Audit Committee – 24 November 2023

Subject:	Treasury Management 2023/24 Half Yearly Update
Corporate Director(s)/Director(s):	Ross Brown, Corporate Director of Finance and Resources and Section 151 Officer
Portfolio Holder(s):	Councillor Audra Wynter, Portfolio Holder for Finance
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Other colleagues who have provided input:	Members of Treasury Management Panel: Ross Brown, Corporate Director of Finance and Resources Shabana Kausar, Director of Finance and Deputy 151 Officer Glenn Hammons, Interim Finance Team Leader – Technical Team Patrick Kilgallen, Interim Senior Accountant – Treasury Management

Summary of issues:

This report sets out details of treasury management actions and performance from 1 April 2023 to 30 September 2023. In summary:

- No new long-term borrowing has been undertaken in the period to 30 September 2023, the balance of external loans debt has decreased by £7.9m and is within the forecast Voluntary Debt Reduction Policy (section 4.3);
- The average interest rate payable on the debt portfolio didn't change (3.37%) between 1 April 2023 to 30 September 2023 (section 4.3);
- No debt rescheduling had been undertaken to 30 September 2023 (section 4.4);
- The average return on investments to 30 September 2023 was 4.85% against a benchmark rate of 5.18% (SONIA) (section 4.7);
- There has been compliance with Prudential Indicators for 1 April to 30 September 2023 (section 4.8);
- A breach of the investment policy has occurred during the period 1 April to 30 September 2023 (section 4.7.8)

Does this report contain any information that is exempt from publication? No

Recommendation(s):

1 To note the treasury management actions taken in 2023/24 to 30 September 2023.

1. Reasons for recommendations

1.1 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. The Code also requires that the reports be considered by relevant scrutiny or executive committees, and that the City Council approves any changes to the treasury management strategy.

2. Background

2.1 Capital Strategy

In 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Capital Strategy guidance. 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.

2.2 **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."

2.3 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 2021).

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. The Council is continually assessing its practices, procedures and processes against the revised Code as requirements become clearer in order to ensure best practice is followed

2.4 This mid-year 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 2023/24 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital and prudential indicators;
- A review of the Council's investment portfolio for 2023/24;

- A review of the Council's borrowing strategy for 2023/24;
- A review of any debt rescheduling undertaken during 2023/24;
- A review of compliance with Treasury and Prudential Limits for 2023/24

3. Other options considered in making recommendations

3.1 No other options were considered as the report is required by the Treasury Management Code of Practice.

4. Treasury Management Activity to 30 September 2023

4.1 The Economy and Interest Rates During the first half of 2023/24

- Interest rates rose by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- A 0.5% m/m decline in real GDP in July.
- CPI inflation falling from 8.7% in April to 6.5% in September, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).
- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

Forecast Interest rates:
The Council's treasury advisor, Link Group, has provided the following forecast. (Public Works Loan Board (PWLB) rates include the certainty rate discount):

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

Appendix B shows the money market interest rates, the PWLB borrowing rates for the half-year to 30 September 2023 and a forward view for PWLB loan rates.

4.2 Local Context

4.2.1 The Treasury Management Strategy Statement (TMSS), for 2023/24 was approved by Full Council on 6 March 2023. There are no policy changes to the TMSS; the details in this report update the position in the light of the current economic position and budgetary position as reflected in the period 6 budget monitoring report as at 30 September 2023.

4.2.2 Proposed changes to the Annual Investment Strategy were brought to and scrutinised by Audit Committee in July 2023. It is intended to bring these potential changes to Executive Board in November 2023 and City Council in January 2024. These proposed changes are to:

- Increase the value of counterparty limits with banks and funds.
- A technical change to how the share of interest the HRA is due is calculated.

4.2.3 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 resultant 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.

4.2.4 At 31/03/2023 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,316.2m.

The CFR is forecast to decrease by £66.3m to £1,249.9 by 31/03/2024 against the original CFR estimate for 31/03/2024 of £1,299.5m. The reason for the reductions due are set out in paragraph 4.2.5.

Table 1 below shows the original and expected 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 borrowing need may also be supplemented for maturing debt and other treasury requirements.

