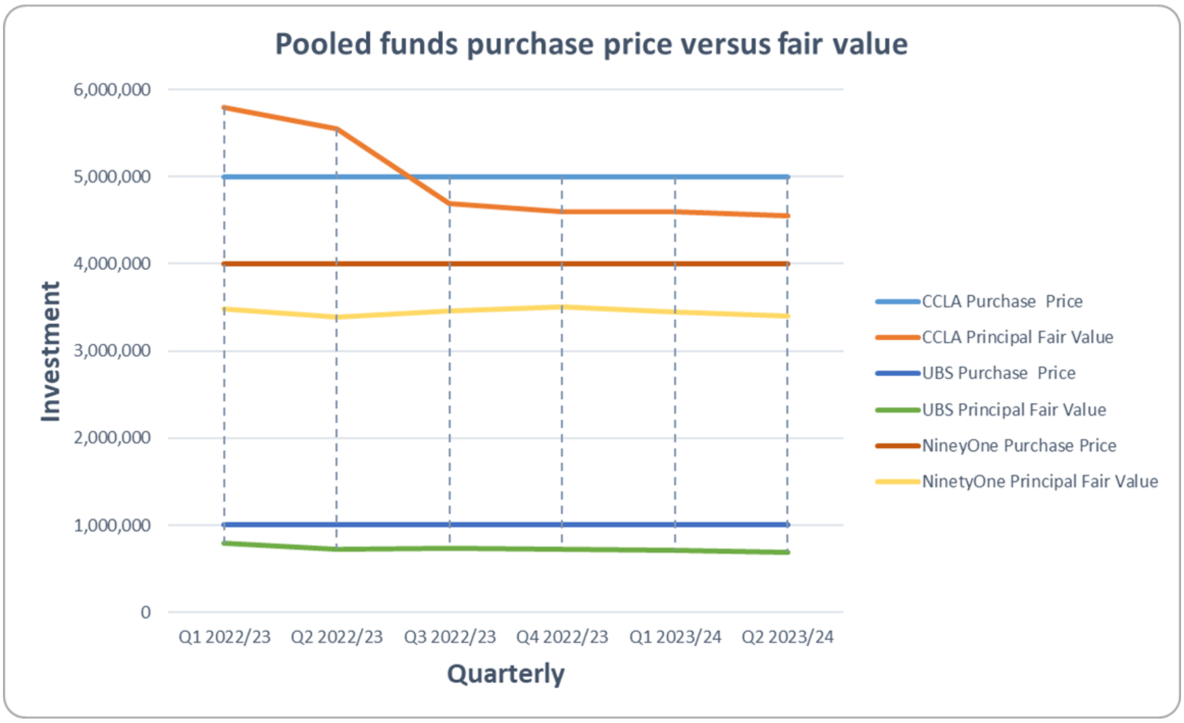
Pooled funds

3.21 £10m of the council's investments is invested in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average income return of £0.4m which is used to support services in year. The council's average income return from its £10m of pooled investment funds was 4.39%.

3.22 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.

3.23 The combined share price as at 30 September has marginally decreased since March 2023 after the decreases experienced in the latter half of 2022/23. At 30 September 2023, there is a combined unrealised capital loss of £1.4m, compared with £1.2m at 31 March 2023 and 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 **Appendix 2**.

Figure 4: Pooled funds purchase price versus fair value



Statutory override

3.24 In April 2023 the Department for Levelling Up, Housing and Communities published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for two years until 31 March 2025, but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The council will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

Non-treasury investments

3.25 The definition of investments in the Treasury Management Code now covers all the financial assets of the council as well as other non-financial assets which the council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e., management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and/or for commercial purposes (made primarily for financial return).

3.26 Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also includes within the definition of investments all such assets held partially or wholly for financial return.

2023/24 Commercial investments

3.27 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.

3.28 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.

3.29 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.

3.30 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.

3.31 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 Cost and valuation

3.32 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. The properties will be subject to a further revaluation at the end of March 2024.

2023/24 Income compared to budget

3.33 After servicing costs, fees and borrowing costs and a £0.1m contribution from the smoothing reserve, commercial investments are forecast to generate an annual net return to the revenue budget of £0.0m (2022/23 £0.1m).

