Audit Committee

25th September 2023

Report of: Service Director: Finance

Title: Treasury Management Annual Report 2022/23

Ward: City Wide

Officer Presenting Report: Richard Young, Head of Strategic Finance

Contact Telephone Number:

Recommendation

The Audit Committee note the Annual Treasury Management Report for 2022/23, as detailed in Appendix A and A1.

Summary

The Council is required to produce an annual treasury management review of activities and the actual treasury indicators in accordance with Local Government regulations.

The significant issues in the report are:

- The Council has complied with treasury management legislative and regulatory requirements during the period and all transactions were in accordance with the approved Treasury Management Strategy.

- The 2022–2027 Treasury Strategy identified a medium term net borrowing requirement of £608m to support the existing and future Capital Programme. The Council's agreed policy is to defer borrowing while it has significant levels of cash balances (£116m at March 2023), noting if the financial environment changes and borrowing was deemed advantageous the Council may borrow over appropriate maturity periods.

- The Council's long term debt at 31 March 2023 was £446m with an average annual interest rate of 4.48%. Investments were £116m at the 31 March 2023 with an average annual interest rate of 1.90%.

Policy

There are no policy implications as a direct result of this report.

Consultation

1. Internal

Executive & Service Directors, and Deputy Mayor – Finance, Governance & Performance.

2. External

Link Asset Services – the Council's external treasury management advisors

Background and Context

1. 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. The 2022/23 outturn report is set out as Appendix A.

2. 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 that responsibility to the 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.

3. 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".

Other Options Considered

Not applicable

Risk Assessment

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 strict lending criteria and only lending to high quality 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
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
There are no proposals in this report which have environmental impacts

Legal and Resource Implications

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. **(Legal advice provided by Tim O'Gara - Service Director: Legal and Democratic Services)**

Financial
(a) Revenues

The financing costs arising from planned borrowing are provided for in the revenue budget and medium term financial plan. Any additional operating costs arising from capital investment must be contained within the revenue budget of the relevant department.

(b) Capital
Not Applicable
(Financial advice provided by Jon Clayton – Capital and Investments Manager)

Land
Not applicable

Personnel
Not Applicable

Appendices:
Appendix A – Treasury Management Annual Report 2022/23
Appendix A1 Treasury Management Annual Report 2022/23 incorporating Prudential Indicators

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
Background Papers:
Treasury Management Strategy 2022/23

Appendix A

Treasury Management Annual Report 2022/23

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 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."

5. The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The Economy and Interest Rates for 2022/23

6. The Bank of England use interest rates to manage inflation and this has a subsequent effect on the economy and the rates at which the Council can borrow and invest at.

7. **UK. Economy**. Increasing inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, has resulted in UK interest rates being very volatile across all maturity periods, from Bank of England base rate through to 50-year gilt yields during 2022/23. This is reflected in the tables in Appendix A1, paragraph 26 and 27.

Core Price Inflation (CPI) peaked at 11.1% in October, although falls from this level will rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. Most commentators expect the CPI to drop back towards 4% by the end of 2023. As of March 2023, CPI was 10.1%. (July 2023 6.8%)

Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

Gross Domestic Product (GDP) has been low throughout 2022/23. Quarter 2 of 2022 saw UK GDP growth of +0.1% q/q, but this was reversed in the third quarter, though Quarter 4 was +0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A large part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

USA. The comments from Federal Reserve suggest there is still an underlying upward theme to their outlook for interest rates, with markets pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5% at March 2023.

EU. Although the Euro-zone inflation rate has fallen below 7%, the European Central bank will still be mindful that it has further work to do to reduce inflation expectations and it seems likely to raise rates further. Like the UK, growth has been low but a recession in 2023 is still seen as likely by most commentators.

