Audit Committee – 30 July 2021

Title of paper:	Treasury Management 2020/21 Annual Report	
Director(s)/ Corporate Director(s):	Clive Heaphy, Corporate Director of Finance & Resources and S151 Officer	**Wards affected:** All
Report author(s) and contact details:	Glyn Daykin, Senior Accountant – Treasury Management Tel: 0115 8763724	
Other colleagues who have provided input:	Members of Treasury Management Panel: Clive Heaphy, Corporate Director of Finance & Resources Theresa Channell, Head of Strategic Finance Susan Risdall, Technical Team Leader Jo Worster, Strategic Finance Team Leader Glyn Daykin, Senior Accountant – Treasury Management	
Recommendation(s):		
1	To note the performance information in relation to Treasury Management for 2020/21.	

1 Executive Summary

The Audit Committee holds the responsibility to provide effective scrutiny of treasury management policies and practices. The 2020/21 Treasury Management Strategy was approved by Full Council on 9 March 2020. This report sets out details of treasury management actions and performance from 1 April 2020 to 31 March 2021. The key points are:-

- the balance of external loan debt decreased by £141.8m to £932.7m, with a corresponding increase to the level of internal borrowing (see section 4.3);
- the average rate of interest payable on the debt portfolio increased from 3.138% at 31 March 2020 to 3.379% at 31 March 2021 (see section 4.3);
- the average rate of interest earned on short-term investments in 2020/21 was 0.383%. This is benchmarked against the 7 day London Inter-bank (LIBID) rate provided by the Bank of England, which averaged -0.071% for the same period (see section 4.7);
- the actual General Fund Treasury Management expenditure budget was £84.758m (see section 4.12);
- there were no breaches of the Prudential Indicators in 2020/21 (see section 4.9);
- PWLB rates reduced for new loans and the HM Treasury have published new PWLB lending arrangements which prohibit capital expenditure on 'debt for yield' schemes (see section 4.13.1).
  CIPFA released their proposed changes to the Prudential Code and Treasury Code for consultation with updated guidance expected to be issued by the end of 2021 (see section 4.13.2).

2 Reasons for recommendations

2.1 To ensure that Councillors are kept informed of the actions taken by the Chief Finance Officer (CFO) under delegated authority. The currently adopted Treasury Management Code of Practice requires the CFO to submit at least three reports on treasury management each year; a policy and strategy statement for the ensuing financial year, a 6-monthly progress report and an outturn report after the end of the financial year.

2.2 The CIPFA Prudential Code requires local authorities to nominate a body within the organisation to be responsible for scrutiny of treasury management activity. It is considered that the City Council's Audit Committee is the most appropriate body for this function. In undertaking this function, the Audit Committee holds the responsibility to provide effective scrutiny of treasury management policies and practices.

3 Background

3.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities have been required to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

3.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, 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."

3.3 The primary reporting requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead. Receipt by Executive

Board of a Mid-year Review Report and an Annual Report, covering activities during the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

3.4 This annual report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2020/21 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, and prudential indicators;
- A review of the Council's investment portfolio for 2020/21;
- A review of the Council's borrowing strategy for 2020/21;
- A review of any debt rescheduling undertaken during 2020/21;
- A review of compliance with Treasury and Prudential Limits for 2020/21.

4 <u>Treasury Management Activity in 2020/21</u>

4.1 The UK Economy, Growth, Monetary Policy and Inflation:

4.1.1 The outbreak of the Coronavirus led to the first national lockdown in late March 2020 and resulted in an economic downturn that exceeded the one caused by the financial crisis of 2008/09. The advent of vaccines starting in November 2020 has laid the foundations hopefully to lead to a return to something approaching normal life during the second half of 2021. This has been instrumental in the reopening of the economy and for the UK economy be forecast to recover its pre-pandemic level of economic activity during quarter 1 of 2022.

The Monetary Policy Committee (MPC) cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn increase in the programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields) which was again increased several times later in the year totalling £895bn by November. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; although this was firmly discounted at the February 2021 MPC meeting based on signs of a faster paced economic recovery.

Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but be a temporary short lived factor and so is not currently a concern to the MPC.

4.1.2 Government Support: The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit significantly increasing in 2020/21 and 2021/22 so that the Debt to GDP ratio is expected to reach around 100%.

Appendix 3 shows the money market interest rates and the Public Works Loans Board (PWLB) borrowing rates for 2020/21.

4.2 Local Context

4.2.1 During 2020-21 the Government commissioned a non-statutory review of the Council with the findings published on the 17th December. The published review highlighted the level of risk and the planned further borrowing within the capital programme, the high level of debt held by the Council and the reduction in the balances of reserves held which further reduces budget flexibility.

Following the review, the Council has published the Nottingham City Council Recovery & Improvement Plan 2021 – 2024; which directed a review of the 2021-22 Capital Strategy and Treasury Management Strategy with the aim to support the Council returning to financial and operational stability. The borrowing and debt management strategies are to reduce the Council's future requirement to borrow, known as the Capital Financing Requirement (CFR), and reduce the level of debt held by the Council. These strategies were approved by Full Council on 9 March 2021.

4.2.2 The Council undertakes capital expenditure on 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 impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources based on robust financial modelling, the capital expenditure will give rise to a borrowing need, however this route is strictly limited by the Capital Strategy.

4.2.3 The CFR is a gauge of the Council's indebtedness and results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2020/21 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

At 31 March 2021 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,411.2m.

Table 1 below shows the original and the actual financing arrangements of the capital programme. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need will also be increased by maturing debt and other treasury requirements.

TABLE 1: CAPITAL EXPENDITURE	2020/21 Original Estimate £m	2020/21 Mid-year Estimate £m	2020/21 Actual £m
Total capital expenditure	218.513	230.021	149.969
Financed by:			
Capital receipts	20.107	24.278	11.930
Capital grants & Contributions	43.833	66.359	37.119
Internal Funds / Revenue (inc. Major Repairs Reserve)	37.902	31.907	19.168
Total financing	101.842	122.544	68.217
Borrowing requirement	116.671	107.477	81.752

Note to table: Original estimate was Q3 2019/20 used for the 2020/21 Treasury Management Strategy Report.

As part of the Recovery & Improvement Plan the council undertook full review of its capital programme and the early impact of the review and the changes to the Capital Strategy including a Debt Reduction Policy are reflected in the table above.

The reduction in capital expenditure against previous estimates has multiple elements, a reduction of forecast spend due to the review of capital program including the delay/cancellation of some major schemes, slippage of planned 2020/21 expenditure into 2021/22 and an element of increased expenditure against the original forecast due to slippage on capital projects that had expenditure originally forecast to have been incurred in 2019/20. The associated financing of the slippage schemes that remained in the program has been moved from 2019/20 to the 2020/21 and from 2020/21 to 2021/22.

4.2.4 The Council's 2020/21 strategy was to maintain an under-borrowed position and continue to utilise short term loans at low interest rates. During 2020/21 the capital program was reviewed which led to major schemes being delayed or removed which is reflected in the capital spend for the year and the lower than forecast borrowing requirement for the year.

The 2020/21 cash position was higher than forecast on the receipt of Government Covid support grants and there was a major downward change in the economic forecast and forecast interest rates following the Covid 19 outbreak and so further long term borrowing was delayed whilst available cash balances were utilised.

4.3 Borrowing

4.3.1 To finance the CFR (the Capital Financing Requirement), the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing), utilising cash balances not immediately needed for services. The balance of external and internal borrowing is generally driven by market conditions.

