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CITY OF WOLVERHAMPTON COUNCIL	**Cabinet** 12 July 2023

Report title	Treasury Management - Annual Report 2022-2023 and Activity Monitoring Quarter One 2023-2024	
Decision designation	RED	
Cabinet member with lead responsibility	Councillor Obaida Ahmed Resources and Digital	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All Wards	
Accountable Director	Tim Johnson, Chief Executive	
Originating service	Strategic Finance	
Accountable employee	Claire Nye Tel Email	Director of Finance 01902 550478 Claire.Nye@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board Council Resources and Equality Scrutiny Panel	13 June 2023 19 July 2023 12 October 2023

Recommendations for decision:

That Cabinet recommend that Council is asked to note:

1. The Council operated within the overall approved Prudential and Treasury Management Indicators, and also within the requirements set out in the Council's Treasury Management Policy Statement during 2022-2023.
2. That a revenue underspend of £3.6 million for the General Fund and a revenue overspend of £699,000 for the Housing Revenue Account (HRA) were generated from treasury management activities in 2022-2023.
3. That the General Fund and HRA treasury management activities for 2023-2024 are currently forecast to be within budget. This will continue to be monitored and updates provided in future reports.

Recommendations for noting:

The Cabinet is asked to note:

1. The financial information included in this report is based on the 'Capital Budget Outturn 2022-2023 including Quarter One Capital Budget Monitoring 2023-2024' report also on the agenda for this meeting. The capital report is subject to two reports being separately approved as follows:

    - Bilston Asset Transformation Programme – Bilston Health & Wellbeing Facility by Cabinet on 12 July 2023

    - i11 – Investing in the City's Workspace Offer by Council on 19 July 2023

    Therefore, if these approvals are not obtained, the treasury management forecasts and indicators will be amended to reflect this.

2. The Council's external borrowing decreased by £10.2 million during 2022-2023 due to repayment of three loans and no new loans were taken out during the financial year. So far during quarter one of 2023-2024, two loans totalling £7.1 million have been repaid.

1.0 Purpose

1.1 This report sets out the results of treasury management activities carried out in 2022-2023, together with performance against the Prudential Indicators previously approved by Council. It also provides a monitoring and progress report on treasury management activity for the first quarter of 2023-2024, in line with the Prudential Indicators approved by Council in March 2023.

2.0 Background

2.1 The treasury management activities of the Council are underpinned by The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. For further information on the requirement of the Code please refer to the Treasury Management Strategy 2023-2024 report which can be accessed online on the Council's website by following the link:

Agenda for Cabinet on Wednesday, 22nd February, 2023, 5.00 pm :: Wolverhampton City Council (moderngov.co.uk)

2.2 Treasury management is defined 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."

2.3 The system of controls on local authority capital investment is based largely on self-regulation by local authorities themselves. At its heart is CIPFA's Prudential Code for Capital Finance.

2.4 Cabinet / Cabinet (Resources) Panel received quarterly reports during 2022-2023 to monitor performance against the strategy and Prudential Indicators previously approved by Council.

2.5 The Council continued to use Link Group as treasury management advisors throughout 2022-2023 and 2023-2024 to date. Link provides market data and intelligence on which the Council can make decisions regarding all aspects of treasury management activities and, in particular, managing the risks associated with investing surplus cash.

2.6 The Council has built up a strong track record of managing its finances well and, in order to reduce interest payment costs, will only undertake external borrowing when cashflows require. The Council has not had to undertake any external borrowing during 2020-2021, 2021-2022 and 2022-2023, the last time the Council carried out external borrowing was March 2019. Due to loans maturing during 2022-2023 the Council's external borrowing has reduced, standing at £710.2 million at 31 March 2023.

2.7 On 1 March 2023, the refreshed Our City: Our Plan was approved by Full Council. The plans sets out how the Council will continue to work alongside its local, regional and national partners to improve outcomes for local people.

2.8 The plan continues to identify an overarching ambition that 'Wulfrunians will live longer, healthier lives' delivered through six Council Plan priorities:

- Strong families where children grow up well and achieve their full potential
- Fulfilled lives with quality care for those that need it
- Healthy, inclusive communities
- Good homes in well-connected neighbourhoods
- More local people into good jobs and training
- Thriving economy in all parts of the city

2.9 These priorities together with the associated key outcomes, objectives and activity form a framework to improve the outcomes for local people and deliver our levelling up ambitions. Supporting the six overarching priorities are three cross cutting principles – Climate Conscious, Driven by Digital, Fair and Equal.

