FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

CABINET

19 October 2023

Report of the Director of Finance & ICT

Treasury Management Annual Report 2022-23
(Corporate Services and Budget)

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is not a Key Decision.

3. Purpose

3.1 To provide Cabinet with details of Treasury Management activities during 2022-23 and to indicate the Council's compliance with the prudential indicators set by Council at its meeting of 2 February 2022, in accordance with the Chartered Institute of Public Finance and Accountancy's "*Treasury Management in the Public Services: Code of Practice 2021 Edition"* (the CIPFA Code).

4. Information and Analysis

Introduction

4.1 The Council's Treasury Management Strategy for 2022-23 was approved at the Council Meeting of 2 February 2022 as part of the Capital Programme Approvals, Treasury Management and Capital Strategies for 2022-23 Report. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

4.2 Treasury risk management at the Council is conducted within the framework of the CIPFA Code, which requires the Council to approve a treasury management strategy before the start of each financial year and a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code by producing an annual treasury outturn report.

External Context

Economic background

4.3 The war in Ukraine continued to keep global inflation above Central Bank targets. The UK economic outlook remained relatively weak, with the chance of a mild recession, during 2022-23. The economic backdrop continued to be characterised by high energy and commodity prices and high inflation, impacting on household budgets and spending.

4.4 Central Bank actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve and European Central Bank all increased interest rates over 2022-23, despite potential economic slowdowns in those regions.

4.5 The annual UK Consumer Price Index (CPI) measure of UK inflation started the financial year at 5.5% and rose strongly, peaking at 11.1% in October 2022. Inflation remained persistently high in subsequent months and was 10.1% in March 2023.

4.6 The energy price cap of £2,500 from October 2022 to June 2023 was implemented to mitigate the effect of high energy bills.

4.7 The labour market remained tight, albeit with some ongoing evidence of potential loosening by March 2023. The unemployment rate eased from 3.8% in the quarter to June 2022 to 3.6% in the following quarter. In the second half of 2022-23 the unemployment rate increased, to 3.9% in the final quarter.

4.8 Earnings growth was robust throughout 2022-23, however, once adjusted for inflation, it was negative throughout most of the year.

4.9 The Bank of England increased the official Bank Rate during 2022-23, from 0.75% in March 2022 to 4.25% in March 2023. The Monetary Policy Committee (MPC) implemented Bank Rate increases at every meeting over the period. The MPC noted in March 2023 that inflationary pressures remained elevated, with growth stronger than was expected.

4.10 Annual US inflation slowed for nine consecutive months. After peaking at 9.1% in June 2023 it fell to 5% in March 2023. The US Federal Reserve increased interest rates throughout 2022-23, taking policy rates to a range of 4.75%-5.00% in March 2023.

4.11 Eurozone CPI inflation fell steadily from a record high of 10.6% in October 2022 to 6.9% in March 2023. The European Central Bank increased interest rates during 2022-23. At March 2023 its deposit facility rate was 3.0% and its main refinancing rate was 3.5%.

Financial markets

4.12 Uncertainty continued to be a key driver of financial market sentiment in 2022-23. Bond yields remained relatively volatile due to concerns over elevated inflation, higher interest rates and how long the Bank of England would continue to tighten monetary policy. Towards the end of 2022-23, fears around the health of the banking system, following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS, caused further volatility.

4.13 The 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September 2022, before ending 2022-23 at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51%, before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

Credit background

4.14 The invasion of Ukraine before the start of 2022-23 resulted in increasing Credit Default Prices and this continued in 2022-23. Credit Default Prices in the UK rose further in September/October 2022, at the time of the Government’s mini budget. In March 2023, the collapse of Silicon Valley Bank in the US quickly led to worries of a wider banking crisis when Credit Suisse also encountered further problems and was bought by UBS.

4.15 Local authorities remained under financial pressure in 2022-23. The Council's Treasury Management Advisor continued to take a positive view of the sector during 2022-23 and considered its credit strength to be high. Section 114 notices had been issued by only a few authorities with specific issues. Their advice for local authorities on their counterparty list remained unchanged during 2022-23 but they recommended a degree caution for certain authorities.

