NORWICH
City Council

Supplementary agenda

Treasury Management Committee

Date: **Monday, 14 November 2022**
Time: **11:00**
Venue: **Westwick room, City Hall, St Peters Street, Norwich, NR2 1NH**

Committee members:

Councillors:

Kendrick
Price
Stutely
Waters
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Agenda

Date of publication**: Tuesday, 08 November 2022**

NORWICH City Council

Item 3

Committee Name: Treasury Management

Committee Date: 14/11/2022

Report Title: Treasury Management Annual Workplan

Portfolio: Councillor Kendrick, resources

Report from: Executive director of corporate and commercial services

Wards: **All Wards**

OPEN PUBLIC ITEM

Purpose

This report sets out the Council's Treasury Management workplan for a typical year.

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 proposed meeting dates for Committee are shown in bold.

January	**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
April	**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
July	**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
November	**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 2022/23 and 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 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

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

Proposed 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.

NORWICH
City Council

Item 4

Committee Name: Treasury Management Committee

Committee Date: 14/11/2022

Report Title: Draft Treasury Management Mid-Year Review Report 2022/23

Portfolio: Councillor Kendrick, resources

Report from: Executive director of corporate and commercial services

Wards: **All Wards**

OPEN PUBLIC ITEM

Purpose

To consider the draft Treasury Management Mid-Year Review Report 2022/23.

This report sets out the Council's Treasury Management performance for the first six months of the financial year to 30 September 2022.

Recommendation:

That cabinet:

(1) notes the contents of the report and in particular the treasury management activity undertaken in the first six months of the 2022/23 financial year;

(2) proposes that this report be considered and agreed by Full Council.

Policy Framework

The Council has five corporate priorities, which are:

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

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

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

Report Details

Background

1. 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 2022/23 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 22 February 2022 and, as the original decision-making body, subsequent monitoring reports should also be considered by Full Council.
4. In the Spring and Autumn of 2021 CIPFA completed two consultations on proposals to make changes to the Treasury Management Code and its associated guidance. Running alongside these consultations, similar consultations were also conducted on proposed changes to the Prudential Code for capital finance, governing local authority capital investment and borrowing activities.
5. In December 2021 CIPFA published the new Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) and Prudential Code for Capital Finance in Local Authorities (Prudential Code).
6. These two statutory and professional codes are important regulatory elements of the capital finance framework within which local authorities operate. Local authorities are required by regulation to 'have regard to' their provisions.
7. The new codes have been “soft launched” for the 2022/23 financial year. This means, where possible, local authorities should make their best endeavours to adhere to their provisions and not undertake any new investments which would not be consistent with the changes. The codes will be fully implemented in the 2023/24 financial year.
8. 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

9. The TMSS for 2022/23, which includes the Annual Investment Strategy, was approved by the council on 22 February 2022. It sets out the Council’s investment priorities as being:
    - Security of capital;
    - Liquidity of capital; followed by

- Yield

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

11. The Council held £183m of investments as at 30 September 2022. Table 1 below shows the movement in investments for the first six months of the year. The main components of the increase between March and September were the receipt of £14m proceeds from the sale of Norwich Airport Industrial Estate and the balance reflects the normal receipt of government grants towards the beginning of the year where amounts have not yet been expended.

12. The Council continues to consider the broader impact of its investments and a new element of the Treasury Management code will also require consideration of Environmental, Social and Governance (ESG) policies in placing future investments. Currently the Council has placed two tranches of £5m 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.

Table 1

Investments	**Actual**		**Actual**
	31-Mar-22	**Movement**	**30-Sep-22**
	£000	**£000**	**£000**
Short term investments:			
Banks	40,000	0,000	40,000
Building Societies	25,000	0,000	25,000
Local Authorities	45,000	0,000	45,000
Cash Equivalents:			
Banks	16,525	-6,525	10,000
Non- UK Banks	12,000	3,000	15,000
Building Societies	0,000	0,000	0,000
Local Authorities	0,000	0,000	0,000
Money Market Funds	24,000	1,000	25,000
UK Government	2,000	21,000	23,000
Total	**164,525**	**18,475**	**183,000**

13. In setting its Treasury Management budgets for 2022/23 the council set an income budget target of £220,000 for its investment activity, reflecting the continuing low rate environment that was at the time available for short term investments; so far however, it has proved possible to achieve a return on investments which has resulted in £533,739 of actual interest being achieved to the end of September 2022.

