



NORWICH City Council

Committee Name: Council

Committee Date: 24/09/2024

Report Title: Treasury Management Review and Outturn 2023/24

Portfolio: Councillor Kendrick, cabinet member for an open and modern council

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 2024.

Recommendation:

That Council;

- i) approves the treasury activity for the year to 31 March 2024.
- ii) notes the change to table 5.9 in the 2024/25 Treasury Management Strategy.

Policy Framework

The Council has five corporate priorities, which are:

- A prosperous Norwich.
- A fairer Norwich.
- A climate responsive Norwich.
- A future-proof Norwich.
- An open and modern council.

This report meets the “An open and modern council” 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 2023/24. It compares this activity to the Treasury Management Strategy (TMS) for 2023/24, approved by Full Council on 21 February 2023. 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 2023/24 financial year the Code required Council's to report quarterly Treasury Management activity to Council. The reporting requirements were met as follows:
 - an annual Treasury Management Strategy in advance of the year (Council 21 February 2023).
 - a Quarter 1 and mid-year Treasury Management Review report (30 January 2024).
 - A Quarter 3 Treasury Management Review report (12 March 2024).
 - an annual review following the end of the year describing the activity compared to the strategy (this report).

All Treasury Management activity is reported through Treasury Management Committee and Cabinet prior to consideration by Council.

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 2023/24 performance against the approved prudential and treasury indicators (paragraphs 18 - 24)
- The overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on its investment balances (paragraphs 25 - 30)
- The council's borrowing strategy and detailed debt activity (paragraphs 31-41)
- The council's investment strategy and detailed investment activity (paragraphs 42 - 53)

The Council's Capital Expenditure and Financing 2023/24

6. The 2023/24 capital programme budgets were approved as part of the budget papers approved by full Council on 21st February 2023. Subsequent to this there were approved revisions to the 2023/24 capital budgets to include the 2022/23 capital carry forwards and new capital schemes approved during the year. The final capital programme budget for 2023/24 is shown in **Table 1** below.
7. Actual capital spending was under budget for the year by £15.241m. 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 2023/24 and how this was financed in the year:

Table 1: Capital Programme Financing

| | 2023/24 Original Budget | 2023/24 Final Budget | 2023/24 Actual Outturn | Variance from Final Budget |
|------------------------------------|--|-------------------------------------|---------------------------------------|---|
| | £m | £m | £m | £m |
| Capital Expenditure | | | | |
| General Fund capital expenditure | 25.595 | 21.285 | 15.128 | (6.157) |
| General Fund capital loans | 3.000 | 1.000 | - | (1.000) |
| HRA capital expenditure | 35.656 | 33.544 | 25.459 | (8.085) |
| Total Expenditure | 64.251 | 55.829 | 40.588 | (15.241) |
| Financed by | | | | |
| Capital receipts | 22.09 | 6.910 | 5.600 | (1.310) |
| Capital grants/contributions | 16.503 | 16.029 | 12.459 | (3.570) |
| Capital & earmarked reserves | 15.918 | 20.656 | 13.148 | (7.508) |
| Revenue | 6.740 | 7.228 | 6.843 | (0.384) |
| Total Financing | 61.251 | 50.823 | 38.050 | (12.773) |
| Borrowing need for the year | 3.000 | 5.006 | 2.537 | (2.469) |

8. Lion Homes (Norwich) Ltd (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 2023/24 LHL did not repay any of its loans and no new loans were made. Therefore, as at 31

March 2024 the company had a loan outstanding with the council of £6.150m (2022/23 £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 £0.040m and £0.060m were made in relation to the loans during 2022/23 and 2023/24 respectively, in addition to a further loan of £0.500m, bringing the balance of the loans to £2.220m as at 31 March 2024 (2022/23 £1.780m). 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 2023/24 CFR year-end balance is the cumulative total of the 2023/24 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). During 2023/24 following a review by the council's treasury advisors (Link Asset

Services) the Council agreed and adopted revised minimum revenue provision policy.

