Agenda Item No. 6

THE VALE OF GLAMORGAN COUNCIL

GOVERNANCE AND AUDIT COMMITTEE: 23RD SEPTEMBER 2024

REFERENCE FROM CABINET: 5TH SEPTEMBER, 2024

C109 QUARTER ONE TREASURY MANAGEMENT MONITORING 2024/25 (EL/PR) (SCRUTINY – CORPORATE PERFORMANCE AND RESOURCES) –

The Deputy Leader presented to Cabinet the Quarter 1 Treasury Management 2024/25 Monitoring Report which detailed the changes in the Capital Programme since the last report to Cabinet and updated the prudential indicators to reflect those changes.

All the changes were within the limits as set in the Council's annual Treasury Management and Investment Strategy. Where possible the Council had been self-financing new capital expenditure and maturing debt, however available balances and reserves were now depleted and the Council had started to borrow externally from the Public Works Loan Board over shorter 5-year terms due to current high borrowing costs.

In the period under review the Council had borrowed £5M to fund the Housing Revenue Account as a project rate was available 60-basis points below the standard rate. As at 30th June, 2024 the Council's external borrowing was £148.058M, up from £143.312M as of 31st March, 2024, but was well within the authorised limit and operational boundary indicators set for the year. Borrowing costs for the first quarter of 2024/25 were 4.84%.

In the first quarter of 2024/25 the Council's investment portfolio increased from £34.195M as of 31st March, 2024 to £36.32M as of 30th June. 2024 with the average rate of return for all investments being 5.31% over Quarter One.

The Deputy Leader said that continuing from previous discussions, further Treasury Management training would be offered to Members.

This was a matter for Executive decision.

Cabinet, having considered the report and all the issues and implications contained therein

RESOLVED –

(1) T H A T the Quarter One Monitoring report for Treasury Management 2024/25 be noted.

(2) T H A T the Quarter One Monitoring report for Treasury Management 2024/25 be referred to Governance and Audit Committee.

Reasons for decisions

(1) To inform Committee of the monitoring position for Treasury Management as at 30th June 2024.

(2) To inform Governance and Audit Committee of the position in respect of Treasury Management.

Attached as Appendix – Report to Cabinet: 5th September, 2024

VALE of GLAMORGAN
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Appendix

Meeting of:	**Cabinet**
Date of Meeting:	**Thursday, 05 September 2024**
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Quarter One Treasury Management Monitoring 2024/25
Purpose of Report:	To present to Cabinet the Quarter 1 Treasury Management 2024/25 Monitoring Report
Report Owner:	Executive Leader and Cabinet Member for Performance and Resources
Responsible Officer:	Matt Bowmer, Head of Finance / Section 151 Officer
Elected Member and Officer Consultation:	Matt Bowmer, Head of Finance / Section 151 Officer
Policy Framework:	This is a matter for Executive decision by Cabinet and for referral to Full Council for final approval

Executive Summary:

- This report sets out the Treasury Management position against a number of key Treasury and Prudential Indicators as at 30th June 2024.
- The Council's debt portfolio as of 30th June 2024 was as follows:

Debt Portfolio	**30th June 2024**
	Principal
	£M
Public Works Loan Board (PWLB)	141.990
WG Loans	1.050
Salix Loans	1.018
Market Loans	4.000
Total Debt	**148.058**

- The Council held investments of £36.320M on 30th June 2024.
- The Council's investment portfolio as of 30th June 2024 was as follows:

Investment Portfolio	30th June 2024
	Principal
	£M
Debt Management Account Deposit Facility / Local Authorities	16.800
Money Market Fund	18.700
Lloyds Instant Access Deposit Account	0.820
Total Investments	**36.320**

Recommendations

1. That Cabinet notes the Quarter One Monitoring report for Treasury Management 2024/25.
2. That the Quarter One Monitoring report for Treasury Management 2024/25 be referred to Governance and Audit Committee.

Reasons for Recommendations

1. To inform Committee of the monitoring position for Treasury Management as at 30th June 2024.
2. To inform Governance and Audit Committee of the position in respect of Treasury Management.

1. Background

1.1 This quarterly Treasury Management Monitoring Report covers the latest position in respect of Prudential & Treasury Indicators for Quarter One 2024/25 for the period 1st April 2024 to 30th June 2024.

