Audit Committee – 30 September 2022

Title of paper:	Treasury Management 2021-22 Annual Report	
Director(s)/ Corporate Director(s):	Clive Heaphy, Interim Corporate Director of Finance and Resources and Section 151 Officer	**Wards affected:** (all)
Report author(s) and contact details:	Debbie Middleton, Interim Director of Finance and Deputy Section 151 Officer debbie.middleton@nottinghamcity.gov.uk Glyn Daykin, Senior Accountant – Treasury Management glyn.daykin@nottinghamcity.gov.uk	
Other colleagues who have provided input:	Members of Treasury Management Panel: Clive Heaphy, Interim Corporate Director of Finance and Resources Debbie Middleton, Interim Director of Finance Susan Risdall, Technical Team Leader Jo Worster, Strategic Finance Team Leader Glyn Daykin, Senior Accountant – Treasury Management Tom Straw, Senior Accountant – Capital Programmes	
Does this report contain any information that is exempt from publication? No		
Recommendation(s):		
1.	To note the Treasury Management performance for 2021/22.	

1. **Reasons for recommendations**

1.1 The Treasury Management function is governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the City Council must have regard to the CIPFA Prudential Code and the CIPFA Code of Practice. Under the latter Code, an annual report is required to be submitted to and considered by councillors.

1.2 The Council's Treasury Management Strategy for 2021/22 was approved by full Council on 8 March 2021.

1.3 The Council borrows and invests substantial sums of money as part of its business as usual activity. In common with all local authorities, it is therefore exposed to financial risks including the loss of invested funds and the revenue account impact of changing interest rates. This report covers performance in relation to treasury management activity and the associated monitoring and control of risk.

2. **Background**

2.1 **Treasury Management**

The Council is required to operate a balanced budget, which broadly means cash raised during the financial year will meet its cash expenditure. Treasury management operations ensure that this cash flow is adequately planned, with surplus monies being invested by prioritising low risk counterparties and ensuring liquidity of funds before considering and optimising investment return.

The treasury management function also services the financing of the Council's capital expenditure 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. 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."

2.2 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code 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.

2.3 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 2021/22 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 2021-22;
- A review of the Council's borrowing strategy for 2021-22;
- A review of any debt rescheduling undertaken during 2021/22;
- A review of compliance with Treasury and Prudential Limits for 2021-22.

3. Other options considered in making recommendations

3.1 Options for management of the Council's debt and investment portfolio are continually reviewed. The overall aim is to minimise the net revenue costs of the Council's debt whilst maintaining an even debt profile in future years and to maximise investment returns within stated security and liquidity guidelines.

4. Treasury Management Activity in 2021-22

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

4.1.1 Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022. The UK economy has now opened up and nearly back to business-as-usual, and the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the Monetary Policy Committee (MPC) to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 7.0% as at 29 April 2022 with inflation indicators indicating CPI inflation will peak over 10% later this year.

Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Appendix 2 shows the money market interest rates and the Public Works Loans Board (PWLB) borrowing rates for 2021/22.

4.2 Local Context

4.2.1 During 2020-21 the Government commissioned a non-statutory review of the City Council with the findings published on the 17 December 2020. 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 and on 10 January 2022 approved an updated version the Together For Nottingham Plan. They directed a review of the 2021-22 Capital Strategy and Treasury Management Strategy and the inclusion of the Voluntary Debt Reduction Policy (VDRP) with the aim to support the Council in returning to financial and operational stability. The borrowing and debt management strategies aim to reduce the Council’s future requirement to borrow, known as the Capital Financing Requirement (CFR), and to reduce the level of debt held by the Council.

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 2021-22 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 2022 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,374.2m.

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	**2021-22 Original Estimate £m**	**2021-22 Mid-year Estimate £m**	**2021-22 Actual £m**	**% Change original to actual %**
Total capital expenditure	**181.841**	**173.110**	**100.746**	**(45%)**
Financed by:				
Capital receipts	12.516	10.866	13.509	8%
Capital grants & Contributions	83.663	85.303	47.514	(43%)
Internal Funds / Revenue (inc. Major Repairs Reserve)	43.372	35.859	24.382	(44%)
Total financing	139.551	132.028	85.405	(39%)
Borrowing requirement	**42.290**	**41.082**	**15.341**	**(64%)**

Note to table: Original estimate was Q3 2020-21 used for the 2021-22 Treasury Management Strategy Report.

