

Cabinet (Resources) Panel

17 March 2021

Report title	Treasury Management Activity Monitoring Quarter Three 2020-2021	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Louise Miles Resources	
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	Director of Finance
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Report to be/has been considered by	Strategic Executive Board	1 March 2021
	Our Council Scrutiny Panel	TBC

Recommendations for noting:

The Cabinet (Resources) Panel is asked to note:

1. That the Council is continuing to operate within the Prudential and Treasury Management Indicators approved by Council, and also within the requirements set out in the Council's approved Treasury Management Strategy for 2020-2021.
2. That revenue underspends of £2.4 million for the General Revenue Account and £800,000 for the Housing Revenue Account (HRA) are forecast from treasury management activities in 2020-2021, arising as a result of re-phasing of the capital programme and lower interest rates forecast on borrowing due to the impact on the economy of Covid-19.
3. That two of the three credit rating agencies have downgraded the UK's credit rating. If the remaining credit rating agency follows suit the Director of Finance will lower the minimum sovereign rating in the Annual Investment Strategy in line with the delegated authority approved by Council on 17 July 2020.

1.0 Purpose

- 1.1 This report provides a monitoring and progress report on treasury management activity for the third quarter of 2020-2021 and highlights the revised Prudential Indicators which were approved by Council on 3 March 2021.

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 requirements of the Code please refer to the Treasury Management Strategy 2020-2021 report which can be accessed online on the Council's website [here](#).
- 2.2 Treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, 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 receives quarterly reports throughout the year to monitor performance against the strategy and Prudential Indicators that have previously been approved by Council.
- 2.5 The Council continues to use Link Group as its treasury management advisors throughout 2020-2021. 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 On 1 February 2021 CIPFA announced two consultations on proposed changes to the Treasury Management Code and the Prudential Code. This is to reflect the changing environment in treasury management and following recommendations from the Public Accounts Committee. Both consultations will close on 12 April 2021 with the results published towards the end of 2021-2022 and full adoption expected from 2022-2023. The Council will review the consultations in detail and consider any potential impact it may have and report back to Councillors as and when required.

3.0 2020-2021

- 3.1 The forecast outturn for treasury management activities in 2020-2021 compared to budget is shown in Table 1.

Table 1 – Treasury management budget and forecast outturn 2020-2021

	Approved Budget £000	Forecast Outturn £000	Variance at Quarter three £000
General Revenue Account	36,835	34,463	(2,372)
Housing Revenue Account	10,923	10,123	(800)
Total	47,758	44,586	(3,172)

- 3.2 Overall, underspends of £2.4 million for the General Revenue Account and £800,000 for the HRA are projected for the year 2020-2021.
- 3.3 The main reasons for the underspend for the General Revenue Account are a reduced borrowing need in year arising as a result of re-phasing of the capital programme and lower interest rates forecast on borrowing due to the impact on the economy of Covid-19. This is offset by a reduction in treasury income receivable. Due to the uncertain economic climate caused by Covid-19, it is likely that the outturn forecast will be subject to change during the financial year.
- 3.4 The forecast underspend will be considered more fully and in context of the whole General Fund budget in the 'Revenue Budget Monitoring 2020-2021' report also on the agenda for this meeting.
- 3.5 The Council's strategy is to continue to use cash balances to finance capital expenditure rather than external borrowing. Borrowings are actively managed to achieve savings wherever possible.
- 3.6 Appendix 1 to this report shows the revised Prudential and Treasury Management Indicators over the medium term period. These indicators are the same figures as those seen by Cabinet on 17 February 2021 and approved by Council on 3 March 2021 except for 'PI 6 – Estimates and actual ratio of financing costs to net revenue stream'. This indicator has been updated for revised interest rates received by the Council since the Cabinet report was published.

4.0 Borrowing forecast for 2020-2021

- 4.1 The main source of borrowing for local authorities is the Public Works Loan Board (PWLB). During 2019-2020, HM Treasury increased the margin that applies to new loans from the PWLB by one percentage point and undertook a consultation on the future lending terms. This was in response to an increase in borrowing by local authorities to buy commercial assets primarily for yield. On 25 November 2020, the Chancellor announced the conclusion of the consultation, resulting in the one percentage point increase being removed. However, the PWLB will no longer lend to local authorities that intend to buy commercial assets primarily for yield. The Council does not believe this restriction will affect its capital investment programme and its ability to access PWLB.