1.2 CIPFA published revised Codes of Practice on 20th December 2021 and formal adoption of the revised Code of Practice was required for the financial year beginning 2023/24. The Council must have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement an Annual Investment Strategy, and any other related reports during the financial year.

1.3 For the purposes of this report the revised Treasury Management Code requires an authority to prepare quarterly reporting to members of the Treasury and Prudential Indicators. The Head of Finance/Section 151 Officer is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The Head of Finance is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the Authority's integrated revenue, capital, and balance sheet monitoring. The other requirements of the changes to the code are detailed in the Legal section of this report.

1.4 The following table is a summary of the reporting requirements for Prudential and Treasury Indicators, as per the 2021 CIPFA Prudential Code for Capital Finance in Local Authorities and 2021 CIPFA Treasury Management in the Public Services Code of Practice and Cross-sectoral Guidance Notes.

1.5 The indicators are required to help Members understand and evaluate the prudence and affordability of the Authority's capital expenditure plans and the borrowing and investment activities undertaken in support of this.

Prudential Indicators
Estimates of capital expenditure
Actual capital expenditure
Estimates of CFR
Actual CFR
Authorised limit for external debt
Operational boundary for external debt
Actual external debt
Gross debt and the CFR
Estimates of financing costs to net revenue stream
Actual financing costs to net revenue stream

Treasury Indicators
Liability Benchmark
Maturity Structure of borrowing
Limits for long-term treasury management investment

1.6 The Council's annual Treasury Management & Investment Strategy for 2024/25 was written in February 2024 and reported to Council on 6th March 2024.

1.7 Investment rates held steady throughout the first quarter of 2024, but these rates are set to fall as the Bank of England commences easing restrictions as inflation targets are met. A full breakdown of these investments is detailed later in this report.

1.8 Funds available for investment continued to be placed with the Debt Management Office (DMO), other Local Authorities, Money Market Funds (MMFS,) and the Lloyds Instant Access Deposit Account. No funds were invested in UK Treasury Bills during the period under review as the rates of return offered were poor in relation to the other investment opportunities available to the Council.

1.9 The Section 151 Officer continued to adopt a cautious approach with respect to treasury management investment operations. The Council's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds before seeking the best rate of return.

1.10 Throughout the first quarter of the financial year and in accordance with the Treasury Management Strategy, investment balances have continued to be kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing. However, the Council undertook some shorter-term external borrowing (5 years) from the PWLB to finance capital expenditure for the Housing Revenue Account (HRA). This loan was subject to a 60-basis point reduction from the standard interest rate.

1.11 The Council's primary objective for the management of its debt is to ensure its long-term affordability. Most of its loans have therefore been borrowed from the Public Works Loan Board at long term fixed rates of interest. Borrowing long term with fixed interest rates also provides certainty to the budget setting process.

1.12 The Section 151 Officer advises that all treasury management activity undertaken during the period to 30th June 2024 has complied with the approved strategy, the CIPFA Code of Practice, and the relevant legislative provisions.

2. Key Issues for Consideration

Prudential Indicators

Capital Expenditure

2.1 The purpose of this indicator is to provide a summary of the Council’s capital expenditure. It reflects the capital programme previously agreed at Full Council and the capital programmes proposed for the forthcoming financial periods. A supplementary table is included detailing the resources to be applied to finance the capital spend and so highlight any net financing need over the reporting period.

- The Council is required to make reasonable estimates of the total capital expenditure that it plans to incur in the forthcoming financial year and the following three financial years.
- After the year end the actual capital expenditure incurred during the financial year will be recorded.

Table 1.

Capital Expenditure	Actual 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000	Estimate 2027/28 £'000

Non-HRA	47.755	89.363	63.047	29.062	14.194
HRA	40.865	45.626	38.209	41.970	39.634
Total Capital Expenditure	**88.620**	**134.989**	**101.256**	**71.032**	**53.828**

Table 2.