3.34 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.

3.35 Trading operations at the Sovereign Centre have remained steady with the exception of Wilkos which previously contributed 20% of the overall rental income. Discussions are ongoing with potential tenants or to reconfigure the current space.

3.36 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.

2023/24 Yield / return on investment

3.37 As detailed in **Appendix 1**, combined the council's commercial investments is forecast to provide an annual yield / return on investment of 0.0% in 2023/24 (0.2% in 2022/23) although this is after a forecast contribution from the smoothing reserve of £0.1m.

3.38 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. Therefore, no recommendations are being made about amendments to the investment portfolio at this time.

2023/24 Compliance

3.39 Compliance with specific investment limits is demonstrated in table 5 below and compliance with the authorised limit and operational boundary for external debt is demonstrated in **Appendix 1.**

Table 5: Investment Limits – 2023/24	2023/24 Maximum	30/09/23 Actual	2023/24 Limit	Complied? Yes/No
UK Central Government	**no limit**	£25m	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**	£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**	£6m	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**	£0m	13 months	Yes
The Council's Bank accounts	**net £9m**	net £20.5m	no limit	No*

3.40 * The council aims to maintain an operational daily bank balance of between £400,000 overdraft and £1m credit in its bank accounts on any given day. However, it is recognised that these targets may be exceeded due to factors beyond the council's control. For example, due to unexpected receipts from third parties.

3.41 On the afternoon of Friday 29 September, £20.5m was unexpectedly received from WECA for the Department for Transport's Bus Service Improvement Plan funding for 2023/24. The council was unable to place the funds with the Debt Management Office or any of its Money Market Funds which had all closed for the day. Rather than leave the funds in the general account earning no interest over the weekend, the funds were transferred into the council's deposit account which provides a nominal interest return (currently 2%). However, this meant that the balance held in the council's bank deposit account from Friday to Monday exceeded the net £9m limit in the strategy. The position was subsequently regularised at the earliest possible opportunity on Monday 2 October. Other than this one example where the limit was technically exceeded, however this was entirely due to factors beyond the council's control, all limits were complied with during the period.

2023/24 Borrowing activity and update

3.42 At 30 September 2023 the council held £143.3m of external borrowing on its balance sheet which is held with the following counter-parties;

- £129.4m is held with the Public Works Loan Board (PWLB),
- £2.0m with SALIX,
- £0.6m with Town Councils
- £11.3m managed by Bristol City Council on behalf of 4 councils

3.43 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.

3.44 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.

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

Table 6 Long-term debt profile (principal) as at 30th September 2023		
	Debt £m	Average Rate %
Less than 1 year	3.48	2.19
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
	132.05	**3.94**

3.46 No new PWLB borrowing was undertaken; £7.5m of existing PWLB loans is due to be repaid by March 2024. £5m of this was repaid at the end of September. Interest payments totalling £5.3m are due to be paid in year.

3.47 SALIX have provided funding to North Somerset for green initiatives, in this case energy efficient replacement street lighting. During the year, the council has made a partial repayment of £0.4m from the original loan funding from SALIX bringing the total loan balance to £2.0m. 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.

3.48 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 partial repayment of £0.451m will be paid during the year. These loans are currently held and administered by Bristol City Council.

3.49 The Capital Strategy report approved in February 2023 did indicate that the council would be required to borrow £43.5m to fund its capital programme in 2023/24 however, following a series of reviews and rephasing, the revised borrowing forecast for 2023/24 is now £21.0m. Given the surplus cash-flow position, as expected the council has not drawn down any external borrowing in 2023/24. 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.

4. 2024/25 TM strategy

4.1 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.

4.2 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.

4.3 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.

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

Performance Indicators

4.5 Council performance indicators comprise mandated indicators (prudential indicators and treasury management indicators) which will all be included within the 2024/25 strategy and compliance with these will be reported on during 2024/25.

4.6 In addition to the mandatory indicators, the council could adopt two voluntary indicators.

4.7 The first indicator measures 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.

4.8 The second potential indicator looks at the council's exposure to interest rate risk by reporting the impact on revenue of a 1% change in interest rates. This is calculated on variable rate investments and borrowing.