Local Context

4.16 On 31 March 2023, the Council had net borrowing of £111.358m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.23 Actual £m
General Fund CFR	594.275
Less: Other debt liabilities*	-55.178
Borrowing CFR	**539.097**
Less: Usable reserves	-376.838
Less: Working capital	-50.901
Net borrowing requirement	**111.358**
Borrowing CFR is comprised:	
External borrowing	490.079
Internal borrowing	49.018
	539.097

* Finance leases, PFI liabilities and transferred debt that form part of the Council's total debt.

4.17 The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position at 31 March 2023 and the change during the year are shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.22 Balance	New	Repaid	Change in Market Value	Movement	31.3.23 Balance	31.3.23 Rate
	£m	£m	£m	£m	£m	£m	%
Long-term borrowing	285.899	0	-20.320	0	-20.320	265.579	4.43
Short-term borrowing	127.500	243.500	-146.500	0	97.000	224.500	2.22
Total borrowing	**413.399**	**243.500**	**-166.820**	**0.000**	**76.680**	**490.079**	**3.42**
Long-term strategic pooled funds	71.765	0	0	-7.134	-7.134	64.631	5.16
Long-term investments*	15.000	10.000	-15.000	0	-5.000	10.000	0.80
Short-term investments	251.002	163.011	-176.009	0	-12.998	238.004	1.54
Cash and cash equivalents	42.992	98.500	-75.406	0	23.094	66.086	4.28
Total investments	**380.759**	**271.511**	**-266.415**	**-7.134**	**-2.038**	**378.721**	**2.62**
Net borrowing	**32.640**	**-28.011**	**99.595**	**7.134**	**78.718**	**111.358**	

*Excludes Non-Treasury Loans

Borrowing Activity

4.18 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

4.19 The Council held £64.631m in externally managed pooled funds at 31 March 2023, which are now classed as commercial investments. These were purchased prior to the change in the CIPFA Prudential Code when strategic pooled funds were re-categorised as commercial investments. Before undertaking further additional borrowing the Council will review the options for exiting these investments. Further detail on the Council's pooled funds is given at paragraphs 4.35 to 4.42.

4.20 At 31 March 2023, the Council held £490.079m of loans, an increase of £76.680m from 31 March 2022, as part of its strategy for funding previous and current years' capital programmes. The year-end external borrowing position and the year-on-year change is shown in Table 3 below.

Table 3: External Borrowing Position

	31.3.22 Balance £m	New £m	Repaid £m	Movement £m	31.3.23 Balance £m	31.3.23 Interest Rate %	31.3.23 WAM* Years
Public Works Loan Board	257.899	0	-7.320	-7.320	250.579	4.42	15
Banks (LOBO)	5.000	0	0	0	5.000	4.50	16
Banks (fixed-term)	10.000	0	0	0	10.000	4.69	21
Local authorities (long-term)	13.000	0	-13.000	-13.000	0	0.30	N/A
Local authorities (short-term)	127.500	243.500	-146.500	97.000	224.500	2.22	1
External Borrowing	**413.399**	**243.500**	**-166.820**	**76.680**	**490.079**	**3.42**	**15**

*WAM – Weighted*WAM – Weighted Average Maturity

4.21 As outlined in the Council's Treasury Management Strategy for 2022-23, the Council's chief objective when borrowing was to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

4.22 The Council's borrowing strategy continued to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The Council continued to use internal resources or borrowed rolling temporary/short-term loans in 2022-23. The net movement in temporary/short-term loans is shown in Table 3 above.

4.23 The Council has an increasing CFR because of its capital programme. The estimated borrowing requirement is determined by a Liability Benchmark, which also takes into account usable reserves and working capital.

4.24 The cost of both long and short-term borrowing rose dramatically over 2022-23, with rates at the end of March 2023 around 2%-4% higher than those at the start of the year. Rate rises were driven primarily by inflation and the need for Central Banks to control this by raising interest rates. PWLB rates increased to 6% in September 2022. Whilst interest rates fell back from this peak, they remained volatile and well above recent historical norms for the remainder of the year. At 31 March 2023, the PWLB 10 year maturity certainty rate was 4.33%, 20 years was 4.70% and 30 years was 4.66%.

