NORWICH
City Council

Committee Name: Council

Committee Date: 21/01/2025

Report Title: Treasury Management Mid-Year Review Report 2024/25

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 Council's Treasury Management performance for the first six months of the financial year to 30 September 2024.

Recommendation:

Council 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 2024/25 financial year.
2. Note the final Quarter 1 data as set out in Appendix A .
3. Adopt the report

Policy Framework

The council has five corporate priorities, which are:

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

This report supports the delivery of all these priorities.

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 2024/25 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 21 February 2024 and, as the original decision-making body, subsequent monitoring reports should also be considered by Full Council.
4. This Council has adopted the new CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code. This requires that the prime objective of treasury management activity is the effective management of risk, and that borrowing activities are undertaken on a prudent, affordable and sustainable basis.

Banking Contract Update

5. Treasury Management Committee received an update on the banking contract procurement process on the 16th July 2024. A further Briefing note for Treasury Management Committee members was circulated via email by the Committee Clerk in October. We can confirm that the banking contract tenders have been received and that the Council is part of the tender review panel. Once the panel has concluded its review and is at a stage in the process where information may be shared, the Committee will be updated accordingly.

Investment Strategy

6. The TMS for 2024/25, which includes the Annual Investment Strategy, was approved by the council on 21 February 2024. 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 £96m of investments as at 30 September 2024. 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 will be allocated to eligible green projects based on the "SMBC Green Deposit Framework", which was established with the support of Sustainalytics. SMBC Group has a proven track record in project finance for renewable energy businesses such as solar power generation and wind power generation internationally, and SMBC strives to further contribute to the preservation and improvement of the global environment through Green Deposits and Project Finance 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 2023/24 TMS a fourth money market fund with ESG credentials was set up in June with Legal & General Investment Management (LGIM) and is now in use with a maximum investment of £10m.

Table 1

Investments	**Actual**		**Actual**
	31-Mar-24	**Movement**	**30-Sep-24**
	£000	**£000**	**£000**
Short term investments:			
Banks	20,000	5,000	25,000
Building Societies	0.000	0,000	0,000
Local Authorities	46,000	(11,000)	35,000
Cash Equivalents:			
Banks	11,446	(0.726)	10,720
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	6,300	19,000	25,300
UK Government	0.000	0,000	0,000
Total	**88,746**	**7,274**	**96,020**

11. In setting its Treasury Management budgets the council set an investment interest income budget target of £4.584m for 2024/25 (2023/24 £4.032m). The budget target reflected the forecast increasing interest rate environment available for short term investments. So far return on investments has resulted in £ 1.729m of actual interest being achieved to the end of September 2024 by the Treasury Management Team. Forecasts show that the actual outturn is estimated to be at the budgeted level. The Council's Treasury Advisors (Link) 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 £2.100m of the forecast £4.584m for 2024/25 being due to the HRA.

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

13. The Interim Chief Finance Officer (S.151) confirms that all investment transactions undertaken during the first six months of 2024/25 were within the approved limits as laid out in the Annual Investment Strategy.

BALANCE SHEET POSITION

External Borrowing

14. Table 2 below shows that as at 30 September the Council had external borrowing of £204.344m, of which £158.631m 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 debt to the PWLB however no further repayments are scheduled the remainder of this financial year. The next repayment of £2.500m is due July 2025, this 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-24	Actual 30-Sep-24	TMSS Forecast 31-Mar-25	Revised Estimate 31-Mar-25
	£000	**£000**	**£000**	**£000**
Public Works Loan Board	201,648	199,148	199,148	199,148
Money Market	5,000	5,000	5,000	5,000
3% Stock (Perpetually irredeemable)	133	133	133	133
Other financial intermediaries (Salix)	78	52	26	26
Corporate Bonds and External Mortgages	11	11	11	11
Total	**206,870**	**204,344**	**204,318**	**204,318**

Future Economic forecasts

15. At the September meeting, the Monetary Policy Committee (MPC) left interest rates unchanged at 5%. At the previous meeting, the MPC reduced rates for the first time since the pandemic.

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 March 2027.

Table 3

Link Group Interest Rate View	28.05.24									
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	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)

16. 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

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

Economic Outlook and Commentary

18. The third quarter of 2024 (July to September) saw

- GDP growth stagnating in July following downwardly revised Q2 figures;
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July; the wage growth rate is published every 3 months and the rate change year on year from June 23 to July 24 was 4.6% to 4%.
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

19. The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession.

20. The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.

21. The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.

22. Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

23. CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.

24. The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.

25. Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.

26. The forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.

PWLB Rates

27. As the interest forecast table for PWLB (borrowing) rates above shows, Link'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

28. No debt rescheduling was undertaken during the first six months of 2024/25. 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

29. 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

30. The 2024/25 capital programme budgets were approved as part of the budget report to full Council on 21 February 2024. The quarter 2 budget monitoring report shows approved revisions to the capital budgets to include the 2023/24 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 2024/25 budget monitoring report.