4.9 The indicators would be calculated quarterly and reported with the other indicators. Both voluntary indicators are currently reported and can be found in **Appendix 1.**

Environmental Social & Governance (ESG) treasury management policy

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

4.11 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.

4.12 The ESG policy will therefore include the following statement:

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

4.14 Based on the results of previous ESG workshops with the Audit Committee, it is proposed to include the following criteria in the council's treasury management ESG policy for 2024/25;

- To set aside an initial sum of up to £6m to invest specifically in ESG-related investments;
- Counterparty value and term limits will still be adhered to – for example if the counterparty limit in the approved strategy is £10m then this limit includes both ESG and non-ESG investment products;
- The duration of ESG investment to be less than 12 months – the council is expected to have a borrowing requirement in the next 2-5 years therefore a longer term ESG investment would not be suitable;

4.15 The council will continue to:

- avoid any direct 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;

- To continue to 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.

4.16 In addition to the above, it is also proposed to include the following set of ESG principles:

- The council’s 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;

- When investing in banks and funds, the council will prioritise banks that are signatories to the UN Principles for Responsible Banking and 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.

Reporting

4.17 The performance of the council’s ESG investments will be reported separately within the various treasury management reports to the Audit Committee during 2024/25, and this will inform any further refinement of the ESG investment framework which could be reflected in future years’ strategies.

5. Consultation

5.1 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.

6. Financial Implications

6.1 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 6 - 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	-5,970	-4,428
Minimum revenue provision	9,187	8,217	-970
Total	**13,386**	**7,547**	**-5,839**
MRP analysis;			
- Supported Borrowing Minimum Revenue Provision	900	900	0
- Prudential Borrowing Minimum Revenue Provision	7,477	6,500	-977
- Ex-Avon Loan Debt Minimum Revenue Provision	445	452	7
- Finance Leases Minimum Revenue Provision	365	365	0

7. Legal Powers and Implications

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

7.2 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.

8. Climate Change and Environmental Implications

8.1 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.

8.2 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.

8.3 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.

8.4 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.

8.5 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.

8.6 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.

8.7 An update of work carried out to date is set out in paragraphs 4.1 onwards in the main report.

9. Risk Management

9.1 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.

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

- 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,
- 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,
- 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.

9.3 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.

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

9.5 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.

10. Equality Implications

10.1 Not applicable, this report is for information only.

11. Corporate Implications

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

10.2 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.

12. Options Considered

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

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Appendices:

Appendix 1 2023/24 In-year performance indicators
Appendix 2 2023/24 External context provided by Arlingclose Ltd (treasury advisers)
Appendix 3 2024/25 Treasury management strategy timeline
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Background Papers:

Treasury Management Strategy 2023/24, Executive & Council – February 2023

Appendix 1 2023/24 In-year performance indicators

Prudential Indicators 30 September 2023/24

1.1 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.

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

Table 1.1 Capital Expenditure

	Actual 2022/23 £m	Forecast 2023/24 £m	Estimate 2024/25 * £m	Estimate 2025/26 £m
Capital investments (£m)	66.5	124.5	154.3	124.2

* 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.

1.3 There has been £23.7m spend on main General Fund capital projects to date which has included two school expansions £10.8m, Housing £1.5m and various Place schemes (£10.7m) including Banwell Bypass design and planning £2.1m, and Bus Service Improvement Plan £2.2m, and various highways schemes £3.2m. The council has not incurred any capital expenditure on its commercial investments.

1.4 **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 £21m during 2023/24. Based on the forecast figures for expenditure and financing, the council's estimated CFR is as follows:

1.5 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 1.2: 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	197.4	208.0	235.9
Less: CFR re finance leases	22.1	21.7	21.4	21.0
Less: CFR re ex Avon debt	11.3	10.8	10.4	10.0
Loans CFR	**148.8**	**164.9**	**176.2**	**204.9**

* 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.

1.6 **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 1.3: 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 30/09/23 £m
Debt (incl. leases)	170.3	160.6	173.7	198.7	165.4
Capital Financing Requirement	182.2	197.4	208.0	235.9	

* 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.