The reduction in capital expenditure against previous estimates includes slippage on capital projects and the associated financing of the slippage schemes has been moved from 2021-22 to 2022-23.

4.3 Borrowing

4.3.1 To finance the Council's overall borrowing requirement, also known as the Capital Financing Requirement (CFR), the Council may borrow externally from the Public Works Loans Board (PWLB) or the market, or from its own internal balances on a temporary basis (internal borrowing), by using its cash balances that are not immediately needed for the delivery of services. The balance of external and internal borrowing is generally driven by market conditions.

4.3.2 During 2021-22, the Council continued its strategy to reduce the CFR and external debt balances by repaying maturing loans with its cash balances and by internal borrowing. This means that the overall CFR as not been fully funded by taking external loan debt.

4.3.3 Total outstanding external loans debt in 2021-22 decreased by £31.8m (3.4%) to £900.9m at 31 March 2022. The total long term debt decreased by £16.8m and the temporary borrowing decreased by £15.0m at 31 March 2022. The average rate of interest on total external loan debt increased, from 3.379% at 31 March 2021 to 3.431% at 31 March 2022 due to repayment of the temporary borrowing element of the portfolio.

At the same time the long term debt average rate continued to decrease. The reduction in debt realised a revenue cost saving of c£0.825m. Table 2 below analyses the debt portfolio:

TABLE 2: DEBT PORTFOLIO					
	01-Apr-21		31-Mar-22		Movement
DEBT	**£m**	**Average Interest %**	**£m**	**Average Interest %**	**£m**
PWLB borrowing	866.5	3.387	849.7	3.385	-16.8
Market loans inc LOBO	49.0	4.348	49.0	4.348	0
Temporary borrowing & other	17.2	0.219	2.2	0.768	-15.0
TOTAL LOANS DEBT	**932.7**	**3.379**	**900.9**	**3.431**	**-31.8**
Other including PFI	181.3		170.2		-11.1
TOTAL DEBT	**1,114.0**		**1,071.1**		**-42.9**

4.3.4 In 2021-22 the Council did not take any further long term borrowing from the Public Works Loans Board (PWLB).

4.3.5 The Council's internal borrowing position at 31 March 2022 was £303.0m. This meant that c.25% 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.

The strategy of using internal borrowing avoids the cost of interest payable on external borrowing in the short term until actual new borrowing is taken or the borrowing requirement reduces. For example, £300m of external borrowing would cost around £6.3m per year using the 2021-22 average PWLB 25 year loan interest rate of 2.10%.

The Council expects to retain this internal borrowing position as a prudent and cost effective approach in view of the reducing CFR and the current forecast for balances available to support this position. A c£4.370m Treasury Management Reserve is maintained to smooth the impact of reducing the internal borrowing position should this be required.

The continuation of this existing strategy will further support managing the Council's cost of financing in the coming years and supports the aims of the VDRP in reducing the Council's debt levels.

4.3.6 **Compliance with the Voluntary Debt Reduction Policy**

Table 3 reflects the reduction in the Total CFR from £1,411.610m to £1,374.209m during the 2021/22 financial year and the forecast reduction based upon current approved plans to £1,254.309m by March 2025.

The underlying borrowing requirement excluding PFI/Finance leases stands at £1,203.985m at 31 March 2022 and is forecast to reduce by £83m (6.9%) to £1,120.899m by March 2025 based upon current approved plans.

External borrowing is forecast to reduce from £900.939m at 31 March 2022, to £840.605m by March 2025 as maturing debt is not replaced with new borrowing.