4.25 The Council's Treasury Management Advisors expect that interest rates will fall in the medium term, therefore it is the Council's strategy to finance the Council's borrowing on a short-term basis in the near term before 'locking in' to longer-term borrowing once rates are more favourable. This happened during 2022-23.

4.26 The Council continued to hold a £5.000m LOBO (Lender's Option Borrower's Option) loan during 2022-23, where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The lender did not exercise its option during the 2022-23 financial year.

Other Debt Activity

4.27 After £4.807m repayment of prior years' Private Finance Initiative / finance leases / transferred debt liabilities, total debt other than borrowing stood at £55.178m on 31 March 2023, taking total debt to £545.257m.

Treasury Investment Activity

4.28 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define treasury management investments as investments that arise from an organisation's cash flows or treasury risk management activity which ultimately represent balances that need to be invested until the cash is required for use in the course of business.

4.29 The Council holds a significant but reducing level of invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2022-23, the Council's investment balance ranged between £350.303m and £444.695m because of timing differences between income and expenditure. The year-end investment position is shown in Table 4 below.

Table 4: Investment Position (Treasury Investments)

	31.3.22 Balance £m	New £m	Repaid £m	Change in Market Value £m	Movement £m	31.3.23 Balance £m	31.3.23 Income Return %	31.3.23 WAM* days
Banks and building societies (unsecured)	107.994	73.011	-95.415	0	-22.404	85.590	3.81	25
Government (including local authorities)	186.000	193.500	-161.000	0	32.500	218.500	1.44	142
Registered Social Providers	15.000	5.000	-10.000	0	-5.000	10.000	1.65	338
Pooled Funds –Strategic Bond Funds	4.854	0	0	-0.315	-0.315	4.539	4.16	N/A
Pooled Funds –Equity Income Funds	15.143	0	0	-0.535	-0.535	14.608	7.80	N/A
Pooled Funds –Property Funds	27.129	0	0	-4.116	-4.116	23.013	4.26	N/A
Pooled Funds – Multi Asset Income Funds	24.639	0	0	-2.168	-2.168	22.471	4.55	N/A
Total Investments	**380.759**	**271.511**	**-266.415**	**-7.134**	**-2.038**	**378.721**	**2.62**	**114**

**WAM - Weighted average maturity applies to the first three categories above.*

4.30 Both the CIPFA Code and Government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

4.31 The Bank of England Bank Rate increased from 0.75% in April 2022 to 4.25% by March 2023. Short-dated cash rates, which had ranged between 0.70% and 1.50% in April 2022 rose to around 4.00% to 5.00% by March 2023.

4.32 By the end of March 2023, the rates on Debt Management Account Deposit Facility (DMADF) deposits ranged between 4.05% and 4.15%. The return on the Council's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds ranged from around 1.00% in April 2022 to around 3.85% by the end of March 2023.

4.33 Given the risk of short-term unsecured bank investments, the Council maintained its diversification into more secure and/or higher yielding asset classes as shown in Table 4 above. The Council previously identified £70.000m of funds available for longer-term investment and invested in pooled property/bond/equity/multi-asset funds. In 2022-23, the Council has maintained this sum invested.

4.34 The progression of credit risk and return metrics for the Council's investments managed in-house are shown in benchmarking extracts from the Council's external investment advisor (Arlingclose), in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Total Return %
Derbyshire - 31.03.2023	5.00	A+	20%	117	0.67
Similar Local Authorities	4.37	AA-	42%	1,894	1.24
All Local Authorities	4.71	A+	59%	44	1.59

Externally Managed Pooled Funds

4.35 At 31 March 2023, the value of the Council's investments in externally managed pooled strategic bond, equity, property and multi-asset funds amounted to £64.631m (£70.000m nominal value). The value of these investments at 31 March 2022 was £71.765m. The Council holds these funds with the aim of receiving regular revenue income and because over the long-term their prices are relatively stable, although short-term prices are less stable. Holding these pooled funds allows the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments.