4.3.2 During 2020-21, the Council published a Recovery & Improvement Plan (RIP) and completed a full review of the capital program and Capital Strategy with a view to reducing the CFR and debt balances going forwards. To support the aims of the RIP and as a response to the change in forecast interest rates maturing loans were repaid without replacement during the year and the existing under-borrowed position was increased. This meant that the capital borrowing need, was not fully funded with external loan debt. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

4.3.3 Total outstanding loans debt in 2020/21 decreased by £141.8m to £932.7m as at 31 March 2021. The total long term debt decreased by £26.3m and the temporary borrowing decreased by £115.5m as at 31 March 2021. The portfolio at April 2020 included short term loans taken to manage liquidity risk due to outbreak of Covid 19. These were repaid following the Covid 19 related Government support payments that removed the liquidity risk. The average rate of interest on total loan debt increased, from 3.138% at 31 March 2020 to 3.379% at 31 March 2021 due to repayment of the temporary borrowing element of the portfolio, at the same time the long term debt average rate continued to decrease. **Table 2** below analyses the debt portfolio:

TABLE 2: DEBT PORTFOLIO					
	01-Apr-20		**31-Mar-21**		**Movement**
DEBT	**£m**	**Average Interest %**	**£m**	**Average Interest %**	**£m**
PWLB borrowing	892.8	3.399	866.5	3.387	-26.3
Market loans inc LOBO	49.0	4.348	49.0	4.348	0
Temporary borrowing & other	132.7	0.933	17.2	0.219	-115.5
TOTAL LOANS DEBT	**1,074.5**	**3.137**	**932.7**	**3.379**	**-141.8**
Other inc PFI	191.4		181.3		-10.1
TOTAL DEBT	**1,265.9**		**1,114.0**		**-151.9**

4.3.4 In 2020/21 the Council did not take any further long term borrowing from the Public Works Loans Board (PWLB). The HRA borrowed a further £16m maturity loan for 30 years fixed at 2.55% from the General Fund.

4.3.5 Following the liquidity issues in February – April 2020, the local authority temporary loan market became extremely liquid and affordable as the Government Covid support packages were announced and cash was distributed to the local economy much of this via local authorities.
As a result the need for new borrowing was reduced. In 2020-21 £136.5m of new loans were borrowed at an average rate of 0.246% and an average life of 100 days this total includes the replacement of maturing loans. The Council's outstanding balance of temporary loans has decreased by £115.5m with the debt portfolio showing £17.2m outstanding as at 31 March 2021.

The reduction in temporary loans reflects the maturing loans being repaid without replacement during the second half of the year as Covid related cash flows including reductions in council income streams began to be clearer and forecasted for the coming months.

4.3.6 The Council's under-borrowed position has increased by £181.4m in 2020-21 as borrowing has been repaid upon maturity without replacement. The majority of this was the short-term term borrowing taken and used/held for liquidity at the end of the last financial year to mitigate liquidity risks caused by Covid 19.

The Internal Borrowing as at 31 March 2021 was £297m. This meant that c.24% of the overall capital borrowing need including prior year capital expenditure, but excluding PFI liabilities (known as the Underlying Borrowing Requirement or Loans Capital Financing Requirement), was not funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as a temporary measure. This strategy was prudent as new investment returns were extremely low and counterparty risk was still an issue that needed to be considered.

The strategy of using internal borrowing avoids interest payable on external borrowing in the short term until actual new borrowing is taken or the borrowing requirement reduces (reducing CFR) for example £300m borrowing would cost around £7m per year using an interest rate of 2.33% and a 25 year maturity loan profile (2.33% was average PWLB rate for 2020-21 for 25 years loans which broadly represents the debt portfolio's weighted average life).

4.3.7 **Appendix 3** shows the Money Market and borrowing interest rates during 2020/21. The global outlook for growth now also looks to be weakened but has started to recover as the long term economic impact of Covid 19 is beginning to unfold. Treasury yields fell sharply during 2020-21 and gilt yields / PWLB rates also fell and are expected to rise gradually in 2021-22.

4.3.8 The interest equalisation reserve has been maintained to mitigate the risk of unexpected rises in interest rates with c.£8.4m ring-fenced to smooth the impact of further increasing the proportion of fixed rate long term loans and/or reducing the internal borrowing position.