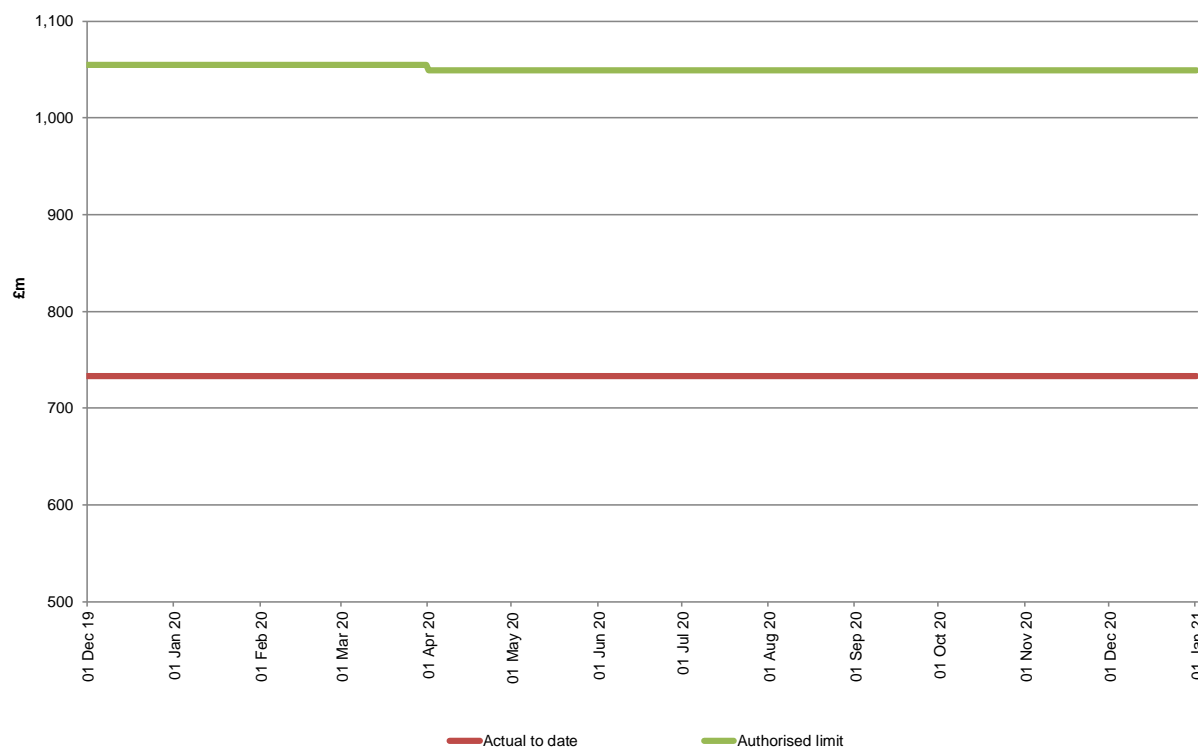
- 4.2 The Council's need to borrow and the rates available continue to be monitored in order to achieve optimum results. The Council's medium term forecast is regularly updated to reflect actual borrowing that takes place along with any revisions to future anticipated borrowing.
- 4.3 Table 2 shows the average rate of interest payable in 2019-2020 and forecast for 2020-2021.

Table 2 – Average interest rate payable in 2019-2020 and 2020-2021

	2019-2020 Actual	2020-2021 Forecast
Average Interest Rate Payable	3.74%	3.76%

- 4.4 Each year it is necessary to raise new loans to finance capital expenditure and to replace existing maturing borrowing. 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.
- 4.5 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 2 to this report shows the maturity profile of external borrowing.
- 4.6 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 3 to this report includes the Link Group interest rate forecast for quarter three 2020-2021 which forecasts that interest rates across all periods will slowly increase up to March 2024. The Director of Finance will continue to keep actual and forecast rates under close review.
- 4.7 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



4.8 The level of borrowing at 31 December 2020 is £732.9 million, appendix 4 to the report shows a summary of this position. During quarter three no new loans or repayments have occurred, £12.5 million of existing borrowing is due to be repaid in quarter four.

4.9 In March 2020, Council approved a net borrowing requirement for 2020-2021 of £154.7 million. The forecast net borrowing requirement for 2020-2021 is £60.9 million, as shown in appendix 5. 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.

5.0 Investment forecast for 2020-2021

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

5.2 Table 3 shows the total amount of surplus funds invested as at 30 September 2020 and 31 December 2020.

Table 3 – Total amounts invested 2020-2021

	30 September 2020	31 December 2020
	£000	£000
Business Reserve Accounts	293	7,815
Money Market Funds	3,150	13,000
Total invested	3,443	20,815
Average cash balance for the year to date	29,918	28,605

- 5.3 Money Market Funds and Business Reserve Accounts are the main investments used as these have high credit ratings and instant access.
- 5.4 The Council's cash flow balance for the third quarter of the current financial year has moved between a low of £12.9 million and a maximum of £44.0 million. The average cash balance for the quarter being £28.7 million.
- 5.5 Table 4 shows the budgeted average rate of interest receivable in 2020-2021 and the forecast for the year.

