NORWICH City Council

Treasury Management Committee

Date: Tuesday, 07 November 2023
Time: 14:30
Venue: Mancroft room, City Hall, St Peters Street, Norwich, NR2 1NH

Committee members:

Councillors:
Kendrick
Stonard
Jones
Ackroyd
Price

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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

		Page nos
1	**Apologies**	
	To receive apologies for absence	
2	**Declarations of interest**	
	(Please note that it is the responsibility of individual members to declare an interest prior to the item if they arrive late for the meeting)	
3	**Minutes**	5 - 6
	To approve the accuracy of the minutes of the meeting held on 4 July 2023	
4	**Treasury Management Mid Year Review Report 2023-24**	7 - 22
	Purpose - This report sets out the Council's Treasury Management performance for the first six months of the financial year to 30 September 2023.	
5	**Treasury Management Workplan**	23 - 28
	Purpose - This report sets out the Council's Treasury Management workplan for 2023/2024.	
6	**Exclusion of the public**	
	Consideration of exclusion of the public.	

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

7 Minimum Revenue Provision (MRP) Policy Change 2023-24

- This report is not for publication because it would disclose information relating to the financial or business affairs of any particular person (including the authority holding that information)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.

8 Maturing Debt - Briefing Paper

- This report is not for publication because it would disclose information relating to the financial or business affairs of any particular person (including the authority holding that information)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, 30 October 2023**

NORWICH City Council

Item 3

MINUTES

Treasury Management Committee

15:30 to 16:20 **4 July 2023**

Present:	Councillors Kendrick (in the chair), Ackroyd, Driver (substitute for Councillor Jones) (from beginning of item 3), Price and Stonard
Apologies:	Councillors Jones (other council business)
In attendance:	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 17 January 2023.

3. Treasury Management Review and Outturn 2022/23

The Corporate Finance Business Partner presented the report and answered members' questions on the report. He confirmed there were no breaches of the prudential indicators during 2022/23 and referred to each table in the report. At table 11a Investment Activity 2022/23 he confirmed that the increase in interest income, arising from higher interest rates, had resulted in a net General Fund additional income of £3.752m.

Regarding Table 11b Balance Sheet Reserves, and in reply to a question, the Corporate Finance Business Partner said that grants unapplied was the remaining balance of a grant that was partially used in 2022/23 would be put in reserves to be used in future financial years. Members also noted that the council had repaid a debt of £51m to the Public Works Loans Board (PWLB) and that there had been no new external borrowing. The Corporate Finance Business Partner said that using the Link Group forecast on interest rates, cost savings could be made by reducing debt where the interest rates are higher than the interest rates for investment.

In reply to a question, the Corporate Finance Business Partner said that the council's current contract for banking was due for renewal. The contract had been the result of a joint procurement process with the county council and the other district councils in the county. There have been initial discussions with the neighbouring councils about the joint tendering process. There were only a few banks that handle services for local authorities. The tendering process would explore ESG (environment, social and governance), in line with the council's Procurement Procedures. Members were advised that the banking supplier would be required to manage the complexity of the council's banking needs and offer security. The selection of a banking services supplier for the council would likely be subject to approval by Cabinet given the value of the contract.

RESOLVED, having noted the report detailing the activity for the year to 31 March 2023, to recommend it to Cabinet and Council.

4. Exclusion of the Public

RESOLVED to exclude the public from the meeting during consideration of items 5* (below) on the grounds contained in the relevant paragraphs of Schedule 12A of the Local Government Act 1972 (as amended).

5*London Borough of Croydon Briefing Paper (Paragraph 3)

The Corporate Finance Business Partner presented the report.

(The committee agreed to a request for a recorded vote on this item.)

RESOLVED, having considered the briefing report, with 4 members voting in favour (Councillors Kendrick, Stonard, Driver and Ackroyd) and 1 member abstaining from voting (Councillor Price) to give in principle approval to the proposal as set out in the report.

CHAIR

NORWICH City Council

Item 4

Committee Name: Treasury Management Committee

Committee Date: 07/11/2023

Report Title: Treasury Management Mid-Year Review Report 2023/24

Portfolio: Councillor Kendrick, resources

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

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 2023.

