Committee Name: Treasury Management Committee

Committee Date: 11/11/2025

Report Title: Treasury Management Mid-Year Review Report 2025-2026

Portfolio:	Councillor Harper, Cabinet Member for Finance and Major Projects
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 2025.

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 2025-2026 financial year.
2. To propose the four Scrutiny topic recommendations in paragraphs 82-87 are agreed.
3. Note the final Quarter 1 data as set out in Appendix A.
4. Propose that this report be considered and agreed by Cabinet.

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 Norwich City Council is in good shape to serve the city corporate aim.

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 2025-2026 including a Quarter 1 update at Appendix A 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 12 February 2025 and, as the original decision-making body, subsequent monitoring reports should also be considered by Full Council.
4. This Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code. This requires that the prime objective of treasury management activity is the effective management of risk, and that borrowing activities are undertaken on a prudent, affordable and sustainable basis.

Banking Contract

5. The banking contract has been finalised and is currently with NPLAW for a final review before signing. This was a joint procurement with the Norfolk councils and each individual contract will have a start date of 11th November 2025.

Investment Strategy

6. The TMS for 2025-2026, which includes the Annual Investment Strategy, was approved by the council on 12 February 2025. It sets out the Council’s investment priorities as being:
    - Security of capital.
    - Liquidity of capital; followed by
    - Yield.
7. 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.
8. The Council held £107m of investments as at 30 September 2025. 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. The balance reflects the normal receipt of income and government grants towards the beginning of the year where amounts have not yet been expended.
9. 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 SMBC sustainable fund.

  SMBC's Green Deposit is a product which provides customers with ESG/SDGs investment opportunities. Funds from the Green Deposits are used to finance environmentally beneficial projects such as renewable energy. The Green Deposits are allocated to eligible green projects based on the "SMBC Green Deposit Framework", which was established with the support of Sustainalytics.

- And, £10m in the Natwest Corporate markets.

  NatWest Markets uses the client monies to acquire a range of ESG-related securities issued by supranational or agency issuers (including regional governments) rated "Prime" by ISS ESG Corporate Rating and/or green, sustainable or social bonds issued by sovereign issuers also rated "Prime" by the ISS ESG Country Rating. Oversight of the framework is conducted by the bank's ESG Product Committee, who check the framework structure, its reporting obligations as well as alignment with the bank and its group's overall sustainability objectives.

10. As set out in the 2023-2024 TMS a fourth money market fund with ESG credentials was set up in June 2023 with Legal & General Investment Management (LGIM) and is now in use with a maximum investment of £10m.

11. As set out in the 2025-2026 TMS the plan is to open at least two further money market funds. An assessment of the funds on offer has been undertaken. The successful money market funds have ESG credentials, as part of the assessment criteria required funds to be SFDR article 8 compliant.

Table 1

Investments	**Actual**		**Actual**
	31-Mar-25	**Movement**	**30-Sep-25**
	£000	**£000**	**£000**
Short term investments:			
Banks	10,000	16,000	26,000
Building Societies	0,000	0,000	0,000
Local Authorities	30,000	(5,000)	25,000
Cash Equivalents:			
Banks	24,237	(5,603)	18,634
Non- UK Banks	0,000	0,000	0,000
Building Societies	0,000	0,000	0,000
Local Authorities	5,000	(5,000)	0,000
Money Market Funds	31,500	2,000	33,500
UK Government	0.000	4,000	4,000
Total	**100,737**	**6,397**	**107,134**

12. In setting its Treasury Management budgets the council set an investment interest income budget target of £3.538m for 2025-2026 (2024-2025 £4.584m). The budget target reflected the forecast increasing interest rate environment available for short term investments. So far return on investments has resulted in £1.652m of actual interest being received at the end of September 2025. The interest income forecast for 2025-26 shows that

the actual outturn is estimated to be around £500K above the budgeted level due to robust positive cashflow in the first half of the year and interest rates not falling as quickly as previously forecast. The Council's Treasury Advisors (MUFG Corporate Markets) latest view is that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance. Interest earned will be apportioned between the General Fund and the HRA with an estimated £1.8m of the forecast £4.000m for 2025-2026 being due to the HRA.