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. During 2023/24 the council agreed to apply useable Capital receipts totaling £25m to reduce the CFR and reduce the MRP charge.

Table 2: Capital Financing Requirement

| | 2023/24 Original Estimate £000 | 2023/24 Revised Estimate £000 | 2023/24 Outturn (unaudited) £000 |
|--|---|--|---|
| Opening General Fund CFR | 112,652 | 112,112 | 112,062 |
| Movement in General Fund CFR | 3,384 | (416) | (20,893) |
| Closing General Fund CFR | 116,036 | 111,696 | 91,169 |
| <i>Movement in CFR represented by:</i> | | | |
| Application of capital receipts | | | (25,000) |
| Borrowing need (capital programme) | 3,000 | 1,000 | 2,538 |
| Additional loan | | | 500 |
| Loan repayment | (16) | (16) | (60) |
| Less MRP and other financing adj. | 400 | (1,400) | 1,129 |
| Movement in General Fund CFR | 3,384 | (416) | (20,893) |
| Opening HRA Fund CFR | 208,533 | 208,532 | 208,533 |
| Movement in HRA CFR | 690 | 0 | 0 |
| Closing HRA CFR | 209,223 | 208,532 | 208,533 |
| | | | |
| TOTAL CFR | 325,259 | 320,228 | 299,702 |

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 (2023/24) plus the estimates of any additional capital financing requirement for the current (2023/24) 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

| | 2023/24 Original Estimate | 2023/24 Revised Estimate | 2023/24 Actual |
|---------------------------------------|--|---|---------------------------|
| | £m | £m | £m |
| Gross borrowing | 206.648 | 206.648 | 206.648 |
| CFR | 325.259 | 320.228 | 299.533 |
| Over Borrowed/(Under Borrowed) | (118.611) | (113.580) | (92.885) |

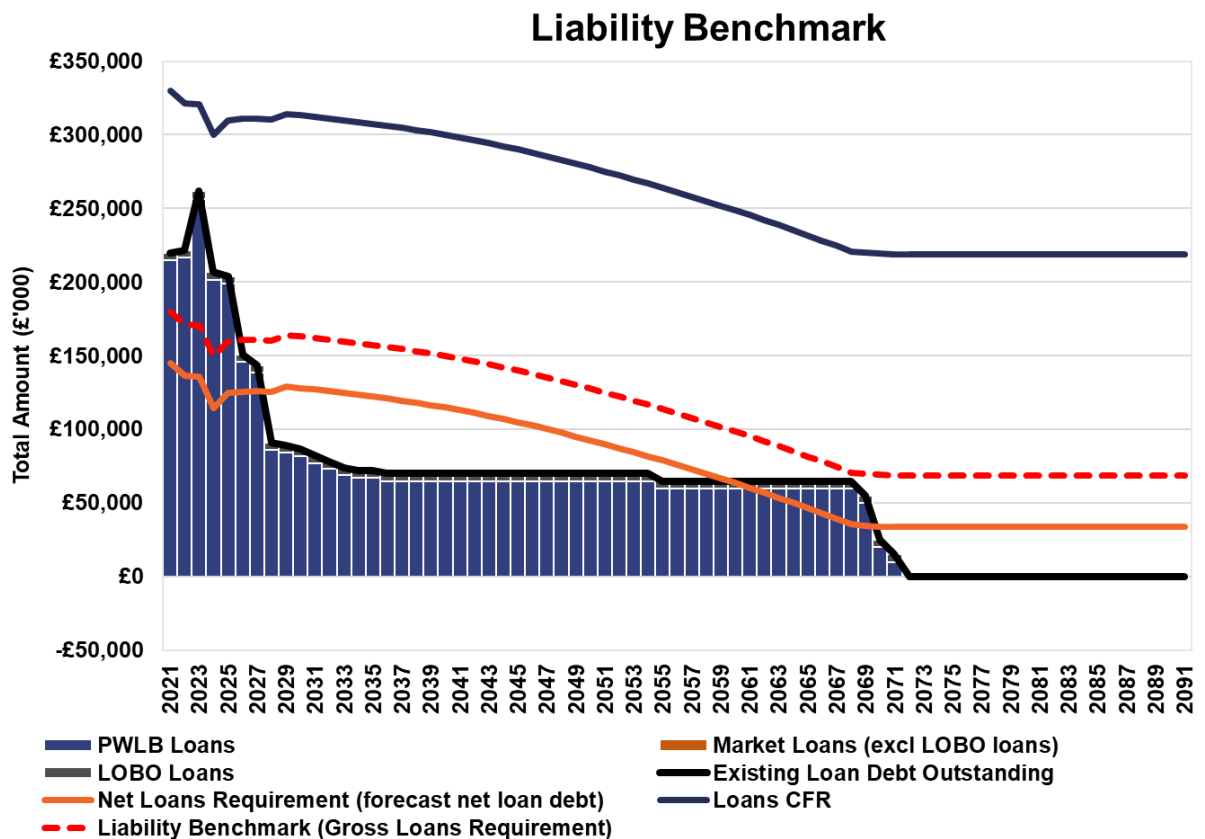
19. **The authorised limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. **Table 4** below demonstrates that during 2023/24 the Council has maintained gross borrowing within 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 2023/24 the Council has maintained gross borrowing within its operational boundary.