4.4 Lender Option Borrower Option *(*LOBOs)

4.4.1 The Council holds £34.000m of LOBO loans 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. £19.000m of these LOBO loans had options during the year, none have been exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

4.4.2 The council previously held LOBO loans with Barclays Bank, but in 2016/17 the Bank cancelled all the embedded options within the loans. This effectively converted the £15m of Barclays LOBO loans to fixed rate loans removing the uncertainty on both interest cost and maturity date.

4.5 Debt Rescheduling

4.5.1 The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt made rescheduling unviable for the loans in the Council's portfolio. No rescheduling activity was undertaken as a consequence.

4.6 Housing Revenue Account (HRA) Borrowing

4.6.1 From 1 April 2002, the Council's HRA was allocated a separate debt portfolio based on the appropriate proportion of the Councils existing debt at that time. Based on a forecast HRA CFR the HRA fixed £16m of new long term fixed rate borrowing from the General Fund. This loan is fixed for 30 years at 2.55% (based on the equivalent PWLB loan rate at 01 April 2020) with a full year interest cost of £0.408m per annum. By using long term fixed rate loans the HRA gains cost certainty and removes the exposure to increases in long term interest rates for the borrowing requirement in the HRA CFR.

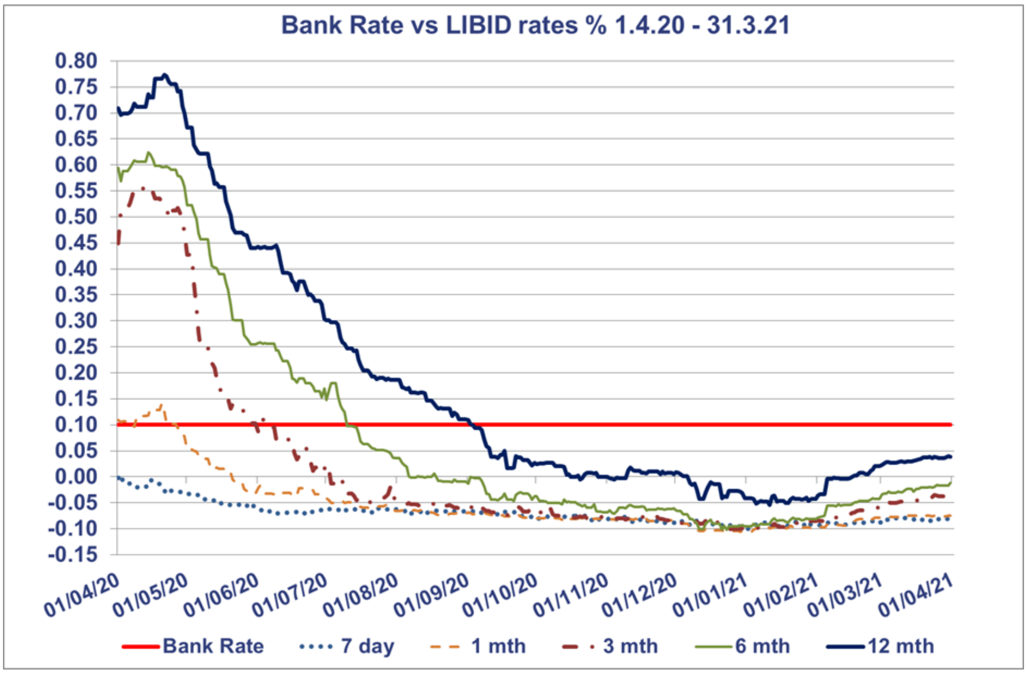
4.6.2 The HRA element of the CFR was £298.0m as at 31 March 2021 and is fully financed at an average rate of 4.49%. This includes £53.161m of long term fixed rate loans from the General Fund (known as internal loans). The HRA interest charge for 2020/21 was £13.4m.

4.6.3 In October 2018 the Government announced the HRA debt cap was to be abolished, but the now notional cap has been retained as a useful indicator shown in **Appendix 1.** Any capital expenditure financed by borrowing would need to comply with the requirements of the CIPFA prudential code including ensuring the scheme was affordable, sustainable and in proportion to the resources available.

4.7 Investments

4.7.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

4.7.2 Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.