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

14. The Interim Chief Finance Officer (S.151) confirms that all investment transactions undertaken during the first six months of 2025-2026 were within the approved limits as laid out in the Annual Investment Strategy.

BALANCE SHEET POSITION

External Borrowing

15. Table 2 below shows that as at 30 September the Council had external borrowing of £196.908m, of which £156.131m 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 £2.500m (HRA) debt to the PWLB and one repayment of £5m (GF) in respect of an early redemption discount for a Money Market loan. The next repayment of £0.700m (GF) is due November 2025, and £50m in March 2026 which relates to the HRA.

    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-25	Actual 30-Sep-25	TMSS Forecast 31-Mar-26	Revised Estimate 31-Mar-26
	£000	**£000**	**£000**	**£000**
Public Works Loan Board	199,148	196,648	145,948	145,948
Money Market	5,000	0,000	0,000	0,000
3% Stock (Perpetually irredeemable)	133	101	101	101
Other financial intermediaries (Salix)	26	148	132	132
Corporate Bonds and External Mortgages	11	11	11	11
Total	**204,318**	**196,908**	**146.192**	**146,192**

Future Economic forecasts

16. Rates have been cut gradually since August 2024, totalling 1.25 percentage points, bringing the current Bank of England base rate down to 4%. At the September 2025 meeting, the Monetary Policy Committee (MPC) left interest rates unchanged at 4%.

Interest rate forecasts

The Council's treasury advisors, MUFG Corporate Markets, have updated their forecast for Bank Rate. Table 3 below shows their interest rate forecasts through to September 2028.

Table 3

MUFG Corporate Markets Interest Rate View 11.08.25													
	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
BANK RATE	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.30	3.40	3.40	3.40
12 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.40	3.50	3.60	3.60
5 yr PWLB	4.80	4.70	4.50	4.40	4.30	4.30	4.30	4.20	4.20	4.20	4.20	4.10	4.10
10 yr PWLB	5.30	5.20	5.00	4.90	4.80	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60
25 yr PWLB	6.10	5.90	5.70	5.70	5.50	5.50	5.50	5.40	5.40	5.30	5.30	5.30	5.20
50 yr PWLB	5.80	5.60	5.40	5.40	5.30	5.30	5.30	5.20	5.20	5.10	5.10	5.00	5.00

Source: MUFG Corporate Markets (PWLB rates include adjustments for Certainty rate discounts)

17. The latest forecast sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance

18. These forecasts will be kept under close review and the impact will feed through into in year budget monitoring position, the 2025-2026 budget and MTFS.

Economic Outlook and Commentary

19. The first half of 2025-2026 saw:

- A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth.

- The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July.

- CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%.

- The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August.

- The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70%.

20. From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q. Nonetheless, the 0.0% m/m change in real GDP in July will have caused some concern, with the

hikes in taxes for businesses that took place in April this year undoubtedly playing a part in restraining growth. The weak overseas environment is also likely to have contributed to the 1.3% m/m fall in manufacturing output in July. That was the second large fall in three months and left the 3m/3m rate at a 20-month low of -1.1%. The 0.1% m/m rise in services output kept its 3m/3m rate at 0.4%, supported by stronger output in the health and arts/entertainment sectors. Looking ahead, ongoing speculation about further tax rises in the Autumn Budget on 26 November will remain a drag on GDP growth for a while yet. GDP growth for 2025 is forecast by Capital Economics to be 1.3%.

21. Sticking with future economic sentiment, the composite Purchasing Manager Index for the UK fell from 53.5 in August to 51.0 in September. The decline was mostly driven by a fall in the services PMI, which declined from 54.2 to 51.9. The manufacturing PMI output balance also fell, from 49.3 to 45.4. That was due to both weak overseas demand (the new exports orders balance fell for the fourth month in a row) and the cyber-attack-induced shutdown at Jaguar Land Rover since 1 September reducing car production across the automotive supply chain. The PMIs suggest tepid growth is the best that can be expected when the Q3 GDP numbers are released.

