CITY OF WOLVERHAMPTON COUNCIL	**Cabinet** 16 November 2022

Report title	Treasury Management Activity Monitoring – Mid Year Review 2022-2023	
Decision designation	RED	
Cabinet member with lead responsibility	Councillor Obaida Ahmed Resources and Digital City	
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 Resources and Equality Scrutiny Panel	25 October 2022 7 December 2022 2 February 2023

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 2022.
2. That a revenue underspend of £3.4 million for the General Fund and a revenue overspend of £996,000 for the Housing Revenue Account (HRA) are forecast from treasury management activities in 2022-2023.

Recommendation for noting:

The Cabinet is asked to note:

1. That the outcome of the CIPFA consultation on proposals to update the CIPFA Code of Practice on Local Authority Accounting for infrastructure assets is still to be finalised.

1.0 Purpose

1.1 The report provides a monitoring and progress report on treasury management activity for the second quarter of 2022-2023 as part of the mid-year review, 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:

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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 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 2022-2023. 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 In the 'Treasury Management – Annual Report 2021-2022 and Activity Monitoring Quarter One 2022-2023' report to Cabinet on 6 July 2022, it was reported that CIPFA had recently consulted on proposals to update the CIPFA Code of Practice on Local Authority Accounting for infrastructure assets. In response to the issues being considered by CIPFA, the Council was reviewing its accounting policy and would discuss the findings with the Council's external auditors. This may have resulted in additional charges being made in respect of Minimum Revenue Provision (MRP) for the General Fund for 2021-2022 onwards. At the time of writing this report, the outcome of the CIPFA consultation is still to be finalised and therefore the position remains unchanged. Once the outcome of the consultation has been published any potential changes will be reported to Cabinet.

2.10 The Council has 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 at 30 September 2022.

2.11 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.

2.12 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

2.13 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 2022-2023

3.1 The forecast outturn for treasury management activities in 2022-2023 compared to budget is shown in Table 1.

Table 1 – Treasury management budget and forecast outturn 2022-2023

	Approved Budget £000	Forecast Outturn £000	Variance at Quarter Two £000
General Fund	40,265	36,825	(3,440)
Housing Revenue Account	10,238	11,234	996
Total	**50,503**	**48,059**	**(2,444)**

3.2 Overall, an underspend of £3.4 million for the General Fund and an overspend of £996,000 for the Housing Revenue Account (HRA) are projected for the year 2022-2023.

3.3 In the main, the General Fund underspend is due to; no borrowing being undertaken in 2021-2022, a reduced borrowing need in year arising as a result of re-phasing of the capital programme and, following a review of the draft balance sheet for 2021-2022, a forecast change in the proportion split for interest between the General Fund and HRA.

3.4 The approved Medium Term Financial Strategy assumes a release of £1.7 million of the Treasury Management Equalisation Reserve in 2022-2023. This release isn't included in the above table as the treasury management budget needs to be monitored without this release for management purposes. However, the Performance and Budget Monitoring report on this same agenda, assumes this draw down of reserve for 2022-2023.

3.5 On 6 July 2022, it was reported to Cabinet in the Treasury Management Activity Monitoring Quarter One report, there were early indications suggesting there were pressures on the HRA budget. The HRA forecast overspend highlighted above, is mainly due to the corresponding increase in the interest proportion split. The Performance and Budget Monitoring report on this same agenda refers to the updated forecast position on the HRA.

3.6 Upon the completion of the audit of the Council's Statement of Accounts for 2021-2022 the balance sheet will be reviewed again to see if there are any further changes to the proportion split for interest between the General Fund and HRA.

3.7 Due to the uncertain economic climate and the increase in interest rates the forecast outturn is difficult to project, and the position will continue to be monitored and updates provided over the remainder of 2022-2023 financial year.

3.8 The forecast positions will be considered and incorporated in the Performance and Budget monitoring report to Cabinet also on the agenda for this meeting.

3.9 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.

3.10 Appendix 1 to this report 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.

4.0 Borrowing forecast for 2022-2023

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 2021-2022 and forecast for 2022-2023.

Table 2 – Average interest rate payable in 2021-2022 and 2022-2023

	2021-2022 Actual	2022-2023 Forecast
Average Interest Rate Payable	3.79%	3.78%

4.3 The average interest rate payable for 2022-2023 in Table 2 includes the latest rates forecast provided by Link on 28 September 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.

4.4 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 2022-2023 which forecasts that interest rates across all periods could increase before gradually decreasing towards the end of the 2022-2023 financial year. This forecast done in September 2022 showed the base rate could potentially increase to a 5% high.

4.7 Following the increase of the bank rate to 3% on 3 November 2022, the Bank of England has reported that it doesn't expect interest rates to rise by as much as predicted with analysts thinking it could now peak at 4.75% next year. The Director of Finance will continue to keep actual and forecast rates under close review.

4.8 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

4.9 The level of borrowing at 30 September 2022 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, £10.2 million of existing borrowing is due to be repaid between quarters three to four. There was also no debt rescheduled during quarter two.

4.10 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 £94.2 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 2022-2023

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 31 May 2022 and 30 September 2022.

Table 3 – Total amounts invested 2022-2023

	31 May 2022 £000	30 September 2022 £000
Business Reserve Accounts	306	360
Debt Management Account Deposit Facility	-	10,565
Money Market Funds	52,770	60,300
Total invested	**53,076**	**71,225**
Average cash balance for the year to date	71,288	72,353

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 £55.6 million and a maximum of £85.0 million. The average cash balance for the quarter being £71.9 million.

5.5 Table 4 shows the budgeted average rate of interest receivable in 2022-2023 and the forecast for the year.

Table 4 – Average interest rate receivable in 2022-2023

	2022-2023 Budget	2022-2023 Forecast
Average Interest Rate Receivable	0.10%	1.70%

5.6 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 30 September 2022.

5.7 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).

5.8 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 place for shorter durations.

5.9 The Council's approved Treasury Management Practices 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.

5.10 In quarter two 2022-2023 the Director of Finance has not been required to use her discretion to temporarily exceed any upper limits with approved counterparties. In addition, no institutions in which investments were made had any difficulty in repaying investments or, interest in full, during the quarter 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.

6.0 Evaluation of alternative options

6.1 As this is a monitoring report on treasury management activities undertaken in line with the approved Treasury Management Strategy for 2022-2023, 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 2022-2023.

8.0 Financial implications

8.1 The financial implications are discussed in the body of this report.
[SH/03112022/Y]

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/02112022/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 There are no other implications arising from this report.

12.0 Schedule of background papers

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

12.2 Treasury Management – Annual Report 2021-2022 and Activity Monitoring Quarter One 2022-2023, Report to Cabinet, 6 July 2022

12.3 Performance and Budget Monitoring 2022-2023, Report to Cabinet, 16 November 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