Recommendation:

Committee 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 2023/24 financial year.

(2) Agree the updated Minimum Revenue Provision (MRP) Policy as set out in Appendix A.

(3) Note the Voluntary Minimum Revenue Provision of £1.300m provided to date in relation to Lion Homes (Norwich) Ltd.

(4) Propose that this report be considered and agreed by Cabinet.

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. 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 2023/24 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 21 February 2023 and, as the original decision-making body, subsequent monitoring reports should also be considered by Full Council.
4. This Council has adopted the new 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.

Investment Strategy

5. The TMS for 2023/24, which includes the Annual Investment Strategy, was approved by the council on 21 February 2023. It sets out the Council's investment priorities as being:
    - Security of capital.
    - Liquidity of capital; followed by
    - Yield.
6. 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.
7. The Council held £112m of investments as at 30 September 2023. Table 1 below shows the movement in investments for the first six months of the year. The main components of the decrease between March and September were the usual precept payments and the prepayment of a pension fund contribution. The balance reflects the normal receipt of income and government grants towards the beginning of the year where amounts have not yet been expended.
8. 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, Social and Governance (ESG) policies in placing future investments. Currently the Council has placed £10m in the 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 (SDGs) 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.

9. As set out in the 2023/24 TMS a fourth money market fund with ESG credentials was set up in June with Legal & General Investment Management (LGIM) and is now in use.

Table 1

Investments	**Actual**		**Actual**
	31-Mar-23	**Movement**	**30-Sep-23**
	£000	**£000**	**£000**
Short term investments:			
Banks	40,000	(5,000)	35,000
Building Societies	25,000	(19,000)	6,000
Local Authorities	45,000	(25,000)	20,000
Cash Equivalents:			
Banks	10,000	6,343	16,343
Non- UK Banks	15,000	(5,000)	10,000
Building Societies	0,000	0,000	0,000
Local Authorities	0,000	0,000	0,000
Money Market Funds	25,000	(3,000)	22,000
UK Government	23,000	(20,000)	3,000
Total	**183,000**	**(70,657)**	**112,343**

10. In setting its Treasury Management budgets the council set an investment interest income budget target of £4.032m for 2023/24 (2022/23 £0.220m). The budget target reflected the forecast increasing interest rate environment available for short term investments. So far return on investments has resulted in £ 2.222m of actual interest being achieved to the end of September 2023 by the Treasury Management Team. Forecasts show that the actual outturn is estimated to be above budget at around £4.500m. The Council's Treasury Advisors (Link) have recently issued their latest interest rate forecast which indicates that they expect that interest rates to stabilise before starting to fall later in 2024. Interest earned will be apportioned between the General Fund and the HRA with an estimated £2.100m of the forecast £4.500m for 2023/24 being due to the HRA.

11. It is anticipated that cash balances will gradually decrease during the second half of the year.

12. The Interim Chief Finance Officer (S.151) confirms that all investment transactions undertaken during the first six months of 2023/24 were within the approved limits as laid out in the Annual Investment Strategy.

BALANCE SHEET POSITION

External Borrowing

13. Table 2 below shows that as at 30 September the Council had external borrowing of £211.288m, of which £160.948m relates to the Housing Revenue

Account (HRA). In the first six months of the year the Council has not completed any borrowing. There has been one repayment of £4m debt to the PWLB however no further repayments are scheduled the remainder of this financial year. The next repayment of £2.500m is due September 2024.

Table 2 shows the current and forecast borrowing position. This position assumes that there will be no borrowing in the current year.

Table 2

Long Term Borrowing	Actual 31-Mar-23	Actual 30-Sep-23	TMSS Forecast 31-Mar-24	Revised Estimate 31-Mar-24
	£000	£000	£000	£000
Public Works Loan Board	205,647	201,647	205,647	205,647
Money Market	5,000	5,000	5,000	5,000
3% Stock (Perpetually irredeemable)	499	467	467	467
Other financial intermediaries (Salix)	131	105	79	79
Corporate Bonds and External Mortgages	11	11	11	11
Total	**211,288**	**207,150**	**207,124**	**207,124**

Future Economic forecasts

14. For the period to September, the Monetary Policy Committee (MPC) has increased interest rates at each meeting in 2023 up until the September meeting when the decision was made to keep the base rate unchanged at 5.25%. Rates are currently at their highest level since the Global Financial Crisis. The UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are still facing a squeeze on their real incomes.

