NORWICH
City Council

Committee name: Cabinet

Committee date: 07/02/2024

Report title: Treasury Management Quarter 3 Review Report 2023/24

Portfolio: Councillor Kendrick, Cabinet member for resources

Report from: Interim chief finance officer (S151)

Wards: All wards

OPEN PUBLIC ITEM

Purpose

This report sets out the Council's Treasury Management performance for the first nine months of the financial year to 31 December 2023.

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Recommendation:

To note the contents of the report and in particular the treasury management activity undertaken in the 3rd Quarter of the 2023/24 financial year and recommend it for approval by 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.

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 nine months of the financial year 2023/24 and reports on the prudential indicators as required by CIPFA's Treasury Management Code of Practice.

3. The original Treasury Management Strategy (TMS) and Prudential Indicators were reported to and approved by Council on 21 February 2023 and, as the original decision-making body, subsequent monitoring reports should also be considered by Full Council.

4. This Council has adopted the new CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code. This requires that the prime objective of treasury management activity is the effective management of risk, and that borrowing activities are undertaken on a prudent, affordable and sustainable basis.

Investment Strategy

5. The TMS for 2023/24, which includes the Annual Investment Strategy, was approved by the council on 21 February 2023. It sets out the Council's investment priorities as being:
    - Security of capital.
    - Liquidity of capital; followed by
    - Yield.
6. No policy changes have been made to the investment strategy and the Council will therefore, continue to aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity.

7. The Council continues to consider the broader impact of its investments and a new element of the Treasury Management code will also require consideration of Environmental, Social and Governance (ESG) policies in placing future investments. Currently the Council has placed £10m in the Standard Chartered Bank Sustainable deposit fund; the deposit guarantees that investment is referenced against sustainable assets, both existing and future. The investments are referenced against the United Nations Sustainable Development Goals (SDGs) thus funds are put to work addressing some of the world's biggest long-term threats including, but not limited to, climate change, health, financial inclusion and education.

8. Due to Committee timings, it was not possible to include all the data in the original committee report for Quarter 3 as at 31st December. However, members were updated verbally and the report has been updated to include this information.

9. There were no Breaches to report in the third quarter against any of the key Prudential Indicators.

10. The Council held £107m of investments as at 31 December 2023. Table 1 below shows the movement in investments for the first three months of the year. The main components of the decrease between March and November were the usual precept payments and the prepayment of a pension fund contribution. The balance reflects the normal receipt of income and government grants towards the beginning of the year where amounts have not yet been expended.

Table 1: Cash & Cash Equivalents

Investments	Actual	Actual	Actual
	31-Mar-23	30-Sep-23	31-Dec-23
	£000	£000	£000
Short term investments:			
Banks	25,000	35,000	45,000
Building Societies	0	6,000	6,000
Local Authorities	20,000	20,000	25,000
Cash Equivalents:			
Banks	14,600	16,343	1,398
Non- UK Banks	5,000	10,000	10,000
Building Societies	10,000	0	0
Local Authorities	45,000	0	0
Money Market Funds	12,000	22,000	19,900
UK Government	0	3,000	0
Total	**131,600**	**112,343**	**107,298**

11. In setting its Treasury Management budgets the council set an investment interest income budget target of £4.032m for 2023/24 (2022/23 £0.220m). The budget target reflected the forecast increasing interest rate environment available for short term investments. The Link forecast interest rates as at 7th November are shown below in Table 2. As at 30th November the return on investments resulted in £1.7m of actual interest being achieved by the Treasury Management Team. Forecasts indicate that the outturn is estimated to exceed budget.

Table 2: Medium Term Interest Expectations

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

BALANCE SHEET POSITION

External Borrowing

12. Table 3 below shows that as at 31 December, the Council had external borrowing of £206.871m, of which £158.631m relates to the Housing Revenue Account (HRA). In the first three months of the year the Council has not completed any borrowing or repayments. The next repayment of maturing loan

totals £2.5m and is due in September 2024. Currently there are no proposals to borrow in the current financial year.

