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CITY OF WOLVERHAMPTON COUNCIL	**Cabinet (Resources) Panel** 23 March 2022

Report title	Treasury Management Activity Monitoring Quarter Three 2021-2022	
Decision designation	AMBER	
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 Our Council Scrutiny Panel	9 March 2022 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 2021-2022.

2. That revenue underspends of £904,000 for the General Revenue Account and £720,000 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 due to no borrowing being undertaken in 2020-2021 or so far in 2021-2022.

3. That mainly due to additional income being received than forecast over the Christmas period, the Council temporarily exceeded the limit of £10.0 million to be held in the Council's bank account by £487,000 from 31 December 2021 until rectified on 4 January 2022.

4. 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 This report provides a monitoring and progress report on treasury management activity for the third quarter of 2021-2022 and highlights the revised Prudential Indicators which were approved by Council on 2 March 2022.

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 here.

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 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 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 As reported to Councillors in previous treasury management reports during 2021, CIPFA has been undertaking consultations on proposed changes to the Treasury Management Code and the Prudential Code. In December 2021 the revised Codes were published with the detailed guidance notes being released in late January 2022. The Council must have regard to the new codes from the date of publication, however additional reporting requirements are recommended. It is important to note that the Council compiles with the principles of the codes, however due to the timing of the release of the new Codes, CIPFA has allowed reporting on the codes to be deferred until 2023-2024, including changes to the capital strategy, prudential indicators and investment reporting.

2.7 The Treasury Management Code introduces strengthened requirements for skills and training, and for investments that are not specifically for treasury management purposes. With regards the Prudential Code, there are two new required indicators; net income from commercial and service investments to net revenue stream and a new debt liability benchmark treasury indicator. Quarterly reporting of approved indicators will continue and will now incorporate the non-treasury management investment indicators required by the statutory guidance on local government investments.

2.8 The Prudential Code provides details of what is classed as legitimate examples of borrowing and what is classed as not prudent. Definitions are also provided for investments for treasury management, commercial and service purposes and the additional capital strategy requirements of these categories.

2.9 Where possible the changes to the Codes have been implemented in the appendices attached to this report. However, due to timescales, some areas will be implemented during 2022-2023. Therefore, at its meeting on 2 March 2022, Council approved delegated authority to Cabinet to approve updates to the Treasury Management Strategy and corresponding practices.

2.10 It should be noted that the Council does not undertake commercial investments, that is those held primarily for financial return. However, to be compliant with the Code, commercial investments will be referenced where required.

2.11 The Council Plan 2019-2024 was approved by Full Council on 4 April 2019 and covers a five-year period. Since the launch of the plan the world we live and work in has changed significantly. To ensure that the Council's resources continue to be aligned to the needs and priorities of local people the plan has been refreshed. Our City: Our Plan sets out how the Council will continue to work alongside its local, regional and national partners to improve outcomes for local people.

2.12 Our City: Our Plan incorporates key policy areas into refreshed narrative and updated structure which has a focus on delivery and performance. The plan also aligns the key priorities and objectives identified by the Relighting Our City Recovery framework. The refreshed plan was approved by Full Council on 2 March 2022.

2.13 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

2.14 These priorities together with the associated key outcomes, objectives and activity form a framework to improve 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 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 three £000
General Revenue Account	37,555	36,651	(904)
Housing Revenue Account	10,823	10,103	(720)
Total	**48,378**	**46,754**	**(1,624)**

3.2 Overall, underspends of £904,000 for the General Revenue Account and £720,000 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 or so far in 2021-2022.

3.4 Due to the uncertain economic climate, it is likely that the outturn forecast will be subject to change during the financial year.

3.5 The forecast underspend will be considered more fully and in context of the whole General Revenue Account budget in the ‘Performance and Budget Monitoring 2021-2022’ report also on the agenda for this meeting.

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 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 23 February 2022 and approved by Council on 2 March 2022.

4.0 Borrowing forecast for 2021-2022

4.1 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.