14. It is anticipated that cash balances will decrease during the second half of the year particularly reflecting the repayment in January and March of PWLB loans amounting to £51m and as further capital expenditure is incurred. A combination of early refinancing loans, taken before the recent interest rate rises and relatively higher than anticipated levels of cash balances has

achieved a reduction of the overall cost and the refinancing risk associated with the PWLB loan.

15. A projection for the remainder of the year suggests that total income for the year of £2.6m may be achievable; interest earned will be apportioned between the General Fund and the HRA with an estimated £0.7m being due to the HRA.

16. The Director of Resources (S.151 officer) confirms that all investment transactions undertaken during the first six months of 2022/23 were within the approved limits as laid out in the Annual Investment Strategy.

BALANCE SHEET POSITION

External Borrowing

17. Table 2 below shows that as at 30 September the Council had external borrowing of £262.299m, of which £211.907m relates to the Housing Revenue Account (HRA). In the first six months of the year the Council has not completed any borrowing. There is a repayment of £2m debt scheduled for January 2023 and £49m debt for March 2023.

    Table 2 shows the current and forecast borrowing position. This position assumes that there will be no borrowing in the current year. The scheduled repayment of loans of £51m in January and March gives the revised position.

Table 2

Long Term Borrowing	Actual	Actual	TMSS Forecast	Revised Estimate
	31-Mar-22	30-Sep-22	31-Mar-23	31-Mar-23
	£000	£000	£000	£000
Public Works Loan Board	256,606	256,606	205,647	205,647
Money Market	5,000	5,000	5,000	5,000
3% Stock (Perpetually irredeemable)	499	499	499	499
Other financial intermediaries (Salix)	183	157	131	131
Corporate Bonds and External Mortgages	11	11	11	11
Total	**262,299**	**262,273**	**211,288**	**211,288**

Future Economic forecasts

18. For the period to September the Monetary Policy Committee (MPC) has increased interest rates seven times in as many meetings in 2022 and has raised rates to 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 now facing a squeeze on their real incomes.

19. In their November meeting which happened as this report was being drafted the Monetary Policy Committee (MPC) increased interest rates further to 3% (from 2.25%) which was the largest single increase in Three decades; currently the forecast position suggests they will continue to rise to a peak of 5.00% around February 2023. Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in the forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

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 September 2025. These projections are based on the end of September position to align with the date covered by this report and they may change before the Investment Committee meeting.

Table 3

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

Source: Link Treasury 2022 (PWLB rates include adjustments for Certainty rate discounts)

20. In summary, the MPC 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.

21. The forecast on 27th September sets out a view that both short 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, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the worst impacts of ultra-high wholesale gas and electricity prices.

22. These forecasts will be kept under close review and the impact will feed through into in year budget monitoring position, the 2023/24 budget and MTFS.

PWLB Rates

23. As the interest forecast table for PWLB (borrowing) rates above shows, there is likely to be a steady rise over the forecast period for about a year, after which rates are expected to fall.

Debt Rescheduling

24. No debt rescheduling was undertaken during the first six months of 2022/23. 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

25. 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

26. The 2022/23 capital programme budgets were approved as part of the budget report to full Council on 22 February 2022. In the Q1 Assurance report there were approved revisions to the capital budgets to include the 2021/22 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 1 2022/23 Corporate Performance Assurance report.

Table 4

	2022/23 Original Budget	2022/23 Revised Budget	2022/23 Forecast Outturn
	£000	**£000**	**£000**
General Fund capital expenditure	20,246	18,298	16,430
General Fund capital loans	6,000	1,000	1,000
HRA	41,962	42,347	38,417
Capital Expenditure	**68,208**	**61,646**	**55,847**
Financed by:			
Capital receipts	16,213	16,377	13,516
Capital grant and contributions	20,109	18,507	16,178
Capital & earmarked reserves	19,544	19,144	19,205
Revenue	6,342	6,618	5,949
Total Resources	**62,208**	**60,646**	**54,847**
Net borrowing need for the year	**6,000**	**1,000**	**1,000**

27. 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.

