NORWICH
City Council

Treasury Management Committee

Date: Tuesday, 04 July 2023
Time: 15:30
Venue: Mancroft room, City Hall, St Peters Street, Norwich, NR2 1NH

There will be an informal training session for members at 14:30 in Room 201 (Board Room). The committee meeting will follow at 15:30 in the Mancroft room.

Committee members:

Councillors:
Kendrick
Stonard
Jones
Ackroyd
Price

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Information for members of the public

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This meeting is held in person at City Hall. As an advisory committee to the Cabinet, it is not recorded.

IN TRAN
communication for all

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Agenda

EXEMPT ITEMS:

(During consideration of these items the meeting is not likely to be open to the press and the public.)

To consider whether the press and public should be excluded from the meeting during consideration of an agenda item on the grounds that it involves the likely disclosure of exempt information as specified in Part 1 of Schedule 12 A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act.

In each case, members are asked to decide whether, in all circumstances, the public interest in maintaining the exemption (and discussing the matter in private) outweighs the public interest in disclosing the information.

Page nos

***6 Case study of London Borough of Croydon Briefing Paper (para 3)**

- This report is not for publication because it would disclose information relating to the financial or business affairs of any particular person (including the authority holding that information) as in para 3 of Schedule 12A to the Local Government Act 1972.

Date of publication**: Monday, 26 June 2023**

NORWICH
City Council

Item 3

MINUTES

Treasury Management Committee

13:30 to 14:20 **17 January 2023**

Present:	Councillors Kendrick (in the chair), Driver (substitute for Councillor Waters), Price and Wright
Apologies:	Councillors Waters (other council business) and Stutely
In attendance:	Neville Murton, Interim Head of Finance, Audit and Risk Robert Mayes, Corporate Finance Business Partner Caroline Knott, Senior Technical Accountant

1. Declarations of interest

There were none.

2. Minutes

RESOLVED to approve the minutes of the meeting held on 14 November 2022.

3. 2023-24 Draft Treasury Management Strategy

The Interim Head of Finance, Audit and Risk and the Corporate Business Partner presented the report and answered member's questions. Cabinet would be considering the draft Treasury Management Strategy as part of the budget report at its meeting on 4 February 2023 and any comments from this committee on the strategy would be reported to that meeting.

Discussion ensued on whether the committee could provide assurance, when in a member's view it did not have the tools or ability to challenge officers' calculations that set the Prudential and Treasury Management Indicators such as the operational boundary for treasury management in the strategy. The officers clarified the process that was undertaken. The Capital Programme changed each year. The methodology used by the Corporate Finance Business Partner and Senior Technical Accountant complied with best practice and CIPFA guidance, with support from the consultants (Link Group). Their work was then reviewed by the Interim Head of Finance, Audit and Risk, who was available to talk to members about individual elements. A member commented that members took on trust the experience of the officers and that members' role was to scrutinise the end product rather than the officers' "working out". It was also noted that the strategy was a corporate strategy, subject to approval by Full Council.

During the presentation, the Interim Head of Finance, Audit and Risk referred members to Table 5.9 and assured members that the counterparties for investment purposes had credit ratings of A minus to AAA, and it would be highly unusual for there to be an issue with any of them. The duration of loans and amounts varied for each counterparty (financial instrument) and would be set out in the Treasury Management Counterparty List to spread the risk. It was proposed to increase specified investments with AAA rated Money Market Funds (MMF) from £25m to £35m for a maximum duration of 12 months and to increase the MMFs from three to four. This would spread the risk to the council further.

Discussion ensued in which a member asked why the council had surplus cash and did not put it into reserves. The Interim Head of Finance, Audit and Risk said that the council had additional cash by virtue of holding reserves and from grants from central government. If the council needed cash liquidity, it would invest surplus cash for shorter durations. Members noted that the council was in a stable position but that a lot of councils were not so fortunate.

A member commented that the Scrutiny Committee would be considering green financing at its meeting on 19 January 2023 and asked how any recommendations from that committee would be fed into Cabinet and the Treasury Management Strategy. The Interim Head of Finance, Audit and Risk said that green finance tended to finance debt. The council had about £3m debt to finance in the short-term, and whilst this was not a lot of debt, the council had an opportunity to consider green finance and invest in a MMF which was sustainable. Members noted that the Scrutiny Committee would also be considering the budget proposals at its meeting on 2 February 2023 and would have an opportunity to put in recommendations to Cabinet on 8 February and Budget Council.

