

CITY OF WOLVERHAMPTON COUNCIL	Cabinet 7 July 2021
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Report title	Treasury Management – Annual Report 2020-2021 and Activity Monitoring Quarter One 2021-2022	
Decision designation	RED	
Cabinet member with lead responsibility	Councillor Ian Brookfield Leader of the Council	
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 Our Council Scrutiny Panel	23 June 2021 21 July 2021 29 September 2021

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 approved Treasury Management Policy Statement during 2020-2021, however due to the reprofiling of some capital programmes the operational boundary for commercial activities was slightly in excess of the best estimate included in the Treasury Management Strategy presented to Council on 3 March 2021.
2. That revenue underspends of £2.3 million for the General Revenue Account and £805,000 for the Housing Revenue Account (HRA) were generated from treasury management activities in 2020-2021.
3. That revenue underspends of £1.4 million for the General Revenue Account and £11,000 for the HRA are forecast from treasury management activities in 2021-2022.

Recommendations for noting:

The Cabinet is asked to note:

1. 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.
2. The financial information included in this report is based on the 'Capital Budget Outturn 2020-2021 including Quarter One Capital Monitoring 2021-2022' report also on the agenda for this meeting. The capital report is subject to a report being separately approved by Cabinet also at this meeting. Therefore, if this approval is not obtained, a revised version of this report will be presented to Council on 21 July 2021.
3. The Council's external borrowing decreased during 2020-2021 due to repayment of a loan and no new loans were taken out during the financial year.

1.0 Purpose

- 1.1 This report sets out the results of treasury management activities carried out in 2020-2021, 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 2021-2022, in line with the Prudential Indicators approved by Council in 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 2021-2022 report which can be accessed online on the Council's website by following the link:

<https://wolverhampton.moderngov.co.uk/ieListDocuments.aspx?CId=130&MId=14445&Ver=4>

- 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 received quarterly reports during 2020-2021 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 2020-2021 and 2021-2022 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 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 closed on 12 April 2021 and the results are expected to be published towards the end of 2021-2022 and full adoption expected from 2022-2023.

- 2.7 The Treasury Management Code consultation proposes changes relating to Training and Qualifications, Corporate Governance and a new area covering Environmental, Social and Governance Management.
- 2.8 For the Prudential Code, the focus is on addressing the risks associated with commercial property acquisitions called debt for yield. The key areas are; consultation issues and questions, objectives of the Code, scope and status of the Prudential Code, capital strategy and Prudential Indicators.
- 2.9 An update on the outcome of the consultations will be reported to Councillors in future Treasury Management reports.

3.0 The strategy and outturn for 2020-2021

- 3.1 The strategy for 2020-2021 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 2020-2021, the Council followed the recommendations as set out in the Treasury Management Strategy 2020-2021.
- 3.3 The Treasury Management outturn for 2020-2021 compared to budget is shown in Table 1.

Table 1 – Treasury management budget and outturn 2020-2021

	Approved Budget £000	Outturn £000	Variance £000
General Revenue Account	36,835	34,499	(2,336)
Housing Revenue Account	10,923	10,118	(805)
Total	47,758	44,617	(3,141)

- 3.4 Overall, there were revenue underspends of £2.3 million for the General Revenue Account and £805,000 for the HRA for 2020-2021. For the General Revenue Account, the main reasons are as previously reported; 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. These underspends were included in the report 'Budget Outturn 2020-2021' approved by Cabinet on 16 June 2021 and in part enabled the Council to mitigate the need to use capital receipt flexibility for revenue transformational activity in 2020-2021 by £5.0 million.
- 3.5 In order to ensure that the revenue implications of the capital programme do not impact adversely on the revenue budget, the Council holds a Treasury Management Equalisation Reserve (TMER). This specific reserve can be called on as and when required to support the revenue costs associated with re-phasing in the capital

programme. In accordance with the 2020-2021 budget strategy, there was a contribution of £500,000 from the TMER to the revenue account during 2020-2021. This was included in the 'Reserves, Provisions and Balances' report to Cabinet on 16 June 2021. The current balance remaining on the TMER after this approval is £1.7 million.

- 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 2020-2021.
- 3.7 Table 2 shows the average rate of interest payable and receivable in 2019-2020 and 2020-2021.

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

	2019-2020 Actual	2020-2021 Actual
Average Interest Rate Payable	3.74%	3.76%
Average Interest Rate Receivable	0.70%	0.14%

Borrowing outturn for 2020-2021

- 3.8 The average debt interest rate increased marginally from 3.74% in 2019-2020 to 3.76% in 2020-2021. 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 below with the average interest rates; this activity has resulted in a slightly higher 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	(12,500)	1.65%	-	-	(12,500)
Net movement	(12,500)		-		(12,500)

- 3.9 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.