Table 4

	2024/25 Original Budget	2024/25 Revised Budget	2024/25 Forecast Outturn
	£000	**£000**	**£000**
General Fund capital expenditure	28,652	23,186	23,136
General Fund capital loans	5,000	0	0
HRA	43,707	30,736	30,151
Capital Expenditure	**77,359**	**53,922**	**53,287**
Financed by:			
Capital receipts	19,675	7,789	6,923
Capital grant and contributions	22,603	17,440	17,677
Capital & earmarked reserves	24,007	21,937	22,009
Revenue	0	450	450
Total Resources	**66,285**	**47,616**	**47,059**
Net borrowing need for the year	**11,074**	**6,306**	**6,228**

31. 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, Lion Homes Limited being re-profiled into future years.

32. A further consequence of this is that the council's forecast Capital Financing Requirement (CFR) for 2024/25 shown in Table 5, is lower than initially anticipated.

The Capital Financing Requirement (CFR)

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

Table 5

	2024/25 Original Estimate	2024/25 Revised Estimate
	£000	**£000**
Opening General Fund CFR	**91,298**	**91,298**
Movement in General Fund CFR	11,706	7,254
Closing General Fund CFR	**103,004**	**98,552**
Movement in CFR represented by:		
Borrowing need	10,669	6,277
Loan repayment	(56)	(56)
Appropriations		
Less MRP and other financing adj.	1,093	1,033
Movement in General Fund CFR	**11,706**	**7,254**
Opening HRA Fund CFR	**208,533**	**208,532**
Movement in HRA CFR	0	0
Closing HRA CFR	**208,533**	**208,532**
TOTAL CFR	**311,537**	**307,084**

Prudential Indicators relating to Borrowing Activity

34. 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 2024 was £204m estimated to remain around the same level by March 2024 and is well within the authorised limit in Table 7.

Table 7

Prudential Indicator	2024/25
	£000
Authorised Limit for external debt	**341,537**

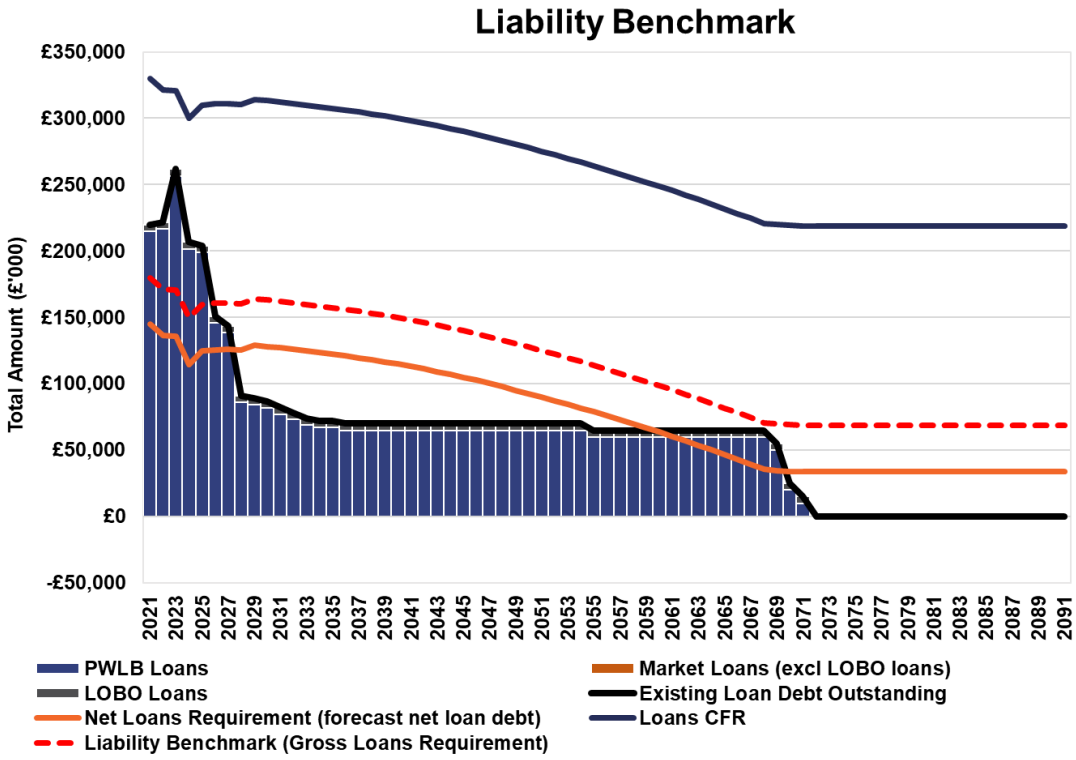
35. Operational Boundary – This indicator is based on the probable external debt during the year; it is set deliberately lower than the authorised limit. This limit acts as an early warning indicator should borrowing be approaching the Authorised Limit. This limit may be breached on occasion under normal circumstances, but sustained or regular breaches should trigger a review of borrowing levels. The operational boundary has not been breached and current external borrowing is well below the Operational Boundary.

