NORWICH
City Council

Committee Name: Council

Committee Date: 25/01/2022

Report Title: Treasury Management Mid-Year Review Report 2021/22

Portfolio: Councillor Kendrick, cabinet member for resources

Report from: Executive director of corporate and commercial services

Wards: All Wards

OPEN PUBLIC ITEM

Purpose

This report sets out the Council's Treasury Management performance for the first six months of the financial year to 30 September 2021.

It also highlights proposed changes to the Treasury Management Code of Practice and associated guidance currently being consulted on, which are expected to have an impact on future reporting requirements and approaches to aspects of the Council's Treasury Management operations.

Recommendation:

Council is asked to:

1. Note the contents of the report and in particular the treasury management activity undertaken in the first six months of the 2021/22 financial year.
2. Note the impact of proposed changes to the Treasury Management Code.

Policy Framework

The Council has three corporate priorities, which are:

- People living well
- Great neighbourhoods, housing and environment
- Inclusive economy

This report meets the healthy organisation corporate priority.

This report helps to meet approved Treasury Management Strategy policy of the Council.

Report Details

Background

1. CIPFA (the Chartered Institute of Public Finance & Accountancy) defines treasury management as: "The management of the local authority's borrowing, investments and cash flows, including 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. This report primarily reviews the council's treasury management activity during the first six months of the financial year 2021/22 and reports on the prudential indicators as required by CIPFA's Treasury Management Code of Practice.
3. The original Treasury Management Strategy (TMS) and Prudential Indicators were reported to and approved by Council on 23 February 2021 and, as the original decision-making body, subsequent monitoring reports should also be considered by Full Council.
4. This Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code. This requires that the prime objective of treasury management activity is the effective management of risk, and that borrowing activities are undertaken on a prudent, affordable and sustainable basis.
5. CIPFA has recently issued a consultation proposing several changes to the Treasury Management Code and its associated guidance, which in themselves interact closely with a consultation on proposed changes to the Prudential Code for capital finance, governing local authority capital investment and borrowing activities. Both consultations were open until the 16th of November 2021 and the potential implications are covered in the Regulatory Update section of this report.
6. The main thrust of the proposed changes to the prudential code are associated with addressing concerns over the use of borrowing by local authorities for subsequent investment in commercial activities. Changes to the treasury management code strengthen reporting requirements and in particular propose the use of the Liability Benchmark measure in order to inform borrowing decisions.
7. It is anticipated that the final changes to the prudential code for capital finance and the Treasury Management Code of Practice will come into force immediately they are finalised, however they will not apply retrospectively during 2021/22 and it is reported that a 'soft launch' will require that local authorities will have regard to the code and its guidance in 2022/23 with full compliance expected from 2023.
8. In future the proposed changes to the prudential code will require Authorities with commercial investments, which have an expected need to borrow, to review the options for exiting their financial investments for commercial purposes in their annual treasury management or investment strategies.

Investment Strategy

9. The TMSS for 2021/22, which includes the Annual Investment Strategy, was approved by the council on 23 February 2021. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

10. No policy changes have been made to the investment strategy and the Council will therefore, continue to aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity.

11. The Council held £117.160m of investments as at 30 September 2021. Table 1 below shows the movement in investments for the first six months of the year. The main components of the increase between March and September were the receipt of £15m of Towns Fund Grant, additional borrowing of £5m and the repayment of £4m of loans to the Council from NRL; the balance reflects the normal receipt of grants towards the beginning of the year including some additional COVID related grants.

12. The Council continues to consider the broader impact of its investments and a new element of the Treasury Management code will also require consideration of Environmental, Ethical and Governance (ESG) policies in placing future investments. Currently the Council has placed two tranches of £5m in Standard Chartered Bank Sustainable deposit fund; the deposit guarantees that investment is referenced against sustainable assets, both existing and future. The investments are referenced against the United Nations Sustainable Development Goals (SGDs) thus funds are put to work addressing some of the world's biggest long-term threats including, but not limited to, climate change, health, financial inclusion and education.

