

<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Cabinet</b> <b>6 July 2022</b>
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<b>Report title</b>	Treasury Management - Annual Report 2021-2022 and Activity Monitoring Quarter One 2022-2023	
<b>Decision designation</b>	RED	
<b>Cabinet member with lead responsibility</b>	Councillor Obaida Ahmed Resources and Digital City	
<b>Key decision</b>	Yes	
<b>In forward plan</b>	Yes	
<b>Wards affected</b>	All Wards	
<b>Accountable Director</b>	Tim Johnson, Chief Executive	
<b>Originating service</b>	Strategic Finance	
<b>Accountable employee</b>	Claire Nye Tel Email	Director of Finance 01902 550478 Claire.Nye@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	Strategic Executive Board Council Resources and Equality Scrutiny Panel	21 June 2022 20 July 2022 13 October 2022

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### Recommendations for decision:

That Cabinet recommended 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 2021-2022.
2. That revenue underspends of £1.0 million for the General Fund and £738,000 for the Housing Revenue Account (HRA) were generated from treasury management activities in 2021-2022.
3. That the General Fund and HRA treasury management activities for 2022-2023 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 2021-2022 including Quarter One Capital Monitoring 2022-2023' report also on the agenda for this meeting. The capital report is subject to two reports being separately approved by Cabinet (Resources) Panel on 6 July 2022. Therefore, if this approval is not obtained, a revised version of this report will be presented to Council on 20 July 2022.
2. The Council's external borrowing has remained unchanged from 2020-2021 as there were no repayments of loans due in 2021-2022 and no new loans were taken out during the financial year.
3. It should be noted that, CIPFA have recently consulted on temporary proposals to update the CIPFA code of practice on Local Authority Accounting for infrastructure assets. At the time of writing, the outcome of the consultation has not been published. However, in response to the issues being considered by CIPFA, the Council is currently reviewing its accounting policy and will be discussing the findings with the Council's external auditors. This may result in additional charges being made on Minimum Revenue Provision (MRP) for the General Fund for 2021-2022 onwards. Once this work has been concluded, an update will be reported to Cabinet.

## 1.0 Purpose

- 1.1 This report sets out the results of treasury management activities carried out in 2021-2022, 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 2022-2023, in line with the Prudential Indicators approved by Council in 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 requirement of the Code please refer to the Treasury Management Strategy 2022-2023 report which can be accessed online on the Council's website by following the link:

[Agenda for Cabinet on Wednesday, 23rd February, 2022, 5.00 pm :: Wolverhampton City Council \(modern.gov.co.uk\)](#)

- 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 2021-2022 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 2021-2022 and 2022-2023 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 As reported to Councillors in previous treasury management reports during 2021-2022, new revised Treasury Management and Prudential Codes were published by CIPFA and Councils must have regard to the new Codes from the date of publication. 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 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. To enable this, at its meeting on 2 March 2022, Council approved delegated authority to Cabinet to approve updates to the Treasury Management Strategy and corresponding practices.

- 2.8 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.
- 2.9 The Council 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 and 2021-2022, the last time the Council carried out external borrowing was March 2019. The Council external borrowing therefore remains at £720.4 million.
- 2.10 Our City: Our Plan was approved by Full Council on 2 March 2022 and sets out how the Council will continue to work alongside its local, regional and national partners to improve outcomes for local people. The plan also aligns the key priorities and objectives identified by the Relighting Our City Recovery framework.
- 2.11 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
- 2.12 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 2021-2022**
- 3.1 The strategy for 2021-2022 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 the 2021-2022, the Council followed the recommendations as set out in the Treasury Management Strategy 2021-2022.
- 3.3 The Treasury Management outturn for 2021-2022 compared to budget is shown in Table 1.

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

	<b>Approved Budget</b>	<b>Outturn</b>	<b>Variance</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
General Fund	37,555	36,506	(1,049)
Housing Revenue Account	10,823	10,085	(738)
<b>Total</b>	<b>48,378</b>	<b>46,591</b>	<b>(1,787)</b>

- 3.4 Overall, there were revenue underspends of £1.0 million for the General Fund and £738,000 for the HRA for 2021-2022. 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 and due to no borrowing being undertaken in 2020-2021 and 2021-2022. These underspends were included in the report 'Performance and Budget Outturn 2021-2022' approved by Cabinet on 15 June 2022.
- 3.5 It should be noted that, CIPFA have recently consulted on temporary proposals to update the CIPFA code of practice on Local Authority Accounting for infrastructure assets. At the time of writing, the outcome of the consultation has not been published. However, in response to the issues being considered by CIPFA, the Council is currently reviewing its accounting policy and will be discussing the findings with the Council's external auditors. This may result in additional charges being made on MRP for the General Fund for 2021-2022 onwards. Once this work has been concluded, an update will be reported to Cabinet.
- 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 2021-2022.
- 3.7 Table 2 shows the average rate of interest payable and receivable in 2020-2021 and 2021-2022.

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

	<b>2020-2021</b>	<b>2021-2022</b>
	<b>Actual</b>	<b>Actual</b>
Average Interest Rate Payable	3.76%	3.79%
Average Interest Rate Receivable	0.14%	0.08%

**Borrowing outturn for 2021-2022**

- 3.8 The Council has a 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 and 2021-2022, the last time the Council carried out external borrowing was March 2019. The Council external borrowing therefore remains at £720.4 million.

- 3.9 The average debt interest rate increased marginally from 3.76% in 2020-2021 to 3.79% in 2021-2022. 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. During 2021-2022 there were no new loans raised and there were no loans maturing requiring repayment.
- 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 £942.1 million to £954.5 million throughout 2021-2022. This reflects a net increase in the Council's underlying need to borrow for capital purposes. This was split between the General Fund and HRA at a rate of 71% and 29% respectively (2020-2021: 72% and 28%). 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 3 March 2021 at £1,070.4 million and 2 March 2022 £967.9 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 or repayments made, therefore, the level of external borrowing remains at £720.4 million. 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 3 shows a breakdown of the external and internal borrowing for the CFR.