4.7.3 The council has had increased cash and investment balances during 2020/21 averaging £135.6m as Covid related Government grants were received and used/distributed throughout the year.

The council has continued to limit its exposure to bank credit risk by using short term bank notice accounts and utilising highly diverse and liquid money market funds. During the year the investment portfolio benefited from existing longer term deposits placed with other local authorities prior to 2020/21 at fixed interest rates however these are gradually maturing during 2021/22 & 2022/23 with much lower rates now on offer.

4.7.4 The Council held £150.6m of investments as at 31 March 2021 (£129.0m at 31 March 2020) and the investment portfolio yield for the year was 0.383% against a benchmark (Average 7-day LIBID) of -0.071%. The negative average 7-day London interbank bid rate (LIBID) is a reflection of the recent fall into negative territory for very short term deposits. LIBID as benchmark is likely to be replaced with sterling overnight index average % (SONIA) in 2021 with details to be provided once they are available.

Table 3 below summarises investment activity in 2020/21.

Table 3 - Investment Activity for 2020/21	Balance on 01/04/2020 £m	Balance on 31/03/2021 £m	Avg Rate / Yield (%) Avg days to maturity as at 31/03/2021
Short term Investments (call accounts, deposits)			
- Banks and Building Societies with ratings of A- or higher	20.0	20.0	0.28% / 109
- Local Authorities	25.0	85.0	0.22% / 83
Long term Investments	10.0	10.0	0.63% / 410
Money Market Funds	74.0	35.6	0.03% / 1
TOTAL INVESTMENTS	**129.0**	**150.6**	**0.21% / 89**
- Increase/ (Decrease) in Investments £m		21.6	

4.7.5 The council has retained its use of instant access money market funds with the dual benefit of increased diversity and a credit rating of AAAm.

4.7.6 The investment activity during the year remained within the approved limits in the Investment strategy for 2020/21.

4.7.7 **Appendix 2** provides details of the Council's external investments at 31 March 2021, analysed between investment type and individual counterparties showing the Fitch long-term credit rating.

4.8 External advisors

4.8.1 External treasury management advisors are retained to provide additional input on treasury management matters. The service comprises economic and interest rate forecasting, advice on strategy, portfolio structure, debt restructuring, investment policy and credit ratings and technical assistance on other matters, as required.

4.8.2 The council has retained Link Group as its treasury management advisors.

4.9 Compliance with Prudential Indicators

4.9.1 The Council confirms compliance with its Prudential Indicators for 2020/21 set on 9 March 2020 as part of the Council's Treasury Management Strategy Statement. The Prudential Indicators can be found in **Appendix 1**.

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

4.9.3 **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. The limits variable rate interest rate exposures are:

	2019/20 £m	2020/21 £m	2021/22 £m
Upper limit on variable interest rate exposure	300	350	300
Actual	168.9	48.1	

4.9.4 **Maturity Structure of Borrowing**: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper	Actual
Under 12 months	0%	25%	4%
12 months and within 24 months	0%	25%	3%
24 months and within 5 years	0%	25%	8%
5 years and within 10 years	0%	25%	16%
10 years and within 25 years	0%	50%	7%
25 years and within 40 years	0%	50%	31%
40 years and above	0%	50%	31%

4.9.5 **Principal Sums Invested for Periods Longer than 365 days**: 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 total principal sum invested to final maturities beyond the period end will be:

	2019/20 £m	2020/21 £m	2021/22 £m
Limit on principal invested beyond year end	100	100	100
Actual	10	10	

4.9.6 **Operational Boundary and Authorised Limit for External Debt**: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

	2020/21 Original Estimate £m	2020/21 Max Debt In year £m
Borrowing	1,112.8	1,074.5
Other Long-term Liabilities *	181.8	191.4
Total External Debt	1,294.6	1,265.9
Operational Boundary	1,521.9	
Authorised Limit	1,551.9	

'* Includes PFI and Leases liabilities

4.10 <u>Treasury Management Reserve</u>

4.10.1 The Treasury Management Reserve is maintained to smooth the impact of any volatility in treasury management revenue charges in any one year including new technical accounting entries relating to IFRS 9 (which stipulates the treatment of expected loss model based impairments on Treasury related investments and capital investments such as loans to third parties and financial guarantees).