- 3.10 The Council's Capital Financing Requirement (CFR) increased from £926.2 million to £942.1 million throughout 2020-2021. This reflects a net increase in the Council's underlying need to borrow for capital purposes. This was split between the General Revenue Account and Housing Revenue Account at a rate of 72% and 28% respectively (2019-2020: 72.0% and 28.0%). 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 4 March 2020 at £1,037.6 million and 3 March 2021 £959.3 million. As previously reported, during 2020-2021, due to the Covid-19 pandemic there has been re-phasing of the capital programme which has reduced the borrowing need in year. This reflects new timescales for completing projects to take into account work starting again on sites and any social distancing measures which may be required.
- 3.11 Table 4 shows how the decrease in actual external borrowing arose during the year.

Table 4 – Decrease in actual external borrowing 2020-2021

	£000
Opening balance at 1 April 2020	732,947
Less: Repayments	
- Maturity loans from PWLB	(12,500)
Closing balance at 31 March 2021	720,447

- 3.12 Appendix 1 shows a summary of this position along with a detailed breakdown of repayments made throughout the year. It is important to note that, no new loans were taken out during 2020-2021. As stated in paragraph 3.10, due to the Covid-19 pandemic there has been re-phasing of the capital programme which has reduced the borrowing need in year. In addition, the receipt of Covid-19 one-off grants during 2020-2021 has had a positive impact on the Council's cash flow position over the short term. The Covid-19 pandemic has significantly distorted the Council's financial position, however despite all of this uncertainty and distortion the Council has managed its money well and continues to use cash balances to finance capital expenditure to keep cash balances low.

Investment outturn for 2020-2021

- 3.13 The actual interest rate earned from investments decreased from 0.70% in 2019-2020 to 0.14% in 2020-2021. This is due to the economic impact of the Covid-19 pandemic resulting in significantly decreased rates being available. This loss of income has however been offset against the savings generated by avoiding the cost of borrowing, due to re-phasing in the capital programme and lower borrowing interest rates.
- 3.14 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.
- 3.15 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 whilst total investments levels are relatively low, most investments have been placed for shorter durations.

4.0 2021-2022 forecast

4.1 It should be noted that in order to provide a timely report, only investment activities up to and including 28 May 2021 have been included. Borrowing activities include the month of June. The forecast outturn for treasury management activities in 2021-2022 compared to budget is shown in Table 5.

Table 5 – Treasury management budget and forecast outturn 2021-2022

	Approved Budget £000	Forecast Outturn £000	Variance at Quarter one £000
General Revenue Account	37,555	36,191	(1,364)
Housing Revenue Account	10,823	10,812	(11)
Total	48,378	47,003	(1,375)

- 4.2 Overall, underspends of £1.4 million for the General Revenue Account and £11,000 for the HRA are projected for the year 2021-2022.
- 4.3 In the main, the General Revenue Account underspend is due to a reduced borrowing need in year arising as a result of re-phasing of the capital programme and due to no borrowing being undertaken in 2020-2021.
- 4.4 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.
- 4.5 The forecast underspend will be considered more fully and in context of the whole General Revenue Account budget in the Performance, Revenue Budget Monitoring and Budget Update Report to Cabinet on 28 July 2021.
- 4.6 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 2021. It can be seen that with regards 'PI 4 – Operational boundary for external debt' that although the overall level for the indicator was under the approved limit, the actual for the year was slightly in excess of the best estimate for 2020-2021 for commercial activities as presented to Council in the Treasury Management Strategy on 3 March 2021. The operational limit is self determined and set each budget setting cycle. This has occurred mainly due to approved rephasing of commercial activity between financial years within the overall approved capital programme. The rephasing of this activity has a positive impact on the revenue budget and this approach is considered to be prudent in the opinion of the Director of Finance.

Borrowing forecast for 2021-2022

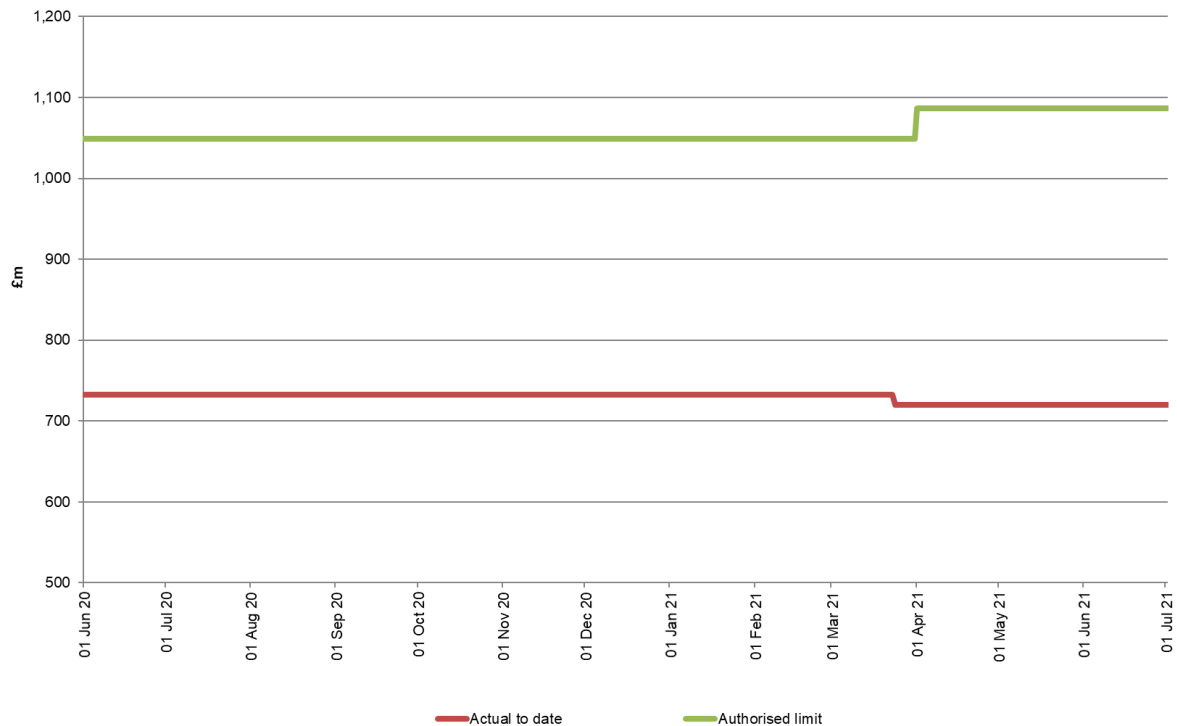
- 4.7 Table 6 shows the average rate of interest payable in 2020-2021 and forecast for 2021-2022.