22. Turning to retail sales, and the 0.5% m/m rise in volumes in August was the third such rise in a row and was driven by gains in all the major categories except fuel sales, which fell by 2.0% m/m. Sales may have been supported by the warmer-than-usual weather. If sales were just flat in September, then in Q3 sales volumes would be up 0.7% q/q compared to the 0.2% q/q gain in Q2

23. With the November Budget edging nearer, the public finances position looks weak. Public net sector borrowing of £18.0bn in August means that after five months of the financial year, borrowing is already £11.4bn higher than the OBR forecast at the Spring Statement in March. The overshoot in the Chancellor's chosen fiscal mandate of the current budget is even greater with a cumulative deficit of £15.3bn. All this was due to both current receipts in August being lower than the OBR forecast (by £1.8bn) and current expenditure being higher (by £1.0bn). Over the first five months of the financial year, current receipts have fallen short by a total of £6.1bn (partly due to lower-than-expected self-assessment income tax) and current expenditure has overshot by a total of £3.7bn (partly due to social benefits and departmental spending). Furthermore, what very much matters now is the OBR forecasts and their impact on the current budget in 2029/30, which is when the Chancellor's fiscal mandate bites. As a general guide, Capital Economics forecasts a deficit of about £18bn, meaning the Chancellor will have to raise £28bn, mostly through higher taxes, if she wants to keep her buffer against her rule of £10bn.

24. The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nine of the ten months since the

Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October Budget. The number of job vacancies in the three months to August stood at 728,000. Vacancies have now fallen by approximately 47% since its peak in April 2022. All this suggests the labour market continues to loosen, albeit at a declining pace.

25. A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.8% in July. The rate for the private sector slipped from 5.5% to 4.7%, putting it on track to be in line with the Bank of England's Q3 forecast (4.6% for September).

26. CPI inflation fell slightly from 3.5% in April to 3.4% in May, and services inflation dropped from 5.4% to 4.7%, whilst core inflation also softened from 3.8% to 3.5%. More recently, though, inflation pressures have resurfaced, although the recent upward march in CPI inflation did pause for breath in August, with CPI inflation staying at 3.8%. Core inflation eased once more too, from 3.8% to 3.6%, and services inflation dipped from 5.0% to 4.7%. So, we finish the half year in a similar position to where we started, although with food inflation rising to an 18-month high of 5.1% and households' expectations for inflation standing at a six year high, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.

27. An ever-present issue throughout the past six months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the "Liberation Day" tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended Q2 at 4.50%.

28. More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England have kept yields elevated over 4.70%.

29. The FTSE 100 fell sharply following the “Liberation Day” tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 closed Q2 at 8,761, around 2% higher than its value at the end of Q1 and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed Q3 at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors’ global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings.

PWLB Rates

30. As the interest forecast table for PWLB (borrowing) rates above shows (Table 3), MUFG’s latest view is that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

Debt Rescheduling

31. The Council has opted to re-pay its Barclays £5m loan early. In June, the Council’s Treasury Advisors (MUFG) advised market conditions are such that the lender would pay the council a discount for early redemption of the loan (circa £554K). Additionally, if the £5m loan would need to be refinanced, current interest rate forecasts indicate that the loan could be re-financed at a lower interest rate than currently being paid. A decision to proceed was made by the S.151 officer on 11th July in accordance with advice from MUFG. 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

32. 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

33. The 2025-2026 capital programme budgets were approved as part of the budget report to full Council on 12 February 2025. The quarter 2 budget monitoring report shows approved revisions to the capital budgets to include the 2024-2025 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 2025-2026 budget monitoring report.

