Appendix A

Treasury Management Annual Report 2018/19

Purpose of the report:

1. Under the CIPFA Code of Practice on Treasury Management (the Code) the Section 151 Officer is required to produce an outturn report on activities in the year to account for how the Strategy set at the start of the year has been implemented. This report meets the requirements of both the Code and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

Background

2. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management (the Code), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also requires reports to full Council mid-year and after the year end.

3. The Code also requires the Council to nominate one of its Committees to have responsibility for scrutiny of its treasury management strategy, policy and activity. Council has delegated this responsibility to the Overview and Scrutiny Management Board and Audit Committee. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

4. Treasury management is defined as:

   "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Economy and Interest Rates for 2018/19

5. **UK.** After weak economic growth of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% year on year confirming that the UK was the third fastest growing country in the G7 in quarter 4.

   After the Monetary Policy Committee (MPC) raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any changes in bank rate until the uncertainties over Brexit clear. If there were a disorderly exit, it is possible that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers increased their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

CPI inflation has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Brexit. This first half of the year (2019/20) has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on or 31 October, with or without a deal. However, so far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing, (early September), the political situation in the UK over Brexit is fluid and could change by the day. The vote in the Commons on 3 September looks likely to lead to a delay in the date for Brexit to 31 January 2020, but there is also likelihood that there will be an imminent general election. This could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

6. **USA**. President Trump's easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate) in quarter 1 of 2018 to 4.2% in quarter 2, 3.5% in quarter 3 and then back to 2.2% in quarter 4. The annual rate came in at 2.9% for 2018, just below President Trump's aim for 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around this level in 2019, below the Federal Reserve's target of 2%. The Federal Reserve increased rates by another 0.25% in December to between 2.25% and 2.50%, this being the fourth increase in 2018 and the ninth in the upward swing cycle. However, the Federal Reserve now appears to be edging towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years. Financial markets are now predicting two cuts of 25 bps by the end of 2020.

7. **EUROZONE.** The European Central Bank (ECB) provided high levels of monetary stimulus in 2016 and 2017 to encourage growth in the Eurozone and that produced strong annual growth in 2017 of 2.3%. However, since then the ECB has been reducing its monetary stimulus measures and growth has been weakening - to 0.4% in quarters 1 and 2 of 2018, and then slowed further to 0.2% in quarters 3 and 4; it is likely to be only 0.1 - 0.2% in quarter 1 of 2019. The annual rate of growth for 2018 was 1.8% but is expected to fall to around half that rate in

2019. The ECB ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in growth, together with inflation falling well below its target range prompted the ECB to take new measures to stimulate growth. With its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the limit of cutting rates. At its March 2019 meeting it said that it expects to leave interest rates at their present levels "at least through the end of 2019", but that is of little help to boosting growth in the near term. Consequently, it also announced a third round of "Targeted longer-term refinancing operations" (TLTROs) to encourage bank lending.

8. **CHINA**. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

9. **WORLD GROWTH**. Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US, though this fear is probably overdone.

Treasury position as at 31 March 2019

10. The table below indicates the balance of borrowing and investments at the beginning and end of the year and average borrowing cost and investment returns for each period:

	31 March 2018		**31 March 2019**	
	£m	**Average Rate %**	**£m**	**Average Rate %**
Long Term Debt (fixed rates) - PWLB	311	4.92	311	4.92
Long Term Debt (fixed rates) – LOBOS	100	4.11	70	4.09
Long Term Debt (fixed rates) – Market	20	3.84	50	4.04
Short Term Borrowing	-	-	-	-
Total borrowing	**431**	**4.68**	**431**	**4.68**
Investments	64	0.44	108	0.76
Net Borrowing Position	**367**		**323**	

11. During the year £30m of RBS Lobo's (Lender option, Borrower option) were converted to fixed rate loans when the options in these loans were unilaterally removed.

12. The total borrowing excludes accrued interest of £5m (£5m at 31/3/18) and the outstanding finance on PFI and service contracts of £135m at 31 March 2018 (£140m at 31/3/18).