28. A further consequence of this is that the council's forecast Capital Financing Requirement (CFR) for 2022/23 shown in Table 5, is lower than initially anticipated.

The Capital Financing Requirement (CFR)

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

Table 5

	2022/23 Original Estimate	2022/23 Revised Estimate
	£000	**£000**
Opening General Fund CFR	**114,306**	**113,003**
Movement in General Fund CFR	5,769	2,065
Closing General Fund CFR	**120,074**	**115,068**
Movement in CFR represented by:		
Borrowing need (NRL loan requirement)	6,000	1,000
Loan repayment	(15)	(15)
Appropriations	(657)	0
Less MRP and other financing adj.	441	1,080
Movement in General Fund CFR	**5,769**	**2,065**
Opening HRA Fund CFR	**207,517**	**208,533**
Movement in HRA CFR	657	0
Closing HRA CFR	**208,174**	**208,533**
TOTAL CFR	**328,248**	**323,601**

Prudential Indicators relating to Borrowing Activity

30. 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 2022 was £262m falling to an estimated £211m by March 2023 and in comparison to the authorised limit in Table 7.

Table 7

Prudential Indicator	2022/23
	£000
Authorised Limit for external debt	**358,248**

31. 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	2022/23
	£000
Operational boundary for external debt	**328,248**

Borrowing Activity

32. 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.

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

34. 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

35. 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.

36. The Council held £183m of financial investments at 30 September 2022 with the investment profile being shown in Table 1 earlier in this report.

Risk Benchmarking

37. The Investment Strategy for 2022/23 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

38. 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.

39. The Average return on investment at 30 September 2022 was 0.09% against a 7 Day LIBID benchmark average rate of -0.0825% (minus). The Executive Director, Corporate & Commercial Services (S.151 officer) can report that liquidity arrangements were adequate during the year to date.

Security

41. The weighted average credit risk of the portfolio at the end of the period was 3.98%. The Council's maximum security risk benchmark for the portfolio at 30 September 2022 was 0.01% which equates to a potential loss of £18.3k on an investment portfolio of £183m. This credit risk indicator is lower than the anticipated maximum risk of 0.039% in the Treasury Management Strategy.

42. At 30 September 2022 100% of the investment portfolio was held in low risk specified investments.

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

Minimum Revenue Provision Policy

44. The Council is required to approve an MRP policy in advance of each year. Council approved the 2022/23 policy on 22 February 2022.

REGULATORY UPDATE

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

45. 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.

Changes to the Treasury Management and Prudential Code.

46. In the Spring and Autumn of 2021 CIPFA completed two consultations on proposals to make changes to the Treasury Management Code and its associated guidance. Running alongside these consultations, similar consultations were also conducted on proposed changes to the Prudential Code for capital finance, governing local authority capital investment and borrowing activities.

47. In December 2021 CIPFA published the new 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).

48. The focus of the Treasury Management Code changes relate to supporting the new prudential code. The new prudential code includes a new 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.

49. The focus of the new Prudential Code changes are to address the risks associated with commercial investments (see paragraphs 50-54), 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

50. Norwich City Council currently has £119m of Investment Property on its balance sheet (31 March 2022) and, as it is in a net borrowing position, is directly impacted by the proposed code changes.

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

52. 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.

53. 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.

54. The Council is currently undertaking a review of its investment portfolio to determine assets returns and the potential cost of disposal.

Other Treasury Management Code Changes

55. CIPFA has also set out several other areas which should be considered and reflected appropriately in authorities Treasury Management strategies and prudential indicators.

Maturity Indicator

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

Long Term Treasury Management Investments

57. 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.

58. 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

59. 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.

60. 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

61. 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

62. 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

63. 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.

64. 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

65. 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

66. The report is the mid-year position statement to ensure that the Treasury Management Committee and the Council are kept informed of treasury activity.

Implications

Financial and Resources

67. 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

68. 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.

69. 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

70. 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

71. 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 2022 to 30 September 2022.

Reasons for the decision/recommendation

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

Background papers: None

Appendices: None

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