Table 6 – Average interest rate payable in 2020-2021 and 2021-2022

	2020-2021 Actual	2021-2022 Forecast
Average Interest Rate Payable	3.76%	3.76%

- 4.8 Each year it is usually 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. 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.
- 4.9 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. The Director of Finance will continue to keep actual and forecast rates under close review.
- 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 2021 is £720.4 million, appendix 1 shows a summary of this position. During quarter one no new loans or repayments have occurred and no existing borrowing is due to be repaid between quarters two to four.
- 4.12 In March 2021, Council approved a net borrowing requirement for 2021-2022 of £143.8 million. The forecast net borrowing requirement for 2021-2022 is £122.5 million, as shown in appendix 4, due to rephasing 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 2021-2022

- 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 7 shows the total amount of surplus funds invested as at 31 March 2021 and in order to provide a timely report, 28 May 2021.

Table 7 – Total amounts invested 2021-2022

	31 March 2021 £000	28 May 2021 £000
Business Reserve Accounts	683	267
Money Markets Funds	7,910	20,900
	8,593	21,167
Average cash balance for the year to date	31,394	20,933

- 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 £5.3 million and a maximum of £42.4 million. The average cash balance for the quarter being £20.9 million.
- 4.17 Table 8 shows the budgeted average rate of interest receivable in 2021-2022 and the forecast for the year.

Table 8 – Average interest rate receivable in 2021-2022

	2021-2022 Budget	2021-2022 Forecast
Average Interest Rate Receivable	0.05%	0.01%

- 4.18 At the time the budget was set a prudent percentage was used for budgeting purposes, the Covid-19 pandemic has seen interest rates available for investments decrease 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 to the 28 May 2021. 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.
- 4.19 As reported in previous monitoring reports during 2020-2021, 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 to the date of this report, 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.

4.20 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 5 shows the Council's current specified investments lending list.

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 2020-2021 and 2021-2022, there are no alternative options available.

6.0 Reasons for decision(s)

6.1 This report provides an update on treasury management activities undertaken in line with the approved Treasury Management Strategy for 2020-2021 and 2021-2022.

7.0 Financial implications

7.1 The financial implications are discussed in the body of this report.
[SH/23062021/L]

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 Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008.

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 'MHCLG Guidance on Local Government Investments' issued initially in 2004 and reissued in 2010 and 2018. Part 2 of this Guidance is statutory guidance.
[SZ/25062021/P]

9.0 Equalities implications

9.1 There are no equalities implications arising from this report.

10.0 All other Implications

10.1 Due to the Covid-19 pandemic, 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.

10.2 As highlighted in previous monitoring reports, 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.

10.3 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.

11.0 Schedule of background papers

11.1 [Treasury Management Strategy 2020-2021](#), Report to Cabinet, 19 February 2020

11.2 [Treasury Management – Annual Report 2019-2020 and Activity Monitoring Quarter One 2020-2021](#), Report to Cabinet, 8 July 2020

11.3 [Treasury Management Activity Monitoring – Mid Year Review 2020-2021](#), Report to Cabinet, 11 November 2020

11.4 [Treasury Management Strategy 2021-2022](#), Report to Cabinet, 17 February 2021

- 11.5 [Treasury Management Activity Monitoring Quarter Three 2020-2021](#), Report to Cabinet (Resources) Panel, 17 March 2021
- 11.6 Amendment to Loan to WV Living, Individual Executive Decision Notice, 19 March 2021
- 11.7 Amendment to Loan to WV Living, Individual Executive Decision Notice, 10 May 2021
- 11.8 [Budget Outturn 2020-2021](#), Report to Cabinet, 16 June 2021
- 11.9 [Reserves, Provisions and Balances 2020-2021](#), Report to Cabinet, 16 June 2021
- 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 – Disclosure for certainty rate
 - 12.5 Appendix 5 – Lending list