Treasury position as at 31 March 2023:

8. 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 2022		**31 March 2023**	
	£m	**Average Rate %**	**£m**	**Average Rate %**
Long Term Debt (fixed rates) - PWLB[1]	331	4.63	326	4.63
Long Term Debt (fixed rates) – LOBOS[2]	70	4.09	70	4.09
Long Term Debt (fixed rates) – Market	50	4.04	50	4.04
Short Term Borrowing	-	-	-	-
Total borrowing	**451**	**4.48**	**446**	**4.48**
Investments	237	0.13	116	1.90
Net Borrowing Position	**214**		**330**	

1Public Works Loan Board

2 Lender option Borrower option (LOBO)

9. The total borrowing excludes accrued interest of £4.3m (£4.4m at 31/3/22) and the outstanding finance on PFI and service contracts of £118m at 31 March 2023 (£125m at 31/3/22).

10. In addition to the Treasury investments above (£116m), the authority also has
    - long term service investments costing £15m primarily relating to the holdings in Bristol Port Company (£2.5m) and a property fund to support Homelessness and Temporary Accommodation (£12.5m), and

- long term service loans costing £26m, primarily relating to loans to wholly owned subsidiaries £21.5m and external organisations (£4.5m).
- These investments and loans support the delivery of council functions, provide service benefits and have a positive social impact.

11. The Net debt has increased by £116m from £214m to £330m primarily due to;
    - Funding of the capital programme financed by Prudential borrowing +£53m as set out in Appendix 1 para 3.
    - Minimum Revenue Provision (MRP) – (£8m)
    - Net change in Reserves and provisions +£26m
    - Other changes to working capital and balances +£45m

Long Term Borrowing – Strategy and outturn

12. The 2022–2027 Treasury Strategy (approved 2nd March 2022) identified a net medium term borrowing requirement of £608m to support the existing and future Capital Programme with the debt servicing costs predominately met from revenue savings from capital investment, the economic development fund and the HRA. The £608m was planned to be borrowed in the following periods, 22/23, £65m, 23/24 - £200m, 24/25 - £180m, 25/26 - £110m and 26/27 - £53m.

13. The Council's Strategy is also to defer borrowing while it has significant levels of liquid treasury investments, £116m at March 2023 (£237m at March 2022). 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 2022/23 Treasury Management Strategy approved by Council 2nd March 2022).
    https://democracy.bristol.gov.uk/documents/s70648/E.%20Appendix%204%20-%20Treasury%20Management%20Strategy.pdf

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

    - **Borrowing** – No borrowing was undertaken during the year as the authority maintained higher levels of investments, on average circa £207m, that was higher than anticipated for a variety of reasons including the advance receipt of grants, and the time taken to progress capital schemes where the source of financing was external borrowing.

    - **Rescheduling –** No debt rescheduling activity was undertaken in 2022/23. 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 early repayment penalties that the authority would incur, circa £47m penalty to repay the £325m of PWLB loans early as at 31st March 2023 (the penalty at 31/03/22 was £213m).

Annual Investment Strategy and Outturn

15. Investment returns rose throughout the course of 2022/23 as central banks, including the Bank of England, acted upon inflationary pressures that required tighter monetary policy. Bank rate in April 2022 was 0.75%, and moved up in stepped increases of either 0.25% or 0.50%, reaching 4.25% by the end of the financial year, with the potential for a further increases in 2023/24. As at 1st September 2023 bank rate is 5.25%.

    The change in investment rates resulted in an appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended.

    Through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

    The Council continues to take a cautious approach to investing, and recognise the changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that occurred after the financial crisis of 2008/9. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

16. Treasury Investments held by the Council - the Council maintained an average balance of £207m (£240m 2021/22) of internally managed funds. The internally managed funds received an average return of 1.90% (0.13% 2021/22). The comparable performance indicator is the Sterling Overnight Index average (SONIA) 7day, which was 2.20% so slightly below the benchmark. This gap was expected due to the lag in investment returns keeping pace with a quickly rising bank rate.

Compliance with Treasury Limits and Treasury Related Prudential Indicators

17. 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 A1.

