

## Cabinet (Resources) Panel

22 March 2023

<b>Report title</b>	Treasury Management Activity Monitoring Quarter Three 2022-2023	
<b>Decision designation</b>	AMBER	
<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 Ward	
<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 Resources and Digital Scrutiny Panel	9 March 2023 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 2022-2023.
2. That a revenue underspend of £3.5 million for the General Fund and a revenue overspend of £881,000 for the Housing Revenue Account (HRA) are forecast from treasury management activities in 2022-2023.
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 £4.4 million from 30 December 2022 until rectified on 3 January 2023.

## **1.0 Purpose**

- 1.1 This report provides a monitoring and progress report on treasury management activity for the third quarter of 2022-2023 and highlights the revised Prudential Indicators which were approved by Council on 1 March 2023.

## **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 \(moderngov.co.uk\)](https://www.moderngov.co.uk/agenda/2022/02/23/23-02-2022-5-00-pm-wolverhampton-city-council)

- 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. This service contract expired 31 December 2022 and following a re-tendering exercise, Link have been awarded the contract for a further three years with a possibility of two further extensions of twelve months each.
- 2.6 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, CIPFA have released a temporary

solution to the Code of Practice on Local Authority Accounting for infrastructure. This solution features a temporary relief for local authorities with regards reporting the elements of the value of infrastructure assets until March 2025. Therefore, it is projected no additional charges for MRP for the General Fund are required at this time. This will be monitored going forward as this topic develops.

- 2.7 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. Due to loans maturing during 2022-2023 the Council's external borrowing has reduced, standing at £713.8 million at 31 December 2022.
- 2.8 On 1 March 2023, the refreshed Our City: Our Plan was approved by Full Council. The plan sets out how the Council will continue to work alongside its local, regional and national partners to improve outcomes for local people.
- 2.9 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
- 2.10 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 Three £000
General Fund	40,265	36,717	(3,548)
Housing Revenue Account	10,238	11,119	881
<b>Total</b>	<b>50,503</b>	<b>47,836</b>	<b>(2,667)</b>

- 3.2 Overall, an underspend of £3.5 million for the General Fund and an overspend of £881,000 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 to Cabinet on 22 March 2023, 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 to Cabinet on 22 March 2023 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 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 on 22 March 2023.
- 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 the revised Prudential and Treasury Management Indicators over the medium term period. These indicators are the same figures as those seen by Cabinet on 22 February 2023 and approved by Council on 1 March 2023.

#### **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.

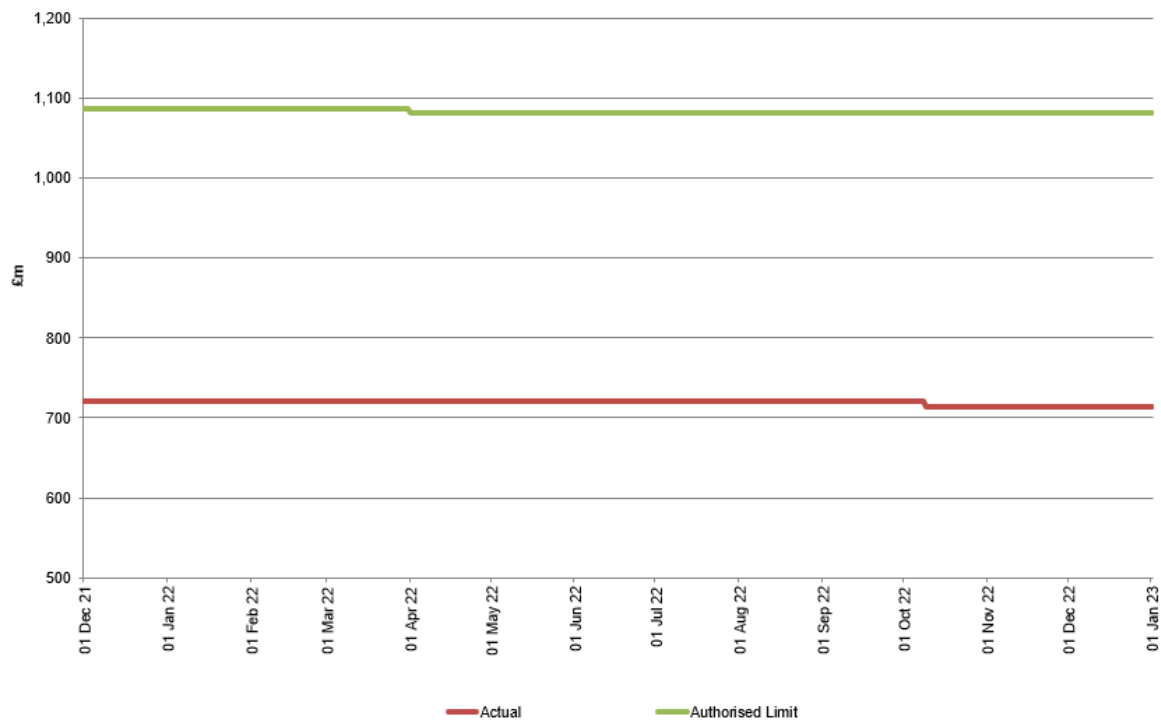
- 4.2 Table 2 shows the average rate of interest payable in 2021-2022 and forecast for 2022-2023.

**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 rates forecast provided by Link on 19 December 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 three 2022-2023 which forecasts increasing interest rates peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023. This forecast done in December 2022 showed the base rate could potentially increase to a 4.5% high, which is lower than previous forecast. 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 31 December 2022 is £713.8 million, Appendix 4 to the report shows a summary of this position. During quarter three no new loans occurred but two loans totalling £6.7 million were repaid, £3.5 million of existing borrowing is due to be repaid in quarter four. There was no debt rescheduled during quarter three.
- 4.9 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 £92.1 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 Public Works Loan Board (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 30 September 2022 and 31 December 2022.

**Table 3 – Total amounts invested 2022-2023**

	<b>30 September 2022 £000</b>	<b>31 December 2022 £000</b>
Business Reserve Accounts	360	14,392
Debt Management Account Deposit Facility	10,565	-
Money Market Funds	60,300	47,450
<b>Total invested</b>	<b>71,225</b>	<b>61,842</b>
Average cash balance for the year to date	72,353	72,807

- 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 third quarter of the current financial year has moved between a low of £47.7 million and a maximum of £89.0 million. The average cash balance for the quarter being £73.7 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 £4.4 million from 30 December 2022 until rectified on 3 January 2023.
- 5.6 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**

	<b>2022-2023 Budget</b>	<b>2022-2023 Forecast</b>
Average Interest Rate Receivable	0.10%	2.00%

- 5.7 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 December 2022.
- 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 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.
- 5.11 In quarter three 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/09032023/L]

## **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 relevant secondary legislation including the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended).

- 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. This guidance includes statutory guidance.  
[SZ/10032023/P]

## **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 [Treasury Management Activity Monitoring – Mid Year Review 2022-2023](#), Report to Cabinet, 16 November 2022
- 12.4 [Treasury Management Strategy 2023-2024](#), Report to Cabinet, 22 February 2023
- 12.5 [Performance and Budget Monitoring 2022-2023](#), Report to Cabinet, 22 March 2023

## **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