3.0 The strategy and outturn for 2022-2023

3.1 The strategy for 2022-2023 was to maintain cash balances at a reduced level, therefore, keeping to a minimum the credit risk incurred by holding investments and to avoid the higher costs of external borrowing compared to interest foregone on cash balances, thereby generating revenue savings.

3.2 During 2022-2023, the Council followed the recommendations as set out in the Treasury Management Strategy 2022-2023 which was approved by Council on 2 March 2022.

3.3 The Treasury Management outturn for 2022-2023 compared to budget is shown in Table 1.

Table 1 – Treasury management budget and outturn 2022-2023

	Approved Budget £000	Outturn £000	Variance £000
General Fund	40,265	36,714	(3,551)
Housing Revenue Account	10,238	10,937	699
Total	**50,503**	**47,651**	**(2,852)**

3.4 Overall, there was a revenue underspend of £3.6 million for the General Fund and an overspend of £699,000 for the HRA for 2022-2023. For the General Fund, the main reasons are as previously reported; a reduced borrowing need in year arising as a result of re-phasing of the capital programme, no borrowing being undertaken in 2021-2022 and 2022-2023 and, following a review of the draft balance sheet for 2021-2022, a forecast change in the proportion split for interest between the General Fund and HRA.

3.5 The approved Medium Term Financial Strategy includes a release of £1.7 million of the Treasury Management Equalisation Reserve in 2022-2023. This release isn't included in the above table as the treasury management budget needs to be monitored without this release for management purposes. This reserve has now been fully utilised during 2022-2023 and is included in the 'Reserves and Provisions 2022-2023' report. In addition, the outturn positions above are included in the report 'Performance and Budget Outturn 2022-2023', both of these reports mentioned are on the agenda for this meeting.

3.6 No institutions in which investments were made had any difficulty in repaying investments or interest in full during the year and no arrangements had to be made to prematurely withdraw funds from any investments as a result of a downgrade in their respective credit rating. There was also no debt rescheduled in 2022-2023.

3.7 Table 2 shows the average rate of interest payable and receivable in 2021-2022 and 2022-2023.

Table 2 – Average interest rate payable and receivable in 2021-2022 and 2022-2023

	2021-2022 Actual	2022-2023 Actual
Average Interest Rate Payable	3.79%	3.78%
Average Interest Rate Receivable	0.08%	2.05%

Borrowing outturn for 2022-2023

3.8 The Council has built up a strong track record of managing its finances well and, in order to reduce interest payment costs, will only undertake external borrowing when cashflows require. The Council has not had to undertake any external borrowing during 2020-2021, 2021-2022 and 2022-2023, the last time the Council carried out external borrowing was March 2019. Due to loans maturing during 2022-2023 the Council's external borrowing has reduced, standing at £710.2 million at 31 March 2023. Since this date further loans have been repaid in 2023-2024 reducing this further, see paragraph 4.11.

3.9 The average debt interest rate decreased marginally from 3.79% in 2021-2022 to 3.78% in 2022-2023. The Council undertakes borrowing only when necessary to maintain sufficient cash flow balances and after monitoring the market to take advantage of the best available rates. A summary of the borrowing and repayment activities is shown in Table 3 with the average interest rates, this activity has resulted in a slightly lower overall average rate for the year.

Table 3 – Summary of borrowing and repayment activities

	PWLB Loans £000	Average Rate %	Temporary Loans £000	Average Rate %	Total Loans £000
New Loans Raised	-	-	-	-	-
Repayment of Loans	(10,199)	6.67%	-	-	(10,199)
Net movement	**(10,199)**		**-**		**(10,199)**

3.10 The Council's need to borrow and the rates available continue to be monitored in order to achieve optimum results. The Council's medium term forecast is regularly updated to reflect actual borrowing that takes place along with any revisions to future anticipated borrowing.

3.11 The Council's Capital Financing Requirement (CFR) increased from £954.5 million to £969.6 million throughout 2022-2023. This reflects a net increase in the Council's underlying need to borrow for capital purposes of £15.1 million. This was split between the General Fund and HRA at a rate of 69% and 31% respectively (2021-2022: 71% and 29%). Table 4 provides a breakdown of the CFR allocated to funds. It is important to note that, whilst the CFR has increased during the financial year, the increase is substantially lower than previously forecast and approved by Council on 2 March 2022 at £1,039.8 million and 1 March 2023 £988.6 million, this is due to re-phasing of the capital programme which has reduced the borrowing need in year.