Performance Indicators set for 2022/23

18. 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.

19. The following performance indicators have been set:
- Debt / Borrowing – Average rate of borrowing for the year compared to the average available. No borrowing undertaken during the year

- Investments – Internal returns above the 7 day (Sterling Overnight Index Average) SONIA rate Average rate for the year 1.90% vs. annual average 7 day SONIA of 2.20% (Overnight SONIA 2.24%) – SONIA is an interest rate benchmark based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors that is governed by the Bank of England.

Appendix A1

Annual Report on the Treasury Management Service 2022/23 (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 2022/23

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.

	2021/22 Actual £m	2022/23 Original Budget £m	2022/23 Final Budget £m	2022/23 Actual £m
Non-HRA capital expenditure	119*1	187	157	135*1
HRA capital expenditure	39	123	70	62
Total capital expenditure	**158**	**310**	**227**	**197**
Resourced by:				
Capital receipts	17	83		25
Capital grants	65	85		79
HRA Self Financing	29	30		33
Prudential borrowing	43	78		53
Revenue	3	34		5
Service Concession Contract – Waste Vehicles*1	1	-		2
Total Resources	**158**	**310**		**197**

*1 – Technical accounting adjustment required for Waste Service Concession Contract in accordance with International Financial Reporting Standards.

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 2022/23 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 2022/23 MRP Policy (as required by CLG Guidance) was approved on the 2nd March 2022.

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 2022 Actual £m	General Fund 31 March 2023 Actual £m	HRA 31 March 2022 Actual £m	HRA 31 March 2023 Actual £m	Total CFR 31 March 2023 Actual £m
Opening balance	**641**	**669**	**245**	**245**	**914**
Add unfinanced capital expenditure (as above)	43	53	-	-	55
Less MRP/VRP	(5)	(10)	-	-	(10)
Less application of Capital Resources	(2)	(12)			(12)
PFI, Service Concession and finance lease adjustments	(8)	(5)	-	-	(7)
Closing balance	**669**	**695**	**245**	**245**	**940**

Treasury Position at 31 March 2023

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 2022		**31 March 2023**	
	Principal £m	**Average Rate %[2]**	**Principal £m**	**Average Rate %[2]**
Fixed Interest Rate Debt	331	4.63	326	4.63
Variable Interest Rate Debt	-	-	-	-
Market Debt – LOBO[1]	70	4.09	70	4.09
Market Debt - Fixed	50	4.04	50	4.04
PFI / Service Contracts	125	-	118	-
Total Debt	**576**	**4.48**	**564**	**4.48**
Debt administered of behalf of Unitary Authorities (Ex Avon Debt)	(38)	-	(36)	-
Revised Debt	538	4.48	526	4.48
Capital Financing Requirement	914		940	
Over/(Under) borrowing	(376)		(412)	
Investment position				
Investments (Fixed & Call)	237	0.13	116	1.90
Net borrowing position (excl leasing arrangements)	**214**	**-**	**330**	**-**

1 Lender option Borrower option (LOBO) , 2 reflect 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 2022 £m		31 March 2023 £m	
	Principal £m	Average Rate%	Principal £m	Average Rate%
General Fund	211	4.26	201	4.23
HRA	240	4.68	245	4.68
Total	451	4.48	446	4.46

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

	Approved Min Limit%	Approved Max Limit%	31 March 2022		31 March 2023	
			Actual £m	%	Actual £m	%
Under 12 Months	0	20	5	1	-	-
1 to 2 years	0	20	-	-	5	1
2 to 5 years	0	40	32	7	44	10
5 to 10 years	0	40	22	5	5	5
10 years and over	25	100	392	87	392	83
Total			**451**	**100**	**446**	**100**

14. The Council hold £70m of LOBOS with maturities averaging 37 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 was currently low for the short to medium term based on the interest rates as at the 31st March 2023. Therefore, the maturity of these loans in the above table is based on their maturity date, 10 years and over.