Table 4

	2025-2026 Original Budget	2025-2026 Revised Budget	2025-2026 Forecast Outturn
	£000	**£000**	**£000**
General Fund capital expenditure	23,033	48,460	(552)
General Fund capital loans	7,000	0	0
HRA	37,520	45,549	(1,184)
Capital Expenditure	**67,553**	**94,009**	**(1,737)**
Financed by:			
Capital receipts	12,599	9,693	9,636
Capital grant and contributions	14,183	44,723	44,278
Capital & earmarked reserves	24,754	32,603	31,436
Revenue	0	448	448
Total Resources	**51,536**	**87,467**	**85,798**
Net borrowing need for the year	**15,917**	**6,542**	**6,474**

34. 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 loans requirement for Norwich Preservation Trust being re-profiled into future years and Lion Homes Ltd no longer being required.

35. A further consequence of this is that the council's forecast Capital Financing Requirement (CFR) for 2025-2026 shown in Table 5, is lower than initially anticipated.

The Capital Financing Requirement (CFR)

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

Table 5

	2025-2026 Original Estimate	2025-2026 Revised Estimate
	£000	**£000**
Opening General Fund CFR	**98,795**	**101,464**

Movement in General Fund CFR	15,055	5,612
Closing General Fund CFR	**113,849**	**107,076**
Movement in CFR represented by:		
Borrowing need	15,917	6,474
Loan repayment	(57)	(57)
Appropriations		
Less MRP and other financing adj.	(805)	(805)
Movement in General Fund CFR	**15,055**	**5,612**
Opening HRA Fund CFR	**208,532**	**208,532**
Movement in HRA CFR	0	0
Closing HRA CFR	**208,532**	**208,532**
TOTAL CFR	**322,381**	**315,608**

Prudential Indicators relating to Borrowing Activity

37. 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 2025 was £197m estimated to reduce to £146m by March 2025 and is well within the authorised limit in Table 7.

Table 7

Prudential Indicator	**2025/26**
	£000
Authorised Limit for external debt	**352,381**

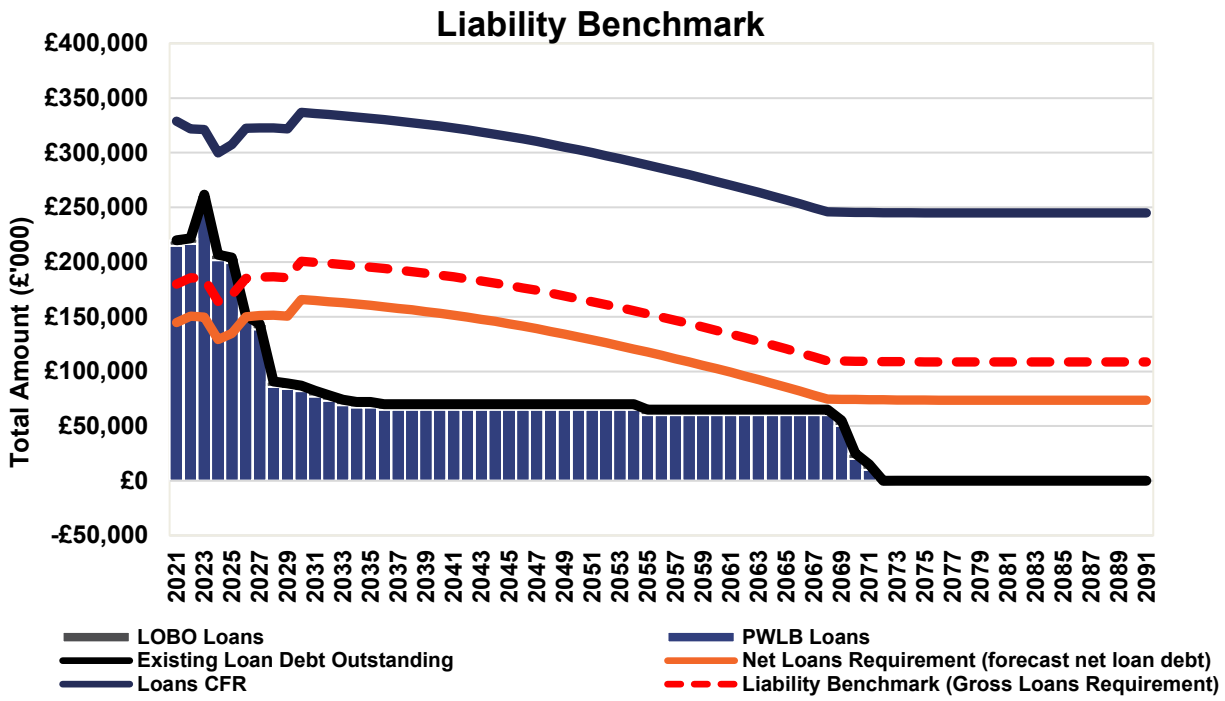
38. Operational Boundary – This indicator is based on the probable external debt during the year; it is set deliberately lower than the authorised limit. This limit acts as an early warning indicator should borrowing be approaching the Authorised Limit. This limit may be breached on occasion under normal 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	**2025/26**
	£000
Operational boundary for external debt	**322,381**