Table 1: Capital Expenditure	2023/24 Original Esitmate £m	2023/24 Revised Esitmate £m
Total Capital Expenditure	313.882	255.405
Finance by:		
Capital Receipts	38.540	27.147
Capital Grants & Contributions	199.267	181.249
Internal Funds/Revenue (inc. Major Repairs Reserve)	57.389	31.751
Total Financing	295.196	240.147
Borrowing Requirement	18.686	15.258

Note to table: The Original Estimate for 2023/24 was the reported position as at Q3 2022/23 and was used for the 2023/24 Treasury Management
Strategy Report. The Revised Budget 2023/24 as reported to Executive Board in the Period 6 2023/24 Monitoring Report was £323.298m and includes reprofiling of expenditure from previous years.

4.2.5 The decrease in estimated capital expenditure is due to a technical accounting adjustment on the Midlands Net Zero Hub budget, additions to the Capital Programme and reprofiling of expenditure to future financial years. Further information is contained in the Period 6 2023/24 Budget Monitoring Report considered at Executive Board on 21 November 2023.

4.3 **Borrowing**

4.3.1 To finance the CFR the Council may borrow from the PWLB or the market (external borrowing) as well as from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

4.3.2 At 30/9/2023 the Council has reduced the balance of external loans by £7.9m since the balance at 31/3/2023 due to monthly repayments of principal on outstanding loans. The Council does not expect to increase borrowing in the 2nd half of 2023/24 based on the revised capital program and forecast cash flow requirements. As described in the Voluntary Debt Reduction Policy the level of external loans is expected to continue to reduce as existing loans mature without replacement. The CFR reduces due to the reductions in the capital program and as the council makes its approved minimum revenue provision (MRP) against prior years capital expenditure financed by borrowing.

4.3.3 **Table 2** summarises the Council’s outstanding external debt at 30 September 2023 showing the value of debt and the average interest rate payable on the debt.

Table 2: DEBT PORTFOLIO					
	31-Mar-23		30-Sep-23		Change
Debt	£m	Average interest %	£m	Average interest %	£m
PWLB borrowing	824.7	3.3	816.8	3.3	- 7.9
Market Loans	49.0	4.3	49.0	4.3	-
Temporary borrowing	2.2	0.8	2.2	0.8	-
Total loans debt	**875.9**	**3.4**	**868.0**	**3.4**	**- 7.9**
Other inc PFI	158.3		152.3		- 6.0
Total Debt	**1,034.2**		**1,020.2**		**- 13.9**

The graph below shows the debt portfolio's maturity profile by loan type and the weighted average interest rates that are associated with the maturities in each period. This maturity profile is summarised in the Prudential Indicator for the Maturity Structure for Borrowing table shown in **section 4.8.3**.

4.3.4 At 30/09/2023, the Council had £867.99m of external borrowing including £152.25m of Private Finance Initiative (PFI) and lease liabilities. The Council continues to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum investment balance of around £30m.

The Council's internal borrowing position at 31 March 2023 was £282.2m. 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 external loan debt as cash supporting the Council's reserves, balances and cash flow was used as a temporary measure.

4.3.5 **Table 2.1** summarises the Council's split between external debt and internal debt at 31 March 2023 and the forecast position for 2023/24.

Table 2.1: External and Internal borrowing			
	31-Mar-23	Forecast 31-Mar-24	Change
Debt	**£m**	**£m**	**£m**
CFR Total	1,316.2	1,249.9	- 66.3
PFI leases	- 158.3	- 146.2	12.0
Underlying borrowing requirement	**1,157.9**	**1,103.7**	**- 54.3**
External borrowing	875.9	844.6	**31.3**
Internal borrowing	**282.0**	**259.1**	**- 22.9**

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. For example, £100m borrowing would cost around £5m per year using an interest rate of 5% and a 25 year maturity loan profile. There is an opportunity cost of internal borrowing as the Council forgoes interest on cash balances.

The council expects to retain some internal borrowing position as a prudent and cost-effective long-term approach in view of the reducing CFR and the current economic climate but will continue to monitor this against opportunities or risks driven by external interest rates

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 below reflects the reductions in capital expenditure financed by borrowing and the capital receipt strategy in the forecast Capital Financing Requirement and external loans debt in the medium term.