Capital Expenditure	**2023/24 Actual £'000**	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**	**2026/27 Estimate £'000**	**2027/228 Estimate £'000**
Existing programme Non HRA	58.949	73.599	55.412	28.752	14.194
Existing programme HRA	45.019	38.745	38.209	41.970	39.634
Movement 2023/24 Non HRA	-11.194	15.764	7.635	0.310	0
Movement 2023/24 HRA	-4.154	6.881	0	0	0
New finance leases & PFI	0	0	0	0	0
Total Capital Expenditure	**88.620**	**134.989**	**101.256**	**71.032**	**53.828**
Financed by:					
Capital receipts	-3.936	-4.645	-2.044	-1.166	-2.346
GF Revenue/Reserve	-10.124	-9.548	-2.779	-0.800	-0.800
HRA Revenue/ Reserve	-19.276	-8.197	-7.484	-7.062	-6.660
Grants and other contributions	-35.137	-67.002	-45.945	-22.874	-9.110
S106	-11.210	-3.240	-1.800	-2.350	-2.535
Finance lease and PFI liabilities	0	0	0	0	0
Total financing	**-79.683**	**-92.632**	**-60.052**	**-34.252**	**-24.451**
Net financing need for year	**8.937**	**42.357**	**41.204**	**36.780**	**32.377**

Capital Financing Requirement

2.2 The Capital Financing Requirement ("CFR") shows the difference between the Authority's capital expenditure and the revenue or capital resources set aside to finance that spend. The CFR will increase where capital expenditure takes place and will reduce as the Authority makes Minimum Revenue Provision ("MRP").

- The Council will make responsible estimates for the total Capital Financing Requirement (CFR) at the end of the forthcoming financial year and the following three years.
- After year end the actual Capital Financing Requirement (CFR) will be calculated directly from the Council's balance sheet.

Table 3

Capital Financing Requirement	**2023/24 Actual £'000**	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**	**2026/27 Estimate £'000**	**2027/28 Estimate £'000**
Non-HRA	118.465	126.047	138.974	143.302	145.721
HRA	80.327	109.014	130.510	155.271	176.858
Total CFR	**198.792**	**235.061**	**269.484**	**298.573**	**322.579**

Net financing need for the year	8.937	42.357	41.204	36.780	32.377
MRP/ LFR & VRP	-5.767	-6.088	-6.781	-7.691	-8.371
Movement in CFR	**3.170**	**36.269**	**34.423**	**29.089**	**24.006**

Table 4

Non-HRA Capital Financing Requirement -	**2023/24** **Actual £'000**	**2024/25** **Estimate £'000**	**2025/26** **Estimate £'000**	**2026/27** **Estimate £'000**	**2027/28** **Estimate £'000**
Opening CFR	119.160	118.465	126.047	138.974	143.302
Capital Spends	47.755	89.363	63.047	29.062	14.194
Resources used	-44.304	-77.538	-45.798	-20.020	-6.941
MRP/ LFR & VRP*	-4.146	-4.243	-4.322	-4.714	-4.834
Closing CFR	**118.465**	**126.047**	**138.974**	**143.302**	**145.721**

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Table 5

HRA Capital Financing Requirement -	**2023/24** **Actual £'000**	**2024/25** **Estimate £'000**	**2025/26** **Estimate £'000**	**2026/27** **Estimate £'000**	**2027/28** **Estimate £'000**
Opening CFR	76.462	80.327	109.014	130.510	155.271
Capital Spends	40.865	45.626	38.209	41.970	39.634
Resources used	-35.379	-15.093	-14.254	-14.232	-14.510
MRP/ LFR & VRP	-1.621	-1.846	-2.459	-2.977	-3.537
Adjusted closing CFR	**80.327**	**109.014**	**130.510**	**155.271**	**176.858**

(*VRP – Voluntary Revenue Provision, LFR - Loans Fund Repayment)

Authorised Limit

2.3 This indicator represents a control on the maximum level of external debt the Council can incur. The Authorised Limit is a statutory limit determined under Section 3(1) of the Local Government Act 2003 for English and Welsh authorities. The Authority has no legal power to borrow more than the limits set. Revision of this Indicator would need to be approved by Full Council in advance of any external debt taken on in excess of the limit then in force.

2.4 The Authorised Limit reflects a level of external debt that, whilst not desired, could be afforded by the Authority in the short-term, but which is not sustainable in the longer-term.

2.5 The Authority should ensure that gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and the next three financial years.

2.6 If the level of gross borrowing is below the Authority's capital borrowing need (the CFR) it demonstrates compliance with the requirement of this Indicator.

- The Council will set for the forthcoming financial year and the following two financial years an Authorised limit for its total gross external debt, separately identifying borrowing from other long-term liabilities.