Table 3 Summary of CFR and internal/ external borrow	Actual 31-Mar-21 £m	Actual 31-Mar-22 £m	Forecast 31-Mar-23 £m	Forecast 31-Mar-24 £m	Forecast 31-Mar-25 £m
Capital Financing Requirement					
HRA	298.047	298.732	303.230	304.911	305.232
General Fund	1,113.563	1,075.477	1,048.453	1,004.899	949.077
CFR Total	**1,411.610**	**1,374.209**	**1,351.683**	**1,309.810**	**1,254.309**
Less PFI / Finance Leases	(181.335)	(170.224)	(158.262)	(146.228)	(133.410)
Underlying Borrowing Requirement	**1,230.275**	**1,203.985**	**1,193.421**	**1,163.582**	**1,120.899**
External Borrowing	(932.782)	(900.939)	(885.863)	(861.824)	(840.605)
Internal Borrowing	(297.493)	(303.046)	(307.558)	(301.758)	(280.294)
Total Borrowing	**(1,230.275)**	**(1,203.985)**	**(1,193.421)**	**(1,163.582)**	**(1,120.899)**

4.3.7 Table 4 sets out the MRP (annual principal repayments driven by the underlying borrowing requirement) together with the interest incurred on external borrowing which represent the total revenue cost of borrowing. These costs are forecast to rise from £49.505m at 31 March 2022 to £52.881m by March 2025.

Table 4 General Fund MRP and Interest	Actual 31-Mar-21 £m	Actual 31-Mar-22 £m	Forecast 31-Mar-23 £m	Forecast 31-Mar-24 £m	Forecast 31-Mar-25 £m
General Fund Proportion of External Debt	(634.735)	(602.207)	(582.633)	(556.913)	(535.373)
Annual MRP / VRP (exc. PFI)					
Supported borrowing*	0.077	0.077	0.077	0.077	4.756
Unsupported borrowing	30.172	31.015	31.762	31.970	31.970
Annual MRP / VRP (exc. PFI)	**30.249**	**31.092**	**31.839**	**32.047**	**36.726**
General Fund Interest Incurred (exc. PFI)**	**19.264**	**18.413**	**19.564**	**16.902**	**16.155**
Total Capital Financing Cost	**49.513**	**49.505**	**51.403**	**48.949**	**52.881**
Net Revenue Budget (**)	248.059	243.744	227.649	262.509	268.045
Capital Financing Costs as % Net Revenue Budget	**19.96%**	**20.31%**	**22.58%**	**18.65%**	**19.73%**

* medium term benefit of MRP policy change to 50 years ends 31-3-2024, hence the increase in MRP from 24-25

*(**) From 1st April 23, Based on: (2223 budget / 31-Mar-22 external debt) * Debt closing balance*

4.3.8 A The increase in 2024-25 is due to the expiry of the medium-term benefit of a change in the Council's MRP Policy in 2017-18 to spread principal repayments over and increased term of 50 years. The Medium-term benefit of the policy change expires at 31 March 2024 and the increased cost continues in the long term.

4.3.9 An indicator of affordability of this level of borrowing is to measure the annual total capital financing cost as a percentage of the net revenue budget. At 31 March 2022, this stood at 20.31% and is forecast to be 19.73% by March 2025 based upon current approved plans.

4.3.10 The greater the proportion of the revenue budget that is committed to debt repayment over the long term, the less flexibility the Council has to manage the financial pressures that impact general service delivery. It should be noted that the capital financing costs associated with PFI are not included in these figures as those costs are incorporated into the Unitary Charge the Council incurs for its long term PFI contracts which are charged to the relevant service department's budget.

4.3.11 Work is being undertaken to consider the long term financial sustainability and affordability of the current and forecast levels of borrowing and associated revenue costs, together with the options available to the Council to achieve a further reduction in the proportion of the revenue budget tied up in long term debt repayment. Further reports will come forward in due course.

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. £14.000m of these LOBO loans had options during the year, none have been exercised by the lender.

4.4.2 The Council holds £15m of long term fixed rate loans with Barclays Bank. These were originally LOBO loans but the Bank cancelled all the embedded options within the loans.

4.5 **Borrowing in advance of need**

4.5.1 The Treasury Management Code of Practice states an organisation may only borrow in advance of the need in order to reduce financing and interest rate risks i.e. not purely in order to profit from the investment of the extra sums borrowed.

The Council has complied with the Code in this respect.

4.6 **Debt Rescheduling**

4.6.1 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 has made rescheduling unviable for the existing loans in the Council's portfolio. No rescheduling activity was undertaken as a consequence.

4.7 **Housing Revenue Account (HRA) Borrowing**

4.7.1 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. No new HRA borrowing was taken in 2021-22.