	Table 3: VDRP Forecast Refresh			
Debt Measurement	**VDRP Original Forecast £m**	**Qtr2 Actual & Forecast £m**	**Movement (Under) / Over £m**	**Movement from original forecast %**
CFR				
2020/21	1,443.5	1,411.6	**-31.9**	**-2.2%**
2021/22	1,434.2	1,382.9	**-51.3**	**-4.2%**
2022/23	1,390.6	1,316.2	**-74.5**	**-5.4%**
2023/24	1,337.3	1,249.9	**-87.4**	**-6.9%**
2024/25	1,272.5	1167.9	**-104.6**	**-8.9%**
External Debt				
2020/21	981.6	932.8	**-48.8**	**-5.0%**
2021/22	991	900.9	**-90.1**	**-9.1%**
2022/23	986.2	875.9	**-110.3**	**-11.0%**
2023/24	954.8	836.5	**-118.3**	**12.4%**
2024/25	927.4	810.1	**-117.3**	**12.6%**

4.4 **Debt rescheduling**

There are debt rescheduling opportunities in the current economic climate. As interest rates have risen through 2022 and 2023 and are at or near peak there are now potential opportunities to repay debt early without incurring substantial costs. No debt rescheduling has been undertaken to date in the current financial year but officers will continue to look for opportunities in the second half of the year.

4.5 **Lender's Option Borrower's Options (LOBO) Loans**

The Council holds £34m 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. £24m of these LOBO loans have options during the year, none have been exercised by the lender. The Council acknowledges there is an element of refinancing risk as in the current interest rate environment lenders may be more likely to exercise their options.

4.6 **Housing Revenue Account (HRA) Treasury Management Strategy**

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.

4.6.2 No further HRA loans have been taken in the first half of 2023/24. The HRA element of the CFR was £304m as at 31 March 2023 and was fully financed at an average rate of 3.46%. This includes £51.8m of long term fixed rate loans from the General Fund (known as internal loans). The HRA CFR is forecast to be £306.2m by 31 March 2024 and the HRA interest charge for 2023/24 is expected to be c.£13.5m.

4.6.3 In October 2018 the Government announced the HRA debt cap was abolished. 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. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also where cash flow forecasts permit to seek out value available in longer periods with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

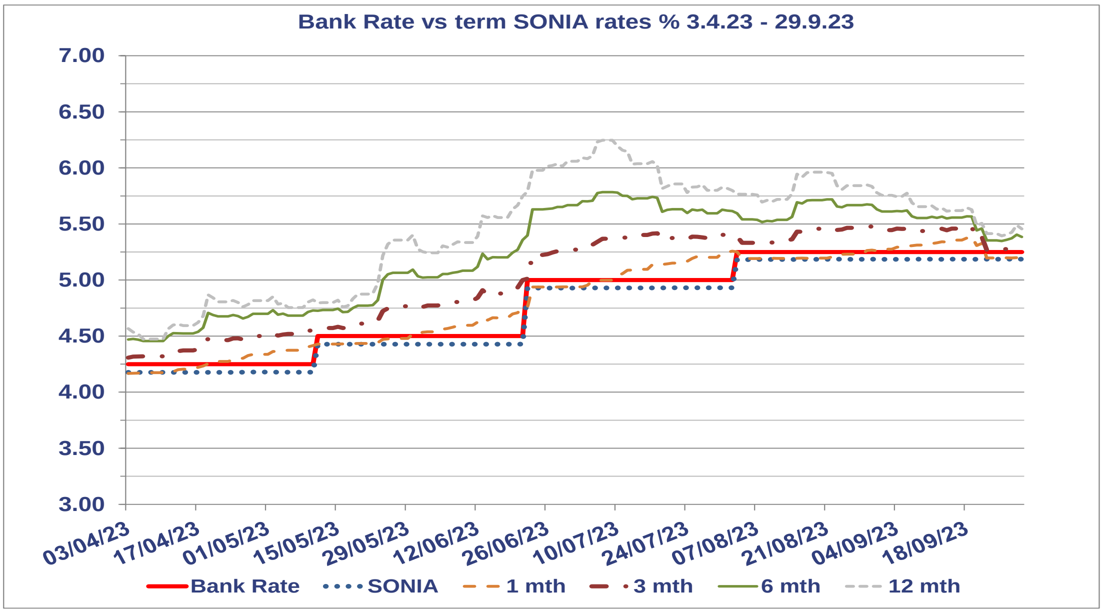
4.7.2 As shown by the interest rate forecasts in section 4.1, it is now possible to earn greater levels of interest rates as all short-term money market investment rates have risen substantially. Given this environment and the forecast that Bank Rate may stay at or close to current levels until September 2024 investment returns are expected to remain at current levels for the next 11 months.