A reserve is maintained for interest equalisation specifically to balance the risk of having to secure new long term loans at higher interest rates than anticipated including the unwinding of internal borrowing position detailed in section 4.3.

There was a total of **£7.866m** of transfers to reserves relating to treasury management activity. The balance on these reserves at 31 March 2021 is **£20.163m**. There was **£4.024m** budget transfer to the MRP Transformation of Services reserve as part of the planned transfer as per the prior year decision to change MRP policy.

In 2020/21 further technical adjustments totalling £16.467m were made to account for the annual impairment review on non-treasury investments and financial guarantees as at 31 March 2021 under the IFRS 9 requirements.

There was no expected loss impairment made to treasury investments.

4.11 Risk Management

4.11.1 Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is maintained for the treasury function.

4.11.2 The treasury management risk register's overall risk rating at 31 March 2021 was 6.58, Likelihood = possible, Impact = moderate is the same rating as at 31 March 2020 and remains over targeted risk rating. The risk rating reflects risks around the impacts of Covid 19, the working from home arrangements and the changes to the PWLB lending arrangements. The Treasury Management working group continue to manage this risk and take appropriate actions as required.

4.12 General Fund Revenue Implications

4.12.1 Revenue costs associated with borrowing and lending can be volatile, being affected by a number of factors including movements in interest rates, the timing of capital spending, the extent of reserves held and actual cash flows during the year.

4.12.2 The General Fund outturn in 2020/21 for treasury management costs was £84.758m comprising of interest charges less receipts, provisions for the repayment of debt, IFRS 9 expected loss allowances and PFI related expenditure. A proportion of the Council's debt relates to capital expenditure on council housing and £13.397m of these costs was charged to the HRA. The PFI expenditure accounted for £29.926m which includes the NET lines 1 & 2.

The General Fund costs of £84.758m gave a nil variance which is included within the General Fund Corporate Budget Outturn Report on the 20 July 2021 Executive Board agenda.

4.13 Other Issues

4.13.1 HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019/20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of

England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

4.13.2 CIPFA have released proposed changes to the current Treasury Management Code and Prudential Code. Both sets of proposed changes were subject to a period of consultation which closed on 12th April 2021, with a planned publication of the revised guidance expected towards the end of 2021. There will be a requirement to apply the principles from the publication date with full adoption expected from 2022/23.

The Treasury Management Code key proposals – update to the Treasury management practices (TMP) TMP10 training requirements; TMP 12 Corporate Governance; TMP13 Environmental, Social and Governance and amendments to Maturity Structure of Borrowing indicator.

The Prudential Code key proposals – revision to Borrowing in Advance of Need criteria, including in respect of primarily yield generating investments; inclusion of proportionality in key capital expenditure objectives; process and governance sections to incorporate further changes in respect of commercial activity; three new prudential indicators – External Debt to Net Revenue Stream (NRS), Income from Commercial and Service Investment to NRS, Liability Benchmark; Proposal to abolish Gross Debt to Capital Financing Requirement indicator.

The implications of the revised guidance once published will be reported to councillors at the next opportunity.

5 Background papers other than published works or those disclosing exempt or confidential information

5.1 None.

6 Published documents referred to in compiling this report

6.1 Treasury Management Strategy 2020/21 and Capital Investment Strategy 2020/21
6.2 Treasury Management Strategy 2021/22 and Capital Investment Strategy 2021/22
6.3 Nottingham City Council Recovery & Improvement Plan
6.4 Money Market and PWLB loan rates
6.5 Treasury Management in the Public Services Code of Practice 2017–CIPFA
6.6 Prudential Code 2017-CIPFA
6.7 Treasury Management in the Public Services Guidance Notes 2018 – CIPFA
6.8 Statutory guidance on local government investments 3rd Edition 2018
6.9 Statutory guidance on Minimum Revenue Provision (MRP) 2018