4.7.2 The HRA element of the CFR was £298.7m at 31 March 2022 and is fully financed at an average rate of 4.38%. This includes £53.161m of long term fixed rate loans from the General Fund (known as internal loans). The HRA interest charge for 2021-22 was £13.1m.

4.7.3 Table 5 sets out the capital financing costs incurred by the HRA in relation to borrowing associated with investment in public sector housing stock.

Table 5 **HRA VRP, Interest and Interest Cover**	**Actual** **31-Mar-21** **£m**	**Actual** **31-Mar-22** **£m**	**Forecast** **31-Mar-23** **£m**	**Forecast** **31-Mar-24** **£m**	**Forecast** **31-Mar-25** **£m**
HRA Fund Proportion of External Debt	(298.047)	(298.732)	(303.230)	(304.911)	(305.232)
HRA VRP	1.754	2.012	2.197	2.446	2.630
HRA Interest Incurred	13.408	13.130	12.988	13.432	13.447
Total Capital Financing Cost	**15.162**	**15.142**	**15.185**	**15.878**	**16.077**
Net Revenue Budget	105.766	107.252	111.153	112.905	114.496
Capital Financing Costs as % Net Revenue Budget	14.34%	14.12%	13.66%	14.06%	14.04%

4.7.4 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 needs to comply with the requirements of the CIPFA prudential code including ensuring the scheme was affordable, sustainable and in proportion to the resources available.

4.8 **Investments**

4.8.1 The Council's investment policy is governed by the Department of Levelling Up, Housing and Communities (DLUHC) investment guidance, which has been implemented in the annual investment strategy approved by the Council on 8 March 2021. 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.

4.8.2 The Council has had increased cash and investment balances during 2021-22 averaging £265.0m as further Government grants were received throughout the year.

4.8.3 The Council held £368.2m of investments at 31 March 2022 (£150.6m at 31 March 2021) and the investment portfolio yield for the year was 0.658%, exceeding the benchmark (Average 7-day LIBID) of -0.070% for the period up to 31 December 2021 when this was replaced with sterling overnight index average % (SONIA). The 2021/22 average 7-day backward looking SONIA was 0.14%.

Table 6 below summarises investment activity in 2021-22.

Table 6 - Investment Activity for 2021-22	**Balance on 01-04-2021 £m**	**Balance on 31-03-2022 £m**	**Avg Rate / Yield (%) Avg days to maturity as at 31-03-22**
Short term Investments (call accounts, deposits)			
- Banks and Building Societies with ratings of A- of Higher	20.0	90.0	0.94% / 170
- Debt Management Office	0.0	52.0	0.55% / 6
- Local Authorities	85.0	142.0	0.51% / 133
Long Term Investments	10.0	34.9	0.72% / 410
Money Market Funds	35.6	49.3	0.57% / 1
TOTAL INVESTMENTS	**150.6**	**368.2**	**0.66% / 157**
Increase / (Decrease) in Investments		217.6	

4.9 **External advisors**

4.9.1 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.

4.9.2 The Council has retained Link Group as its treasury management advisors.

4.10 Compliance with Prudential Indicators

4.10.1 The Council confirms compliance with its Prudential Indicators for 2021-22 set on 8 March 2021 as part of the Council's Treasury Management Strategy Statement. The Prudential Indicators can be found in Appendix 1.

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

4.10.3 **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:

	2020-21 £m	2021-22 £m	2022-23 £m
Upper limit on variable interest rate exposure	350.0	300.0	200.0
Actual	48.1	41.3	

4.10.4 **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%	3%
12 months and within 24 months	0%	25%	4%
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%	35%
40 years and above	0%	50%	27%

4.10.5 **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:

	2020-21 £m	2021-22 £m	2022-23 £m
Limit on principal invested beyond year end	100	100	100
Actual	10	35	

4.10.6 **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.

	2021/22 Original Estimate £m	2021/22 Max Debt in year £m
Borrowing	992.0	932.8
Other Long-term Liabilities *	170.7	181.3
Total External Debt	1,162.7	1,114.1
Operational Boundary	1,415.2	
Authorised Limit	1,445.2	

* Includes PFI and Lases liabilities

4.11 **Treasury Management Reserve**

4.11.1 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).