4.36 The change in the Council's funds' capital values and % Income Return during 2022-23 is shown in Table 4. The Council had budgeted a £2.800m income return from these investments in 2022-23. During the year, the Council's pooled funds generated a net total loss of £-4.098m, comprising a £3.036m income return (shown as a % Income Return for each pooled fund in Table 4), which was used to support services in 2022-23, and a £-7.134m unrealised capital loss, which is the movement in the market value of these investments from the start to the end of the year. Paragraphs 4.37 to 4.39 consider the market movements which impacted on the value of these externally managed pooled strategic bond, equity, property and multi-asset funds and resulted in an unrealised capital loss for 2022-23. Paragraphs 4.40 to 4.42 consider the Council's holding in these pooled funds and highlights that pooled fund capital losses did not impact on the Council's General Reserve position at 31 March 2023 because of current statutory accounting arrangements which are in place. These arrangements are due to come to an end in 2024-25. Any unrealised capital losses compared to the £70.000m total nominal value of these funds will first impact on the Council's General Reserve position on 31 March 2026. To plan for this, the Council previously transferred revenue savings to an investment losses contingency earmarked reserve. This reserve balance was £2.500m at 31 March 2023. Corresponding total unrealised capital losses at that date were £5.369m.

4.37 Bonds had their worst year of performance in several decades. Long-term Government bonds had their worst year ever as Central Banks delivered larger interest rates increases than initially expected and promised more to combat inflation. As policy rates rapidly rose from very low levels, bond investors suffered large crystallised or unrealised losses from rising sovereign and corporate bond yields (i.e. falling prices), as well as from widening credit spreads, as concern grew over the risk of defaults in a recessionary environment. The return on the All-Gilts index was -16.3% over the 12 months to March 2023. Negative yielding bonds all but disappeared globally.

4.38 UK and global equities remained volatile against a backdrop of consistently high inflation, rapid policy rates tightening and an increasing risk of recession. There was a large sell-off in global equities in April 2022, and again in June 2022 and September 2022, for both UK and global equities. The total return on the FTSE All Share index for the year ended March 2023 was 2.9% and 5.4% for the FTSE 100.

4.39 The negative correlation between bonds and equities, which had featured for some years, turned positive in 2022 as both bonds and equities sold off simultaneously against an outlook of persistently high inflation and high interest rates. Simultaneously, tighter financial conditions, higher bond yields and challenges in some segments of commercial real estate (e.g. offices post-pandemic, high street shops and shopping centres) saw commercial property values fall during 2022, with a large fall in the final calendar quarter of 2022.

4.40 Although these funds have no defined maturity date, cash is available for withdrawal after a short notice period (except for the Property Fund which is a minimum of 6 months' notice). The performance and continued suitability in meeting the Council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns should exceed cash interest rates.

4.41 In light of their performance over the medium-term, investment in these funds has been maintained. The Council is using the alternative fair value through profit and loss (FVPL) accounting method to account for them, which means that if there are any long term unrealised losses in the funds' fair values there will not be an immediate impact on the Council's General Reserve balance. The date for this impact was to be 2023-24 at the earliest. The Department for Levelling Up, Housing and Communities (DLUHC) published a consultation on the 'IFRS 9 pooled investment fund statutory override for English authorities for fair value gains and losses on pooled investment funds', which was due to expire with effect from 2023-24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. Following this consultation, DLUHC extended the override for a further two years and the earliest impact of any unrealised losses on the Council's General Reserve balance will now be in 2025-26.

4.42 The Council has transferred revenue savings to an investment losses contingency earmarked reserve to manage future volatility. This reserve was £2.500m at 31 March 2023. Corresponding unrealised capital losses at that date were £5.369m (value of £64.631m against a nominal value of £70.000m).

<u>2022-23 Net Investment Income</u>

4.43 Overall, during 2022-23, the Council generated £5.288m of net investment income from its investments (£7.410m investment income less £2.122m short-term borrowing costs) against a budget of £4.538m.

Other Non-Treasury Holdings and Activity

4.44 The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives), or for commercial purposes (made primarily for financial return). Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also broadens the definition of investments to include all such assets held partially or wholly for financial return. At 31 March 2023, the Council held £13.553m of such investments.