39. 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 2023-2024. 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 MTFS which also includes the Treasury Managements Strategy.

Borrowing Activity

40. 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.

41. Long-term fixed interest rates are expected 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.

42. 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. The Council has opted to re-pay its Barclays £5m loan early. In June, the Council's Treasury Advisors (MUFG) advised market conditions are such that the lender would pay the council a discount for early redemption of the loan (circa £554K). Additionally, if the £5m loan would need to be refinanced, current interest rate forecasts indicate that the loan could be re-financed at a lower interest rate than currently being paid. A decision to proceed was made by the S.151 officer on 11th July in accordance with advice from MUFG.

Investment Performance

43. 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.

44. The Council held £107m of financial investments at 30 September 2025 with the investment profile being shown in Table 1 earlier in this report.

Risk Benchmarking

The Investment Strategy for 2025-2026 includes the following benchmarks for liquidity and security. The most recent data was supplied by MUFG during September 2025 related to the period ended 30th June 2025.

Liquidity

45. 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.

46. The Average return on investment was 4.53% against a SONIA-swap average rate of 4.31% performance is above by 0.22%. The Interim Chief Finance Officer (S.151 officer) can report that liquidity arrangements were adequate during the year to date.

Security

47. The weighted average credit risk of the portfolio at the end of the period was 2.49%. The Council's maximum security risk benchmark for the portfolio was 0.012% which equates to a potential loss of £12.856k on an investment portfolio of £107m. This credit risk indicator is lower than the anticipated maximum risk of 0.040% in the Treasury Management Strategy.

48. At 30 September 2025 100% of the investment portfolio was held in low risk specified investments.
49. The Interim Chief Finance Officer (S.151 officer) can report that the investment portfolio was maintained within the overall benchmark during the year to date.

Minimum Revenue Provision Policy (MRP)

50. The Council is required to approve an MRP policy in advance of each year. Council approved the 2025-2026 policy on 12 February 2025.

51. 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.

52.

Treasury Management and Prudential Codes

53. 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.

54. 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 39.

55. The Prudential Code also addresses the risks associated with commercial investments (see paragraphs 56-60), 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

56. Norwich City Council currently has £96.047m of Investment Property on its balance sheet (31 March 2025) and, as it is in a net borrowing position, is directly impacted by the requirements of the prudential code.
57. 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.
58. 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.

59. 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.

60. In March 2024 the Council agreed an action plan over 5 years to streamline the investment portfolio and would review this on an Annual basis. The last review and revised action plan was adopted in March 2025 and this is progressing well. A further review and revision to the action plan will be considered in Spring 2026.

Maturity Indicator

61. 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

62. 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.

63. 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

64. 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.

65. 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

66. 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

67. 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)

Environmental, Social & Governance (ESG)

68. 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 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.

69. The Council has included its ESG policy in the Treasury Management Strategy.

Training, Knowledge and Skills

70. Revisions to TMP10 on the training skills and knowledge now requires a knowledge and skills schedule to be maintained for all those involved in Treasury Management functions.

71. Officers maintain a register of training offered and attended for both Members and Officers including the annual training session delivered by MUFG Corporate Markets.