Table 4: Authorised Limit & Operational Boundary

| | 2023/24 Original Estimate (TMS) | 2023/24 Revised Estimate (Mid-Year Review) | 2023/24 Actual (Unaudited) |
|--|--|---|---|
| | £m | £m | £m |
| Authorised Limit for external debt | | | |
| Borrowing | 355.123 | 355.259 | 329.695 |
| Other long-term liabilities | 0.136 | 0.136 | 0.136 |
| Total Agreed Authorised Limit | 355.259 | 358.259 | 329.831 |
| Operational boundary for external debt | | | |
| Borrowing | 325.123 | 325.259 | 299.695 |
| Other long-term liabilities | 0.136 | 0.136 | 0.136 |
| Total Agreed Operational Boundary | 325.259 | 325.259 | 299.831 |
| External debt (including other long-term liabilities e.g. finance leases) | | | 207.282 |

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 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 MTF5 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 policy change to the minimum revenue provision and that there are no capital financing costs. 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**

| | 2023/24 | 2023/24 |
|---|-----------------|----------------|
| Affordability of financing costs | Estimate | Actual |
| General fund - financing costs as a percentage of net revenue | 5.44% | 0% |
| HRA - financing costs as a percentage of rental income | 35.38% | 40.17% |

Treasury Position as at 31 March 2024

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. 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 2024 and activity during 2023/24 is detailed in the table below. Borrowing has remained within the authorised limit of £329.831m throughout the year.

Table 6: Borrowing activity 2023/24 (excluding finance leases)

| | PWLB loans £m | Market loans £m | Total £m | Average interest rate % |
|------------------------------------|---------------------|-----------------------|-------------|-------------------------------|
| Opening balance (1 April 2023) | 205.648 | 5.000 | 210.648 | |
| New borrowing taken | - | - | - | |
| Borrowing matured/repaid | (4.000) | - | (4.000) | |
| Closing balance (31 March 2024) | 201.648 | 5.000 | 206.648 | 3.44 |
| Authorised limit for external debt | | | 329.831 | |

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

Table 7: Maturity Structure of Fixed Rate Borrowing

| | % | 31-Mar-24 £m |
|--------------------------------|-------|-----------------|
| Under 12 months | 1.24 | 2.500 |
| Between 12 months and 2 years | 26.38 | 53.200 |
| Between 2 years and 5 years | 30.75 | 62.000 |
| Between 5 years and 10 years | 7.35 | 14.830 |
| Over 10 years | 34.28 | 74.118 |
| Perpetually irredeemable stock | | 0.130 |
| Total borrowing | | 206.778 |