13. The authority also has long term service investments costing £42m primarily relating to the holdings in Bristol Holdings Company (£29m), Bristol Port Company (£3m) and a property fund to support Homelessness (£10m).

14. The Net debt has decreased by £44m from £367m to £323m primarily due to;
    - Funding of the capital programme financed by borrowing +£32m
    - Net increase of reserves (£30m)
    - Other changes to working capital / provisions (£46m)

Long Term Borrowing – Strategy and outturn

15. The 2018–2023 Treasury Strategy (approved 20th February 2018) identified a medium term borrowing requirement of £370m to support the existing and future Capital Programme with the debt servicing costs predominately met from revenue savings from capital investment and the economic development fund. The £370m was planned to be borrowed in the following periods, 18/19 - £120m, 19/20 - £120m, 20/21, £80m, 21/22 - £40m and 22/23 - £10m.

16. The Council's Strategy is also to defer borrowing while it has significant levels of liquid treasury investments, £108m at March 2019 (£64m at March 2018). However the Strategy also considers where the financial environment changes and borrowing is deemed advantageous the Council will seek to borrow over appropriate maturity periods. Deferring borrowing reduces the "net" revenue interest cost of the Authority as well as reducing the Councils exposure to counter party risk for its investments. The Council recognises that utilising investments in lieu of borrowing clearly has a finite duration and that future borrowing will be required to support capital expenditure (see 2018/19 Treasury Management Strategy approved by Council 20th February 2018).

https://democracy.bristol.gov.uk/documents/s19529/Appendix%204%20-%20Treasury%20Management%20Strategy.pdf

17. Borrowing activity in year was in accordance with the Strategy approved at the beginning of the year**:**

    - **Borrowing** – No borrowing was undertaken as the authority maintained higher levels of investments than originally anticipated for a variety of reasons including the time taken to progress capital schemes where the source of financing is external borrowing.

    - **Rescheduling –** No debt rescheduling activity was undertaken in 2018/19. As set out in the Treasury Mid-Year report the total life cycle cost of rescheduling loans on a discounted cash-flow basis has been reviewed with no loans providing a positive cash-flow benefit to the authority. This would in part be due to the large early repayment penalties that the authority will incur, circa £261m penalty to repay the £311m of PWLB loans early as at 31st March 2019 (the penalty at 31/03/18 was £253m).

Annual Investment Strategy and Outturn

18. Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise

from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018.

It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.

19. Security of capital remained the Council's main investment objective. This was maintained by following the Council's policy for assessing institutions to which the council might lend. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

20. Treasury Investments held by the Council - the Council maintained an average balance of £128m (£94m 2017/18) of internally managed funds. The internally managed funds received an average return of 0.76% (0.44% 2017/18). The comparable performance indicator is the average 7-day LIBID rate, which was 0.51%.

Compliance with Treasury Limits and Treasury Related Prudential Indicators

21. The Council can confirm that:

- All treasury related transactions were undertaken by authorised officers and within the limits and parameters approved by the Council;

- All investments were to counterparties on the approved lending list

- The Council operated within the Prudential Indicators within Appendix 1.

Performance Indicators set for 2018/19

22. One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt, and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide. The Council's performance indicators were set out in the Annual Treasury Management Strategy.

23. The following performance indicators have been set:

- Debt – Average rate movement, noting no borrowing undertaken during the year.
- Investments – Internal returns above the 7 day LIBID rate
- Average rate for the year 0.76% vs. annual average 7 day LIBID of 0.51%

Consultation and scrutiny input

24. The report has been discussed with the Council's external treasury management advisers and internally with Strategic & Service Directors, and Deputy Mayor – Finance, Governance & Performance.

Risk Assessment

25. The principal risks associated with treasury management are:

Risk	**Mitigation**
Loss of investments as a result of failure of counterparties	Limiting the types of investment instruments used, setting lending criteria for counterparties, and limiting the extent of exposure to individual counterparties
Increase in the net financing costs of the authority due to borrowing at high rates of interest / lending at low rates of interest	Planning and undertaking borrowing and lending in light of assessments of future interest rate movements, and by undertaking most long term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs)

Public sector equality duties:

26. There are no proposals in this report, which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment.

Environmental checklist / eco impact assessment

27. There are no proposals in this report which have environmental impacts

Legal and Resource Implications

28. Legal**-** the Council is under a duty to manage its resources prudently and therefore due consideration must always be given to its borrowing and lending strategy. A wide range of local authority financial activities, including borrowing, lending, financial management, and the approval of types of investment vehicle are governed by legislation and various regulations. The Council is obliged to comply with these.

