CITY OF WOLVERHAMPTON COUNCIL	**Cabinet** 17 November 2021

Report title	Treasury Management Activity Monitoring - Mid Year Review 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	4 November 2021 1 December 2021 19 January 2022

Recommendations for decision:

That Cabinet recommend that Council is asked to note:

1. That a mid-year review of the Treasury Management Strategy Statement has been undertaken and the Council has operated within the limits and requirements approved in March 2021, however due to the reprofiling of some capital programmes the authorised limit and operational boundary for commercial activities for 2022-2023 is forecast to be slightly in excess of the best estimate included in the Treasury Management Strategy presented to Council on 3 March 2021. This will be reviewed as part of the 2022-2023 Treasury Management Strategy.

2. That revenue underspends of £899,000 for the General Revenue Account and £706,000 for the Housing Revenue Account (HRA) are forecast from treasury management activities in 2021-2022, arising as a result of re-phasing of the capital programme and lower interest rates forecast on borrowing.

Recommendation for noting:

The Cabinet is asked to note:

1. That there has been no change to the UK's credit rating and therefore the Director of Finance has not been required to use the delegated authority approved by Council on 17 July 2020 to amend the Annual Investment Strategy.

1.0 Purpose

1.1 The report provides a monitoring and progress report on treasury management activity for the second quarter of 2021-2022 as part of the mid-year review, 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 is heart is CIPFA's Prudential Code for Capital Finance.

2.4 Cabinet / Cabinet (Resources) Panel receive 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 2021-2022. 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, CIPFA have reviewed the responses and on 21 September 2021 issued stage 2 consultation papers which includes draft revisions to the Codes and is seeking comments on the proposed changes. The closing date for this second round of consultation is 16 November 2021. The results are expected to be published towards the end of 2021-2022 and full adoption expected from 2022-2023. An update on the outcome of the consultations will be reported to Councillors in future Treasury Management reports.

2.7 The Council, alongside managing the emergency response to the pandemic, has undertaken extensive planning for recovery which was approved by Cabinet in September 2020. It engaged with around 2,500 people including residents, young people, the voluntary and community sector and other partners, employees, Councillors and businesses across the city. This engagement has shaped the Council's five-point recovery plan, 'Relighting Our City'.

2.8 Relighting Our City sets out the priorities which will guide the Council's approach as the organisation and the City starts to transition from the response to the recovery phase of the pandemic:

- Support people who need us most
- Create more opportunities for young people
- Support our vital local businesses
- Generate more jobs and learning opportunities
- Stimulate vibrant high streets and communities.

2.9 Relighting Our City also references three cross cutting themes which cut across all of our recovery work, namely being climate focused, driven by digital and fair and inclusive in our approach. The capital programme, partly funded through borrowing, makes a significant contribution to the shaping of the City and on the economy of the City and therefore will contribute to the Council's plans for Relighting Our City.

3.0 2021-2022

3.1 The forecast outturn for treasury management activities in 2021-2022 compared to budget is shown in Table 1.

Table 1 – Treasury management budget and forecast outturn 2021-2022

	Approved Budget £000	Forecast Outturn £000	Variance at Quarter two £000
General Revenue Account	37,555	36,656	(899)
Housing Revenue Account	10,823	10,117	(706)
Total	**48,378**	**46,773**	**(1,605)**

3.2 Overall, underspends of £899,000 for the General Revenue Account and £706,000 for the HRA are projected for the year 2021-2022.

3.3 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.

3.4 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.

3.5 The forecast underspend was considered more fully in context of the whole General Fund budget in the ‘Draft Budget and the Medium Term Financial Strategy 2022-2023 to 2023-2024’ report approved by Cabinet on 20 October 2021. The underspend will be kept under review over the remainder of 2021-2022 financial year.

3.6 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.

3.7 Appendix 1 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 3 – Authorised limit for external debt’ and ‘PI 4 – Operational boundary for external debt’ that although the overall level for these indicators are forecast to be under the approved limit for 2022-2023, the forecast for commercial activities is slightly in excess of the best estimates presented to Council in the Treasury Management Strategy on 3 March 2021. Both of these limits are self determined and set each budget setting cycle. This has occurred due to forecast rephasing of commercial activity between financial years within the overall approved capital programme. The rephasing of this activity is considered to be prudent in the opinion of the Director of Finance.

4.0 Borrowing forecasts for 2021-2022

4.1 The main source of borrowing for local authorities is the Public Works Loan Board (PWLB). As previously reported, the lending terms of the PWLB changed during 2020-2021, they 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. However, as a result of scrutiny by the PWLB of loan applications made by local authorities, from 8 September 2021 the length between the application being made and the funds being released has increased from two days to five days.

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 2020-2021 and forecast for 2021-2022.