4.45 Of the total balance of £13.553m of the Council's other non-treasury holdings at 31 March 2023, £13.053m is in respect of a regeneration loan to a local business/landlord, Buxton Crescent Ltd. This has increased £0.506m on the previous year as a result of the capitalisation of interest until loan repayments commence on 1 October 2023.

4.46 The other loan of £0.500m is to Chesterfield Football Club Community Trust. The loan was agreed to continue their sports and community programmes with schools and community groups in the greater Chesterfield area. Capital repayments were due to commence with effect from August 2022 but did not take place during 2022-23 whilst a request for an extension to the start of the planned repayment schedule was considered. The requested extension was declined in April 2023 following which repayments have proceeded in 2023-24.

Treasury Performance

4.47 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in Table 6 below.

Table 6: Performance

	Actual £m	Budget (CFR) £m	Over/ (Under) £m	Interest Actual %	Interest Other LA (Counties) Benchmark %	Interest Over/ (Under) %
Interest paid on capital and temporary borrowing	15.428	17.055	-1.627	3.42	No data held	N/A
Interest received on treasury investments	7.410	4.538	+2.872	2.62	3.48	-0.86

Compliance Report

4.48 The Director of Finance & ICT reports that all treasury management activities undertaken during 2022-23 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

4.49 Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 7 below and compliance with specific investment limits is demonstrated in Table 8 below.

Table 7: Debt Limits

	2022-23 Maximum £m	**31 March 2023 Actual £m**	**2022-23 Operational Boundary £m**	**2022-23 Authorised Limit £m**	**Complied**
Total debt	490.079	490.079	734.000	769.000	✓

Table 8: Investment Limits

	2022-23 Maximum * £m	**2022-23 Limit £m**	**March 2023 Actual £m**	**Complied**
Any single organisation, except UK Government and Main Bank	30.000	30.000	30.000	✓
Main Bank (Lloyds)	59.291	60.000	31.586	✓
Any group of organisations under the same ownership	30.000	30.000	30.000	✓
Any group of pooled funds under the same management	30.000 nominal	30.000 nominal	30.000 nominal	✓
	10.000 individual	10.000 individual	5.000 individual	
Registered providers and registered social landlords	15.000 total	50.000 total	10.000 total	✓
Negotiable instruments held in a broker's nominee account	65.158	100.000 per broker	23.004	✓
Limit per country (ex UK)	28.006	30.000 each	23.004	✓

*Maximum held at any one time.

Treasury Management Indicators

4.50 The Council measures and manages its exposures to treasury management risks using the following indicators.

4.51 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio.

Table 9: Security

	31 March 2023 Actual	2022-23 Target	Complied
Portfolio average credit rating	A+	A	✓

4.52 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of either cash available to meet unexpected payments within a rolling three-month period, without additional borrowing, or the amount it can borrow each period without giving prior notice.

Table 10: Liquidity

	31 March 2023 Actual £m	2022-23 Target £m	Complied
Total cash available within 1 month **OR**	157.090	10.000	✓
Total sum borrowed in past 3 months without prior notice	58.500	30.000	✓

4.53 **Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk.

Table 11: Interest Rate Exposures

	31 March 2023 Actual £m	2022-23 Limit £m	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates.	0.575	1.477	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	N/A	-1.508	✓

4.54 The impact of a change in interest rates is calculated on the assumption that maturing investments and short term borrowing will be replaced at current rates.

