CITY OF WOLVERHAMPTON COUNCIL

Treasury Management Strategy

Presenter:

Alison Shannon
Chief Accountant

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Treasury Management (TM)

- The Local Government Act 2003 and supporting regulations require the Council to ‘have regard to’ the CIPFA Prudential Code and Treasury Management Code of Practice, and to set out indicators to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

- CIPFA define Treasury Management as the:

  ‘management of the organisation’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.’

- ‘The Treasury Management Strategy is approved annually by Full Council

- Performance is reported to Cabinet / Full Council and Scrutiny Panel

Treasury Management

The Strategy report covers six elements

- Treasury Management Strategy
    - Summaries in strategic terms the approach the council will take in performing its treasury management activities
- Annual Investment Strategy
    - Sets out the conditions under which the council will place investments
- Prudential and Treasury Management Indicators
    - Lists the prudential and treasury management indicators
- Minimum Revenue Provision (MRP) Statement
    - Details the formula used for calculating MRP
- Certainty Rate
    - This enables the council to access cheaper borrowing rates of 20 basis points below the standard rate
- Treasury Management Policy Statement and Practices
    - Policy statement and practices as required by the CIPFA Code of Practice on TM

Treasury Management

- Local authorities undertake borrowing to fund the capital programme
- Capital plans provide a guide to the borrowing need of the Council
- The capital programme is also funded by:
  - Grants
  - Capital receipts – from asset disposals
  - Other contributions
- Borrowing requirements are then detailed in the Treasury Management Strategy
- We have statutory duty to determine and keep under review how much we can afford to borrow.
- Our strategy is to use cash balances to fund capital expenditure to avoid the need for borrowing - this is called internal borrowing
- The Prudential Code requires authorities to set and observe a range of prudential indicators to monitor the use of borrowing

Reminder of the changes to the Codes

- December 2021, CIPFA published changes to the Treasury Management Code of Practice and Prudential Code.

- We reported in January 2022 that we are working through the changes and the impact on our Strategy along with the timing of the introduction of these changes.

- It introduces strengthened requirements for skills and training and for investments that are not specifically for treasury management purposes.

Reminder of the changes to the Codes

- Some of the changes were:

  - Need to report on and clearly distinguish investments for Treasury Management, Services and Commercial - we do this.

  - Requirement to report on indicators quarterly –no impact as we were already doing this

  - Revisions to the prudential indicators – PI7 introduced in 2022-2023. Currently reviewing other suggested indicators for April 2023.

  - Knowledge and Skills policy for Officers and Councillors - will incorporate into the Strategy from April 2023.

  - Environmental, Social and Governance Risk Management – will be incorporated into the Strategy from April 2023

Borrowing

- Local authorities must not borrow to invest primarily for financial return
- The code also states it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

Borrowing

- Authorities can borrow and invest the following purposes:

  - Financing capital expenditure primarily related to the delivery of a local authority's functions (subject to the considerations set out in the code)

  - Temporary management of cash flow within the context of a balanced budget

  - Securing affordability by removing exposure to future interest rate rises

  - Refinancing current borrowing, including adjusting levels of internal borrowing, to manage risk, reduce costs or reflect changing cash flow circumstances

  - Other treasury management activity that seeks to prudently mange treasury risks without borrowing primarily to invest for financial return

Public Works Loans Board (PWLB) – Lending Terms

- Local authorities are required to submit a high level description of their capital spending and financing plans including the expected use of PWLB

- Plans need to include a breakdown of expenditure under the following categories
  - **Service Spending** – activity on areas such as education, highways & transport, social care, public health, cultural & related services, environmental & regulatory services, central services
  - **Housing** – General Fund and HRA
  - **Regeneration** – to address economic or social market failure, developing an asset, generating additional activity (e.g. job creation)
  - **Prevention Action** – intervention prevents a negative outcome (e.g. assets that would otherwise fall into disrepair, or supporting economic activity which would otherwise cease)
  - **Treasury Management** – refinancing or extending existing debt.
  - **Debt for yield** – buying land / buildings to let out at market rates, or continue to operate on a commercial basis without any additional investment

City of Wolverhampton Investments

- Section 151 Officer required to confirm that there is no intention to buy investment assets primarily for yield purposes.