4.7.3 **Creditworthiness**: Both S&P and Fitch have continued to maintain the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook.

The current investment counterparty criteria selection (including minimum long-term counterparty credit rating of A- across rating agencies Fitch, S&P and Moody's) approved in the TMSS is meeting the requirement of the treasury management function.

4.7.4 **Investment balances:** The average level of funds available for investment purposes during the first half of 2023/24 was £348m. This is expected to fall slightly in the next 6 months in line with the typical council tax income profile. As Covid has subsided the additional grants which have increased balances over the last couple of years are no longer being held. Current balances reflect that.

4.7.5 **Investment rates during half year ended 30th September 2023:** As shown below the rates use the traditional market method for calculating SONIA period % rates and shows the upward trend in levels this year.



	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	5.25	5.19	5.39	5.48	5.78	6.25
High Date	03/08/2023	29/09/2023	19/09/2023	30/08/2023	07/07/2023	07/07/2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
Average	4.81	4.74	4.83	5.03	5.26	5.45
Spread	1.00	1.01	1.22	1.17	1.33	1.77

4.7.6 **Investment performance year to date as at 30th September:** The Council held £333.2m of investments as at 30 September 2023 (£308.1m at 31 March 2023) and the investment portfolio yield for the half year was 4.33% against a benchmark (Ave. SONIA) of 4.74%.

The Council underperformed the benchmark by 31 bps. This was primarily due to the Council being invested in some longer-term fixed rate investments, to secure certainty of return, which led to council's portfolio lagging behind as interest rates increased. As the council sees prior year term deposits mature the portfolio's performance will return to benchmark.

The budgeted GF investment return for 2023/24 is £4.1m, and forecast performance for the full year is expected to be £10.2m above budget due to rising interest rates. The HRA has budgeted £0.2m and is expected to overperform by £4.65m. This position is currently reflected in the period 6 2023/24 budget monitoring report.

4.7.7 **Appendix A** provides details of the Council's external investments at 30 September 2023, analysed between investment type and individual counterparties showing the current Fitch long-term credit rating.

Table 4 below summarises investment activity by type in 2023/24.

Table 4: Investment Portfolio	**Balance on 31.03.23 £m**	**Balance on 30.9.23 £m**	**Avg Rate/Yield (%) as at 30.9.23**

Short term investments (call accounts, deposits):			
Banks with ratings of A- or higher	95.0	259.5	5.3%
Local Authority	41.0	15.0	0.7%
Government Bonds	40.0	13.2	2.7%
Overseas government	9.9	9.9	1.1%
Long Term Investments	9.9	-	-
Money Market Funds	112.2	35.6	5.3%
Total Investments	**308.0**	**333.2**	
Increase/(Decrease) in Investments £m		25.19	

4.7.8 **Approved limits**: Sums invested in one of the Council's Money Market Funds (MMF) breached the individual limit of £30m for each MMF set in the Annual Investment Strategy during the first 2 months of the year.

The reason for the breach was due to dividends being re-invested back into the Fund which resulted in the balance of council monies invested to a peak of £30.25m, a breach of the £30m limit. This was identified and corrected in May 2023.

Officers have assessed the possibility of this happening again in the future and what steps can be taken to avoid it. This has resulted in all MMFs with automated dividend reinvestment or payout options being contacted to advise in which circumstances the fund is required to return or re-invest dividends. Officers have also implemented additional controls to avoid a future breach including the requirement for MMFs to use a generic inbox which is accessed by all treasury staff, rather than named individuals, when corresponding with the Council. This mitigates the risk when there is turnover of treasury staff.