3.12 As mentioned above no new loans were raised and repayments of £10.2 million were made, therefore, the level of external borrowing has reduced to £710.2 million at 31 March 2023. Since this date further loans have been repaid in 2023-2024 reducing this further, see paragraph 4.11. While investment rates continue to be below long term borrowing rates, the Council can minimise its overall net treasury costs in the short term by continuing to avoid new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external borrowing (this is referred to as internal borrowing). Table 4 shows a breakdown of the external and internal borrowing for the CFR.

Table 4 – Capital Financing Requirement

	Opening balance 1 April 2022 £000	Movement in year £000	Closing balance 31 March 2023 £000
Borrowing - external	720,447	(10,199)	710,248
Borrowing - internal	154,397	28,022	182,419
Capital Financing Requirement - capital programme	874,844	17,823	892,667
Other Long Term Liabilities	79,626	(2,698)	76,928
Total Capital Financing Requirement	**954,470**	**15,125**	**969,595**
Allocated:			
General Fund	680,621	(13,414)	667,207
Housing Revenue Account	273,849	28,539	302,388
Total Capital Financing Requirement	**954,470**	**15,125**	**969,595**

3.13 Appendix 1 shows a summary of the external borrowing position with a detailed breakdown of repayments made throughout the year.

Investment outturn for 2022-2023

3.14 The actual interest rate earned from investments increased from 0.08% in 2021-2022 to 2.05% in 2022-2023. At the time the budget was set a prudent percentage of 0.10% was used for budgeting purposes as the Covid-19 pandemic had seen interest rates available for investments decrease significantly. However, with the Bank of England increasing the base rate since February 2022, the rates achieved on investments has been improving, resulting in an increase in the level of interest receivable.

3.15 The approach during the year was to continue to use cash balances to finance capital expenditure to keep cash balances low. This minimised counterparty risk on investments and also mitigated treasury management costs as investments rates were much lower than most new borrowing rates.

3.16 The Council manages its investments in-house and invests only in the institutions listed in the Council's approved lending list, which is reviewed each time a counterparty is subject to a credit rating amendment. The Council's strategy allows for investments for a range of periods from overnight to five years, depending on the Council's cash flows, its interest rate view and interest rates on offer. However, in order to maintain sufficient liquidity most investments have been placed for shorter durations.

4.0 2023-2024 forecast

4.1 It should be noted that in order to provide a timely report, only investment activities up to and including 31 May 2023 have been included. Borrowing activities include the month of June.

4.2 The 2023-2024 General Fund budget to support treasury management activities is £40.3 million and £14.7 million for the HRA. The current forecast is that projected costs can be accommodated within these budgets, however, due to the uncertain economic climate surrounding interest rates this position will monitored, and updates provided in future reports.

4.3 The forecast positions will be considered and incorporated in the Performance, Budget Monitoring and Budget Update 2023-2024 report to Cabinet on 26 July 2023.

4.4 Appendix 2 shows a comparison of the latest estimates of Prudential and Treasury Management Indicators over the medium term period with the equivalent figures which were approved by Council in March 2023.

Borrowing forecast for 2023-2024

4.5 Table 5 shows the average rate of interest payable in 2022-2023 and forecast for 2023-2024.

Table 5 – Average interest rate payable in 2022-2023 and 2023-2024

	2022-2023 Actual	2023-2024 Forecast
Average Interest Rate Payable	3.78%	3.84%

4.6 The average interest rate payable for 2023-2024 in Table 5 includes the latest rates forecast provided by Link on 26 June 2023. Although interest rates have been rising, due to maturing loans in 2023-2024 being a higher rate than those available now, the weighted average rate is forecast to be only marginally higher than that achieved in 2022-2023.