Ethical and Sustainable Management of Council Cash Balances and Investments Activity

72. In order to address the tasks outlined in the Ethical and Sustainable Management of Council Cash Balances and Investments Activity Scrutiny TOPIC form, the Treasury Management Committee agreed the following reporting will be included in the scheduled workplan for the reports to the April and July Committee meetings, with a final report presented to the November Committee meeting:

TMC meeting 8 April 2025 – Update on the Procurement process for Treasury Management Services and staff/member training in respect of Treasury Management activity.

73. **TMC meeting 22 July 2025** - Report on expert advice from MUFG (the Council's current Treasury Management advisors), Local Government Association, CIPFA and any other appropriate organisations. Report to also include best practice learning from other Local Authorities.

Treasury Management Advisory Services

74. As reported to Treasury Management Committee in April, the City Council has undertaken a joint procurement with Great Yarmouth Borough Council for its treasury management advisory services.

75. Following completion of the procurement process the Council's contract has been awarded to Arlingclose, with the new contract commencing on 3rd November 2025.

Expert advice from Treasury Management advisors and other appropriate organisations and best practice learning from other Local Authorities.

76. During June the Council developed a survey that was sent out to organisations and councils to seek feedback and best practice in Treasury Management. Response to the survey was disappointing and the Treasury Management Committee requested that Officers re-issue the survey during September.

77. Responses to the survey have again been limited. The surveys were sent out again by email during September and October and the record of recipient responses are shown below:

Recipient	**Type**	**Response Received Y/N (June)**	**Response Received Y/N (September/ October)**
MUFG	Treasury management Adviser	Y	Not reissued as response received
Arlingclose	Treasury management Adviser	N	Y
CIPFA and CIPFA Benchmarking Family	Accountancy body	N	Y
Local Government Association	National membership body for local authorities	N	N
Cambridge Banking Engagement Forum	Banking arrangements for the Collegiate University and University-affiliated institutions	N (but an email outlining CBEF progress)	Not reissued as response received)
Society of District Council Treasurers	An organisation Representing the interests of district council finance on a national level	N	N

Norfolk County Council	Local Council	Y	Not reissued as response received
Broadland District Council	Local Council	N	N
Breckland District Council	Local Council	N	N
Great Yarmouth Borough Council	Local Council	N	N
Kings Lynn and West Norfolk Borough Council	Local Council	N	N
North Norfolk District Council	Local Council	N	N
South Norfolk District Council	Local Council	N	N
Oxfordshire County Council	Local Council		N
Stroud District Council	Local Council		N

78. The low response rate to the survey is disappointing but could be indicative of the following issues:

    - A general reflection of workload/time pressures colleagues in the Local Authority sector are experiencing.
    - A reflection of the complex and non-standard approach to ethical/ESG investing across Local Authorities.

79. The result of the survey and key themes based on the limited responses received are summarised as follows:

    - **Benchmarking** - ethical and sustainable management of cash balances is subjective and bespoke to each investor. Therefore caution should be applied if comparing approaches. Arlingclose commented that Norwich City Council's ethical and sustainable management of council cash balances and investments framework was well developed.
    - **Legal constraints** – Legal constraints in respect of SLY and Fiduciary responsibility. Also the Economic Activity of Public Bodies (Overseas Matters) Bill.
    - **Supplier constraints** – the development of ethically focused investment options remains limited, due to the nature of the investments being made. CIPFA identified an advisor who may be able to provide bespoke advice.
    - **Awareness** - there is an increasing awareness and adoption of additional factors outside of more traditional metrics used to consider counterparty suitability. Arlingclose identified another authority the Council could potentially liaise with to compare investment approaches.

Scrutiny Topic Objectives and recommendations:

80. Objective 1 - To evaluate to what extent the Council is following best practice in the area of ethical and sustainable management of cash balances and investments, and

81. Objective 2 - to establish where other Councils go further and what learning and knowledge exchange opportunities exist that the Council is currently engaged in or could engage in in future,

    Recommendation 1 – That the Council utilises its new contract with Arlingclose to leverage contact with other client Council's to compare best practice.