The Corporate Finance Business Partner concluded his presentation of the report and pointed out that the TMP10 related to member and officer training, which would be considered under the next agenda item.

The Interim Head of Finance, Audit and Risk referred to Table 5.2, Capital Prudential Indicators, that sets out the Capital Financing Requirement (CFR) for each year, and assured members that he considered that the calculations for the Minimum Revenue Provision (MRP) for next year were correct.

During discussion on borrowing, the Interim Head of Finance, Audit and Risk, referred to Table 5.4a Estimated Forward Projections of Borrowing and said that the final tranche of a long-term debt of £50m was due to be repaid this financial year. Table 5.4b Estimated Forward Projections for Borrowing set out future projections for borrowing. The council would not be taking forward any new long-term borrowing during 2022/2023, and would use cash supporting the council's reserves, balances and cash flow rather than taking out external borrowing when interest rates were high. The Corporate Finance Business Partner added that the council would continue this temporary approach for as long as possible. He referred to Table 5.7 Link Group Interest Rate View which showed when interest rates were likely to fall.

The Interim Head of Finance, Audit and Risk referred to Table 5.5 The Council's Current Investment and Borrowing Position and said that the council's total cash investments were £186m by the end of December 2022. There was a tension about where the council should put investments, including paradoxically loaning it back to the government, MMFs or to other local authorities. The council would only invest in products that were A credit rated and counterparties on its list to reduce this risk.

A member suggested that it was ethical to pay off its £210m debt rather than invest £186m. The Interim Head of Finance, Audit and Risk said that some of the loans over a 25 and 50 year term had a redemption penalty, to compensate government for its expected return. Loan arrangements would be constantly reviewed as there was a “sweet spot” when interest rates increased and a corresponding reduction in the redemption penalty. The Corporate Finance Business Partner confirmed that in such cases the early redemption of the loan would be brought before members for sign off.

In reply to a member’s question, the Interim Head of Finance, Audit and Risk said that the increase in interest rates, with a further three-quarter percentage increase forecast, was good for the council’s investment. The Corporate Finance Business Partner said that the council’s debt was at a fixed rate. Investment was at a variable rate and, therefore, receiving, a better return.

The chair commented that the average wage increases were over 6 per cent in the private sector. He considered that interest rates were too high and needed to be reduced.

A member referred to the discussion at the last meeting regarding investment in ESG (environmental, social and governance) investments and asked what assessment was available for this. The Interim Head of Finance, Audit and Risk said that there was a growing demand for ESG products but there was a dearth of A rated products at the moment, and so as not to increase the risk to the council, it was necessary to wait for the market to create green or ethical products. In reply to a further question from the member, the Corporate Finance Business Partner said that the market did not assess products on ESG ratings alone. However, a Counterparty’s credit rating would be affected by the type of investments it invested in for example, fossil fuels. It was not as transparent as would be preferred but was the case until the market caught up.

Councillor Price requested a recorded vote and seconded by the chair, and on being put to the vote was agreed.

RESOLVED, having noted the report, with 3 members voting in favour (Councillors Kendrick, Driver and Wright) and 1 member abstaining from voting (Councillor Price), to recommend that Cabinet and Council approve the Treasury Management Strategy for the year to 31 March 2024.

4. Draft Effective Scrutiny of Treasury Management Self-Assessment

The Corporate Finance Business Partner introduced the report and referred to the treasury management process, TM10 Training qualifications and the CIPFA Code which require that members and officers responsible for Treasury Management receive adequate training in this area. Officers had conducted some research about what was available and completed the draft self-assessment based on the first meeting of the committee (14 November 2022).

The Corporate Finance Business Partner confirmed that he and the Senior Technical Accountant attended the annual CIPFA Treasury Management Conference for their professional development. There were courses available for members and officers, some of which were free or available as Webinars.

During discussion, a member said that he considered that the responses to the self-assessment questionnaire made by officers was a fair one. Members agreed that training was needed. The Internal Head of Finance, Audit and Risk said that details of training courses would be circulated and that gaps in training or specific requests, such as assessment of green credentials, could be provided by officers or consultants from the Link Group.