    However, with the current rising interest environment it is anticipated that there may be opportunities to refinance these loans over the short to medium term.

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 and opportunities 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 (cost of carry). 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 receipt of grants in advance and the time taken to progress capital schemes where the source of financing was external borrowing.

17. Interest rate forecasts were initially expecting only gradual rises in the short, medium and longer-term fixed borrowing rates during 2022/23, but by August 2022 inflation was moving to a 40 year high. The Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022 and into 2023, by increasing Bank Rate by 0.25% or 0.5% each time. The Consumer price Index (CPI) measure of inflation went above 10% in the UK but is expected to fall towards 4% by the end of the year. The latest interest rate forecasts for the next 3 years are shown in the table in paragraph 24 below.

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 2022 Actual £m	**31 March 2023 Actual £m**
Gross borrowing position	451	446
CFR (excluding PFI)	789	822

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 2022/23 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.

	2022/23 £m
Authorised Limit	910
Operational Boundary	650
Average gross borrowing position (including PFI)	570
Financing costs as a proportion of net revenue stream: General Fund HRA	 6.49% 6.44%

Borrowing Rates in 2022/23

23. Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

The margin over gilt yields for the City Council to borrow from the Public Works Loan Board (PWLB) is gilt plus 80 basis points.

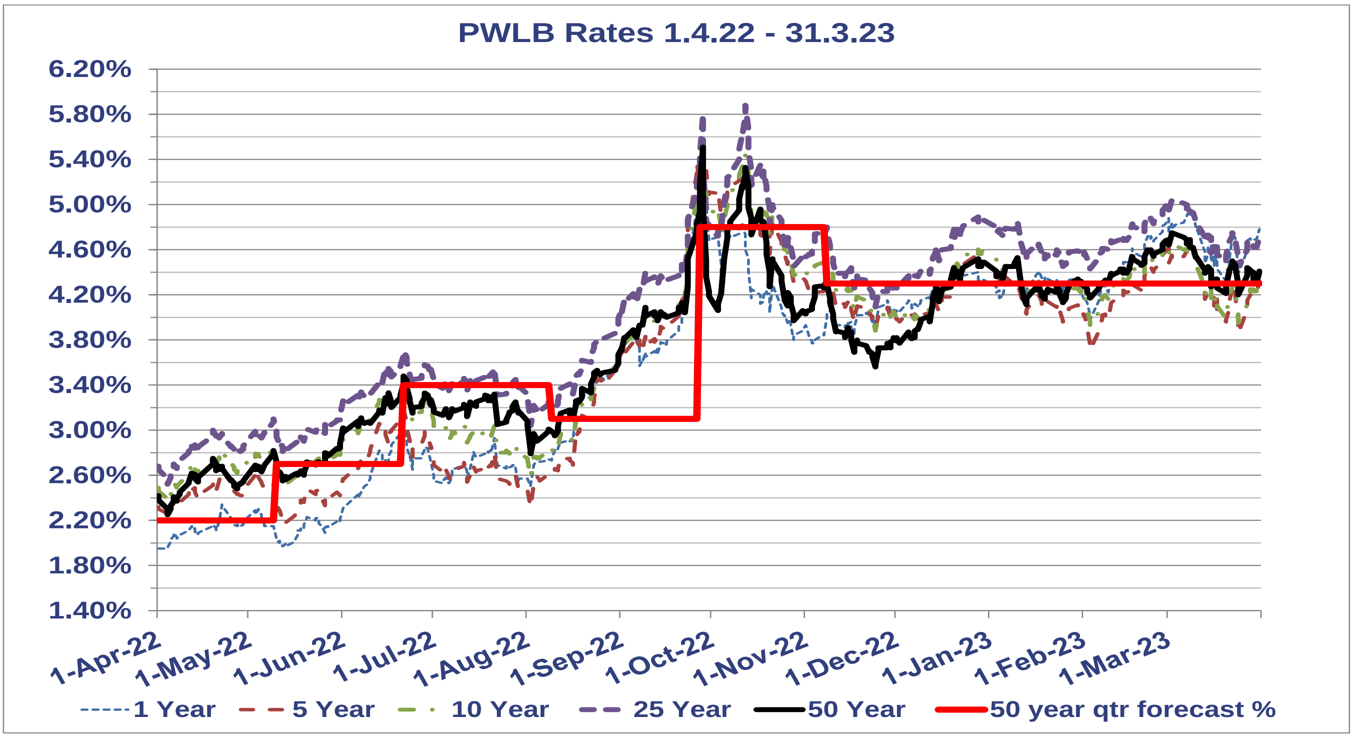
The forecast for bank rate, gilt yields and PWLB rates are to fall over the next one to two years as Bank Rate rises to dampen inflationary pressures and a tight labour market take effect, and is then cut as the economy slows, unemployment rises, and inflations moves closer to the Bank of England's 2% target.