4.2 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%

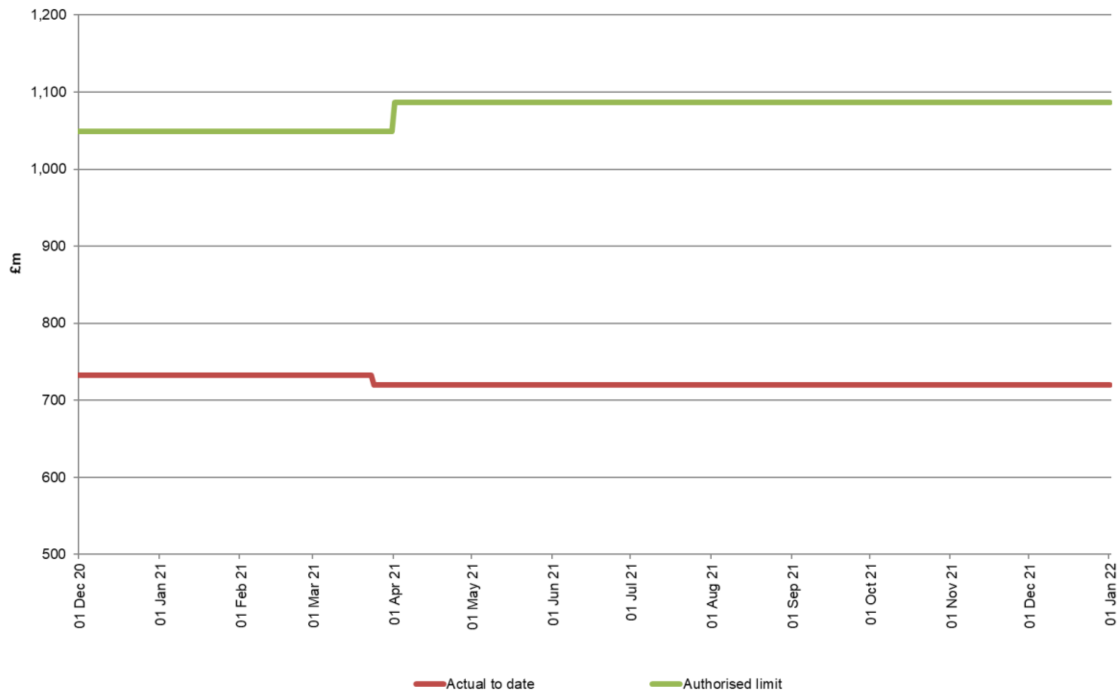
4.3 Each year it is necessary to raise new loans to finance capital expenditure and to replace existing maturing borrowing. The Council's policy is to prioritise the use of capital receipts to finance capital expenditure. Balances which are set aside to meet credit liabilities (i.e. to repay borrowing)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

4.4 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.

4.5 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 forecasts for quarter three 2021-2022 which forecasts that interest rates across all periods could increase in March, May and November 2022. The Director of Finance will continue to keep actual and forecast rates under close review.

4.6 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



4.7 The level of borrowing at 31 December 2021 is £720.4 million, appendix 4 to the report shows a summary of this position. During quarter three no new loans or repayments have occurred, and no existing borrowing is due to be repaid in quarter four.

4.8 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 £50.4 million, as shown in appendix 5, due to 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.

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 30 September 2021 and 31 December 2021.

Table 3 – Total amounts invested 2021-2022

	30 September 2021 £000	31 December 2021 £000
Business Reserve Accounts	767	10,487
Debt Management Account Deposit Facility	-	6,740
Money Market Funds	59,775	57,495
Total invested	**60,542**	**74,722**
Average cash balance for the year to date	45,044	54,897

5.3 Money Market Funds and Busines 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 £64.3 million and a maximum of £83.9 million. The average cash balance for the quarter being £74.3 million.

5.5 It should be noted that, mainly due to additional income being received than forecast over the Christmas period, the Council temporarily exceeded the limit of £10.0 million to be held in the Council's bank account by £487,000 from 31 December 2021 until rectified on 4 January 2022.

5.6 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%

5.7 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 31 December 2021. The impact of this reduction will be monitored throughout the year; however, this loss of income will be offset against savings generated by avoiding the cost of borrowing, due to re-phasing in the capital programme.

5.8 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.

5.9 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 2021-2022 the Director of Finance has not been required to use her discretion to temporarily exceed any upper limits with approved counterparties.

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 decision(s)

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/08032022/W]

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 'DLUHC Guidance on Local Government Investments' issued initially in 2004 and reissued in 2010 and 2018. Part 2 of this Guidance is statutory guidance.
[TC/01022022/A]

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 Treasury Management Activity Monitoring – Mid Year Review 2021-2022, Report to Cabinet, 17 November 2021

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

12.5 Performance and Budget Monitoring 2021-2022, Report to Cabinet (Resources) Panel, 23 March 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