RESOLVED to:

(1) approve the Effective Scrutiny self-assessment questionnaire;

(2) ask the Interim Head of Finance, Audit and Risk to provide details of Treasury Management Training opportunities, to be circulated by the committee officer.

CHAIR

NORWICH City Council

Item 4

Committee Name: Treasury Management Committee

Committee Date: 04/07/2023

Report Title: Treasury Management Review and Outturn 2022/23

Portfolio: Councillor Kendrick, resources

Report from: Interim Chief Finance Officer (S.151)

Wards: **All Wards**

OPEN PUBLIC ITEM

Purpose

This report sets out the Treasury Management Review and Outturn for the year to 31 March 2023.

Recommendation:

That the Treasury Management Committee notes the report detailing the treasury activity for the year to 31 March 2023 and recommends it for approval by Cabinet and Council.

Policy Framework

The Council has five corporate priorities, which are:

- People live independently and well in a diverse and safe city.
- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.
- The city has an inclusive economy in which residents have equal opportunity to flourish.
- Norwich City Council is in good shape to serve the city.

This report meets the Norwich City Council is in good shape to serve the city corporate priority.

This report meets the Treasury management strategy policy adopted by the Council.

Report Details

Background

1. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual review of its treasury management activities and the final prudential and treasury indicators for each financial year. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2. This report details the results of the council's treasury management activities for the financial year 2022/23. It compares this activity to the Treasury Management Strategy (TMS) for 2022/23, approved by Full Council on 22 February 2022. It will also detail any issues that have arisen in treasury management during this period.

Introduction

3. Treasury management relates to the policies, strategies and processes associated with managing the cash and debt of the Council through appropriate borrowing and lending activity. It includes the effective control of the risks associated with the lending and borrowing activity and the pursuit of optimum performance consistent with the risks.

4. For the 2022/23 financial year the reporting requirements were:
    - an annual Treasury Management Strategy in advance of the year (Council 22 February 2022).
    - a mid-year Treasury Management Review report (Council 31 January 2022).
    - an annual review following the end of the year describing the activity compared to the strategy (this report).

5. The regulatory environment places responsibility on members to review and scrutinise treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the council's policies which have previously been approved by members. This report summarises the following:

    - Capital activity during the year (paragraphs 6 - 10)
    - The impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement) (paragraphs 11 - 17)
    - The 2022/23 performance against the approved prudential and treasury indicators (paragraphs 18 - 23)
    - The overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on its investment balances (paragraphs 24 - 29)

- The council's borrowing strategy and detailed debt activity (paragraphs 30-40)
- The council's investment strategy and detailed investment activity (paragraphs 41 - 52)

The Council's Capital Expenditure and Financing 2022/23

6. The 2022/23 capital programme budgets were approved as part of the budget papers approved by full Council on 22nd February 2022. Subsequent to this there were approved revisions to the 2022/23 capital budgets to include the 2021/22 capital carry forwards and new capital schemes approved during the year. The final capital programme budget for 2022/23 is shown in **Table 1** below.

7. Actual capital spending was under budget for the year by £24.133m. The actual level of resources needed to finance the expenditure was also less than that originally estimated. Capital expenditure forms one of the required prudential indicators. **Table 1** shows the estimates and then the actual capital expenditure for 2022/23 and how this was financed in the year:

Table 1: Capital Programme Financing

	2022/23 Original Budget	**2022/23 Final Budget**	**2022/23 Actual Outturn**	**Variance from Final Budget**
Capital Expenditure	**£m**	**£m**	**£m**	**£m**
General Fund capital expenditure	23.347	22.460	10.161	(12.299)
General Fund capital loans	6.000	1.000	0	(1.000)
HRA capital expenditure	38.860	39.848	29.014	(10.834)
Total Expenditure	**68.208**	**63.308**	**39.175**	**(24.133)**
Financed by				
Capital receipts	16.212	11.790	7.063	(4.727)
Capital grants/contributions	20.109	19.295	10.213	(9.082)
Capital & earmarked reserves	19.544	24.733	14.405	(10.328)
Revenue	6.342	6.490	7.495	1.004
Total Financing	**62.208**	**62.308**	**39.175**	**(23.133)**
Borrowing need for the year	**6.000**	**1.000**	**0**	**(1.000)**

8. During 2022/23 Norwich Regeneration Ltd (NRL) was renamed Lion Homes (Norwich) Ltd (LHL). LHL is a private limited company wholly owned by Norwich City Council. In order to finance its housing development, LHL borrows money at commercial interest rates from the Council. During 2022/23 LHL did not repay any of its loans and no new loans were made. Therefore, as at 31 March 2023 the company had a loan outstanding with the Council of £6.150m (2021/22 £6.150m).