Table 6

Authorised Limit	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Borrowing	235.790	270.660	305.252	338.394	362.243
Other long term liabilities	0	0	0	0	0
Total Authorised Limit	**235.790**	**270.660**	**305.252**	**338.394**	**362.243**

Operational Boundary and Actual Debt Indicators

2.7 The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. Unlike the Authorised Limit, the Operational Boundary is not an absolute limit, but it reflects the Authority's expectations of the level at which external debt would not ordinarily be expected to exceed.

- The Council will also set for the forthcoming financial year and the following two financial years an Operational boundary for its total gross external debt, separately identifying borrowing from other long-term liabilities.

Table 7

Operational Boundary	2023/24 Actual £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Borrowing	220.558	254.921	284.876	321.483	344.915
Other long term liabilities	0	0	0	0	0
Total Operational Boundary	**220.558**	**254.921**	**284.876**	**321.483**	**344.915**

External debt

2.8 The Council must disclose the closing balance for actual gross borrowing in respect of the financial period just ended. This will clarify to Members the Authority's overall level of external debt and allow comparison to the Authority's actual borrowing need as provided by the Gross debt and the CFR Indicator.

Table 8

Actual External Debt as at 31 March 2024	Actual £'000
Borrowing	143.312
Other long term liabilities	0
Total External Debt	**143.312**

Table 9

Actual External Debt as at 30th June 2024	Actual £'000
Borrowing	148.058
Other long term liabilities	0
Total External Debt	**148.058**

Gross Debt and the Capital Financing Requirement

2.9 An authority should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes.

- To ensure that over the medium-term debt will only be for a capital purpose the Council should ensure that debt does not, expect in the short term, exceed the total Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next two financial years.

Table 10

Gross Debt & CFR	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
CFR	198.792	235.061	269.484	298.573	322.579
Gross borrowing	143.312	195.210	233.000	269.323	293.342

Under/(over) borrowing	55.480	39.851	36.484	29.250	29.237

Table 11

External Debt	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Loans at start of year	148.483	143.312	195.210	233.000	269.323
Lease/PFI liabilities at start of year	0	0	0	0	0
Total gross borrowing at start of year	**148.483**	**143.312**	**195.210**	**233.000**	**269.323**
New borrowing for capital spends	5.000	45.357	41.204	36.780	32.377
New borrowing for maturing debt	0	14.000	7.000	9.000	0
New lease/PFI liabilities	0	0	0	0	0
Loan repayments	-10.171	-7.459	-10.414	-9.457	-8.358
Lease & PFI repayments	0	0	0	0	0
Loans at end of year	143.412	195.210	233.000	269.323	293.342
Lease/PFI liabilities at end of year	0	0	0	0	0
Total gross borrowing at end of year	**143.312**	**195.210**	**233.000**	**269.323**	**293.342**

Ratio of Financing Costs to Net Revenue Stream

2.10 This Indicator shows the trend in the cost of capital borrowing and other long-term obligation costs against the net revenue stream i.e., Council Tax and Social Housing rent income.

2.11 The higher the ratio, the higher the proportion of resources tied up just to service net capital costs and which represent a potential affordability risk.

- The Council will estimate for the forthcoming year and the following two financial years the proportion of financing costs to net revenue stream.
- After the year end, the proportion of financing costs to net revenue stream will be calculated directly from the Council’s income and expenditure statement.

Table 12

Ratio of Financing Costs to Net Revenue Stream	Actual 2023/24 %	Estimate 2024/25 %	Estimate 2025/26 %	Estimate 2026/27 %	Estimate 2027/28 %
Non-HRA	1.99%	2.64%	2.73%	2.88%	2.94%
HRA	20.47%	21.20%	27.32%	30.67%	34.25%