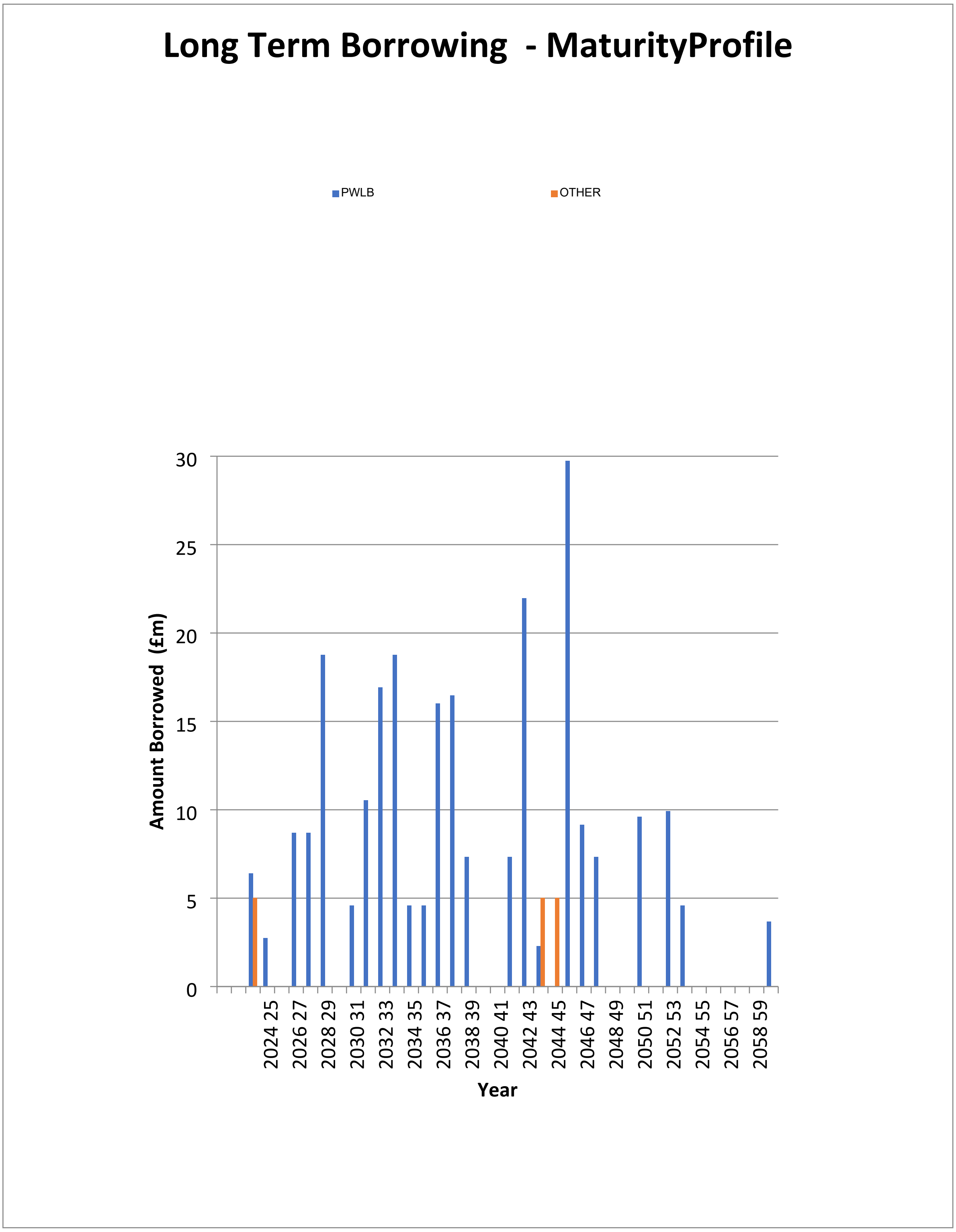
4.55 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The upper and lower limits on the maturity structure of all borrowing were:

Table 12: Maturity Structure of Borrowing

	31 March 2023 Actual %	Upper Limit %	Lower Limit %	Complied
Under 12 months	48	60	0	✓
12 - 24 months	1	20	0	✓
24 months - 5 years	4	20	0	✓
5 - 10 years	10	20	0	✓
10 - 20 years	15	40	10	✓
20 - 30 years	20	40	10	✓
Over 30 years	2	40	0	✓
Total	**100**			

4.56 The Council's long term maturity repayment profile at 31 March 2023 is shown below. A good spread of maturities is desirable. The average long term (loans over 1 year in duration) redemption is £6.772m per year over the next 37 years. The maximum redemption is £29.738m in 2045-46. The average duration of all the Council's loans is approximately 16 years. Any new borrowing would be targeted for maturity in years with nil/low repayments.