9. Norwich City Services Ltd (NCSL) is a private limited company wholly owned by Norwich City Council. To finance the set-up of the company including capital works on its depot building, the council has provided NCSL with both loan and

equity financing. Equity investment was made into the company of £0.370m. A 20-year capital loan of £1.140m was also advanced to the company as well as a working capital loan of £0.500m. In 2021-22 the Council loaned a further £0.180m to NCSL. No new loans were taken by NCSL in 2022/23. Repayments of £40,000 were made in relation to the loans during 2022/23 (2021/22 £40,000), with the balance of loans at 31 March 2023 totaling £1,780,000 (2021/22 £1,820,000). The council receives income relating to loan interest and services provided by the council to the company as part of a service level agreement. The impact of these capital loan movements on the capital financing requirement is shown in **Table 2**.

10. Capital expenditure may either be:

    - Financed immediately through the application of capital or revenue resources (e.g. capital receipts, capital grants, revenue contributions etc.), which does not impact on the Council's borrowing need; or

    - Financed by either external or internal borrowing, if there is insufficient financing available, or a decision is taken not to immediately apply resources.

Council's overall borrowing need

11. The council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The CFR increases as the Council incurs capital spending and then if it does not apply resources immediately to finance the capital spend, (i.e. capital receipts, capital grants, capital reserves or revenue), a borrowing need arises. The 2022/23 CFR year-end balance is the cumulative total of the 2022/23 unfinanced capital expenditure and prior years' unfinanced capital expenditure.

12. Treasury management includes addressing the funding requirements for this borrowing need; it also includes maintaining a position to ensure sufficient cash is available to meet the capital expenditure as they occur. This may be sourced through borrowing from external bodies, e.g. the Government through the Public Works Loan Board (PWLB) or the money markets, or utilising temporary cash resources within the Council (known as internal borrowing).

13. The Council's (non-HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. This requirement is met by making an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR).

14. The total CFR can also be reduced by either:

    - the application of additional capital financing resources (such as unapplied capital receipts)
    - charging more than the statutory MRP each year through a Voluntary Revenue Provision (VRP).

15. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External borrowing can be taken or repaid at any time, but this does not change the CFR.

16. The Council's CFR for the year is shown below and is a key prudential indicator. It includes leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

Table 2: Capital Financing Requirement

	2022/23 Original Estimate	2022/23 Revised Estimate	2022/23 Outturn (unaudited)
	£000	£000	£000
Opening General Fund CFR	**114,306**	**113,003**	**113,535**
Prior years adjustment			
Movement in General Fund CFR	5,769	2,065	(891)
Closing General Fund CFR	**120,074**	**113,197**	**112,112**
Movement in CFR represented by:			
Borrowing need (capital programme)	6,000	1,000	0
Loan repayment	(15)	(15)	0
Appropriations	(657)	0	0
Less MRP and other financing adj.	441	1,080	(891)
Movement in General Fund CFR	**5,769**	**2,065**	**(891)**
Opening HRA Fund CFR	**207,517**	**208,533**	**208,532**
Movement in HRA CFR	657	0	0
Closing HRA CFR	**207,174**	**207,533**	**208,532**
TOTAL CFR	**328,248**	**323,601**	**320,644**

17. Borrowing activity is constrained by prudential indicators for borrowing and the CFR, and by the authorised limit.

The prudential and treasury indicators

18. **Gross borrowing and the CFR** - to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this indicator.

Table 3: Gross Borrowing

	2022/23 Original Estimate	2022/23 Revised Estimate	2022/23 Actual
	£m	£m	£m
Gross borrowing	210.648	210,648	210.648
CFR	328.248	323.601	320.644
Over Borrowed/(Under Borrowed)	**(117.600)**	**(112.953)**	**(109.996)**

19. **The authorised limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. **Table 4** below demonstrates that during 2022/23 the Council has maintained gross borrowing within its authorised limit.