Table 3

Long Term Borrowing	Actual 31-Mar-23	Actual 30-Sep-23	Forecast 31-Dec-23	TMSS Forecast 31-Mar-24	Revised Forecast 31-Mar-24
	£000	**£000**	**£000**	**£000**	**£000**
Public Works Loan Board	205,648	201,648	201,648	201,648	201,648
Money Market	5,000	5,000	5,000	5,000	5,000
3% Stock (Perpetually irredeemable)	499	467	133	467	133
Other financial intermediaries (Salix)	131	105	79	79	79
Corporate Bonds and External Mortgages	11	11	11	11	11
Total	**211,288**	**207,231**	**206,871**	**207,205**	**206,871**

Capital Expenditure

13. The 2023/24 capital programme budgets were approved as part of the budget report to full Council on 21 February 2023. The 30th November revised budget was used in the draft 2024/25 Treasury Management Strategy.

Table 4

	2023/24 Original Budget	2023/24 Revised Budget Q6	2023/24 Revised Budget Nov-23
	£000	**£000**	**£000**
General Fund capital expenditure	25,595	20,840	20,354
General Fund capital loans	3,000	1,000	1,000
HRA	35,656	33,544	33,247
Capital Expenditure	**64,251**	**55,384**	**54,601**

Financing – Nov-23	**£'000**
Capital receipts	1,043
Capital receipts (ringfenced)	0
Retained "one for one" RTB receipts	6,267
Major repairs reserve	20,250
Contributions and grants	13,566
Revenue contribution	5,823
Revenue contribution from earmarked reserves	43
Greater Norwich growth partnership	533
Community infrastructure levy	1,256
S106	876
Total	**49,657**
Borrowing need for the year	4,944
Total Financing	**54,601**

Capital Financing Requirement (CFR)

14. In 2023/24, the Council applied General Fund capital receipts against its Capital Financing Requirement following a review by the Council's Treasury Management advisors. This approach together with the recommended policy changes to the MRP policy has reduced the MRP charge and used borrowing as replacement funding source. Overall, this approach has delivered financial benefits and matched longer life assets against borrowing.

Table 5

	2023/24 Original Estimate	**2023/24 Revised Estimate Dec-23**
	£000	**£000**
Opening General Fund CFR	**112,652**	**112,112**
Movement in General Fund CFR	3,384	(20,814)
Closing General Fund CFR	**116,036**	**91,298**
Movement in CFR represented by:		
Borrowing need (Incl. LHL loan requirement)	3,000	4,944
Loan repayment	(16)	(56)
Appropriations		
Less MRP and other financing adj.	400	(25,702)
Movement in General Fund CFR	**3,384**	**(20,814)**
Opening HRA Fund CFR	**208,533**	**208,532**
Movement in HRA CFR	690	0
Closing HRA CFR	**209,223**	**208,532**
TOTAL CFR	**325,259**	**299,831**

Prudential Indicators relating to Borrowing Activity

15. There has been no new borrowing activity to 31st December and there are no plans to borrow for the remainder of 2023/24.

16. 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 3 above indicates that the level of external borrowing at 31st December 2023 was £207m, is estimated to remain around the same level by March 2024 and is well within the authorised limit in Table 6.

Table 6

Prudential Indicator	2023/24
	£000
Original Authorised Limit for external debt in TMS	**355,259**
Revised Authorised Limit for external debt	**329,831**