Interest rate forecasts

The Council's treasury advisors, Link Group, have updated their forecast for Bank Rate. Table 3 below shows their interest rate forecasts through to December 2026.

Table 3

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

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

15. The latest forecast on 25th September sets out a view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

16. These forecasts will be kept under close review and the impact will feed through into in year budget monitoring position, the 2024/25 budget and MTFS.

Economic Outlook and Commentary

17. In summary, the Bank of England (BoE) Monetary Policy Committee has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control. The financial markets are still pricing in that the base rates will remain at higher levels until the latter part of 2024 when interest rates are forecast to slowly fall.

18. In its latest monetary policy meeting on 20 September, the BoE left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the BoE that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.

19. Like the US Federal Reserve, the BoE wants the financial markets to believe in the "higher for longer narrative", suggesting that interest rates have not necessarily peaked and there could, if there was evidence of more persistent inflation pressures, be "further tightening policy". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".

20. This narrative makes sense as the BoE does not want the financial markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the BoE the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.

PWLB Rates

21. As the interest forecast table for PWLB (borrowing) rates above shows, the rates will stabilise over the forecast period for about a year, after which rates are expected to fall.

Debt Rescheduling

22. No debt rescheduling was undertaken during the first six months of 2023/24. It is not anticipated that the Council will undertake any rescheduling activity during the remainder of the financial year. 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.

Prudential Indicators

23. 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

24. The 2023/24 capital programme budgets were approved as part of the budget report to full Council on 21 February 2023. The quarter 2 budget monitoring report shows approved revisions to the capital budgets to include the 2022/23 capital carry forwards, new capital schemes approved during the year and the re-profiling of some capital budgets into future years. 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 2023/24 budget monitoring report.

Table 4

	2023/24 Original Budget	2023/24 Revised Budget	2023/24 Forecast Outturn
	£000	**£000**	**£000**
General Fund capital expenditure	25,595	20,840	20,483
General Fund capital loans	3,000	1,000	1,000
HRA	35,656	33,544	33,247
Capital Expenditure	**64,251**	**55,384**	**54,730**
Financed by:			
Capital receipts	22,090	11,306	11,120
Capital grant and contributions	16,503	16,552	16,311
Capital & earmarked reserves	15,918	20,642	20,415
Revenue	6,740	5,885	5,885
Total Resources	**61,251**	**54,384**	**53,730**
Net borrowing need for the year	**3,000**	**1,000**	**1,000**

25. Table 4 shows how the revised capital programme will be financed and shows a significant decrease 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 decreased is due to the loan requirement for the council's wholly owned subsidiary, Norwich Regeneration Limited being re-profiled into future years.

26. A further consequence of this is that the council's forecast Capital Financing Requirement (CFR) for 2023/24 shown in Table 5, is lower than initially anticipated.

The Capital Financing Requirement (CFR)

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

Table 5

	2023/24 Original Estimate	2023/24 Revised Estimate
	£000	**£000**
Opening General Fund CFR	**112,652**	**112,112**
Movement in General Fund CFR	3,384	(416)
Closing General Fund CFR	**116,036**	**111,696**
Movement in CFR represented by:		
Borrowing need (NRL loan requirement)	3,000	1,000
Loan repayment	(16)	(16)
Appropriations		
Less MRP and other financing adj.	400	(1,400)
Movement in General Fund CFR	**3,384**	**(416)**
Opening HRA Fund CFR	**208,533**	**208,532**
Movement in HRA CFR	690	0
Closing HRA CFR	**209,223**	**208,532**
TOTAL CFR	**325,259**	**320,228**

Prudential Indicators relating to Borrowing Activity

28. 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; Table 2 above indicates that the level of external borrowing at September 2023 was £207m estimated to remain around the same level by March 2024 and is well within the authorised limit in Table 7.

Table 7

Prudential Indicator	2023/24
	£000
Authorised Limit for external debt	**355,259**

29. Operational Boundary – This indicator is based on the probable external debt during 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 current external borrowing is well below the Operational Boundary.