    Advice provided by Tim O'Gara (Service Director: Legal and Democratic Services)

Financial

(a) Revenue

29. The financing costs arising from planned borrowing are provided for in the revenue budget and medium term financial plan.

    Advice given by Jon Clayton (Capital and Investment Manager)

(b) Capital

30. There is no direct capital investment implications contained within this report.

Land

31. There are no direct implications for this report.

Personnel

32. There are no direct implications for this report.

Appendices:

Appendix 1: Treasury Management Annual Report 2018/19

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

33. Treasury Management Strategy 2018/19

    https://democracy.bristol.gov.uk/documents/s19529/Appendix%204%20-%20Treasury%20Management%20Strategy.pdf

Appendix 1

Annual Report on the Treasury Management Service 2018/19 (Incorporating Outturn Prudential Indicators)

Introduction

1. This report summarises:

- The capital activity during the year
- What resources the Council applied to pay for this activity;
- The impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The reporting of the required prudential indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- A summary of interest rate movements in the year;
- The detailed debt activity;
- The detailed investment activity;
- Local Issues

The Council's Capital Expenditure and Financing 2018/19

2. The Council undertakes capital expenditure to invest in the acquisition and enhancement of long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or

- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

3. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2017/18 Actual £m	2018/19 Original Budget £m	2018/19 P10 - Final Budget £m	2018/19 Actual £m
Non-HRA capital expenditure	104	197	121	93
HRA capital expenditure	32	47	39	37
Total capital expenditure	**136**	**244**	**160**	**130**
Resourced by:				
Capital receipts	6	16		11
Capital grants	45	79		44
HRA Self Financing	24	25		23
Prudential borrowing	44	111		32
Revenue	17	13		20
Total Resources	**136**	**244**		**130**

The Council's Overall Borrowing Need

4. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. It represents 2018/19 and prior years' net capital expenditure that has not yet been paid for by revenue or other resources.

5. Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council.

6. Reducing the CFR – Whilst under treasury management arrangements actual debt can be borrowed or repaid at any time within the confines of the annual treasury strategy, the Council is required to make an annual revenue charge to reduce the CFR – effectively a repayment of the Non-Housing Revenue Account (HRA) borrowing need. There is no statutory requirement to reduce the HRA CFR.

7. This statutory revenue charge is called the Minimum Revenue Provision - MRP. The total CFR can also be reduced by:

- the application of additional capital resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary

Revenue Provision (VRP).

8. The Council's 2018/19 MRP Policy (as required by CLG Guidance) was approved on the 20th February 2018.

9. The Council's CFR for the year is shown below, and represents a key prudential indicator. Accounting rule changes in previous years has meant that PFI schemes are now included on the balance sheet, which increases the Council's borrowing need, the CFR. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR	General Fund 31 March 2018 Actual £m	General Fund 31 March 2019 Actual £m	HRA 31 March 2018 Actual £m	HRA 31 March 2019 Actual £m	Total CFR 31 March 2019 Actual £m
Opening balance	**543**	**578**	**245**	**245**	**823**
Add unfinanced capital expenditure (as above)	44	32	-	-	32
Less MRP/VRP	(3)	(2)	-	-	(2)
Less PFI & finance lease repayments	(6)	(6)	-	-	(6)
Closing balance	**578**	**602**	**245**	**245**	**847**

Treasury Position at 31 March 2019

10. Whilst the Council's gauge of its underlying need to borrow is the CFR, Finance can manage the Council's actual borrowing position by either:

- Borrowing to the CFR; or
- Choosing to utilise some temporary internal cash flow funds in lieu of borrowing or
- Borrowing for future increases in the CFR (borrowing in advance of need).