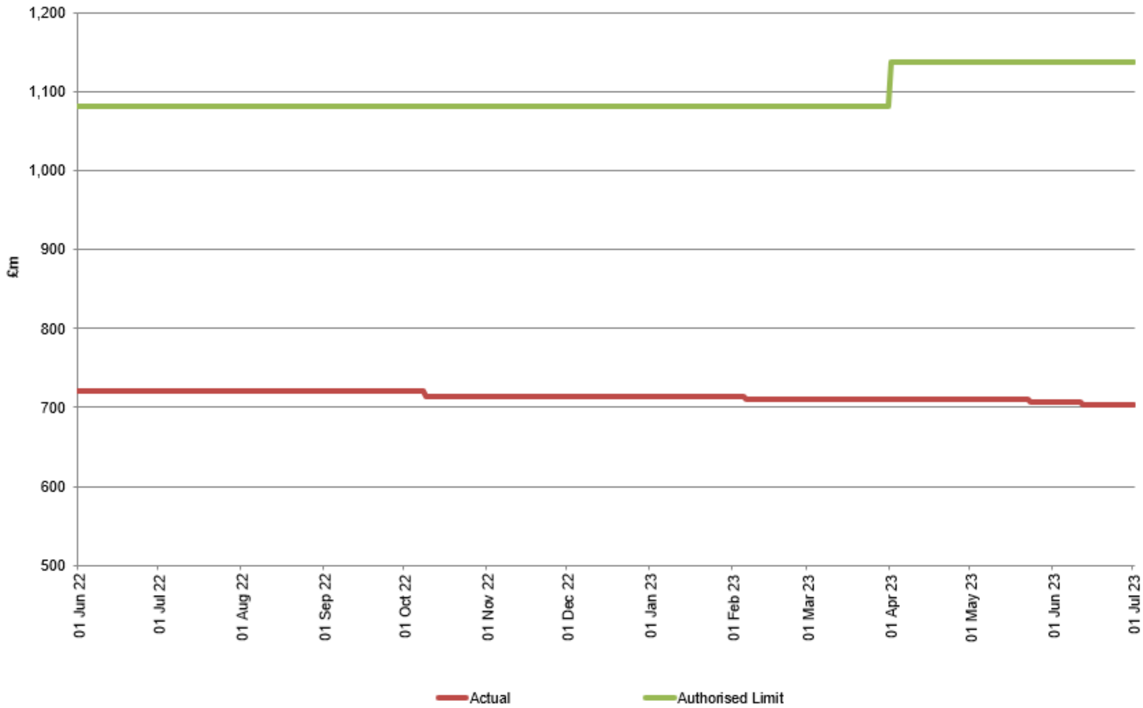
4.7 Decisions to take borrowing will be made by the Director of Finance when it is judged that rates are likely to be at their lowest levels, and probably about to rise according to market indications, and only when an inflow of funds is required to meet imminent cash flow commitments. This will keep overall surplus cash balances to a minimum, in line with the current strategy. Appendix 3 shows the maturity profile of external borrowing.

4.8 As always, the Council needs to be mindful that the opportunity to secure short term efficiencies by postponing longer term borrowing requirements takes into account the risk of long term rates increasing in the future. Appendix 4 to this report includes the latest Link interest rate forecasts at 26 June 2023 which forecasts that Bank Rate could increase to a 5.50% high during the 2023-2024 financial year. It is still possible that Bank Rate could increase further than that forecast due to the on-going inflationary and wage pressures in the economy. The Director of Finance will continue to keep actual and forecast rates under close review.

4.9 Any borrowing (whether internal or external – see paragraph 3.12) must comply with CIPFA's Prudential Code for Capital Finance, importantly this means that borrowing has to be within prudent and sustainable levels and can only be used to invest in local priorities and services that deliver benefits for the City and residents, including physical regeneration with communities, job creation, economic growth etc. The Council's policy is to prioritise the use of capital receipts to finance capital expenditure. Balances which are set aside to meet credit liabilities (i.e. to repay borrowing) are used to reduce the external borrowing requirement.

4.10 The Council's borrowing profile continues to operate within the overall limits previously approved by Council as shown in Chart 1.

Chart 1 – Comparison of borrowing within approved borrowing limits over the previous 12 months



4.11 The level of borrowing at 30 June 2023 is £703.2 million, appendix 1 shows a summary of this position. During quarter one no new loans have been raised and repayments totalling £7.1 million have occurred, no more existing borrowing is due to repaid between quarters two to four.

4.12 In March 2023, Council approved a net borrowing requirement for 2023-2024 of £158.8 million. The forecast net borrowing requirement for 2023-2024 is £152.4 million, as shown in appendix 5, mainly due to re-phasing of the allowance made for switching some internal borrowing into external borrowing, offset by re-phasing in the capital programme. This appendix also shows the details for the disclosure for certainty rate, which enables the Council to access discounted borrowing at 0.20% below normal PWLB rates.

Investment forecast for 2023-2024

4.13 The approach during the year is to continue to use cash balances to finance capital expenditure so as to keep cash balances low.

4.14 Table 6 shows the total amount of surplus funds invested as at 31 March 2023 and in order to provide a timely report, 31 May 2023.

Table 6 – Total amounts invested 2023-2024

	31 March 2023 £000	31 May 2023 £000
Business Reserve Accounts	685	288
Debt Management Account Deposit Facility	-	-
Money Market Funds	16,905	29,705
Total invested	**17,590**	**29,993**
Average cash balance for the year to date	67,340	34,233

4.15 Money Market Funds and Business Reserve Accounts are the main investments used as these have high credit ratings and instant access.