Treasury Indicators

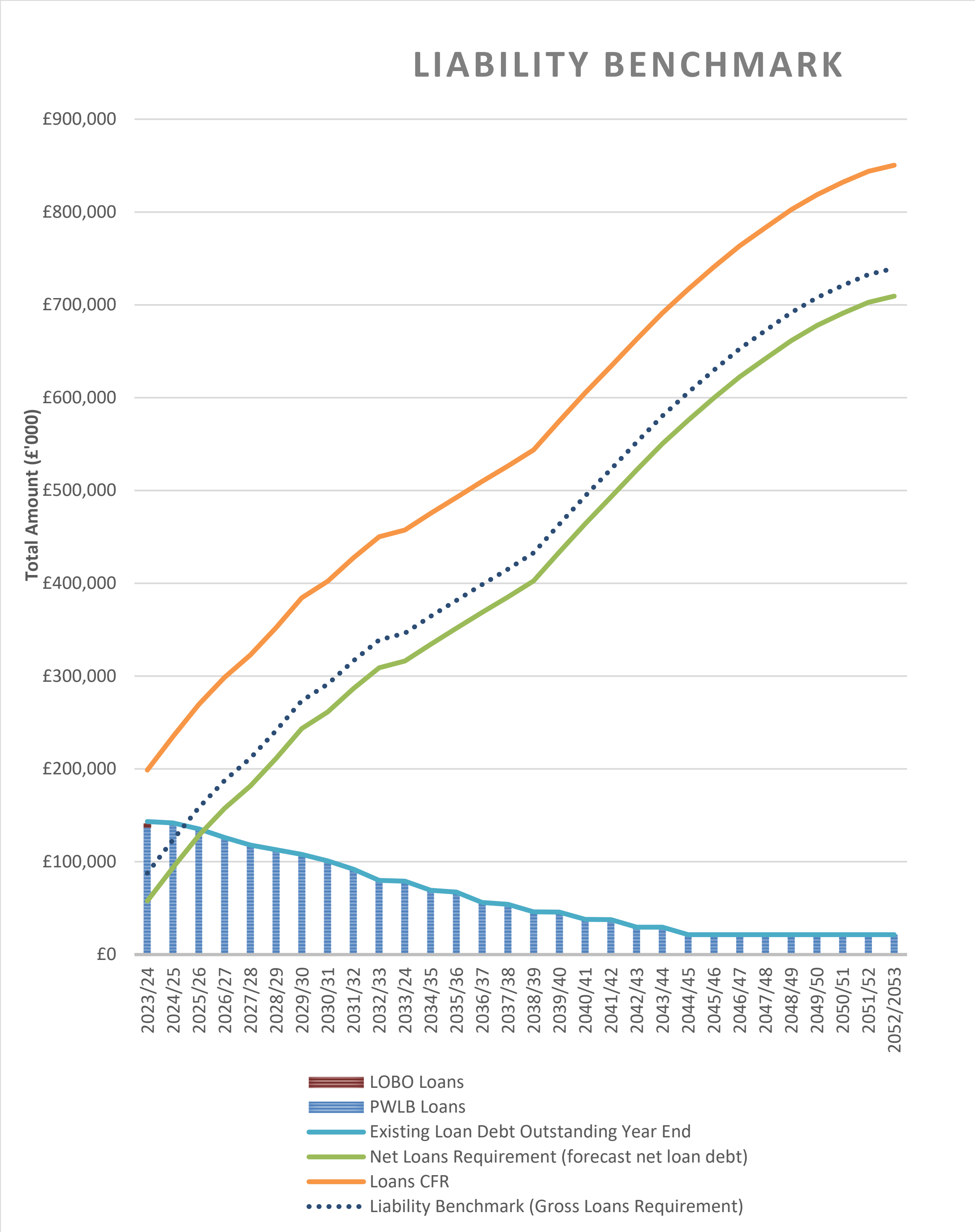
Liability Benchmark

2.12 The Council is required to provide a comparison of the existing loan portfolio against the committed borrowing needs. This is to provide evidence that it has a strong grasp of both its existing debt maturity profile and how MRP and other cash flows affect the future debt requirement.

2.13 This indicator should cover as a minimum the forthcoming financial year and the following two years. However, CIPFA strongly recommend that it is produced for at least ten years and should ideally cover the full debt maturity profile.

2.14 The presentation should be in the form of a chart covering the following four areas:

- Existing Loan Debt (current external debt borrowing portfolio split by type of loan and presented as a stacked bar chart).
- Loans CFR (excluding any part of the CFR relating to other long-term liabilities.
- Net loans requirement (loan debt less Treasury Management Investments at the last financial year end and projected into the future based on approved prudential borrowing, planned MRP and any other major cash flow forecast)
- Liability Benchmark (net loans requirement plus short-term liquidity allowance).