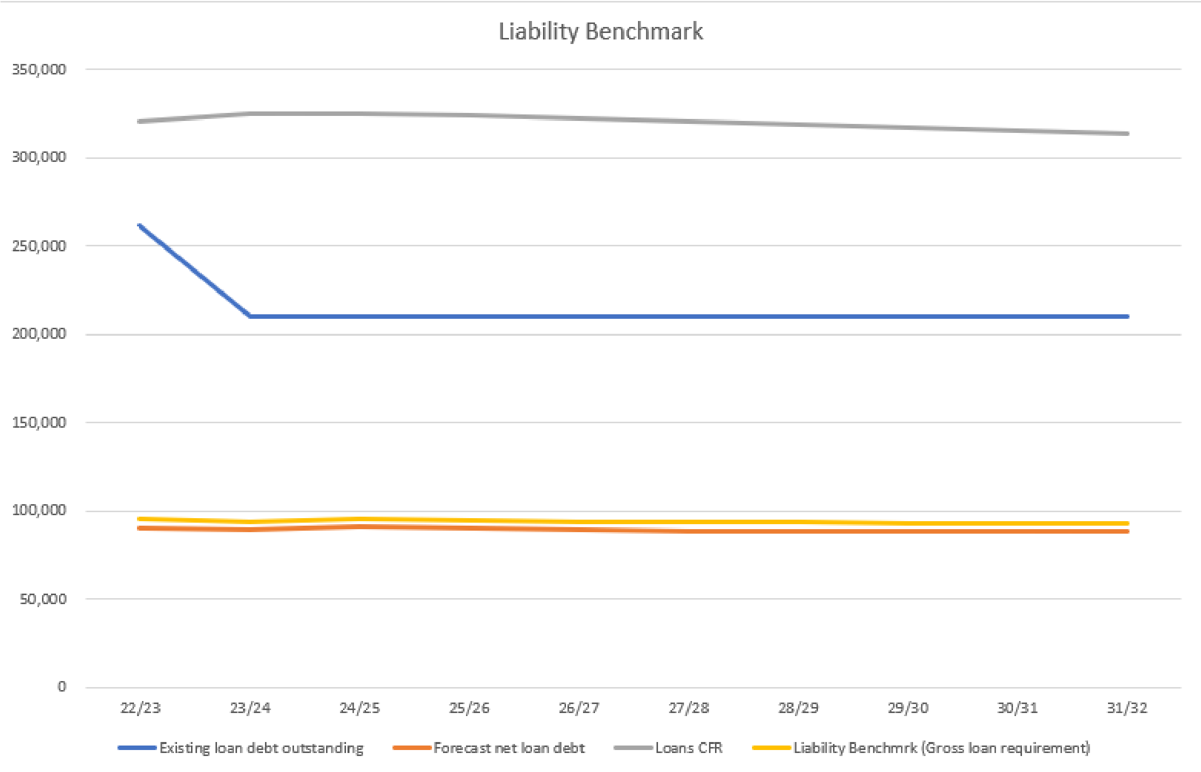
20. **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. **Table 4** below demonstrates that during 2022/23 the Council has maintained gross borrowing within its operational boundary.

Table 4: Authorised Limit & Operational Boundary

	2022/23 Original Estimate (Included in 21-22 TMS)	2022/23 Revised Estimate (Mid-Year Review)	2022/23 Actual (Unaudited)
	£m	£m	£m
Authorised Limit for external debt			
Borrowing	368.351	357.689	350.085
Other long-term liabilities	0.559	0.559	0.559
Total Agreed Authorised Limit	**368.910**	**358.248**	**350.644**
Operational boundary for external debt			
Borrowing	328.351	327.689	320.085
Other long-term liabilities	0.559	0.559	0.559
Total Agreed Operational Boundary	**338.910**	**328.248**	**320.644**
External debt (including other long-term liabilities e.g. finance leases)			**210.648**

21. **Liability Benchmark**

Following the release of the CIPFA Treasury Management in the Public Services Guidance Notes, CIPFA introduced the liability benchmark as a new Prudential Indicator for 2023/24. The guidance states that “the liability benchmark is a projection of the amount of loan debt outstanding that the authority needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows.” The City Council included the new prudential indicator in its 2023/24 treasury management strategy and will provide updates as part of its quarterly reporting.