Table 2 – Average interest rate payable in 2020-2021 and 2021-2022

	2020-2021 Actual	2021-2022 Forecast
Average Interest Rate Payable	3.76%	3.79%

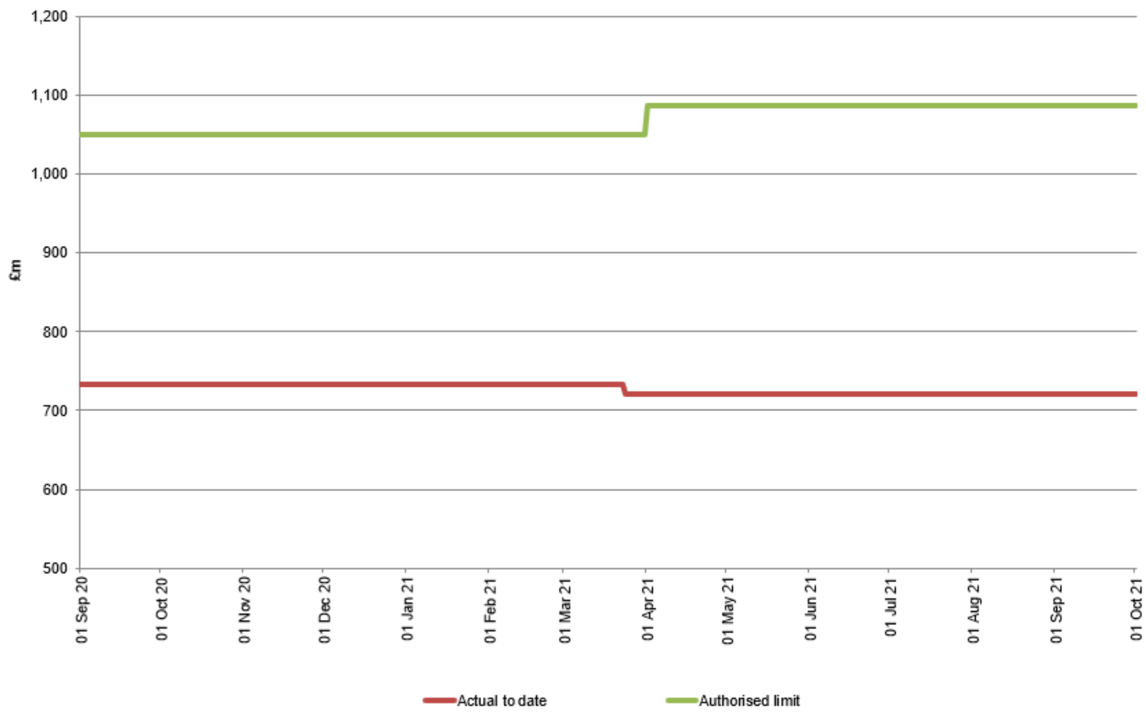
4.4 Each year it is usually necessary to raise new loans to finance capital expenditure and to replace existing maturing borrowing. The Council's policy is to prioritise the use of capital receipts to finance capital expenditure. Balances which are set aside to meet credit liabilities (i.e. to repay borrowing) are used to reduce the external borrowing requirement.

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 interest rate forecast for quarter two 2021-2022 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 30 September 2021 is £720.4 million, appendix 4 to the report shows a summary of this position. During quarter two no new loans or repayments have occurred and no existing borrowing is due to be repaid between quarters three to four.

4.9 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 £74.8 million, as shown in appendix 5, 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.

5.0 Investment forecast for 2021-2022

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 28 May 2021 and 30 September 2021.

Table 3 – Total amounts invested 2021-2022

	28 May 2021 £000	30 September 2021 £000
Business Reserve Accounts	267	767
Money Market Funds	20,900	59,775
Total invested	**21,167**	**60,542**
Average cash balance for the year to date	20,933	45,044

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 second quarter of the current financial year has moved between a low of £28.8 million and a maximum of £71.4 million. The average cash balance for the quarter being £57.1 million.

5.5 Table 4 shows the budgeted average rate of interest receivable in 2021-2022 and the forecast for the year.

Table 4 – Average interest rate receivable in 2021-2022

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

5.6 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 rates achieved to the 30 September 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.

5.7 As reported in previous monitoring reports to date, 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 were to 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.

5.8 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).

5.9 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.

5.10 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.

5.11 In quarter two 2021-2022 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 2021-2022, 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 2021-2022.

8.0 Financial implications

8.1 The financial implications are discussed in the body of this report.
[SH/03112021/O]

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.
[TC/28102021/D]

10.0 Equalities implications

10.1 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.

11.0 All other implications

11.1 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 any social distancing measures which may be required or for any disruptions due to supply chains. 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 previous monitoring reports, Covid-19 has impacted on the economy resulting in lower interest rates being available for investments. The impact on the treasury management budget of the reduced interest rates available for the Council's investments will be closely monitored.

12.0 Schedule of background papers

12.1 Treasury Management Strategy 2021-2022, Report to Cabinet, 17 February 2021

12.2 Treasury Management – Annual Report 2020-2021 and Activity Monitoring Quarter One 2021-2022, Report to Cabinet, 7 July 2021

12.3 Draft Budget and Medium Term Financial Strategy 2022-2023 to 2023-2024, Report to Cabinet, 20 October 2021

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