Table 8

Prudential Indicator	2023/24
	£000
Operational boundary for external debt	**325,259**

30. Liability Benchmark

CIPFA introduced the liability benchmark as a new Prudential Indicator for 2023/24. 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. Chart 1 below shows the Benchmark if no additional borrowing is taken over the maturity of all loans.

Chart 1

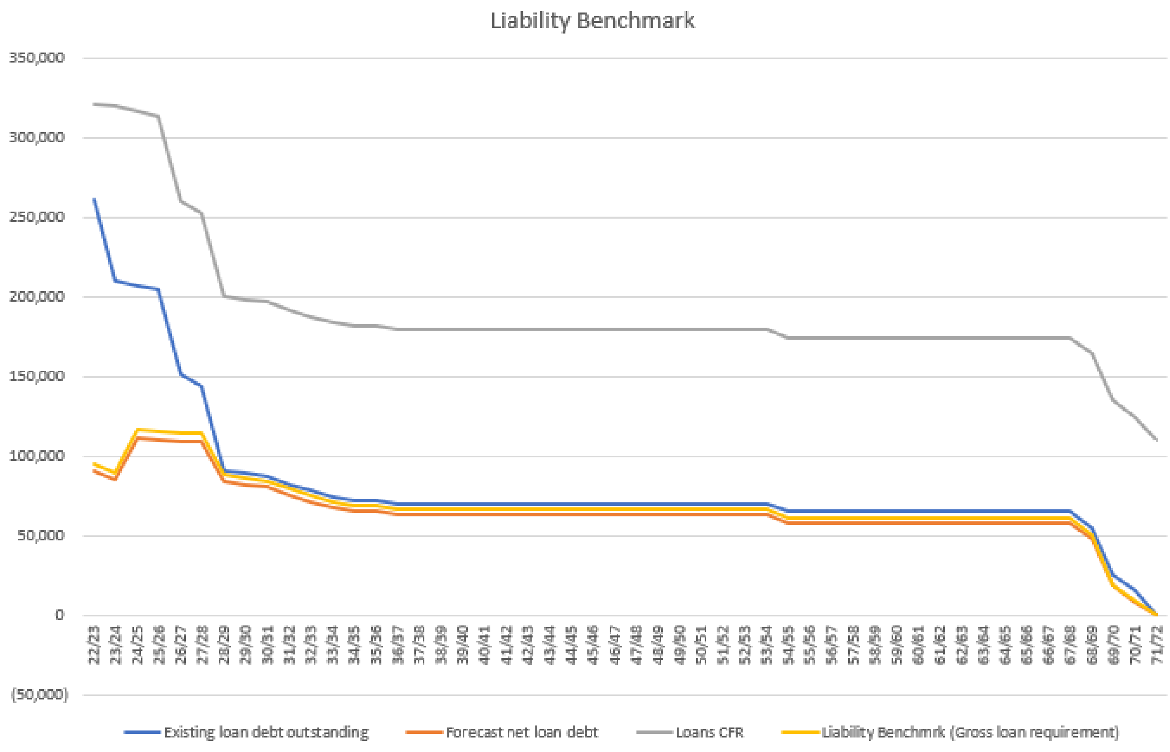
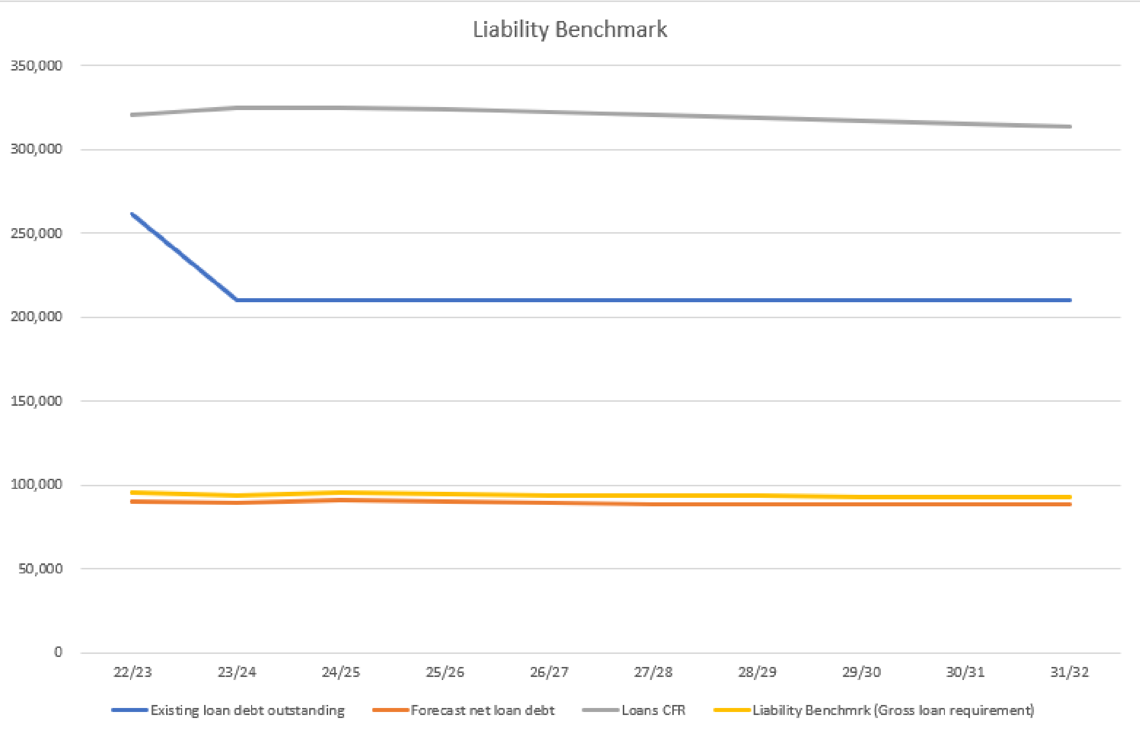