11. The figures in this report are based on the principal amounts borrowed and invested and so may differ from those in the final accounts by items such as accrued interest.

	31 March 2018		31 March 2019	
	Principal £m	Average Rate %[2]	Principal £m	Average Rate %[2]
Fixed Interest Rate Debt	311	4.92	311	4.92
Variable Interest Rate Debt	-	-	-	-
Market Debt – LOBO[1]	100	4.11	70	4.09
Market Debt	20	3.84	50	4.04
PFI / Service Contracts	140	-	135	-
Total Debt	**571**	**4.68**	**566**	**4.68**
Debt administered of behalf of Unitary Authorities (Ex Avon Debt)	(44)	-	(43)	-
Revised Debt	527	4.68	523	4.68
Capital Financing Requirement	823		847	
Over/(Under) borrowing	(296)		(324)	
Investment position				
Investments (Fixed & Call)	64	0.44	108	0.76
Net borrowing position (excl leasing arrangements)	**367**	**-**	**323**	**-**

1 Lender option Borrower option, 2 reflects the average rate for the year taking account of new loans and repayments.

12. The fixed Interest rate debt is apportioned between the General Fund and HRA as set out in the table below.

Fixed Interest Rate Debt	**31 March 2018 £m**		**31 March 2019 £m**	
	Principal £m	**Average Rate%**	**Principal £m**	**Average Rate%**
General Fund	186	4.68	186	4.68
HRA	245	4.68	245	4.68
Total	431	4.68	431	4.68

13. The maturity structure of the debt portfolio (excluding accrued interest) was as follows:

	Approved Min Limit%	**Approved Max Limit%**	**31 March 2018**		**31 March 2019**	
			Actual £m	**%**	**Actual £m**	**%**
Under 12 Months	0	20	-	-	-	-
1 to 2 years	0	20	-	-	10	2
2 to 5 years	0	40	15	3	5	1
5 to 10 years	0	40	49	11	54	13
10 years and over	25	100	367	86	362	84
Total			**431**	**100**	**431**	**100**

14. The Council hold £70m of LOBOS with maturities averaging 42 years. Inherent within these loan instruments are options (averaging an option every 3.5 years) that could give rise to the debt being repaid early. These loans are regularly reviewed with the current and expected structure of interest rates. The risk of the lenders exercising their options is currently low for the short to medium term. Therefore, the maturity of these loans in above table is based on their maturity date, 10 years and over.

15. The Council will continually review these loans in accordance with economic forecasts and will update the maturity structure of the debt portfolio accordingly and assess the future re-financing risks exposed to the authority and report any changes within future monitoring reports.

16. The authority's borrowing strategy is to delay borrowing and use its existing resources to support the Capital Programme to reduce its exposure to counterparty risk and the net interest cost of the authority. The authority, as planned, did not undertake further borrowing while the authority maintained higher levels of investments than originally anticipated. This was due to a variety of reasons including the time taken to progress capital schemes where the source of financing was external borrowing.

17. If it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than expected, perhaps arising from an acceleration in bank rate, an increase in world economic activity or a sudden increase in inflation risks, then this course of action would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be over the short to medium term.

Prudential Indicators and Compliance Issues

18. Some of the prudential indicators provide either an overview or specific limits on treasury activity. These are shown below:

19. **Gross Borrowing and the CFR** - In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement over the medium term. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2018 Actual £m	**31 March 2019 Actual £m**
Gross borrowing position	431	431
CFR (excluding PFI)	683	712

20. **The Authorised Limit** - The Authorised Limit is the "Affordable Borrowing Limit" required by Section 3 of the Local Government Act 2003. Once agreed the authorised limit cannot be breached. The Council does not have the power to borrow above this level. The table below demonstrates that during 2018/19 the Council has maintained gross borrowing within its

Authorised Limit.