4.16 The Council's cash flow balance for the first quarter of the current financial year has moved between a low of £20.2 million and a maximum of £47.3 million. The average cash balance for the quarter being £34.2 million.

4.17 Table 7 shows the budgeted average rate of interest receivable in 2023-2024 and the forecast for the year.

Table 7 – Average interest rate receivable in 2023-2024

	2023-2024 Budget	2023-2024 Forecast
Average Interest Rate Receivable	2.20%	4.30%

4.18 At the time the budget was set a prudent percentage was used for budgeting purposes as the economic uncertainties made it difficult to forecast what future investment rates could be achieved. As the Bank of England have continued to increase the base rate the rates achieved on investments has been increasing. With the current inflation uncertainties remaining and the subsequent impact this may have on future base rate levels, a prudent rate is forecast based on the increased rates achieved to the 31 May 2023.

4.19 The approved Treasury Management Code of Practice sets out the criteria to be used for creating and managing approved counterparty lists and limits. As a result of any changes to credit criteria, the Director of Finance is authorised to make changes to the list of approved counterparties. In the event that any of these counterparties fall below the Council's minimum lending criteria, activity in that account will temporarily cease and any balance withdrawn immediately. Appendix 6 shows the Council's current specified investments lending list.

4.20 In quarter one 2023-2024 the Director of Finance has not been required to use her discretion to temporarily exceed any upper limits with approved counterparties. In addition, no institutions in which investments were made had any difficulty in repaying investments or, interest in full, during the quarter and no arrangements had to be made to prematurely withdraw funds from any investments, as a result of a downgrade in their respective credit rating.

5.0 Evaluation of alternative options

5.1 As this is a monitoring report of treasury management activities undertaken in line with the approved Treasury Management Strategy for 2022-2023 and 2023-2024, there are no alternative options available.

6.0 Reasons for decisions

6.1 This report provides an update on treasury management activities undertaken in line with the approved Treasury Management Strategy for 2022-2023 and 2023-2024.

7.0 Financial implications

7.1 The financial implications are discussed in the body of this report.
[SH/30062023/M]

8.0 Legal implications

8.1 The Council's treasury management activity must be carried out in accordance with the requirements of the Local Government Act 2003. In addition, the Local Government and Housing Act 1989 sets out requirements for local authorities in respect of capital controls, borrowing and credit arrangements. The Council is also required to comply with the relevant secondary legislation including the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended).

8.2 Treasury management relates to the management of the Council's cash flow, borrowing and cash investments. This involves seeking the best rates of interest for borrowing, earning interest on investments, whilst managing risk in making financial decisions and adopting proper accounting practice.

8.3 The area is heavily regulated. The Local Government and Housing Act 1989 regulates the operation of the Housing Revenue Account. The 'CIPFA Code of Practice for Treasury Management in the Public Services', contains treasury management indicators and advice on treasury management strategy. Investment strategy is regulated by 'DLUHC Guidance on Local Government Investments' issued initially in 2004 and reissued in 2010 and 2018. This guidance includes statutory guidance.
[SZ/04072023/P]

9.0 Equalities implications

9.1 Whilst there are no direct equalities implications arising from treasury management activity, the Council's capital programme of individual projects can have significant impact on specific groups and equality implications. These implications are considered when the individual capital projects are being developed.

10.0 All other implications

10.1 There are no other implications arising from this report.

11.0 Schedule of background papers

11.1 Treasury Management Strategy 2022-2023, Report to Cabinet, 23 February 2022

11.2 Treasury Management – Annual Report 2021-2022 and Activity Monitoring Quarter One 2022-2023, Report to Cabinet, 6 July 2022

11.3 Treasury Management Activity Monitoring – Mid Year Review 2022-2023, Report to Cabinet, 16 November 2022

11.4 Treasury Management Strategy 2023-2024, Report to Cabinet, 22 February 2023

11.5 Treasury Management Activity Monitoring Quarter Three 2022-2023, Report to Cabinet (Resources) Panel, 22 March 2023

11.6 Performance and Budget Outturn 2022-2023, Report to Cabinet, 12 July 2023

11.7 Reserves and Provisions 2022-2023, Report to Cabinet, 12 July 2023

11.8 Performance, Budget Monitoring and Budget Update 2023-2024, Report to Cabinet, 26 July 2023.

12.0 Appendices

12.1 Appendix 1: Borrowing type, borrowing and repayments

12.2 Appendix 2: Prudential and Treasury Management Indicators

12.3 Appendix 3: Borrowing maturity profile

12.4 Appendix 4: Link interest rate forecasts

12.5 Appendix 5: Disclosure for certainty rate

12.6 Appendix 6: Lending list