The latest Interest rate forecast provided by the Council's advisors is set out below.

Forecast Interest rates as at 26th June 2023

Period	**Bank Rate %**	**PWLB Borrowing Rates % (including certainty rate adjustment)**			
		5 year	**10 Year**	**25 year**	**50 year**
Mar 2024	5.50	5.10	4.90	5.10	4.90
Mar 2025	3.75	3.90	3.90	4.20	4.00
Mar 2026	2.50	3.30	3.50	3.80	3.50

The impact on PWLB rates during the financial year ending the 31st March 2023 is highlighted in the graph below.



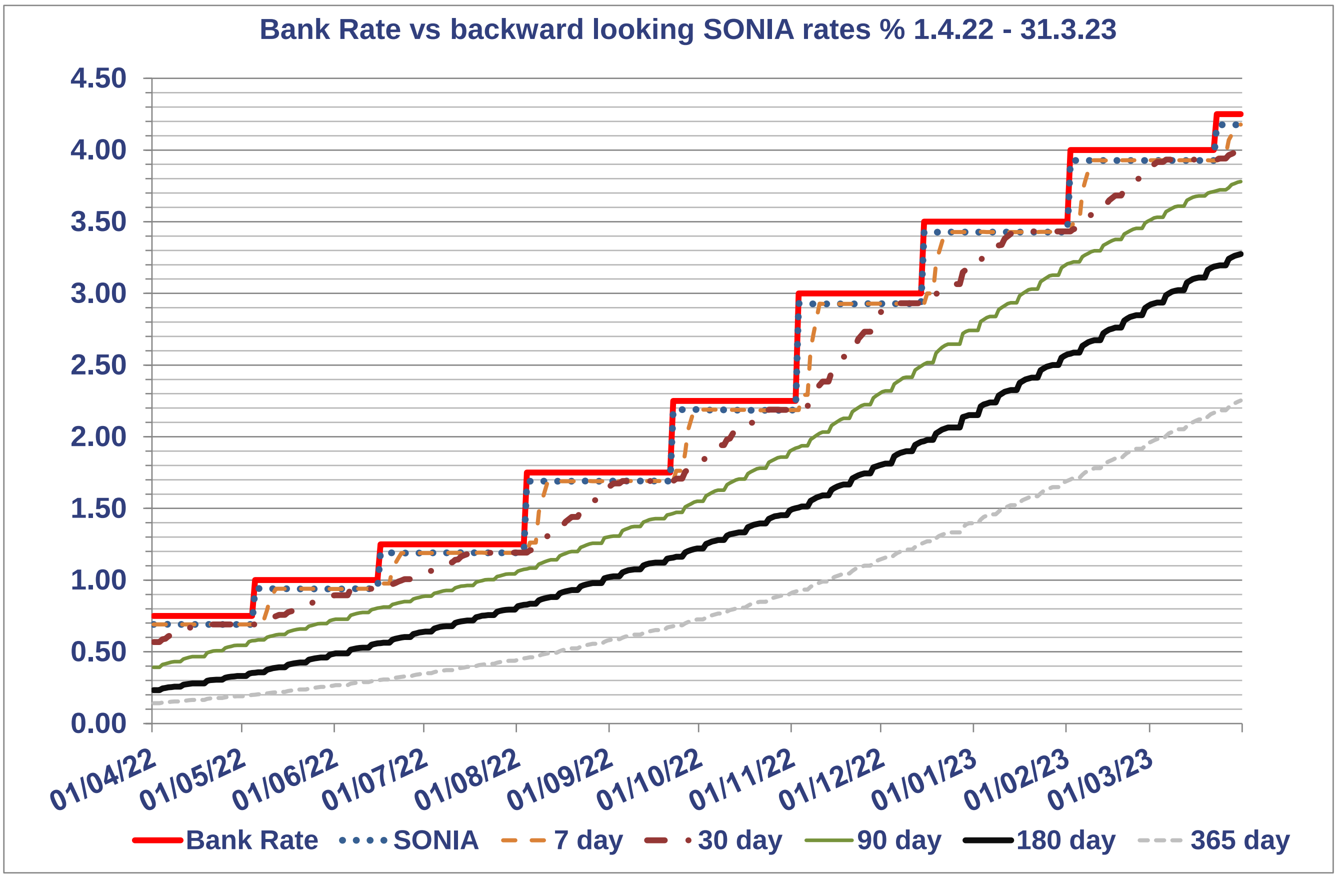
24. **Summary of Debt Transactions –** The authority repaid a £5m PWLB Loan during 2022/23 with an interest rate of 7.125% To avoid increased counterparty risk, along with lower investment returns compared to borrowing costs no borrowing was undertaken during the year, meaning internal borrowing was used to finance the capital programme effectively utilising the Council's cash balances.)