The liability benchmark is presented as a chart of four balances which are:

■ Existing loan debt outstanding: the authority's existing loans which are still outstanding in future years;

■ Loans CFR: 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 taking account of approved prudential borrowing;

■ Net loans requirement: the authority's gross loan debt, less treasury management investments, at the last financial year end, projected into the future based on its approved prudential borrowing, planned MRP and any other forecast major cash flows and;

■ Liability benchmark (or Gross Loans Requirement) = Net loans requirement + short term liquidity allowance.

Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position which will result in excess cash requiring investment.

The graph above is in line with the Approved MTFS which also includes the Treasury Managements Strategy.

Actual financing costs as a proportion of net revenue stream

22. The authority is required to report on the ratio represented by its net financing costs to its net revenue stream. For the general fund net revenue is

represented by the amount that is funded by government grants and council tax payers, while for the HRA it is the rental income paid by tenants. This is intended to be a measure of affordability, indicating how much of the authority's revenue is taken up in financing its debt.

23. Table 5 shows that the general fund outturn is lower than the estimate mainly due to higher than budgeted investment income. The HRA affordability ratio is higher than estimated mainly due to the inclusion of capital costs which have been written back to revenue where the essential adaptations and enhancements to properties carried out did not add value to the asset, offset by higher than budgeted investment income.

24. **Table 5: Affordability Ratio**

Affordability of financing costs	**2022/23 Estimate**	**2022/23 Actual**
General fund - financing costs as a percentage of net revenue	13.91%	5.58%
HRA - financing costs as a percentage of rental income	39.13%	44.99%

Treasury Position as at 31 March 2023

25. The Council's debt and investment position is managed by the in-house treasury management team. All activities are undertaken primarily to ensure security for investments, to ensure that there is adequate liquidity for revenue and capital activities, and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity.

26. During 2022/23 the Council has implemented a pooling arrangement for all its bank accounts with Barclays. Interest is now earned on all remaining balances without the need to move these to an interest-bearing account. The Pooling arrangement improves the overall interest income return as cash held in the Barclays accounts to meet cash liquidity profiling still earns interest.

27. The council's actual borrowing position at 31 March 2023 and activity during 2022/23 is detailed in the table below. Borrowing has remained within the authorised limit of £358.248m throughout the year.

Table 6: Borrowing activity 2022/23 (excluding finance leases)

	PWLB loans £m	**Market loans £m**	**Total £m**	**Average interest rate %**
Opening balance (1 April 2022)	**256.607**	**5.000**	**261.607**	
New borrowing taken	-	-	-	
Borrowing matured/repaid	(50.959)	-	(50.959)	
Closing balance (31 March 2023)	**205.648**	**5.000**	**210.648**	**3.47**
Authorised limit for external debt			358.248	

28. The maturity structure of the debt portfolio was as follows:

Table 7: Maturity Structure of Fixed Rate Borrowing

	%	31-Mar-22 £m
Under 12 months	1.90	4.00
Between 12 months and 2 years	1.19	2.50
Between 2 years and 5 years	53.74	113.20
Between 5 years and 10 years	6.09	12.83
Over 10 years	37.08	78.12
Perpetually irredeemable stock		0.50
Total borrowing		**211.15**

29. Table 8 shows the movement in investments in the year. The movement is a combination of several factors including: an increase in the Council's internal borrowing (see table 3); repayment of loan agreements; an increase in short term creditors and a reduction in long term debtors. These can be seen on the face of the council's Balance Sheet, shown in the draft Statement of Accounts.

Table 8: Investment Movements

	31 March 2022 £m	Net movement £m	31 March 2023 £m
Short term			
Banks	40.000	(15.000)	25.000
Building Societies	25.000	(25.000)	0.000
Local Authorities	45.000	(25.000)	20.000
Cash Equivalents			
Banks	16.525	(1.925)	14.600
Non-UK Banks	12.000	(7.000)	5.000
Building Societies	0.000	10.000	10.000
Local Authorities	0.000	45.000	45.000
Money Market Funds	24.000	(12.000)	12.000
UK Government	2.000	(2.000)	0.000
Total Internally Managed Funds	**164.525**	**(32.925)**	**131.600**

30. The maturity structure of the investment portfolio was as follows:

Table 9: Maturity Structure

	31 March 2022 £m	31 March 2023 £m
Under 1 year	164.525	131.600
Over 1 year	0.000	0.000
	164.525	**131.600**

Borrowing Strategy for 2022/23

31. The council maintained an under-borrowed position in 2022/23. This means that the capital borrowing need (the CFR) has not been fully funded with loan debt as

cash supporting the council's reserves, balances and cash flow has been used as a temporary measure.