Table 1

Investments	**Actual**		**Actual**
	31-Mar-21	**Movement**	**30-Sep-21**
	£000	**£000**	**£000**
Short term investments:			
Banks	15,000	10,000	25,000
Building Societies	0	0	0
Local Authorities	15,000	(5,000)	10,000
Cash Equivalents:			
Banks	23,750	8,410	32,160
Non- UK Banks		10,000	10,000
Building Societies		15,000	15,000
Local Authorities	0	0	0
UK Government	0	0	0
Money Market Funds	21,070	3,930	25,000
Total	**74,820**	**42,340**	**117,160**

13. In setting its Treasury Management budgets for 2021/22 the council did not assume any income from investments, reflecting the continuing low and in some cases negative rate environment available for short term investments; so far however, it has proved possible to achieve a return on investments which has resulted in £90,000 of interest being achieved to the end of September.

14. It is anticipated that cash balances will decrease during the second half of the year as Covid-19 business grants being administered by the council will be

paid out and further capital expenditure is incurred. A projection for the remainder of the year suggests that total income for the year of £125,000 may be achievable; interest earned will be apportioned between the General Fund and the HRA.

15. Market rates had fallen since the pandemic across all types of investments and the Debt Management Account Deposit Facility (DMADF) however they are now increasing slightly for longer term investments based on the expectation of interest rate increases in the next financial year. The Council still aims to place surplus cash in investments with the most beneficial return bearing in mind the need to maintain security and liquidity.

16. The Director of Resources (S.151 officer) confirms that all investment transactions undertaken during the first six months of 2021/22 were within the approved limits as laid out in the Annual Investment Strategy.

BALANCE SHEET POSITION

External Borrowing

17. Table 2 below shows that as at 30 September the Council had external borrowing of £224.826m, of which £179.939m relates the Housing Revenue Account (HRA). In the first six months of the year the Council borrowed £5m for a period of 50 years, taking advantage of a drop in interest rates to 1.84%; whilst outside the reporting period a further £10m of borrowing was taken out on 29 October for 50 years at a rate of 1.7%. There is also a repayment of £2.5m debt scheduled for January 2022.

    Table 2 shows the current and forecast borrowing position. This position assumes that there will be no further borrowing in the current year, other than the £10m referenced above taken just after the end of September position, which had resulted in an underspend position against the assumed interest payable budget. Cabinet agreed in the quarter 2 performance report to set aside this underspend in support of the 2022/23 budget position. A scheduled repayment of a loan of £2.5m in January gives the revised estimate position.

Table 2

Long Term Borrowing	Actual 31-Mar-21	Actual 30-Sep-21	TMSS Forecast 31-Mar-22	Revised Estimate 31-Mar-22
	£000	£000	£000	£000
Public Works Loan Board	214,107	219,107	266,904	226,607
Money Market	5,000	5,000	5,000	5,000
3% Stock (Perpetually irredeemable)	499	499	499	499
Other financial intermediaries (Salix)	236	209	183	183
Corporate Bonds and External Mortgages	11	11	11	11
Total	**219,853**	**224,826**	**272,597**	**232,300**

Future Economic forecasts

18. The Monetary Policy Committee (MPC) voted unanimously in September to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn. At its subsequent meeting on 4th November the MPC voted 7-2 to

again leave Bank Rate unchanged at 0.10% with two members voting for an increase to 0.25%.

19. After the Governor and other MPC members had made speeches prior to the November MPC meeting in which they stressed concerns over inflation, (the Bank is now forecasting inflation to reach 5% in April when the next round of capped gas prices will go up), financial markets had confidently built in an expectation that Bank Rate would go up from 0.10% to 0.25% at the November meeting.

20. The MPC did comment, that Bank Rate would have to go up in the short term. It is, therefore, relatively evenly balanced as to whether Bank rate will be increased in December, February or May. Much will depend on how the statistical releases for the labour market after the end of furlough on 30th September 2021 turn out.

21. Information available at the December MPC meeting will be helpful in forming a picture but will not be conclusive, so this could cause a delay until the February meeting. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would, therefore, need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation expected around that time. If the statistics show the labour market coping well during the next six months, then it is likely there will be two increases across these three meetings.