4.8 **Compliance with Prudential Indicators**

4.8.1 This report confirms compliance with the Prudential Indicators for 2023/24 set on 22 March 2023 as part of the Council's Treasury Management Strategy Statement.

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

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

	2022/23 £m	2023/24 £m	2024/25 £m
Upper limit on variable interest rate exposure	300	300	300
Actual	14.0	24.0	

4.8.3 **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%	1%
12 months and within 24 months	0%	25%	3%
24 months and within 5 years	0%	25%	9%
5 years and within 10 years	0%	25%	17%
10 years and within 25 years	0%	50%	7%
25 years and within 40 years	0%	50%	32%
40 years and above	0%	50%	31%

*This table does not include internal borrowing which is a further 24% of the councils underlying borrowing requirement

4.8.4 **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:

	2022/23 £m	2023/24 £m	2024/25 £m
Limit on principal invested beyond year end	100	100	100
Actual	10	10	

4.8.5 **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.

The table below shows the expected debt position during 2023/24.

	2023/24 Original Estimate £m	**Current position**	**2023/24 Revised Estimate £m**
Borrowing	864	868	836.5
Other long-term liabilities*	146.2	152.2	146.2
Total debt (year end position)	**1010.2**	**1020.2**	**982.7**
Operational Boundary for external debt	**1365.1**	**1365.1**	**1365.1**
Authorised limit for external debt	**1395.1**	**1395.1**	**1395.1**

'* Includes PFI and Leases liabilities

4.8.6 **Liability Benchmark:** The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

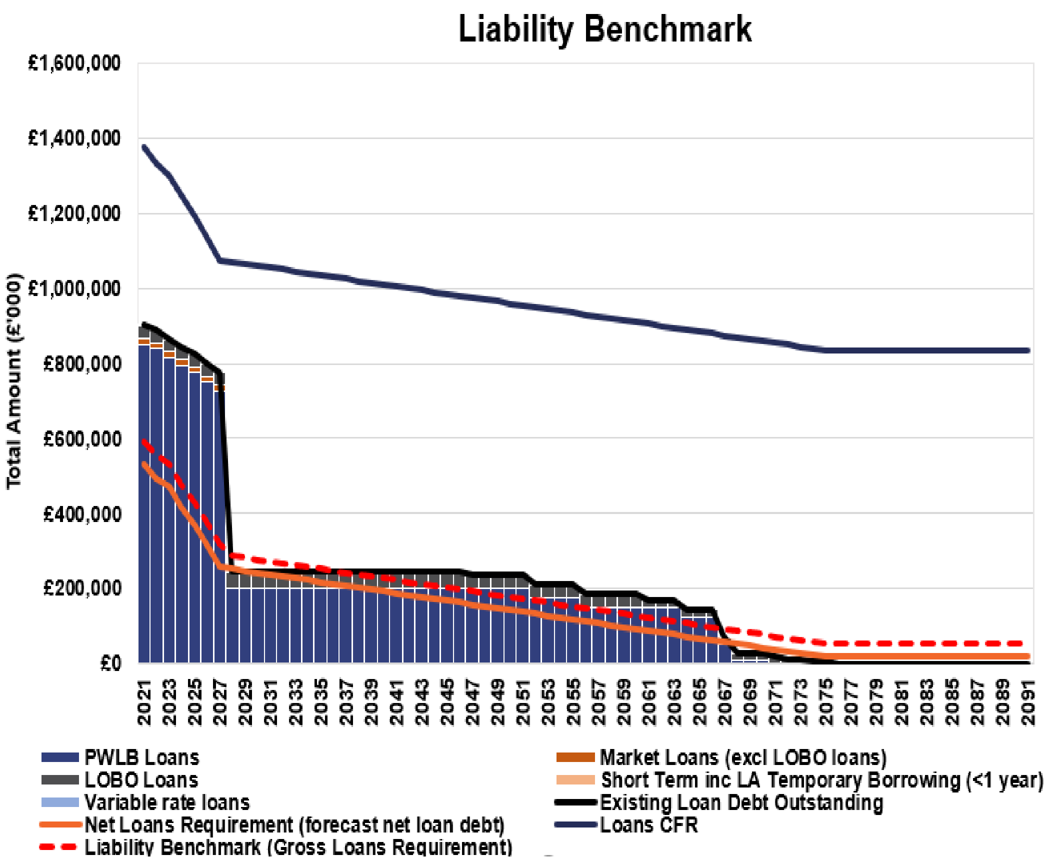
There are four components to the LB: -

1. Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.

2. Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

3. Net loans requirement: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



The gross loans of the council (lower black line) are above the liability benchmark (red dotted line) over the next 4 years which is indicating that the council has substantial cash investments that it could consider using to reduce external borrowing and increase internal borrowing if the terms were favourable.

4.9 Treasury Management Reserve

4.9.1 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 balance on this reserve at 30 September 2023 is **£13.493m**.

Based on the 6 months to 30 September 2022 there are no expected loss impairments expected in 2022/23 in relation to treasury investments.

4.10 **Risk Management**

4.10.1 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.

4.10.2 The treasury management risk register's overall risk rating at 30 September 2023 was 4.23, (Likelihood = unlikely, Impact = minor) and is a lower rating than as at 31 March 2023 but it remains over the targeted risk rating of 2.94 (Likelihood = remote, Impact = minor). The risk rating reflects previous concerns about the payment process, and the changes to PWLB lending arrangements and CIPFA guidance. During the second half of the year the Treasury Management Working Group (TMWG) will continue to meet regularly and consider if reducing the risk score is appropriate. The TMWG of senior Finance Managers with responsibility for Treasury Management (including Section 151 Officer and deputy 151 Officer) meet once a month to manage this risk register.

4.11 **Other Issues**

4.11.1 CIPFA have updated the Treasury Management Code and Prudential Code. The requirement was to apply the principles from the publication date with full adoption expected from 2023/24.

The Treasury Management Code key proposals – update to the Treasury management practices (TMP) TMP10 training requirements; TMP 12 Corporate Governance; and amendments to Maturity Structure of Borrowing indicator. To introduce Investment Management Practices (IMPs) for reporting on investments which are not for treasury management purposes. These will all be updated as part of the 2023/24 TMP practises refresh in the second half of the year.

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 have implications for capital funding and the impact will be reported in the capital strategy. The reporting in the 2023/24 and mid-Year TMSS is compliant with these changes. One new prudential indicator –The Liability Benchmark has been included in this report.

5. **Consideration of Risk**

5.1 Covered throughout the report.

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

6.1 Treasury management payments comprise interest charges and receipts and provision for repayment of debt. A proportion of the City Council's debt relates to capital expenditure on council housing and this is charged to the HRA. The remaining costs are included within the treasury management section of the

General Fund budget. The General Fund Treasury Management budget is £42.8m for 2023/24.

6.2 Value for Money: The Management of borrowing and investments is undertaken in conjunction with our appointed advisors, with the aim of minimising net revenue costs, maintaining an even debt maturity profile and ensuring the security and liquidity of investments.

Finance comments by Glenn Hammons/Patrick Kilgallen 25th October 2023.

7. **Legal colleague comments**

As this is a technical noting report in respect of Treasury Management action and performance there are no significant legal issues to be addressed. However, the reference to the breach of the investment policy at 4.7.8 is noted as is the remedial action taken to correct it and the steps taken to ensure that there can be no recurrence.

Malcolm R. Townroe – Director of Legal and Governance – 16 November 2023

8. **List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)**

8.1 None

9. **Published documents referred to in this report**

9.1 Treasury Management Strategy 2023/24 and Capital Investment Strategy 2023/24 (including the Voluntary Debt Reduction Policy)

9.2 Nottingham City Council Recovery & Improvement Plan

9.3 Money Market and PWLB loan rates

9.4 Treasury Management in the Public Services Code of Practice 2017–CIPFA

9.5 Prudential Code 2017-CIPFA

9.6 Treasury Management in the Public Services Guidance Notes 2018 – CIPFA

9.7 Statutory guidance on local government investments 3rd Edition 2018

9.8 Statutory guidance on Minimum Revenue Provision (MRP) 2018