The 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 £0.625m of transfers to reserves relating to treasury management activity. The balance on these reserves at 31 March 2022 is £25.369m. 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 2021-22 further technical adjustments totalling £0.888m were made to account for the annual impairment review on non-treasury investments as at 31 March 2022 under the IFRS 9 requirements. There was no expected loss impairment made to treasury investments.

4.12 **Risk Management**

4.12.1 Risk 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.

4.12.2 The treasury management risk register's overall risk rating at 31 March 2022 was 4.23, (Likelihood = unlikely, Impact = minor) and is a lower rating than as at 31 March 2021, but it remains over the targeted risk rating of 2.94 (Likelihood = remote, Impact = minor). The risk rating reflects reduced risks around the capital programme, impacts of Covid-19, working from home arrangements and the changes to the PWLB lending arrangements. The Treasury Management Working Group of senior Finance Managers with responsibility for Treasury Management (including Section 151 Officer and deputy

151 Officer) meet quarterly to manage this risk register and take appropriate actions as required.

4.13 **Other Issues**

4.13.1 CIPFA published the revised Treasury Management Code and Prudential Code in December 2021. Both revised codes and guidance notes must be adopted within the 2023-24 Treasury Management Strategy, with the principles to be applied from the publication date of December 2021.

The Treasury Management Code key proposals – update to the Treasury management practices (TMP) TMP10 training requirements; TMP 12 Corporate Governance; Environmental, Social and Governance investment considerations to be included within the credit and counterparty risk management policies 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.
- Council investments are to be split and reported by code definitions for Service Investments, Treasury Management investments and Commercial Investments.

5. **Finance colleague comments (including implications and value for money/VAT)**

5.1 General Fund Revenue Implications

5.1.1 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.

5.1.2 The General Fund outturn in 2021-22 for treasury management costs was £73.235m 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 HRA housing and £13.065m of these costs was charged to the HRA. The PFI expenditure accounted for £27.501m which includes the NET (the Nottingham Tram Network) lines 1 & 2.

The General Fund budget latest for 2021-22 for treasury management costs was £77.185m, the outturn was £73.235m an underspend of £3.9m which is included within the General Fund Corporate Budget Outturn.

5.2 Value for Money

5.2.1 Management of borrowing and investments is undertaken in conjunction with our appointed external advisors, with the aim of minimising net revenue costs, maintaining an even debt maturity profile and ensuring the security and liquidity of investments.

Advice provided by Glyn Daykin and Sue Risdall, Technical Accounting, on 30 May 2022.

6. **Legal and Procurement colleague comments (including risk management issues, and legal, Crime and Disorder Act and procurement implications)**

6.1 This report seeks authority to note the Treasury Management Performance for 2021/22.

6.2 The City Council has power to invest in accordance with section 12 of the Local Government Act 2003 (‘the Act’).

6.3 Section 12 provides a power for Local Authorities to invest for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. "Investment" also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture or to a third party.

6.4 In accordance with section 15 and Part 1 of the Act, Local Authorities are required to “have regard” to “such guidance as the Secretary of State may issue”. Statutory guidance on local authority investments has been issued by the Secretary of State in accordance with this provision.

6.5 This report details how the Council has complied with the relevant guidance and provides an update on the performance of the Council’s treasury management function for 2021/22, against the Treasury Management Strategy which was approved by Full Council in March 2021.

Advice provided by Dionne Screaton, Senior Solicitor, Contracts and Commercial, 21st June 2022

7. **Background papers other than published works or those disclosing exempt or confidential information**

7.1 None

8. **Published documents referred to in compiling this report**

8.1 Treasury Management Strategy 2022-23 and Capital Investment Strategy 2022-23
8.2 Treasury Management Strategy 2021-22 and Capital Investment Strategy 2021-22
8.3 Together for Nottingham Plan
8.4 Money Market and PWLB loan rates
8.5 Treasury Management in the Public Services Code of Practice 2017 & 2021–CIPFA
8.6 Prudential Code 2017 & 2021 -CIPFA
8.7 Treasury Management in the Public Services Guidance Notes 2018 & 2021– CIPFA
8.8 Statutory guidance on local government investments 3rd Edition 2018
8.9 Statutory guidance on Minimum Revenue Provision (MRP) 2018