22. The latest forecasts by the Bank showed inflation under-shooting the 3 years ahead 2% target (1.95%), based on market expectations of Bank Rate hitting 1% in 2022. This implies that rates don't need to rise to market expectations of 1.0% by the end of next year.

23. The MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement after the MPC meeting in September yet at its August meeting it had emphasised a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. On balance, once this winter is over and world demand for gas reduces - so that gas prices and electricity prices fall back - and once supply shortages of other goods are addressed, the MPC is forecasting that inflation would return to just under the 2% target.

24. **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -

    1. Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
    2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
    3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

Interest rate forecasts

The Council's treasury advisors, Link Group, have updated their forecast for Bank Rate which now includes five increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%. Table 3 below shows their interest rate forecasts through to March 2025.

Table 3

Link Group Interest Rate View 8.11.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50

25. In summary, given the high level of uncertainty prevailing on several different fronts, these forecasts will be kept under close review.

26. It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

PWLB Rates

27. As the interest forecast table for PWLB rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

28. The Council may look to arrange forward borrowing facilities should the future borrowing risk rise, or predictions of a significant rate rise is expected. This would enable the Council to lock into borrowing facilities at current low rates and draw down the cash over a period of up to 3 years subject to cash flow demands. It should be noted that some of these facilities may carry brokerage and arrangement fees that will be factored into value for money assessments.

Debt Rescheduling

29. No debt rescheduling was undertaken during the first six months of 2021/22. It is not anticipated that the Council will undertake any rescheduling activity during the remainder of the financial year. However, should borrowing rates fall significantly as a result of Brexit, the Council may consider borrowing to finance its unfinanced borrowing need as well as rescheduling some of its existing debt if this proves cost effective.

Prudential Indicators

30. This part of the report is structured to provide an update on:
    - The changes to the Council's capital expenditure plans;
    - How these plans are being financed;
    - The impact of changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
    - Compliance with the limits in place for borrowing.

Capital Expenditure & Financing

31. The 2021/22 capital programme budgets were approved as part of the budget papers by full Council on 23 February 2021. After this there were approved revisions to the capital budgets to include the 2020/21 capital carry forwards and new capital schemes approved during the year. The current capital programme budget is shown in Table 4 along with the mid-year estimate. A detailed breakdown of capital programme schemes can also be found in the Quarter 2 budget monitoring report.

Table 4

	2021/22 Original Budget	2021/22 Revised Budget	2021/22 Forecast Outturn
	£000	**£000**	**£000**
General Fund capital expenditure	20,802	26,195	18,380
General Fund capital loans	0	0	0
HRA	48,839	50,019	37,209
Capital Expenditure	**69,641**	**76,214**	**55,588**
Financed by:			
Capital receipts	21,947	11,201	9,092
Capital grant and contributions	19,621	22,898	15,254
Capital & earmarked reserves	15,464	31,201	23,072
Revenue	11,934	10,073	7,330
Total Resources	**68,967**	**75,373**	**54,747**
Net borrowing need for the year	**674**	**841**	**841**

32. Table 4 shows how the revised capital programme will be financed and shows a small increase in the net borrowing need for the year compared to the figure anticipated when Council approved the Treasury Management Strategy. The reason borrowing need for the year has increased is due to the increase in capital costs associated with the establishment of the council's wholly owned company NCSL as agreed by Cabinet in September 2021.

33. The forecast net lending to the council's wholly owned subsidiary, Norwich Regeneration Limited, has also reduced from the Treasury Management Strategy. During the first 6 months of the year NRL made repayments totalling £4.5m and based on current cash flow projections, a further £4m of repayment

is anticipated before year end. No further loan drawdowns are expected for the company. The consequence of this is that the Council's forecast Capital Financing Requirement (CFR) for 2021/22 shown in Table 5, is lower than initially anticipated.