2.15 The chart above illustrates the 30-year projection of the Authority's Liability Benchmark. For the first two years of the analysis the Council's external debt exceeds the liability benchmark (the dotted line). This shows the Council in an overborrowed position and not making maximum use of its reserves and balances. This can be explained as follows:

- The Council has reserves that are ringfenced and cannot be used to fund capital expenditure.
- Some Council reserves need to be cash backed e.g. Housing Revenue Account (HRA)
- Higher than forecast reserve balances as the use of reserves in recent years was less than projected due to the slippage of the capital programme.
- The Council took PWLB funding in the last two years and in the first part of 2024/25 at favourable rates to mitigate interest rate risk with the Council's borrowing need.

2.16 Throughout the analysis the chart shows that external borrowing is below the Council's Capital Financing Requirement. For as long as usable reserve balances are available the Council will maintain an under borrowed position, i.e. the capital borrowing need of the Council will not be fully funded with external loan debt as cash supporting the Council's reserves, balances and cash flow will be used as an interim measure to finance the Council's borrowing requirement. This is considered prudent as interest rates are predicted to fall over the short term. Council reserve balances have dropped significantly in the past year and are projected to further reduce over the period under review and the Council will need to borrow externally during 2024/25 and throughout the period to finance the capital programme it has committed for the 30 years included in the analysis.

2.17 The Council currently holds reduced levels of investments compared with previous years and this reflects the reduction in reserves to maintain investments at the £30M target. The Council will need to reduce internal borrowing by taking out new external debt. The £30M investment buffer is reflected as part of the treasury management liquidity benchmark, the value of this buffer will need to be kept under review in the context of the current inflationary factors.

Borrowing and Investment

Maturity Structure of Borrowing

2.18 The Council is required to set gross limits on maturities for the periods shown and covers both fixed and variable rate borrowings. The reason being to try and control the Council's exposure to large sums falling due for refinancing.

2.19 The Council will set for the forthcoming year both upper and lower limits with respect to the maturity structure of external borrowing. The periods to which these limits will apply are as follows:

- Under 12 months
- 12 Months and within 24 months
- 24 months and within 5 years
- 5years and within 10 years
- 10 years and above

2.20 As of 30th June 2024, the maturity breakdown of the Council's borrowing is set out in Table 13.

Table 13

Maturity structure of borrowing	Actual	Lower Limit	Upper Limit
	%	%	%
Under 12 months	**5.21**	0	10
12 months and within 24 months	**4.29**	0	10
24 months and within 5 years	**18.63**	0	20
5 years and within 10 years	**15.83**	0	20
10 years and above	**56.04**	0	100

Limits for Long Term Treasury Management Investments

2.21 This Indicator is seeking to support control of liquidity risk. The limits should be set with regard to the Authority's liquidity needs and also reduce the potential need to have to make early exit from an investment in order to recover funds.

2.22 The indicator relates solely to the Authority's investments for treasury management purposes.

- Where a Council invests, or plans to invest, for periods longer than a year, the Council will set an upper limit for each forward financial year period for the maturing of such investments**.** This limit has been reduced to £0m in 2024/25 in the context of current investment balances.

Table 14

Limits for Long Term Treasury Management Investments	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Limit for investments > a year	£0m	£0m	£10m	£10m	£10m

Borrowing Strategy

2.23 The following table sets out the monies externally borrowed/repaid during the period. The Council has undertaken £5.000m external borrowing so far, this financial year, at a rate of 4.08%. Maturing debt has been repaid at an average rate of 4.84%.

Table 15

Loan Type	Opening Balance	Received	Repaid	Closing Balance
	01/04/2024			30/06/2024
	£M	£M	£M	£M
Public Works Loan Board	137.076	5.000	-0.086	141.990
Market Loan - LOBO	4.000	0	0	4.000
Salix Loans	1.186	0	-0.168	1.018
Welsh Government Loans	1.050	0	0	1.050
Total	**143.312**	**5.000**	**-0.254**	**148.058**

Investment Strategy

2.24 The Council has made the following investments for the period 1st April 2023 to 30th June 2023 as set out below.

Table 16

Loan Type	Opening Balance	Received	Repaid	Closing Balance
	01/04/2024			30/06/2024
	£M	£M	£M	£M
UK Local Authorities	27.500	14.000	-28.5000	13.000
Debt Management Office	0.000	152.125	-148.325	3.800
Lloyds Deposit Account	0.020	1.6000	-0.800	0.820
Money Market Funds	6.675	30.350	-18.325	18.700
Total	**34.195**	**198.075**	**-195.950**	**36.320**

2.25 The Council has invested its funds in Local Authorities, Money Market Funds, Lloyds Deposit Accounts, and the Debt Management Office during the period under review as these types of investment are low risk. The funds placed in Money Market funds & Deposit Accounts are highly liquid and can be drawn down immediately when required.