Chart 2 shows the same Benchmark but reflects maturing loans being are refinanced when they mature.

Chart 2



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.

Borrowing Activity

31. 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. In the first six months of the year the Council has not borrowed any new loans or refinanced any maturing loans.

32. Long-term fixed interest rates are expected to initially remain high and then begin to fall over the five-year treasury management planning period. The Interim Chief Finance Officer (S.151), 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.

33. 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

34. 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 (yield) being a third objective, consummate to achieving the first two.

35. The Council held £112m of financial investments at 30 September 2023 with the investment profile being shown in Table 1 earlier in this report.

Risk Benchmarking

36. The Investment Strategy for 2023/24 includes the following benchmarks for liquidity and security. Additional benchmarking data against comparable authorities was not available at the time of writing this report and these will be provided as they become available.

Liquidity

37. 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.

38. Benchmarking data from the Council's treasury advisors was not available for this report. A verbal update will be provided to Committee if the Benchmarking data is received in time.

Minimum Revenue Provision Policy (MRP)

39. The Council is required to approve an MRP policy in advance of each year. Council approved the 2023/24 policy on 21 February 2023.

40. The Council reserves the right to make voluntary MRP charges in light of its prudent approach to providing for the underlying need to borrow. It will examine how this might be modelled and create a resource to hold these additional resources.

41. The Council will be updating its MRP policy in light of a detailed review by Link Asset Services, a specialist provider in technical advice to local government on treasury and capital financing matters. This review was undertaken in part to ensure that the Council was adequately providing for its future borrowing requirements and equally where any opportunities to reduce

the impact on the General Fund were considered. A revised MRP Policy is attached at Appendix A.

42. Regardless of all options considered, the overriding concern was to ensure that the Council is in line with existing MRP regulations and that it was prepared for potential future changes. There has been concern in Government regarding councils not following regulations and it was imperative that we received this assurance during the process as the Section 151 Officer primary considerations are prudence, affordability, legality and sustainability. That guarantee was provided and this gave the council the confidence to move forward with the update to the policy.

Regulatory Update

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

43. Although the standard was issued in January 2012, authorities are expected to comply from 1 April 2024. 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 2023/24 Treasury Management Strategy.