The Capital Financing Requirement (CFR)

34. Table 5 below shows the Councils CFR, which is the underlying external need to borrow for a capital purpose.

Table 5

	2021/22 Original Estimate	2021/22 Revised Estimate
	£000	**£000**
Opening General Fund CFR	**120,100**	**122,330**
Movement in General Fund CFR	1,200	(9,133)
Closing General Fund CFR	**121,300**	**113,197**
Movement in CFR represented by:		
Borrowing need (Project Place capital investment)	674	841
Loan repayment	(55)	(8,555)
Less MRP and other financing adj.	581	(1,419)
Movement in General Fund CFR	**1,200**	**(9,133)**
Opening HRA Fund CFR	**207,518**	**207,517**
Movement in HRA CFR	0	0
Closing HRA CFR	**207,518**	**207,517**
TOTAL CFR	**328,818**	**320,714**

Prudential Indicators relating to Borrowing Activity

35. Authorised Limit – This represents the legal limit beyond which borrowing is prohibited and needs to be set and revised by Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The limit represents the CFR (assumed fully funded by borrowing) plus a margin to accommodate any unplanned adverse cash flow movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The authorised limit has not been breached although there has been some additional external borrowing this year; Table 2 above indicates that the estimated level of external borrowing at March 2022 is £232.3m in comparison to the authorised limit in Table 7.

Table 7

Prudential Indicator	2021/22
	£000
Authorised Limit for external debt	**358,818**

36. Operational Boundary – This indicator is based on the probable external debt during the course of the year; it is set deliberately lower than the authorised limit. This limit acts as an early warning indicator should borrowing be approaching the Authorised Limit. This limit may be breached on occasion under normal circumstances, but sustained or regular breaches should trigger a review of borrowing levels. The operational boundary has not been breached and despite additional borrowing, current external borrowing is well below the Operational Boundary.

Table 8

Prudential Indicator	2021/22
	£000
Operational boundary for external debt	**328,818**

Borrowing Activity

37. The Authority has continued the prudent approach of utilising internal borrowing to fund its borrowing requirement and reduce external borrowing costs however in the first six months of the year the Council borrowed £5m for a period of 50 years, taking advantage of a drop in interest rates to 1.84%. Although outside the reporting period members will also note that a further £10m was taken in October at 1.7%.

38. Long-term fixed interest rates are currently low but are expected to rise over the five-year treasury management planning period. The Executive Director, Corporate & Commercial Services (S.151 Officer), under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates or opportunities at the time, taking into account the associated risks e.g. counterparty risk, cost of carry and impact on the Medium Term Financial Strategy as well as risk of future interest rate increases.

39. Opportunities for debt restructuring will be continually monitored alongside interest rate forecasts. Action will be taken when the Executive Director, Corporate & Commercial Services (S.151 officer) feels it is most advantageous.

Investment Performance

40. The objectives of the Council's investment strategy are firstly the safeguarding of the repayment of the principal and interest of its investments, and secondly ensuring adequate liquidity. The investment returns being a third objective, consummate to achieving the first two.

41. The Council held £117.160m of financial investments as at 30th September 2021 and the investment profile is shown in Table 1 earlier in this report.

Risk Benchmarking

42. The Investment Strategy for 2021/22 includes the following benchmarks for liquidity and security.

Liquidity

43. The Council has no formal overdraft facility and seeks to maintain liquid short-term deposits of at least £1 million available with a week's notice.

44. Average return on investment at 30 September 2021 was 0.09% against a 7 Day LIBID benchmark average rate of -0.0825% (minus). The weighted time to maturity (WAM) of investments was 42 days compared to 26 days on 30 September 2020.The slight increase in WAM duration reflects the fact that cash has been invested for longer periods whilst still ensuring availability for all cash flow requirements. At 30 September 2021 the Council held £117.160m of cash balances, all of which are invested for periods of less than 364 days. The Executive Director, Corporate & Commercial Services (S.151 officer) can report that liquidity arrangements were adequate during the year to date.