Table 8

Prudential Indicator	2023/24
	£000
Operational boundary for external debt	311,537

36. 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 MTFS which also includes the Treasury Managements Strategy.

Borrowing Activity

37. 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.
38. 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.
39. 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

40. 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.
41. The Council held £96m of financial investments at 30 September 2024 with the investment profile being shown in Table 1 earlier in this report.

Risk Benchmarking

42. The Investment Strategy for 2024/25 includes the following benchmarks for liquidity and security.

Liquidity

43. 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.
44. The Average return on investment at 30 September 2024 was 5.64% against a SONIA-swap average rate of 5.14% performance is above by 0.50%. The Interim Chief Finance Officer (S.151 officer) can report that liquidity arrangements were adequate during the year to date.

Security (updated to most recent data)

45. The weighted average credit risk of the portfolio at the end of the period to June was 2.31%. The Council's maximum security risk benchmark for the portfolio at 30 September 2024 was 0.015% which equates to a potential loss of £14,403k on an investment portfolio of £96m. This credit risk indicator is

lower than the anticipated maximum risk of 0.040% in the Treasury Management Strategy.

46. At 30 September 2024 100% of the investment portfolio was held in low risk specified investments.

47. 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)

48. The Council is required to approve an MRP policy in advance of each year. Council approved the 2024/25 policy on 21 February 2024.

49. 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.

Regulatory Update

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

50. 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 2025/26 Treasury Management Strategy.

Treasury Management and Prudential Codes

51. 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.

52. 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 36.

53. The Prudential Code also addresses the risks associated with commercial investments (see paragraphs 54-58), 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

54. Norwich City Council currently has £93.217m of Investment Property on its balance sheet (31 March 2024) and, as it is in a net borrowing position, is directly impacted by the requirements of the prudential code.

55. 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.

56. 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.

57. 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.

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

Maturity Indicator

59. 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

60. 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.

61. 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

62. 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.

63. 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

64. 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

65. 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)

66. 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.

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

Training, Knowledge and Skills

68. 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.

69. Officers maintain a register of training offered and attended for both Members and Officers including the annual training session delivered by Link.

Consultation

70. 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

71. 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

72. 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.

73. 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

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

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

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

Other Options Considered

75. 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 2024 to 30 September 2024.

Reasons for the decision/recommendation

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

Background papers: None

Appendices: Appendix A

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Appendix A

Treasury Management Summary – Quarter 1

Investments	Actual		Actual
	31-Mar-24	Movement	30-Jun-24
	£000	£000	£000
Short term investments:			
Banks	20,000	(10,000)	10,000
Building Societies	0.000	0.000	0,000
Local Authorities	46,000	0.000	46,000
Cash Equivalents:			
Banks	11,446	9,820	21,266
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	6,300	9,450	15,750
UK Government	0.000	0.000	0,000
Total	**88,746**	**10,535**	**93,016**

- Investments predominantly with local authorities; safe investments offering good returns.
- Investment interest income budget target of £4.584m for 2024/25. To June 2024 £ 0.645m of actual interest
- The budget target reflected the forecast increasing interest rate environment available for short term investments.

Long Term Borrowing	Actual 31-Mar-24	Actual 30-June-24	TMSS Forecast 31-Mar-25	Revised Estimate 31-Mar-25
	£000	£000	£000	£000
Public Works Loan Board	201,648	201,648	199,148	199,148
Money Market	5,000	5,000	5,000	5,000
3% Stock (Perpetually irredeemable)	133	133	133	133
Other financial intermediaries (Salix)	78	53	26	26
Corporate Bonds and External Mortgages	11	11	11	11
Total	**206,870**	**206,844**	**204,318**	**204,318**

- £206.844, of which £158.631m relates to the Housing Revenue Account (HRA).
- The next repayment of £2.500m is due September 2024

Future Economic forecasts

- For the period April to June, the Monetary Policy Committee (MPC) has left interest rates unchanged at each meeting leaving the base rate at 5.25%.

Interest rate forecasts

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

- 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, 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.

Link benchmarking - position at 30 June 2024

	Norwich	Benchmark Group 7 (11)	Non met districts (79)	All authorities (231)
WARoR[1]	5.64%	5.27%	5.22%	5.20%
WA Risk[2]	2.31	2.90	2.45	2.40
WAM[3]	84	59	71	71
WATT[4]	213	142	148	134

Source: Link Treasury June 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.

The council's average investments return (5.64%) is higher when compared with that for the benchmark group (5.27%), the 79 non-met authorities (5.22%) and the population of 231 local authorities (5.20%). The WATT is

higher and the average investment return in quarter 1 2024/25 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.