32. Table 10 below shows the interest rate forecast to March 2026 as at the end of 2022-23. These forecasts have been provided by the Council's treasury advisor, Link Asset Services and show gradual rises in medium and longer-term fixed borrowing rates over the next two financial years. Variable, or short-term rates, are expected to be the cheaper form of borrowing over the period.

Table 10: Interest Rate View

Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

Source: Link Treasury 2023 (PWLB rates include adjustments for Certainty rate discounts)

33. The Authority has continued the prudent approach of utilising internal borrowing to fund its borrowing requirement where cash levels permit or interest rates mitigate against taking on external debt; overall the strategy is designed to reduce external borrowing costs.

34. Long-term fixed interest rates are initially expected to rise over before falling over the five-year treasury management planning period. The Council's 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 more significant interest rate increases. Any further decisions to borrow will be reported to Cabinet at the next available opportunity.

35. The Council is due to repay £4M of maturing PWLB in July 2023. However given the current higher interest rates and forecasts showing rates starting to fall in the new year, officers are considering options to delay borrowing in order to fix any loans at lower rates.

PWLB rates

36. PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. 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.

37. The Council has previously relied on the PWLB as its main source of funding; however, the council will consider alternative sources of borrowing as appropriate and in line with the treasury management strategy. We will continue

to liaise closely with our treasury advisors, monitor the borrowing market and update Members as this area evolves.

38. The Municipal Bond Agency are now offering loans to local authorities. This Authority may make use of this emerging source of borrowing as and when appropriate. This is within the existing approved Treasury Management Strategy.

Forward borrowing considerations to mitigate expected future interest rate increases

39. The Council may also look to arrange forward borrowing facilities should the future borrowing risk rise, although the recent increase in rate may mitigate against this in the short term. The policy on forward borrowing has been complied with in 2022/23.

Debt Rescheduling

40. No debt rescheduling was undertaken during 2022/23. Opportunities for debt restructuring will be continually monitored alongside interest rate forecasts. The council retains some higher rate borrowings and if rates continue to rise there may be some opportunities for debt rescheduling if this proves cost effective. Until borrowing rates fall the Council is unlikely to consider additional loans to finance its unfinanced borrowing. Action will be taken when the council's S.151 officer considers it is most advantageous.

Borrowing Outturn for 2022/23

41. During 2022/23 the Council repaid £51m PWLB debt and there was no new borrowing. The council paid £8.614m in interest costs on external loans, this compares to a budget of £8.871m. The reduction against budget was due to the continued use of internal borrowing rather than external borrowing as a result of holding sufficient cash balances.

Investment Strategy for 2022/23

42. The TMS for 2022/23, which includes the Annual Investment Strategy, was approved by the council on 22 February 2022. It sets out the Council's investment priorities as being Security of capital, Liquidity; and Yield.

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

44. This report does not cover the Council's investment strategy in regard to non-financial investments. These investments which include the purchasing of commercial property and lending to third parties were covered under the Non-Financial (Commercial) Investment Strategy published in February 2022 as part of the Budget papers.

45. As part of the new Prudential and Treasury Management codes Councils are now required to review assets held for investment purposes against ongoing borrowing requirements. The code requires Councils to consider disposal of investments to finance borrowing where the sale of an investment is financially viable. The Council has implemented an ongoing a review of its investment property portfolio to determine assets returns and the potential cost of disposal.

46. The Treasury Management Strategy for each financial year is published on the Council's website.

47. As part of the recommendations included in the 2023/24 Treasury Management Strategy the Council, has opened a 4th Money Market Fund. A briefing note setting out the selection process and the selected Sterling Liquidity Fund was circulated to the Treasury Committee in April.