- Wolverhampton has the following investments:

  - Treasury Management short term cash investments – we do not hold any long term investments
  - Investment in the Airport
  - Investments in Help to Own
  - Investment and loans to WV Living
  - Capital expenditure in line with Council priorities (investment in our assets)

Prudential Indicators

Prudential Indicators

PI 1 - Estimates and actual capital expenditure. Full details of capital expenditure plans and funding can be found in the quarter two capital budget monitoring 2022-2023 report.						
	Approved by Council 2 March 2022			As at 30 September 2022		
	2022-2023 Forecast £000	2023-2024 Forecast £000	2024-2025 Forecast £000	2022-2023 Forecast £000	2023-2024 Forecast £000	2024-2025 Forecast £000
General Fund *	139,412	59,970	36,048	114,501	157,872	49,814
HRA	84,663	88,488	84,560	80,261	97,039	87,385
	224,075	148,458	120,608	194,762	254,911	137,199
* Service investments included in General Fund figure. These relate to areas such as capital expenditure on investment properties and loans to third parties etc. for service and regeneration delivery purposes.	13,057	10,000	4,900	5,067	8,000	11,900

- Updated forecasts are reported during the year
- Capital Programme report will show detailed list of projects
- Includes all financing requirements – borrowing, grants, capital receipts etc

Prudential Indicators

PI 2 - Estimates and actual capital financing requirement General and HRA.
The capital financing requirement measures the authority's underlying need to borrow for a capital purpose.

	Approved by Council 2 March 2022			As at 30 September 2022		
	2022-2023 Forecast £000	2023-2024 Forecast £000	2024-2025 Forecast £000	2022-2023 Forecast £000	2023-2024 Forecast £000	2024-2025 Forecast £000
General Fund *	723,620	707,006	691,987	694,029	720,194	719,661
HRA	316,145	359,879	396,978	310,908	367,536	412,029
	1,039,765	1,066,885	1,088,965	1,004,937	1,087,730	1,131,690
* Service investments included in General Fund figure. These relate to areas such as capital expenditure on investment properties and loans to third parties etc. for service and regeneration delivery purposes.	45,165	40,730	34,206	37,474	39,680	42,821
Movement in capital financing requirement represented by:						
New borrowing for capital expenditure	109,302	68,029	70,016	85,322	119,243	86,682
Less minimum revenue provision/voluntary minimum revenue provision	(37,391)	(40,909)	(47,936)	(34,855)	(36,450)	(42,722)
Movement in capital financing requirement	71,911	27,120	22,080	50,467	82,793	43,960

- Updated forecasts are reported during the year
- Shows the underlying need to borrow but we don't always borrow up to this level.

Prudential Indicators

PI 3 - Authorised limit for external debt. These limits apply to the total external debt gross of investments and separately identify borrowing from other long term liabilities such as finance leases including Private Finance Initiatives (PFI). This is a self determined level reviewed and set each budget setting cycle.			
		As at 30 September 2022	
	2022-2023 Limit £000	**2023-2024 Limit £000**	**2024-2025 Limit £000**
Borrowing	1,080,693	1,139,076	1,208,188
Other Long Term Liabilities	82,628	79,660	76,416
Total Authorised Limit	1,163,321	1,218,736	1,284,604
Forecast External Debt as at 30 September 2022:			
Borrowing	804,484	928,245	1,001,749
Other Long Term Liabilities	76,928	73,960	74,416
	881,412	1,002,205	1,076,165
Variance (Under) / Over Authorised limit	(281,909)	(216,531)	(208,439)
Authorised limit for service investments included in the above figures			
Authorised Limit	66,049	63,600	62,176
Forecast External Debt as at 30 September 2022:	42,428	44,633	47,774
Variance (Under) / Over Authorised limit	(23,621)	(18,967)	(14,402)