1.7 **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 1.4: Debt and the Authorised Limit and Operational Boundary

	Maximum debt 2023/24 £m	Debt at 30/09/23 £m	2023/24 Authorised Limit £m	2023/24 Operational Boundary £m	Complied? Yes/No
Borrowing	137.5	132.0	225.0	208.0	Yes
Other (ex-Avon debt and finance leases)	33.4	33.4	40.0	35.0	Yes
Total debt	**170.9**	**165.4**	**265.0**	**243.0**	Yes

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

1.9 **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 1.5: 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	0.1	0	0	0
Proportion of net revenue stream	0%	0%	0%	0%

1.10 **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].

1.11 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 1.6: 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	13.2	11.9	12.0
Proportion of net revenue stream	6.9%	6.25%	5.39%	5.19%

* 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:

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

Liability Benchmark:

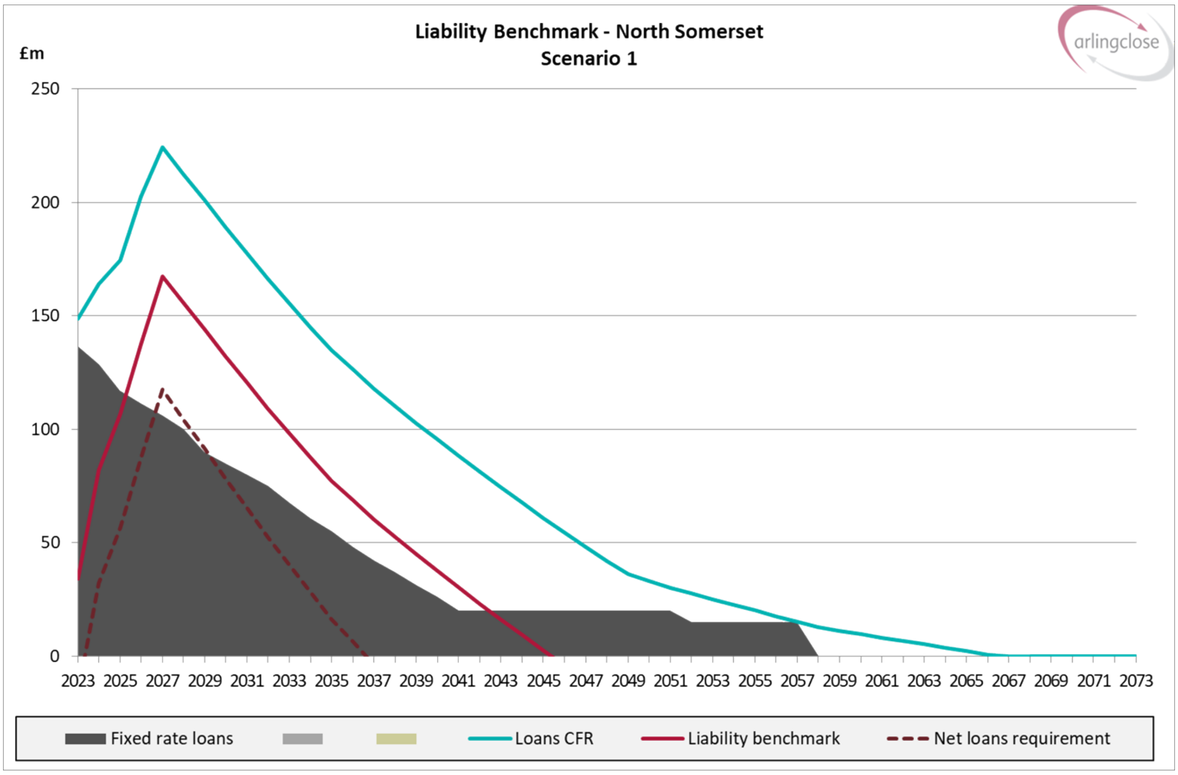
1.13 This new indicator compares the council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term 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 1.7: Liability Benchmark

	Actual 2022/23 £m	Forecast 2023/24 £m	Estimate 2024/25 * £m	Estimate 2025/26 £m
Loans CFR	148.8	164.0	174.6	202.5
Less: Balance sheet resources	-164.8	-132.0	-117.9	-115.0
Net loans requirement	**-16.0**	**32.0**	**56.7**	**87.5**
Plus: Liquidity allowance	50.0	50.0	50.0	50.0
Liability benchmark	**34.0**	**82.0**	**106.7**	**137.5**

1.14 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.