Treasury Management and Prudential Codes

44. There have been no further changes to the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) and new Prudential Code for Capital Finance in Local Authorities (Prudential Code) since its publication in December 2021.

45. The prudential code includes a liability benchmark indicator which 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. Details of the Liability Benchmark are included at Paragraph 30.

46. The Prudential Code also addresses the risks associated with commercial investments (see paragraphs 47-51), including property acquisitions, known as debt for yield transactions. 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.

Commercial Investments

47. Norwich City Council currently has £99.223m of Investment Property on its balance sheet (31 March 2023) and, as it is in a net borrowing position, is directly impacted by the requirements of the prudential code.

48. The Prudential Code requires that authorities 'must not borrow to invest for the primary purpose of financial return'. This statement 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.

49. 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.

50. 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.

51. The Council has undertaken a review of its investment portfolio to determine asset returns and the potential cost of disposal.

Maturity Indicator

52. The code 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

53. 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.

54. 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

55. 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.

56. The liability benchmark chart can 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

57. 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

58. 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

59. 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.

60. 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

61. 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

62. The report is the mid-year position statement for Treasury Management activity. The report was considered by the newly formed Treasury Management Committee who noted and endorsed the report for consideration at Cabinet and Council.

Implications

Financial and Resources

63. 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 and Budget. This report is for information only and there are no proposals in this report that would reduce or increase resources.

Legal

64. 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.

65. 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

66. Managing risk is a major part of treasury management activity. All the limits and indicators in place to reduce the level of risk have been adhered to so that risks are at an acceptable level as in the treasury management strategy.

Risk	Consequence	Controls Required
Future interest rate changes can offer both opportunity and risk. Cashflow requirements are know to avoid the need for unplanned borrowing or overdraft facilities to meet expenses as they fall due.	Future loan interest rate changes need to be assessed against the cost of borrowing and the council's ability to fund expenditure from its own cashflows (internal borrowing). Investment rates offer an opportunity to generate income in support of council priorities subject to the	To mitigate the risk, we will work closely with our treasury advisors to review interest rate forecasts to assess when we should borrow. Surplus cash for investing is only available on a short-term basis until required to meet on-going or capital expenditures. The existence of reserves provides some longer-term opportunities to generate investment returns but must be

	achievement of security and liquidity considerations.	undertaken alongside an assessment of risk and knowledge of the council's cashflow requirements.

Other Options Considered

67. No other options have been considered. The report is to inform the treasury management committee and the council of the treasury activity for the period 1 April 2023 to 30 September 2023.

Reasons for the decision/recommendation

68. To ensure the treasury management committee and Council are kept informed of treasury activity in line with the Financial Regulations.

Background papers: None

Appendices: Appendix A

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Appendix A

Council is recommended to approve the following:

- The Authority's MRP policy has been amended for 2023/24 following a comprehensive review of MRP charges and methodology. This updated policy reflects the new MRP calculation methods to be implemented.
- For supported capital expenditure incurred before 1st April 2008, the Authority will apply the Asset Life Method using an annuity calculation and will take account of the regulatory calculated Adjustment A.
- Unsupported borrowing will be subject to MRP under option 3 of the guidance (Asset Life Method). MRP will be based on the estimated life of the assets in accordance with the statutory guidance using the annuity method, calculated on a weighted average basis.
- MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset lives as recommended by the statutory guidance.
- The interest rate applied to the annuity calculations will reflect the market conditions at the time, and will for the current financial year be based on PWLB annuity rates.
- Where applicable, repayments included in annual PFI or finance leases are applied as MRP.
- MRP Overpayments - The MRP Guidance allows that any charges made in excess of the statutory minimum revenue provision (MRP), i.e. voluntary revenue provision or overpayments, can be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The amount of VRP overpayments up to 31st March 2023 was £1.300m
- MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for asset under construction where the MRP will be deferred until the year after the asset becomes operational.
- For capital loans to third parties the MRP policy is not to provide MRP on loans where there is an agreed repayment plan.

NORWICH
City Council

Item 5

Committee Name: Treasury Management

Committee Date: 07/11/2023

Report Title: Draft Treasury Management Annual Workplan

Portfolio: Councillor Kendrick, cabinet member for resources

Report from: Chief Finance Officer and S151 Officer

Wards: **All Wards**

OPEN PUBLIC ITEM

Purpose

This report sets out the Council's Treasury Management workplan for 2023/2024.