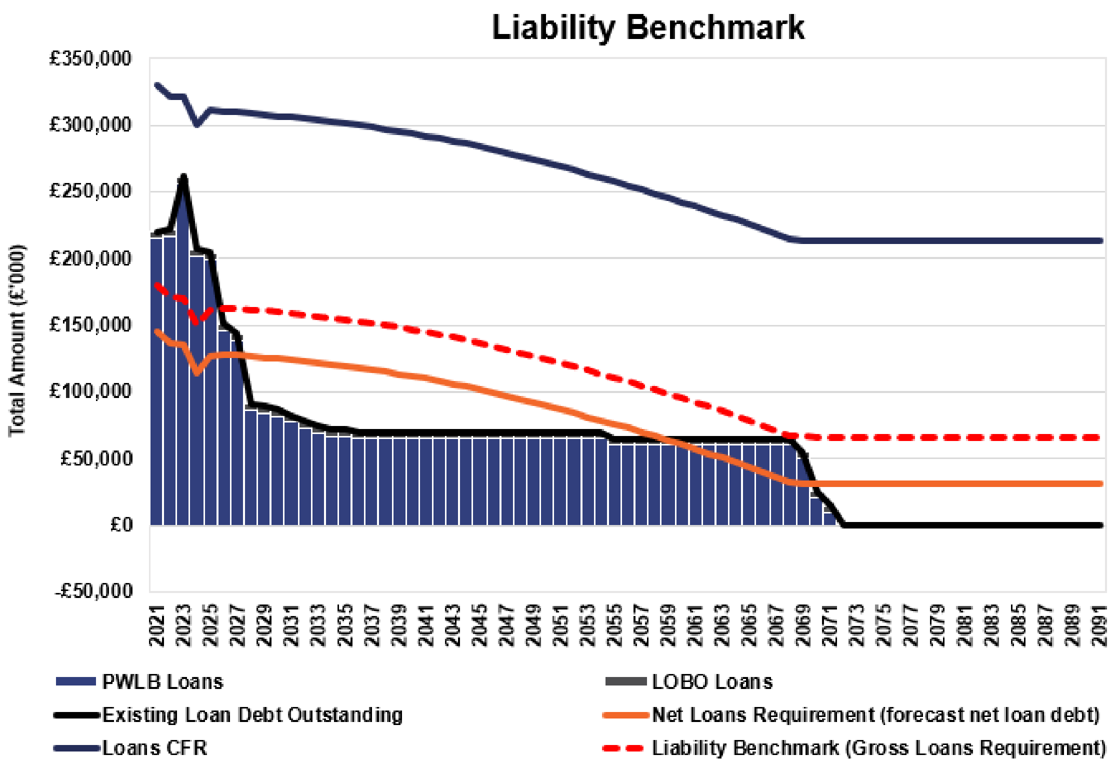
17. Operational Boundary – This indicator is based on the probable external debt during the year; it is set deliberately lower than the authorised limit. This limit acts as an early warning indicator should borrowing be approaching the Authorised Limit. This limit may be breached on occasion under normal 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 7

Prudential Indicator	2023/24
	£000
Original Operational boundary for external debt in TMS	**325,259**
Revised Operational boundary for external debt	**299,831**

18. Liability Benchmark - CIPFA introduced the liability benchmark as a new Prudential Indicator for 2023/24. The liability benchmark is a projection of the amount of loan debt outstanding that the authority needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows. Chart 1 below shows the Benchmark if no additional borrowing is taken over the maturity of all loans. The chart shows the Council's existing outstanding loan debt in the blue and grey bars bordered by the black line. The dark blue line which shows the Loans CFR. The Orange line shows the net outstanding loan position after deducting treasury management investments. The red dotted line is the Liability Benchmark (Gross Loan requirement) which is net loans plus a liquidity allowance. The liability Benchmark is significantly below the CFR demonstrating the Councils under borrowed and internally borrowed position.

Chart 1



Minimum Revenue Provision Policy (MRP)

19. The Councils MRP policy has been revised and details of the changes were report to the Treasury Management Committee in November as part of the Mid-Year Review report. There are no revisions to the policy to report in the 3rd Quarter.

Consultation

20. The report is the Quarter 3 position statement for Treasury Management activity for 2023/24. 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

21. 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

22. 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.

23. 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

24. 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

25. No other options have been considered. The report is to inform the treasury management committee and the council of the treasury activity for the period 1 April 2023 to 31 December 2023.

Reasons for the decision/recommendation

26. 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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