**Table 3 – Capital Financing Requirement**

	Opening balance 1 April 2021 £000	Movement in year £000	Closing balance 31 March 2022 £000
Borrowing - external	720,447	-	720,447
Borrowing - internal	139,398	14,999	154,397
Capital Financing Requirement - capital programme	859,845	14,999	874,844
Other Long Term Liabilities	82,238	(2,612)	79,626
<b>Total Capital Financing Requirement</b>	<b>942,083</b>	<b>12,387</b>	<b>954,470</b>

- 3.13 Appendix 1 shows a summary of the external borrowing position.

### **Investment outturn for 2021-2022**

- 3.14 The actual interest rate earned from investments decreased from 0.14% in 2020-2021 to 0.08% in 2021-2022. However, due to the economic impact of the Covid-19 pandemic a prudent percentage of 0.05% was used budgeting purposes for 2021-2022, therefore, against budget a small increase in interest receivable was achieved.
- 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 2022-2023 forecast**

- 4.1 It should be noted that in order to provide a timely report, only investment activities up to and including 31 May 2022 have been included. Borrowing activities include the month of June.
- 4.2 The 2022-2023 General Fund budget to support treasury management activities is £40.3 million and £10.2 million for the HRA. The current forecast is that projected costs can be accommodated within these budgets, however, early indicators suggest there may be pressures on the HRA. Due to the uncertain economic climate and the increase in interest rates the forecast outturn is difficult to project at this early stage. The position will continue to be monitored and updates provided in future reports.
- 4.3 The forecast positions will be considered and incorporated in the Performance and Budget Monitoring report to Cabinet.
- 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 2022.

### **Borrowing forecast for 2022-2023**

- 4.5 Table 4 shows the average rate of interest payable in 2021-2022 and forecast for 2022-2023.

**Table 4 – Average interest rate payable in 2021-2022 and 2022-2023**

	<b>2021-2022</b>	<b>2022-2023</b>
	<b>Actual</b>	<b>Forecast</b>
Average Interest Rate Payable	3.79%	3.77%

- 4.6 The average interest rate payable for 2022-2023 in Table 4 includes the latest rates forecast provided by Link on 21 June 2022. Although interest rates have been rising, due to maturing loans in 2022-2023 being a higher rate than those available now, a slightly lower weighted average rate is forecast.
- 4.7 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.
- 4.8 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. Appendix 4 to this report includes the latest Link interest rate forecasts at 21 June 2022 which forecasts that Bank Rate could increase in August, September, November, December, February and March of the 2022-2023 financial year. 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 2022 is £720.4 million, appendix 1 shows a summary of this position. During quarter one no new loans or repayments have occurred, £10.2 million of existing borrowing is due to repaid between quarters three to four.
- 4.12 In March 2022, Council approved a net borrowing requirement for 2022-2023 of £112.0 million. The forecast net borrowing requirement for 2022-2023 is £115.2 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.

### **Investment forecast for 2022-2023**

- 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 5 shows the total amount of surplus funds invested as at 31 March 2022 and in order to provide a timely report, 31 May 2022.

**Table 5 – Total amounts invested 2022-2023**

	31 March 2022 £000	31 May 2022 £000
Business Reserve Accounts	495	306
Debt Management Account Deposit Facility	-	-
Money Market Funds	79,625	52,770
<b>Total invested</b>	<b>80,120</b>	<b>53,076</b>
Average cash balance for the year to date	61,034	71,288

- 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 £53.1 million and a maximum of £89.2 million. The average cash balance for the quarter being £71.3 million.
- 4.17 Table 6 shows the budgeted average rate of interest receivable in 2022-2023 and the forecast for the year.

**Table 6 – Average interest rate receivable in 2022-2023**

	2022-2023 Budget	2022-2023 Forecast
Average Interest Rate Receivable	0.10%	1.00%

- 4.18 At the time the budget was set a prudent percentage was used for budgeting purposes as the Covid-19 pandemic had seen interest rates available for investments decrease significantly. As the Bank of England have been increasing the base rate since February 2022 the rates achieved on investments has been increasing. With the current uncertainties it is still increasingly difficult to forecast future investment rates that could be achieved therefore, a prudent rate is forecast based on the increased rates achieved to the 31 May 2022.
- 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 2022-2023 the Director of Finance has not been required to use her discretion to temporarily exceed any upper limits with approved counterparties.

## **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 2021-2022 and 2022-2023, 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 2021-2022 and 2022-2023.

## **7.0 Financial implications**

7.1 The financial implications are discussed in the body of this report.  
[SH/24062022/A]

## **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 'DLUHC Guidance on Local Government Investments' issued initially in 2004 and reissued in 2010 and 2018. Part 2 of this Guidance is statutory guidance.  
[SZ/24062022/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 2021-2022](#), Report to Cabinet, 17 February 2021
- 11.2 [Treasury Management – Annual Report 2020-2021 and Activity Monitoring Quarter One 2021-2022](#), Report to Cabinet, 7 July 2021
- 11.3 [Treasury Management Activity Monitoring – Mid Year Review 2021-2022](#), Report to Cabinet, 17 November 2021
- 11.4 [Treasury Management Strategy 2022-2023](#), Report to Cabinet, 23 February 2022
- 11.5 [Treasury Management Activity Monitoring Quarter Three 2021-2022](#), Report to Cabinet (Resources) Panel, 23 March 2022

## **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