Recommendation:

That the committee:

(1) agrees the workplan and forward dates for the Treasury Management Committee to meet.

(2) notes the committee's Terms of Reference at Appendix 1.

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. On 27 September 2022, Council agreed to establish and appoint to a Treasury Management Committee to support the in-depth consideration of a range of matters related to the governance of the Council's financial investments.
2. This report provides a Treasury Management workplan to enable the Committee to meet its Terms of Reference and schedule forward meeting dates. A copy of the Committee's Terms of Reference is included at Appendix 1.

Workplan

3. Below is the current Treasury Management annual workplan. The meeting dates for the committee are shown in bold.

9 January 2024	**Treasury Management Committee - January Meeting** - Consider the Annual Treasury Management Strategy Statement (TMS) prior to adoption by council
February	Full Council to receive Treasury Management Strategy
16 April 2024	**Treasury Management Committee - April Meeting** - Review proposed treasury activity for forthcoming year - Initial update on end of year position
May	Statutory Accounts preparation
June	Treasury Management Outturn Report preparation
2 July 2024	**Treasury Management Committee - July Meeting** - Consider outturn position report
August	Full Council to receive Treasury Management Outturn Report
October	Treasury Management Mid-Year Review Report preparation
5 November 2024	**Treasury Management Committee - November Meeting** - Consider mid-year report - Consider initial Treasury Management Strategy changes for forthcoming year
December	Full Council to receive Treasury Management Mid-Year Review Report

Terms of Reference

4. The Treasury Management Committee Terms of Reference are shown at Appendix 1.

Implications

Financial and Resources

5. 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 and 2023-24 Budget. This report is for information only and there are no proposals in this report that would reduce or increase resources.

Legal

6. 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.

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

7. 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. Cashflow requirements are to avoid the need for unplanned borrowing or overdraft facilities to meet expenses as they fall due.	Future loan interest rate changes need to be assessed against the cost of borrowing and the council's ability to fund expenditure from its own cashflows (internal borrowing). Investment rates offer an opportunity to generate income in support of council priorities subject to the achievement of security and liquidity considerations.	To mitigate the risk, we will work closely with our treasury advisors to review interest rate forecasts to assess when we should borrow. Surplus cash for investing is only available on a short-term basis until required to meet on-going or capital expenditures. The existence of reserves provides some longer-term opportunities to generate investment returns but must be undertaken alongside an assessment of risk and knowledge of the council's cashflow requirements.

Other Options Considered

8. No other options to be considered.

Reasons for the decision/recommendation

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

Background papers: None

Appendices:

Appendix 1 - Treasury Management Committee – Terms of Reference

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Appendix 1

Terms of Reference, Treasury Management Committee

The Council appoints the Treasury Management Committee to support the in-depth consideration of a range of matters related to the governance of the Council's financial investments, including:

- Reviewing the treasury management strategy and any associated policies and recommending their consideration by Cabinet for onward approval by Council
- Reviewing the mid-year and annual reports on treasury management activity prior to their consideration by Council
- Monitoring how the Council complies with recognised good practice in relation to its treasury management practice including those issued by government or CIPFA

The Committee may also consider other matters relevant to Treasury Management on the advice of the Council's officers or treasury management advisors.

It is expected a minimum of 3 meetings should be held each year. It is expected that whilst Committee meetings may be held in public, due to the commercially sensitive nature of advice provided by the Council's treasury management advisors, a range of items may need to be considered without the press and public present.

The Treasury Management Committee shall consist of a maximum of 5 members, to include:

a) The Chair of the Audit Committee
b) The Chair of the Scrutiny Committee
c) The Leader of the Council, who shall chair the meetings (in their absence, meetings shall be chaired by the Portfolio Holder for Resources)
d) The Portfolio Holder for Resources
e) A further member to be nominated by the relevant group leader in order to achieve the correct political balance within the Committee.

The quorum for the meeting shall be 3, which must include either the Chair of the Audit or Scrutiny Committee, and either the Leader or Portfolio Holder for Resources.