29. Table 8 shows the movement in investments in the year.

Table 8: Investment Movements

| | 31 March 2023 £m | Net movement £m | 31 March 2024 £m |
|---------------------------------------|------------------------|-----------------------|------------------------|
| Short term | | | |
| Banks | 25.000 | (5.000) | 20.000 |
| Building Societies | 0.000 | 0.000 | 0.000 |
| Local Authorities | 20.000 | 26.000 | 46.000 |
| Cash Equivalents | | | |
| Banks | 14.600 | (3.154) | 11.446 |
| Non-UK Banks | 5.000 | (5.000) | 0.000 |
| Building Societies | 10.000 | (10.000) | 0.000 |
| Local Authorities | 45.000 | (40.000) | 5.000 |
| Money Market Funds | 12.000 | (5.700) | 6.300 |
| UK Government | 0.000 | 0.000 | 0.000 |
| Total Internally Managed Funds | 131.600 | (42.854) | 88.746 |

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

Table 9: Maturity Structure

| | 31 March 2023 | 31 March 2024 |
|--------------|----------------------|----------------------|
| | £m | £m |
| Under 1 year | 131.600 | 88.746 |
| Over 1 year | 0.000 | 0.000 |
| | 131.600 | 88.746 |

Borrowing Strategy for 2023/24

31. The council maintained an under-borrowed position in 2023/24. 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 2027 as at the end of 2023-24. These forecasts have been provided by the Council’s treasury advisor, Link Asset Services and show a gradual reduction 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 | 28.05.24 | | | | | | | | | | | |
|-------------------------------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 |
| BANK RATE | 5.25 | 5.00 | 4.50 | 4.00 | 3.50 | 3.25 | 3.25 | 3.25 | 3.25 | 3.00 | 3.00 | 3.00 |
| 3 month ave earnings | 5.30 | 5.00 | 4.50 | 4.00 | 3.50 | 3.30 | 3.30 | 3.30 | 3.30 | 3.00 | 3.00 | 3.00 |
| 6 month ave earnings | 5.30 | 4.90 | 4.40 | 3.90 | 3.50 | 3.30 | 3.30 | 3.30 | 3.30 | 3.10 | 3.10 | 3.20 |
| 12 month ave earnings | 5.10 | 4.80 | 4.30 | 3.80 | 3.50 | 3.40 | 3.40 | 3.40 | 3.40 | 3.20 | 3.30 | 3.40 |
| 5 yr PWLB | 4.90 | 4.70 | 4.50 | 4.30 | 4.10 | 4.00 | 3.90 | 3.90 | 3.90 | 3.90 | 3.90 | 3.80 |
| 10 yr PWLB | 5.00 | 4.80 | 4.60 | 4.40 | 4.30 | 4.10 | 4.10 | 4.10 | 4.00 | 4.00 | 4.00 | 3.90 |
| 25 yr PWLB | 5.30 | 5.20 | 5.00 | 4.80 | 4.70 | 4.50 | 4.50 | 4.40 | 4.40 | 4.40 | 4.30 | 4.30 |
| 50 yr PWLB | 5.10 | 5.00 | 4.80 | 4.60 | 4.50 | 4.30 | 4.30 | 4.20 | 4.20 | 4.20 | 4.10 | 4.10 |

Source: Link Treasury 2024 (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 remain the same 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 £2.5m of maturing PWLB in September 2024. 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 2023/24.

Debt Rescheduling

40. No debt rescheduling was undertaken during 2023/24. 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 2023/24

41. During 2023/24 the Council repaid £4m PWLB debt and there was no new borrowing. The council paid £6.823m in interest costs on external loans, this compares to a budget of £6.972m. The reduction against budget was due to the repayment of maturing debt and the use of internal borrowing rather than external borrowing as a result of holding sufficient cash balances.