2.26 The averagely monthly yields on these investments are set out below. The decrease in the Bank of England base rates to 5.00% in June 2024 is reflected in the returns from the Council's investments from that month.

Table 17

Average Monthly Interest	Local Authorities	Debt Management Office	Lloyds Deposit Account	Money Market Funds
April 2024	5.62%	5.19%	5.14%	5.23%
May 2024	5.57%	5.19%	5.14%	5.22%
June 2024	5.42%	5.19%	5.14%	5.13%

2.27 The Section 151 Officer will continue to keep the borrowing and investment strategies under review.

3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

3.1 The Treasury Management and Investment Strategy ensures that the financial plans of the Council are sustainable into the future and do not adversely impact on future generations.

3.2 The Treasury and Investment Strategy underpins the financial management of the Council and its ability to achieve its well-being objectives as set out in the Corporate Plan.

4. Climate Change and Nature Implications

4.1 Councils and the UK Government are widely implemented on policy on the response the Climate change.

4.2 Money Market Funds selected by the Council regularly monitor the environmental, social and governance (ESG) risk management activities with whom they invest.

5. Resources and Legal Considerations

Financial

5.1 Money is borrowed for capital purposes and interest is charged to revenue accounts.

5.2 The Council is required to consider the ESG position of its investments as part of its Treasury Management Strategy.

5.3 Most of the Council's investments are placed with the UK Government (DMADF & Treasury Bills) or Local Authorities. As the majority of these counterparties have declared a climate and nature emergency, the Council are accepting that they are following ESG principles and therefore will continue to place investments with them. Should the Council become aware of any Local Authority that goes against these principles the Council will raise the matter at Cabinet so members can consider whether or the Council should continue to use that counterparty for investment purposes.

5.4 Investments are held with Money Market Fund CCLA believe that investment markets and in turn, investment returns will only be as healthy as the environment and communities that support them. We therefore focus on some of the world's most pressing challenges to build a future that can continue to support sustainable returns for our clients, and outcomes for our planet. CCLA has a long track record of investing responsibly to deliver positive change in company practice and performance, and of pushing for progress to meet the world's sustainability challenges. CCLA aim to be a catalyst for change in the investment industry and to invest responsibly for their clients, and for the planet.

5.5 Investments are held with Money Market Fund through Federated Hermes they consider that they take a pragmatic view of the investment universe to identify stocks with the most attractive combinations of fundamental characteristics. They look for companies with sustainable business models and competitive advantages. In addition, it is important that companies behave responsibly, which leads us to companies that are well governed and treat their responsibilities to society and the environment seriously. At Federated Hermes they consider that companies less exposed to ESG risks will outperform over the long term and that companies improving their ESG profiles can unlock significant shareholder value. Their investment philosophy can be encapsulated in three words: Pragmatism, Sustainability and Responsibility.

Employment

5.6 There are no direct employment issues relating to this report.

Legal (Including Equalities)

5.7 Compliance with the Local Government Act 2003 and CIPFA's "Code of Practice for Treasury Management in the Public Services" is mandatory.

5.8 CIPFA published revised codes of Practice on 20th December 2021 and has stated that formal adoption is required for financial year 2023/24. The Council must have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and any other related reports during the financial year.

5.9 The revised Treasury Management Code requires an authority to implement the following:

- Adopt a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement. This is shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.

- Class Long-term treasury investments, (including pooled funds) as commercial investments unless justified by a cash flow business case.

- Include Pooled funds in the indicator for principal sums maturing in years beyond the initial budget year.

- Amend the knowledge and skills register for officers and members involved in the treasury management function so that it is proportionate to the size and complexity of the treasury management conducted by the Authority.

- Prepare quarterly reporting to members. The Head of Finance/Section 151 Officer is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The HOF is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital, and balance sheet monitoring.

- Address Environmental, social and governance (ESG) issues within the Authority's treasury management policies and practices.

- Confirm a requirement for local authorities to produce an annual Capital Strategy.

6. Background Papers

6.1 CIPFA's Code of Practice for Treasury Management in the Public Services" (2017 Edition), "The Prudential Code" (2017 Edition) and WG guidance on local authority investments.