Security

47. The weighted average credit risk of the portfolio at the end of the period was 3.98% (3.26% September 2020). The Council's maximum security risk benchmark for the portfolio at 30 September 2021 was 0.01% which equates to a potential loss of £11,716k on an investment portfolio of £117.160m. This credit risk indicator is lower than the anticipated maximum risk of 0.039% in the Treasury Management Strategy.

48. At 30 September 2021 100% of the investment portfolio was held in low risk specified investments.

49. The Director of Resources (S.151 officer) can report that the investment portfolio was maintained within this overall benchmark during the year to date.

Minimum Revenue Provision Policy

50. The Council is required to approve an MRP Statement in advance of each year. Council approved the 2021/22 on 10 February 2021.

REGULATORY UPDATE

Proposed changes to IFRS 16 Leases and the likely impact for the Local Authority Accounting Code.

51. Although the standard was issued in January 2012, authorities are expected to comply from 1 April 2022. The current classification of leases into operating and finance will no longer apply with the exceptions of leases of 12 months or less and leases of low value. This change will therefore impact the Council's CFR but have no borrowing impact. A lot will depend on the evaluation of contracts and their implications. The potential impacts of the new standard will be covered in the 2022/23 Treasury Management Strategy.

Consultation on the Treasury Management and Prudential Code.

52. On the 21 of September 2021 CIPFA released the second stage of consultation covering both the Treasury Management and Prudential Codes of practice; setting out proposed wording changes and associated explanatory information. There are clear linkages between the proposed changes to the Prudential Code and the Treasury Management code of practice, particularly in relation to commercial investments.

53. The focus of the Prudential Code proposals is to address the risks associated with commercial investments, including property acquisitions, known as debt for yield transactions, following comment from the Public Accounts Committee and National Audit Office reports. CIPFA have set out clearly their views on the appropriateness, or otherwise, of borrowing to enable commercial

investments and have re-affirmed this position in a separate publication issued alongside the consultation documents entitled “Why authorities should not borrow to invest”. This position is summarised below.

54. Firstly, commercial investments are generally in higher risk asset classes. This is likely to mean uncertain and volatile asset prices or income. Commercial property is also relatively illiquid compared with most financial investments and is likely to take several months at least to realise. If the investment goes wrong, the cost falls on public services or the local taxpayer.

55. Secondly, if authorities borrow to invest primarily for financial return, this constitutes 100% debt leverage. The intention is to earn a margin between borrowing costs and investment income, in the expectation that the income will be higher than the costs. If the investment underperforms, it may result in revenue account losses to the authority and/ or a capital loss on redemption. Leveraged investment considerably magnifies these risks, because it also brings borrowing risks such as interest rate risk and refinancing risk.

56. Commercial investments (including commercial property) are not part of cashflow management or prudent treasury risk management, and they do not directly help deliver service outcomes. It is CIPFA’s view that the priority for treasury management is to protect capital rather than to maximise return. The magnified risks of leveraged investments, and the fact that they put public money at unnecessary risk, mean that borrowing in order to invest for the primary purpose of earning a return is not in CIPFA’s view a prudent use of public funds.

57. Commercial investments, referred to as debt for yield, are however, not the same as investments for regeneration purposes which are considered to be an appropriate activity for council’s to engage in to improve their area including conditions for economic growth.

The Prudential Code Changes

58. Norwich City Council currently has £103m of Investment Property on its balance sheet (31 March 2021) and, as it is in a net borrowing position, is directly impacted by the proposed code changes.

59. Despite CIPFA’s stated position, the Code’s statement that authorities ‘must not borrow to invest for the primary purpose of financial return’ is not intended to require the forced sale of existing commercial investments, whether commercial properties or financial investments. Selling these investments and using the proceeds to net down debt does, however, reduce treasury risks and is therefore an option which should be kept under review, especially if new long-term borrowing is being considered.

60. The Code requires that authorities which are net borrowers should review options for exiting their financial investments for commercial purposes in their annual treasury management or investment strategies. The options should include use of the sale proceeds to repay debt or reduce new borrowing requirements. They should not take new borrowing if financial investments for commercial purposes can reasonably be realised, based on a financial appraisal which takes account of financial implications and risk reduction benefits.