25. The average rate of interest for the debt portfolio is 4.48%.

Investment Rates in 2022/23

26. Investment returns increased significantly during 2022/23. The expectation for interest rates within the treasury management strategy for 2022/23 was that Bank Rate would increase gradually throughout the year and beyond. Due to higher inflation, rates climbed faster than expected and increased from 0.75% - 4.25%

The impact on investment rates is highlighted in the graph below.



FINANCIAL YEAR TO QUARTER ENDED 31/03/2023							
	Bank Rate	**SONIA**	**7 day**	**30 day**	**90 day**	**180 day**	**365 day**
High	4.25	4.18	4.18	4.00	3.78	3.27	2.25
High Date	23/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023
Low	0.75	0.69	0.69	0.57	0.39	0.23	0.14
Low Date	01/04/2022	28/04/2022	29/04/2022	01/04/2022	01/04/2022	01/04/2022	01/04/2022
Average	2.30	2.24	2.20	2.09	1.81	1.42	0.90
Spread	3.50	3.49	3.49	3.43	3.39	3.04	2.11

27. The Council's investment policy is governed by Department for Levelling Up, Housing and Communities (DLUHC) guidance, which has been implemented in the annual investment strategy approved by the Council on 2nd March 2022. 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

28. **Ethical and Equitable Investment Policy –** A refreshed "Ethical Equitable Investment Policy" was approved by Cabinet on the 18th January 2022. The Council approved their first policy, known as the Ethical Investment Policy on the 15th December 2011 that was subsequently updated in February 2015. It should be noted that there have been no breaches during the year.

Regulatory Framework, Risk and Performance

29. 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 DLUHC 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 and further amendments have been made since, the most recent being February 2018. It should also be noted that this provision is currently being reviewed and consulted upon as referred in previous treasury reports.

30. 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.

31. The Council has ensured that the principles of security, liquidity and yield (in that order) have been adhered to within the treasury operation. This implies that the safeguarding of the principal investment with a suitable high quality 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.