Investment Strategy for 2023/24

42. 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; 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 2023 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 2023/24

48. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
49. Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures. Starting in April 2023, Bank Rate moved up in stepped increases of either 0.25% or 0.5% reaching 5.25% in August. By the end of the financial year, no further increases were anticipated. The financial markets had been pricing in a first cut in Bank rate in late summer or early autumn of 2024. This has resulted in significantly higher interest rate returns available for the Council's cash deposits.

Table 11a below shows the interest income for 2023/24 against the 2023/24 budget.

Table 11a Investment Activity 2023/24

| | Budget | Actual | Variance |
|--------------------------------|---------|---------|----------|
| | £'000 | £'000 | £'000 |
| Interest Earned Invested Funds | (4,032) | (5,979) | (1,947) |

The Item 8 share of the above £5.979m actual income recharged to the HRA was £2.309m resulting in a net General Fund additional income of £3.670m.

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 Useable Capital receipts as £25m was used to reduce the CFR and reduce the MRP charge.

The Council's reserves are shown in the draft 2023/24 statement of accounts and comprise the balances summarised in **Table 11b** below.

Table 11b: Balance Sheet Reserves

| | 31-Mar-23 | 31-Mar-24 |
|--------------------------|------------------|------------------|
| | £m | £m |
| General Reserves | 8.249 | 8.249 |
| HRA | 46.128 | 43.086 |
| Earmarked Reserves | 19.512 | 23.112 |
| Useable Capital receipts | 95.694 | 72.606 |
| Capital grants Unapplied | 4.249 | 2.388 |
| Major Repairs Reserve | 10.396 | 13.993 |
| Total | 184.228 | 163.435 |

* Unaudited figures

51. The Council's year-end balance of cash and short-term investments was £88.746m. These internally managed funds earned an average rate of return of 5.44%.
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 2024

| | Norwich | Benchmark Group 7 (11) | Non met districts (82) | All authorities (230) |
|----------------------|----------------|-------------------------------|-------------------------------|------------------------------|
| WARoR ¹ | 5.77% | 5.34% | 5.19% | 5.17% |
| WA Risk ² | 2.37 | 2.85 | 2.52 | 2.53 |
| WAM ³ | 132 | 89 | 70 | 56 |
| WATT ⁴ | 230 | 199 | 165 | 133 |

Source: Link Treasury March 2024

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 (5.77%) is higher when compared with that for the benchmark group (5.34%), the 82 non-met authorities (5.19%) and the population of 230 local authorities (5.17%). The WATT is higher and the

average investment return in 2023/24 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.

Treasury Management Activity 2024/25

54. Due to the timings of Committee meetings it is not possible to include a Quarter 1 2024/25 Treasury Management review in this report. The Head of Finance will provide a verbal update at the meeting and include the Quarter 1 reporting along with the mid year review at the Treasury Management Committee meeting on 5th November.
55. As part of the operational delivery of the 2024/25 Treasury Management Strategy (TMS) an administration error on table 5.9. As part of the 2023/24 TMS Council agreed an increase in the Money Market overall limit from £25m to £35m. The overall limit of £35m was left unchanged in the 2024/25 TMS. However table 5.9 still reflects the 2022/23 overall limit of £25m. Appendix A shows the current and amended table 5.9.

Consultation

56. 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

57. 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

58. 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 | <p>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.</p> <p>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.</p> |

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

59. No other options to be considered. The report is to inform council of the treasury activity for the year to 31 March 2024.