- Sets the authorised limits for external debt
- Actual debt is updated at the time of reporting
- Shows if we are under or over our authorised limit

Prudential Indicators

PI 4 - Operational boundary for external debt. This is based on the same estimates as the authorised limit but directly reflects the Director of Finance's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included. This is a self determined level reviewed and set each budget setting cycle.			
		As at 30 September 2022	
	2022-2023 Limit £000	**2023-2024 Limit £000**	**2024-2025 Limit £000**
Borrowing	1,054,388	1,122,138	1,191,978
Other Long Term Liabilities	80,628	77,660	74,416
Total Operational Boundary Limit	1,135,016	1,199,798	1,266,394
Forecast External Debt as at 30 September 2022:			
Borrowing	804,484	928,245	1,001,749
Other Long Term Liabilities	76,928	73,960	74,416
	881,412	1,002,205	1,076,165
Variance (Under) / Over Operational Boundary Limit	(253,604)	(197,593)	(190,229)
Operational boundary for service investments included in the above figures			
Operational Boundary Limit	65,035	63,600	62,176
Forecast External Debt as at 30 September 2022:	42,428	44,633	47,774
Variance (Under) / Over Operational Boundary Limit	(22,607)	(18,967)	(14,402)

- As per the previous indicator – but without the headroom

Prudential Indicators

PI 5 - Gross debt and the capital financing requirement. "In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years".	Approved by Council 2 March 2022			As at 30 September 2022		
	2022-2023 Forecast £000	2023-2024 Forecast £000	2024-2025 Forecast £000	2022-2023 Forecast £000	2023-2024 Forecast £000	2024-2025 Forecast £000
Forecast Capital Financing Requirement at end of Second Year	1,088,964	1,088,964	1,094,833	1,131,690	1,131,690	1,131,690
Gross Debt	953,239	1,018,359	1,070,439	881,412	1,002,205	1,076,165
Capital Financing Requirement Greater than Gross Debt	Yes	Yes	Yes	Yes	Yes	Yes

PI 6 - Estimates and actual ratio of financing costs to net revenue stream. This represents the cost of financing capital expenditure as a % of net revenue for both General Fund and HRA.	Approved by Council 2 March 2022			As at 30 September 2022		
	2022-2023 Forecast	2023-2024 Forecast	2024-2025 Forecast	2022-2023 Forecast	2023-2024 Forecast	2024-2025 Forecast
General Fund *	18.1%	18.6%	18.4%	16.7%	18.0%	18.6%
HRA	31.4%	31.7%	32.2%	31.7%	34.0%	34.7%
* Service investments included in General Fund figure. These relate to areas such as capital expenditure on investment properties and loans to third parties etc. for service and regeneration delivery purposes.	1.1%	1.2%	1.0%	0.8%	0.9%	0.9%

Prudential Indicators

PI 7 - Estimates and actual ratio of net income from commercial and service investments to net revenue stream.
This represents the financial exposure of the Council to the loss of income from commercial and service investments. Only costs directly attributable to the investments are netted off, so unlike PI 6, the costs of borrowing (interest and MRP) cannot be deducted as they are not directly attributable to managing the investments and will contine regardless of the existence or performance of the investments.

	Approved by Council 2 March 2022			As at 30 September 2022		
	2022-2023 Forecast	2023-2024 Forecast	2024-2025 Forecast	2022-2023 Forecast	2023-2024 Forecast	2024-2025 Forecast
Commercial	-	-	-	-	-	-
Service	0.6%	0.8%	0.7%	0.6%	0.6%	0.7%

- Part of Code changes - we implemented this indicator in 2022-2023
- Looks at assets that generate an income –e.g. i9,i10, i11.
- Demonstrates the exposure of the council on loss of income from these investments

Any Questions?

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