Table 4 – Average interest rate receivable in 2020-2021

	2020-2021	2020-2021
	Budget	Forecast
Average Interest Rate Receivable	0.70%	0.15%

- 5.6 At the time the budget was set a prudent percentage was used for budgeting purposes, however, since the Covid-19 pandemic the interest rates available for investments has decreased significantly. With the current uncertainties it is increasingly difficult to forecast future investment rates that could be achieved, in order to be prudent, a lower rate is forecast based on the decreasing rates achieved up to 31 December 2020. The impact of this reduction will be monitored throughout the year; however, this loss of income will be offset against the savings generated by avoiding the cost of borrowing, due to re-phasing in the capital programme and lower borrowing interest rates.
- 5.7 In recent months there has been some discussion in the financial market regarding negative interest rates, which encourages lending and discourages investments. This has not impacted on our investments.
- 5.8 The last monitoring report highlighted that Fitch and Moody's (two of the three credit rating agencies) had downgraded the UK's sovereign rating from AA to AA-, or equivalent, due to the unprecedented impact of the Covid-19 pandemic on the economy. The Council's Annual Investment Strategy sets the minimum sovereign rating of AA with regard to the Council's investment lending list. As the other credit rating agency

(Standard & Poors) had kept their UK sovereign rating equivalent to AA the Annual Investment Strategy did not require amendment. If they did also downgrade the UK's sovereign rating, the Council's bank account provider, National Westminster Bank plc, would no longer have met the current approved minimum sovereign rating. Therefore, to ensure that National Westminster Bank plc remained on the lending list, in the event that the UK sovereign rating was downgraded by Moody's and Standard & Poors, delegation was sought to enable the minimum sovereign rating to be lowered by the Director of Finance in a timely manner. This delegation hasn't been utilised in quarter three, however, if Standard & Poors do also downgrade the rating, the Director of Finance will be required to use the delegated authority to lower the minimum sovereign rating in the Annual Investment Strategy.

- 5.9 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).
- 5.10 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 the interest rates on offer. However, in order to maintain sufficient liquidity whilst total investment levels are relatively low, investments have been placed for shorter durations.
- 5.11 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 to this report shows the Council's current specified investments lending list.
- 5.12 In quarter three 2020-2021 the Director of Finance has not been required to use her discretion to temporarily exceed any upper limits with approved counter-parties.

6.0 Evaluation of alternative options

- 6.1 As this is a monitoring report of treasury management activities undertaken in line with the approved Treasury Management Strategy for 2020-2021, there are no alternative options available.

7.0 Reasons for decisions

- 7.1 This report provides an update on treasury management activities undertaken in line with the approved Treasury Management Strategy for 2020-2021.

8.0 Financial implications

- 8.1 The financial implications are discussed in the body of this report.
[SH/26022021/L]

9.0 Legal implications

- 9.1 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 Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008.
- 9.2 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.
- 9.3 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 'MHCLG Guidance on Local Government Investments' issued initially in 2004 and reissued in 2010 and 2018. Part 2 of this Guidance is statutory guidance.
[TS/19022021/F]

10.0 Equalities implications

- 10.1 There are no equalities implications arising from this report.

11.0 All other Implications

- 11.1 During the year, due to Covid-19, there has been re-phasing of the capital programme which reduces the borrowing need in year. This is to reflect new timescales for completing projects to take into account work starting again on sites and any social distancing measures which may be required. In addition, the Council is monitoring its cash balances to see how the economic impact of Covid-19 is affecting the cash that it receives from local taxpayers. Any pressure in this area may have a negative impact on the Council's cash flow balances which may require borrowing to be undertaken sooner than planned to temporarily fund revenue costs.
- 11.2 As highlighted in the last monitoring report, Covid-19 has impacted on the economy resulting in lower interest rates being available for investments and may affect the UK's sovereign rating. So far two of the three rating agencies have reduced the UK's rating, if the remaining third agency follows suit the Council's minimum sovereign rating will need to be lowered to allow the Council's bank to remain on the lending list. The impact on the

treasury management budget of the reduced interest rates available for the Council's investments will be closely monitored.

- 11.3 The Council has agreed variations to loans provided to the Council's wholly owned housing company, WV Living. There is no detrimental impact on the Council's budget over the medium term, however it will impact on short term cash balances.

12.0 Schedule of background papers

- 12.1 Cabinet, 19 February 2020 – [Treasury Management Strategy 2020-2021](#)
- 12.2 Cabinet, 8 July 2020 – [Treasury Management – Annual Report 2019-2020 and Activity Monitoring Quarter One 2020-2021](#)
- 12.3 Individual Executive Decision Notice, 29 October 2020 – Amendment to Loan to WV Living
- 12.4 Cabinet, 11 November 2020 – [Treasury Management Activity Monitoring – Mid Year Review 2020-2021](#)
- 12.5 Cabinet, 17 February 2021 – [Treasury Management Strategy 2021-2022](#)

13.0 Appendices

- 13.1 Appendix 1 – Prudential and Treasury Management Indicators
- 13.2 Appendix 2 – Borrowing maturity profile
- 13.3 Appendix 3 – Link interest rate forecasts
- 13.4 Appendix 4 – Borrowing type, borrowing and repayments
- 13.5 Appendix 5 – Disclosure for certainty rate
- 13.6 Appendix 6 – Lending list