Chart: Maturity Profile of Long Term Borrowing



4.57 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 13: Principal Sums Invested for Periods Longer than a Year

Loans Maturing =>	**Beyond 31 March 2024 £m**	**Beyond 31 March 2025 £m**	**Beyond 31 March 2026 £m**
Actual principal invested beyond the year end (including strategic pooled funds and non - treasury investments)	64.631	64.631	64.631
Limit on principal invested beyond the year end	150.000	125.000	100.000
Complied?	✓	✓	✓

Other

4.58 **IFRS 16**: The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1 April 2022. Following a consultation, CIFPA/LASAAC announced an optional two-year delay to the implementation of this standard, a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. The Council will adopt the new standard on 1 April 2024.

5. Consultation

5.1 No consultation is required.

6. Alternative Options Considered

6.1 N/A - the Council is required to have a Treasury Management Strategy each year, to monitor against it and to produce a Treasury Management Annual Report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. If the Council chose not to prepare this Annual Report it would be in contravention of the Council's Financial Regulations and other legislation and statutory guidance.

7. Implications

7.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

8. Background Papers

8.1 Not applicable.

9. Appendices

9.1 Appendix 1 - Implications.

10. Recommendation

10.1 That Cabinet notes the report on Treasury Management activities during 2022-23 and the Council's compliance with the prudential indicators set by Council at its meeting of 2 February 2022, in accordance with the the CIPFA Code.

11. Reasons for Recommendation

11.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

11.2 Treasury Risk Management at the Council is conducted within the framework of CIPFA's "*Treasury Management in the Public Services: Code of Practice 2021 Edition*" (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year and a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code by producing an annual treasury outturn report for 2022-23 and also assists with the requirements in the Council's Financial Regulations, which require that the borrowing and investments of the Council should be arranged in such a manner so as to comply with the CIPFA Code of Practice on Treasury Management.

11.3 The report on treasury management activities 2022-23 highlights the borrowing strategy and investments position of the Council during the previous financial year. It also highlights the Council's performance and compliance with targets agreed as part of the Treasury Management Strategy 2022-23.

12. Is it necessary to waive the call-in period?

12.1 No

Report Author: Jonathan Clarke
Contact details: jonathan.clarke@derbyshire.gov.uk

Appendix 1

Implications

Financial

1.1 The Treasury Management Annual Report 2022-23 sets out in paragraphs 4.03 to 4.15 external factors impacting on Treasury Management in 2022-23. This covers economic background, financial markets and credit background. The report then details in paragraphs 4.16 to 4.43 the Council's Treasury Management activity and position during 2022-23. This highlights the borrowing and investments positions of the Council during 2022-23. Other non-Treasury holdings and activity are referred to in paragraphs 4.44 to 4.46 and Treasury performance in paragraph 4.47. Finally the report considers in paragraphs 4.48 to 4.57 the Council's compliance with targets agreed as part of the Treasury Management Strategy 2022-23.

1.2 On 31 March 2023, the Council had net borrowing of £63.234m arising from its revenue and capital income and expenditure. The Council held a significant but reducing level of invested funds in 2022-23, representing income received in advance of expenditure plus balances and reserves held. In 2022-23, the Council continued to pursue its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The Council has an increasing Capital Financing Requirement because of its capital programme.

1.3 Overall, during 2022-23, the Council paid interest on capital and temporary borrowing of £15.428m against a budget of £17.055m and received interest on treasury investments of £7.410m against a budget of £4.538m.

1.4 The Compliance Report confirms that the Council complied with the prudential indicators set by Council at its meeting of 2 February 2022, in accordance with the Chartered Institute of Public Finance and Accountancy's "*Treasury Management in the Public Services: Code of Practice 2021 Edition"* (the CIPFA Code).

Legal

2.1 The Treasury Management function for borrowing and investment forms part of the prudential funding structure established by the Local Government Act 2003. Local authorities are required to have regard to a range of guidance when exercising these powers.

2.2 Treasury Risk Management at the Council is conducted within the framework of CIPFA's "*Treasury Management in the Public Services: Code of Practice 2021 Edition*" (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year and a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code, by reporting on annual treasury outturn for 2022-23, and also assists with the requirements in the Council's Financial Regulations, which require that the borrowing and investments of the Council should be arranged in such a manner so as to comply with the CIPFA Code of Practice on Treasury Management.

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None