1.15 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.



1.16 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.£26m net borrowing requirement in 2025/26 (where the red line moves above the grey area).

1.17 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.

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

1.19 **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 1.8: Maturity Structure of Borrowing

	Upper Limit	Lower Limit	30/09/23 Actual	Complied?
Under 12 months	50%	0%	1.89%	Yes
12 months and within 24 months	30%	0%	8.15%	Yes
24 months and within 5 years	40%	0%	13.83%	Yes
5 years and within 10 years	50%	0%	24.92%	Yes
10 years and above	100%	0%	51.21%	Yes

1.20 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.

1.21 **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 1.9: 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

1.22 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

1.23 **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 1.10: Security

Credit risk indicator	2023/24 Target	30/09/23 Actual	Complied?
Portfolio average credit score	6.1	4.81	Yes

1.24 **Interest Rate Exposures:** This indicator is set to control the council's exposure to interest rate risk. Bank Rate rose by 1.0% during the period, from the prevailing rate of 4.25% on 1st April to 5.25% by 30th September.

Table 1.11: Interest rate exposure

Interest rate risk indicator	2023/24 Target	30/09/23 Actual	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1m	£0.4m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1m	£0.4m	Yes

1.25 For context, the changes in interest rates during the period were:

	31/03/23	30/09/23
Bank Rate	4.25%	5.25%
1-year PWLB certainty rate, maturity loans	4.78%	5.69%
5-year PWLB certainty rate, maturity loans	4.31%	5.22%
10-year PWLB certainty rate, maturity loans	4.33%	5.26%
20-year PWLB certainty rate, maturity loans	4.70%	5.64%
50-year PWLB certainty rate, maturity loans	4.41%	5.43%

Appendix 2 2023/24 External context provided by Arlingclose Ltd (treasury advisers)

2023/24 Economic background:

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

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

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

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

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

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

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

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

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

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

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

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

Financial markets:

1.13 Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

1.14 Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.

Credit review:

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

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

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

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

1.19 Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list.

Externally managed pooled funds:

1.20 Financial market conditions were volatile during the six-month period. Global bond yields rose and remained elevated as it became apparent that policymakers were looking to keep rates high for some time amid persistently higher core inflation and tight labour markets.

1.21 The UK, Euro area and US equity markets were initially helped by resilient growth data and diminishing talk of recession. A weaker currency and better-than-expected fundamentals were broadly supportive for UK equities. Much of the US stock market's performance was driven by a small number of mega stocks and enthusiasm over artificial intelligence. However, the global outlook was clouded by the slowdown in China. On a sectoral level, the energy sector was supported by higher oil prices and expectation of decreasing supply due to OPEC+ group agreeing on production cuts. The FTSE All Share index was marginally lower at the end of the 6-month period at 4127 on 30/9/23 v 4157 on 31/3/23. The MSCI All Countries World Index was higher at 2853 on 30/9/23 v 2791 on 31/3/23.

1.22 For existing longer-term investors in fixed income securities, the prospect of a higher-for-longer rate environment weighed on sentiment. Yields rose in Q2 2023 on the expectation that central banks would continue hiking rates but fell in August as investors grew confident that policy rates were close to their peak, then rose again in September as oil prices climbed above $90/barrel. There was also some effect from quantitative tightening by the Bank of England. This affected capital values of the council's multi-asset funds where there was some offset from equity performance.

1.23 Investor sentiment for UK commercial property was more settled than in Q3 and Q4 of 2022 when the sharp rise in bond yields resulted in a big fall in property valuations. There were signs of returning investor interest, occupier resilience and a perception that the downturn in commercial real estate may be bottoming out. It helped rental income and led to some stabilisation in capital values. However, the combination of high interest rates and bond yield, higher funding costs and the prospect of sluggish economic growth constrain the outlook for commercial property.

1.24 The combination of the above had a marginal negative effect on the combined value of the council's strategic funds since March 2023.

Appendix 3 2024/25 TM Strategy timeline

- **November 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 2024/25 strategy update (this report).

- **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 4 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.