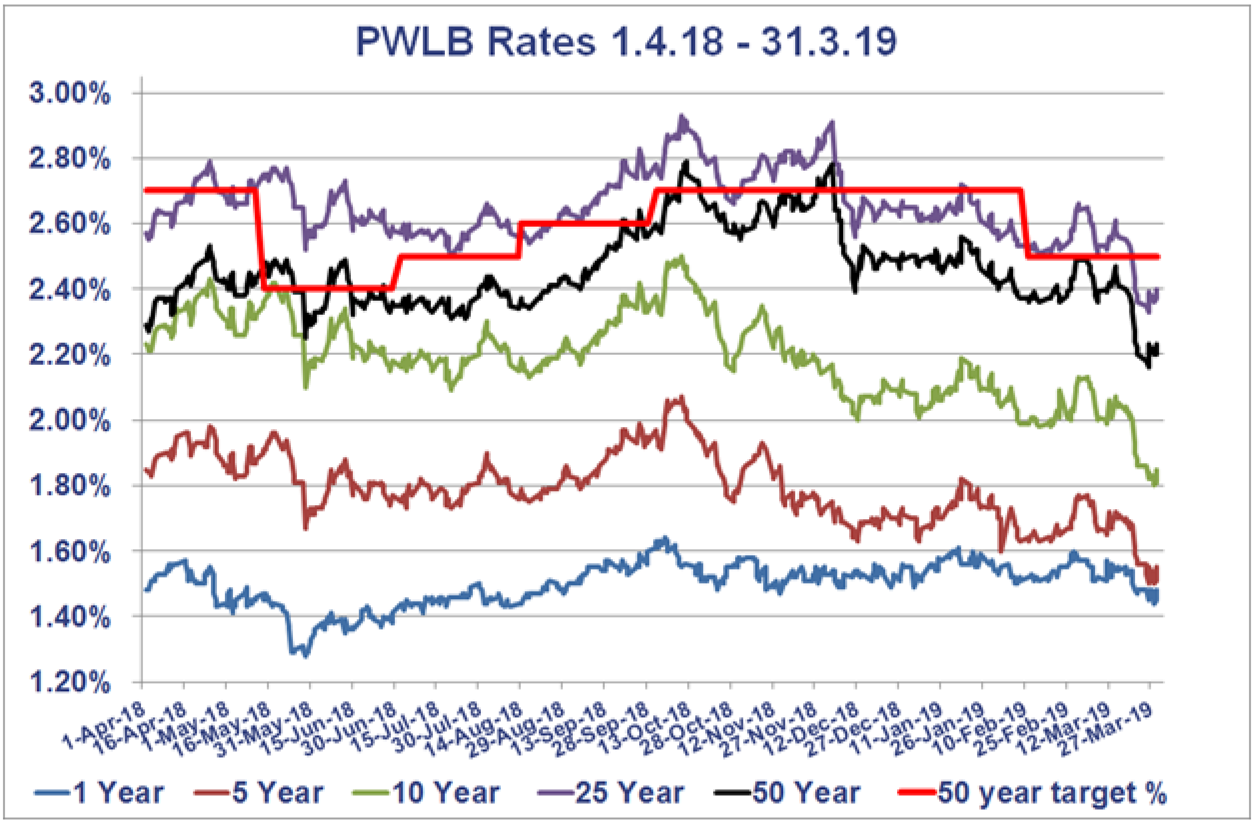
21. **The Operational Boundary** – The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

22. **Actual financing costs as a proportion of net revenue stream** - This indicator identifies the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. **TO HERE**

	2018/19 £m
Authorised Limit	960
Operational Boundary	672
Average gross borrowing position (including PFI)	568
Financing costs as a proportion of net revenue stream: General Fund HRA	 6.14% 8.71%

Borrowing Rates in 2018/19

23. PWLB borrowing rates - the graph below shows PWLB rates peaked during October, and since then most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and then reached lows for the year at the end of March.