61. This enables authorities to weigh the risk reduction benefits of sale against the loss of income and the current sale value of the investments; the code

guidance also makes it clear that where an authority has existing commercial properties, the Code's requirement that an authority must not borrow to invest for the primary purpose of financial return, is not intended to prevent authorities from appropriate capital repair, renewal or updating of existing properties. The Council is impacted by this requirement which will, following an assessment of the detailed requirements following the finalisation of the code changes, be considered and included in the 2022/23 Treasury Management Strategy.

The Treasury Management Code Change

62. The second consultation, relating to changes to the treasury management code including prudential indicators, again reflects the detailed wording changes necessary to implement the principles set out in earlier consultation, alongside a number of other minor wording changes. In the main they support the changes to the prudential code i.e., that debt for yield transactions are to be avoided.

63. The main additional measure introduced is the use of the liability benchmark, maturity indicators a revised indicator for long term treasury management investments and an interest rate exposure indicator.

Liability benchmark – use and interpretation

64. The liability benchmark is a projection of the amount of loan debt outstanding which the authority needs each year into the future, to fund its existing debt liabilities, planned prudential borrowing and other cashflows. This is shown by the gap between the authority's existing loans which are still outstanding at a given future date, and the authority's future need for borrowing

65. If the existing loans portfolio is below the forecast gross loan debt, the authority will need to borrow to meet the shortfall. If the reverse is true, the authority will (based on its current plans) have more debt than it needs, and the excess will have to be invested. When displayed graphically it shows an authority how much it needs to borrow, when, and to what maturities to match its planned borrowing needs.

66. It is considered that the liability benchmark is not just an annual exercise to produce the prudential indicators; it should be used as a tool to enable authorities to identify their new borrowing requirement and the maturities at which new borrowing should be taken to match their future debt requirement and to minimise their treasury risks. It should be a key consideration each time an authority considers long term borrowing, in terms of how much and to what maturity.

67. Refinancing risk, interest rate risk and credit risk can be minimised or reduced by ensuring that the existing loans portfolio shows a profile close to the liability benchmark. In particular, the liability benchmark identifies the maturities needed for new borrowing, in order to match future liabilities.

68. The liability benchmark makes no assumption about the level of future prudential borrowing in as yet unknown capital budgets. This avoids making assumptions which may prove to be wrong; but the main reason is that it enables the benchmark to be compared like-for-like with the existing loans portfolio to identify the future borrowing and investment needs arising from the authority's existing plans.

69. Because the liability benchmark is a long-term forecast of the authority's gross loan debt based on its current capital programme and other forecast cashflow movements, it may therefore be the same figure as the Operational Boundary for loans in the Prudential Code, which is also an estimate of the most likely scenario consistent with the authority's current plans. However, if the authority has borrowed in advance of need (or for whatever reason has more loans outstanding than it currently needs), then its actual loans outstanding and its Operational Boundary will be higher than its liability benchmark. The difference will represent the excess borrowing, resulting in a level of treasury investments in excess of a reasonable allowance for liquidity. In this scenario, the treasury management strategy should explain the reasons for the excess debt and how long that position is expected to last.

70. Officers are currently working with the Council's Treasury advisors to produce an exemplification of Norwich City Council's Liability benchmark based on the balance sheet position at 31 March 2021 and the Capital programme approved in February 2021. It is expected that the Council's Liability Benchmark will be included for the first time in the Council's Prudential indicators for 2022/23.

Other Treasury Management Code Changes

71. CIPFA has also set out several other areas which should be considered and reflected appropriately in authorities Treasury Management strategies and prudential indicators. These are set out in paragraphs 70 to 79.

Maturity Indicator

72. The code revision sets out the need for a maturity indicator which is closely related to the liability benchmark; as the liability benchmark provides the methodology for producing maturity ranges appropriate to the authority's own committed borrowing profile and provides a projection of future debt outstanding around which to set the upper and lower limits for each maturity range.

Long Term Treasury Management Investments

73. The scope of this indicator has been clarified to relate explicitly to the authority's investments for treasury management purposes only. Investments taken or held for service purposes or commercial purposes should not be included in this indicator.