Investment Outturn for 2022/23

48. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

49. At the start of the financial year in April 2022 interest rates in the financial markets still reflected the historic low levels following the Global COVID-19 pandemic. However, following the invasion of Ukraine by Russia, increased energy costs and the developing cost of living crisis, the Bank of England has increased interest rates substantially to try and curb rising inflation. This has resulted in significantly higher interest rate returns available for the Council's cash deposits. **Table 11a** below shows the interest income for 2022/23 against the 2022/23 budget.

Table 11a Investment Activity 2022/23

	Budget £'000	Actual £'000	Variance £'000
Interest Earned Invested Funds	(220)	(4,681)	(4,461)

The Item 8 share of the above £4.681m actual income recharged to the HRA was £0.956m resulting in a net General Fund additional income of £3.725m.

Reserves

50. The Council's cash balances comprise revenue and capital reserves and day to day cash flow monies.

Within the reserve figures below the main reduction year on year was against Earmarked Reserves and was mainly due to the repayment of Government grants during 2022/23 set aside to compensate the Council for loss of income in respect of business rate income due to reliefs given to business in response to the COVID19 Global Pandemic.

There was a reduction in the HRA reserve due to a planned utilisation to support the development and acquisition of new council homes. The Council's reserves are shown in the draft 2022/23 statement of accounts and comprise the balances summarised in **Table 11b** below.

Table 11b: Balance Sheet Reserves

	31-Mar-22	31-Mar-23
	£m	**£m**
General Reserves	10.336	8.249
HRA	51.373	46.128
Earmarked Reserves	30.697	19.512
Useable Capital receipts	64.353	95.694
Capital grants Unapplied	4.249	4.249
Major Repairs Reserve	7.281	10.396
Total	**168,289**	**184.228**

* Unaudited figures

51. The Council's year-end balance of cash and short-term investments was £131.6m. These internally managed funds earned an average rate of return of 3.79%.

52. The Council is part of a benchmarking group (facilitated by our treasury management advisors, Link Asset Services) across Norfolk, Suffolk & Cambridgeshire. The table below shows the performance of the Council's investments when compared with this benchmark group, and also when compared with the non-metropolitan districts and all authorities that use Link's benchmarking group facility.

Table 12: Link benchmarking - position at 31 March 2023

	Norwich	Benchmark Group 7 (12)	Non met districts (87)	All authorities (224)
WARoR[1]	3.79%	3.72%	3.60%	3.62%
WA Risk[2]	2.61	3.51	2.97	2.80
WAM[3]	68	61	63	65
WATT[4]	134	142	139	142

Source: Link Treasury March 2022

[1] **WARoR** Weighted Average Rate of Return This is the average annualised rate of return weighted by the principal amount in each rate.

[2] **WA Risk** Weighted Average Credit Risk Number Each institution is assigned a colour corresponding to a suggested duration using Link Asset Services' Suggested Credit Methodology.

[3] **WAM** Weighted Average Time to Maturity This is the average time, in days, till the portfolio matures, weighted by principal amount.

[4] **WATT** Weighted Average Total Time This is the average time, in days, that deposits are lent out for, weighted by principal amount.

53. The council's average investments return (3.79%) is higher when compared with that for the benchmark group (3.72%), the 87 non-met authorities (3.6%) and the population of 224 local authorities (3.62%). The WATT is slightly lower and the average investment return in 2022/23 is slightly higher than the benchmarking group and the other authorities whilst still allowing the authority to keep council funds readily available to pay make capital programme payments as they fell due.

Consultation

54. The report is the outturn position statement to ensure that the council is kept informed of treasury activity. No additional consultation has been undertaken.

Implications

Financial and Resources

55. There are no proposals in this report that would reduce or increase resources however it does report on the performance of the council in managing its borrowing and investment resources which have significant financial implications for the council.

Legal

56. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual review of its treasury management activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

Statutory Considerations

Consideration:	**Details of any implications and proposed measures to address:**
Equality and Diversity	n/a
Health, Social and Economic Impact	n/a
Crime and Disorder	n/a
Children and Adults Safeguarding	n/a
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 council’s Treasury Management Strategy, and it is vital that all investments 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

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 council's advisors to review interest rate forecasts to assess when we would look to borrow.

Other Options Considered

57. No other options to be considered. The report is to inform council of the treasury activity for the year to 31 March 2023.

Reasons for the decision/recommendation

58. To ensure that council are kept informed of treasury activity.

Background papers: None

Appendices: None

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