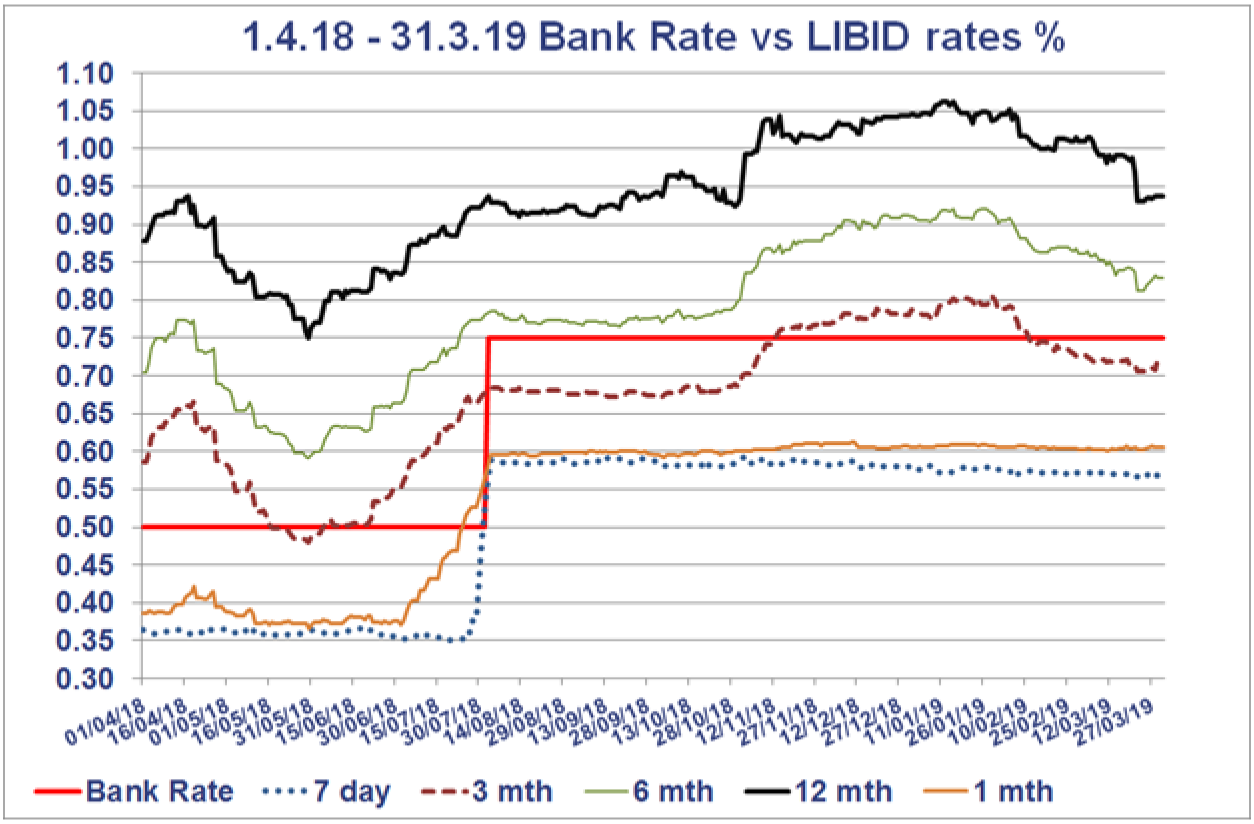
24. **Summary of Debt Transactions –** No long term borrowing was undertaken during year as mentioned previously within the report.

25. The average rate of interest for the debt portfolio is 4.68%.

Investment Rates in 2018/19

26. Investment interest rates were on a gently rising trend in the first half in anticipation that the MPC would raise Bank Rate. This duly happened at the MPC meeting on 2 August 2018.

27. Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again



28. The Council's investment policy is governed by CLG guidance, which has been implemented in the annual investment strategy approved by the Council on 20th February 2018. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy, and the Council had no liquidity

difficulties.

Local Issues

29. **Ethical Investment Policy-** The "Ethical Investment Policy" was approved by Cabinet on 15th December 2011 (updated February 2015). There are no breaches to report.

Regulatory Framework, Risk and Performance

30. The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

    - The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
    - The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions have been made);
    - Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
    - The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
    - The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
    - Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities.
    - Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

31. The Council has complied with all of the above relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

32. The Council has ensured that the principles of security, liquidity and yield have been adhered to within the treasury operation. This implies that the safeguarding of the principal investment with a suitable counterparty remains the Council's highest priority followed by liquidity (i.e. ease of access to the principal amount deposited) and yield (i.e. return) on investment.