82. Objective 3 - to establish what the legal and supply side constraints in this area are,

    Recommendation 2 – That Treasury Committee note the Legal constraints in respect of the SLY principles (Security, Liquidity, Yield) and the Fiduciary responsibility of the Council.

83. Objective 4 - to establish how the Council could go about seeking further specialist advice on ethical and sustainable investment and banking (beyond what non-specialist treasury management consultancies can provide),

84. Recommendation 3 – that the Council approaches the advisor contact identified by CIPFA to gauge opportunities for advice on its Ethical/ESG investment approach.

85. Objective 5 - to evaluate whether the Council could play a role in promoting/participating in collective initiatives within the local authority sector, similar to those recently launched within the higher education sector.

    Recommendation 4 – that the Council keeps a watching brief of all financial market investment developments.

Consultation

86. 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

87. 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

88. 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.

89. 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

90. 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 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

91. 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 2025 to 30 September 2025.

Reasons for the decision/recommendation

92. 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 - Treasury Management Summary – Quarter 1

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Appendix A

Treasury Management Summary – Quarter 1

Investments	Actual		Actual
	31-Mar-25	Movement	30-Jun-25
	£000	£000	£000
Short term investments:			
Banks	10,000	21,000	31,000
Building Societies	0.000	0.000	0.000
Local Authorities	30,000	0.000	30,000
Cash Equivalents:	0.000	0.000	0.000
Banks	24,237	(8,181)	16,056
Non- UK Banks	0.000	0.000	0.000
Building Societies	0.000	0.000	0.000
Local Authorities	5,000	(5,000)	0.000
Money Market Funds	31,500	2,450	33,950
UK Government	0.000	0.000	0.000
Total	**100,737**	**10,269**	**111,006**

- Investments predominantly with local authorities; safe investments offering good returns.
- Investment interest income budget target of £4m for 2025/26. To June 2025 £1.244m of actual interest
- The budget target reflected the forecast increasing interest rate environment available for short term investments.

Long Term Borrowing	Actual 31-Mar-25	Actual 30-June-25	TMSS Forecast 31-Mar-26	Revised Estimate 31-Mar-26
	£000	£000	£000	£000
Public Works Loan Board	199,148	199,148	145,948	145,948
Money Market	5,000	5,000	0	0
3% Stock (Perpetually irredeemable)	133	101	101	101
Other financial intermediaries (Salix)	26	148	132	132
Corporate Bonds and External Mortgages	11	11	11	11
Total	**204,318**	**204,260**	**146,192**	**146,192**

- £204,260m of which £158.630m relates to the Housing Revenue Account (HRA).
- The repayment of the Money Market loan of £5m (GF) July 2025 and PWLB of £2.5m (HRA) July 2025
- The next PWLB repayment of £0.700m (GF) is due November 2025 and £50m (HRA) due March 2026

Future Economic forecasts

For the period April to June, the Monetary Policy Committee (MPC) has changed the interest rate on the 8th May to 4.25%, with no change on the 19th of June.

Interest rate forecasts

MUFG Corporate Markets Interest Rate View 10.02.25													
	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28
BANK RATE	4.50	4.25	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.50	4.30	4.30	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.50	3.50	3.50
6 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.60
5 yr PWLB	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.40	4.30	4.20	4.20	4.10	4.00
10 yr PWLB	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.50	4.50	4.40	4.40
25 yr PWLB	5.80	5.70	5.60	5.50	5.40	5.30	5.20	5.10	5.00	5.00	4.90	4.90	4.80
50 yr PWLB	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.60	4.50

- These forecasts 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.

Benchmarking

The Council is part of a benchmarking group (facilitated by our treasury management advisors, MUFG) 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: MUFG benchmarking - position at 30 June 2025

	Norwich	Benchmark Group 7 (11)	Non met districts (79)	All authorities (228)
WARoR[1]	4.82%	4.72%	4.67%	4.63%
WA Risk[2]	2.24	2.02	2.06	2.01
WAM[3]	90	53	75	67
WATT[4]	151	109	153	130

Source: MUFG Treasury

[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.