74. Authorities must not borrow more than or in advance of their needs purely to profit from the investment of the extra sums borrowed Organisations must not borrow earlier than required to meet cashflow needs unless there is a clear business case for doing so and must only do so for the current capital programme, to finance future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the organisation.

Interest Rate Exposure Indicator

75. The Code requires each authority to set out its strategy for managing interest rate risks with such indicators as are appropriate. The indicators used should cover at least the forthcoming year and the following two years, in line with other prudential indicators. Authorities may find it helpful to use the measure required for the Financial Statements, which sets out the cost of a 1% increase in interest rates.

76. The liability benchmark chart can readily be used to portray interest rate risk, by splitting existing loans outstanding into its interest risk characteristics, e.g. fixed rate loans, variable rate loans, etc.

Credit risk

77. Authorities are asked to consider credit risk indicators appropriate to themselves. One simple measure which some authorities use is an overall credit score, i.e., the weighted average credit rating of the authority's treasury management investments.

Price risk

78. Authorities are asked to ensure that their reporting of investments which are materially exposed to movements in fair value includes an appropriate measure of price risk and reporting on movements in fair value. Authorities with commercial property portfolios, such as Norwich CC should establish a view of fair value at each year end. This is required in any case for the investment risk indicators and reporting under the Statutory Investment Guidance

Treasury Management Practice (TMP) changes

79. Each authority is required to adopt a number of Treasury Management Practices and the code changes have proposed changes to be made to some of these; some are minor wording changes to clarify or assist in interpretation however, there is now a requirement in TMP1 on counterparty credit risk for an authorities counterparty policy to set out the organisation's policy and practices relating to environmental, social and governance (ESG) investment considerations in relation to those counterparties.

80. The TMP requires an authority to assert that "its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited or investments made. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements. This will set out the organisation's policy and practices relating to environmental, social and governance (ESG) investment considerations."

Training, Knowledge and Skills

81. Revisions to TMP 10 on the training skills and knowledge now requires a knowledge and skills schedule to be maintained for all those involved in Treasury Management functions.

Consultation

82. The report is the outturn position statement to ensure that council are kept informed of treasury activity.

Implications

Financial and Resources

83. Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan 2019-22 and Budget. This report is for information only and there are no proposals in this report that would reduce or increase resources.

Legal

84. The Council must have regard to the provisions of the Treasury Management code of practice when undertaking and reporting on its treasury activities. The requirement for Council to approve its Treasury Management Strategy and to receive reports, on its treasury management performance, are requirements of the Code of Practice.

85. The mid-year report must set out performance against the approved Prudential Indicators and any breaches of them.

Statutory Considerations

Consideration	Details of any implications and proposed measures to address:
Equality and Diversity	None
Health, Social and Economic Impact	None
Crime and Disorder	None
Children and Adults Safeguarding	None
Environmental Impact	Sustainable investment products are an area of growth in the market. These options will be considered where the investments are in line with approved Treasury Management Strategy. Security, liquidity and yield remain the cornerstones of the Treasury Management Strategy, and it is vital that all investments continue to ensure the security of council funds as a priority and remain compatible with the risk appetite of the council and its cash flow requirements.

Risk Management

86. Managing risk is a major part of undertaking the treasury management activity. All the indicators and limits put in place to reduce the level of risk have been adhered to thus reducing the risks to an acceptable level as stated in the Treasury Management Strategy.

Risk	Consequence	Controls Required
Future interest rate changes can offer both opportunity and risk.	Future interest rate changes need to be assessed against the cost of borrowing.	To mitigate the risk, we will continue to work closely with the treasury management advisors to review interest rate forecasts to assess when we would look to borrow.

Other Options Considered

87. No other options to be considered. The report is to inform council of the treasury activity for the period 1 April 2021 to 30 September 2021.

Reasons for the decision/recommendation

88. To ensure Cabinet and Council are kept informed of treasury activity in line with the Financial Regulations.

Background papers: None

Appendices: None

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