Reasons for the decision/recommendation

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

Background papers: None

Appendices: Appendix A

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Extract from the current 2024/25 Treasury Management Strategy – table 5.9

| Counterparty/Financial instrument | Minimum Long-term Credit Criteria or Equivalent | Specified Investments | | Non-specified Investments | |
|---|--|--------------------------------|--|--|---|
| | | Maximum duration | Counterparty Limit (£m) | Maximum duration | Counterparty Limit (£m) |
| DMAF - UK Government | n/a | 3 months | £30m | n/a | n/a |
| UK Government gilts | UK Sovereign rating | 12 months | £15m | 3 years | £5m |
| UK Government Treasury bills | UK Sovereign rating | 6 months | £10m | n/a | n/a |
| Money Market Funds - CNAV | AAA | Liquid | £10m per fund £25m overall limit | n/a | n/a |
| Money MARKET Funds - LVNAV | AAA | | | n/a | n/a |
| Money Market Funds - VNAV* | AAA | | | n/a | n/a |
| UK Local Authority term deposits (LA)** | n/a | 12 months | £13m per LA | 5 years | £5m per LA |
| Term Deposits with UK Building Societies | Assets worth at least £2.5bn but do not meet the minimum Bank/Building Society credit Criteria | 12 months | £5m | n/a | n/a |
| Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts) | AAA | 12 months | £20m | 2 years | £10m |
| Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts) | AA+ | 12 months | £17m | 12 months | £5m |
| | AA | | | | |
| Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts) | AA- | 12 months | £10m | n/a | n/a |
| | A+ | | | | |
| | A | | | | |
| Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts) | A- | 6 months | £5m | n/a | n/a |
| The Authority's own banker | A- | 12 months | £15m (for day to day operational working capital requirements – not for investment purposes) | Non-specified investment if banker fails to meet the minimum credit criteria | balances will be minimised as far as is possible. |
| Property Funds | Credit loss analysis, financial and legal due diligence | n/a | n/a | n/a | £5m per fund |
| Loan Capital and other third party loans including parish councils | Subject to financial & legal due diligence | considered on individual basis | n/a | considered on individual basis | n/a |

Proposed amendment to the current 2024/25 Treasury Management Strategy – table 5.9

| Counterparty/Financial instrument | Minimum Long-term Credit Criteria or Equivalent | Specified Investments | | Non-specified Investments | |
|---|--|--------------------------------|--|--|---|
| | | Maximum duration | Counterparty Limit (£m) | Maximum duration | Counterparty Limit (£m) |
| DMAF - UK Government | n/a | 3 months | £30m | n/a | n/a |
| UK Government gilts | UK Sovereign rating | 12 months | £15m | 3 years | £5m |
| UK Government Treasury bills | UK Sovereign rating | 6 months | £10m | n/a | n/a |
| Money Market Funds - CNAV | AAA | Liquid | £10m per fund £35m overall limit | n/a | n/a |
| Money MARKET Funds - LVNAV | AAA | | | n/a | n/a |
| Money Market Funds - VNAV* | AAA | | | n/a | n/a |
| UK Local Authority term deposits (LA)** | n/a | 12 months | £13m per LA | 5 years | £5m per LA |
| Term Deposits with UK Building Societies | Assets worth at least £2.5bn but do not meet the minimum Bank/Building Society credit Criteria | 12 months | £5m | n/a | n/a |
| Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts) | AAA | 12 months | £20m | 2 years | £10m |
| Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts) | AA+ | 12 months | £17m | 12 months | £5m |
| | AA | | | | |
| Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts) | AA- | 12 months | £10m | n/a | n/a |
| | A+ | | | | |
| | A | | | | |
| Banks/UK Building Societies (Term deposits, CD, Call & Notice accounts) | A- | 6 months | £5m | n/a | n/a |
| The Authority's own banker | A- | 12 months | £15m (for day to day operational working capital requirements – not for investment purposes) | Non-specified investment if banker fails to meet the minimum credit criteria | balances will be minimised as far as is possible. |
| Property Funds | Credit loss analysis, financial and legal due diligence | n/a | n/a | n/a | £5m per fund |
| Loan Capital and other third party loans including parish councils | Subject to financial & legal due diligence | considered on individual basis | n/a | considered on individual basis | n/a |