

<b>Report title</b>	Treasury Management Activity Monitoring – Mid Year Review 2023-2024	
<b>Decision designation</b>	RED	
<b>Cabinet member with lead responsibility</b>	Councillor Louise Miles Resources	
<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	31 October 2023 6 December 2023 7 December 2023

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**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 2023.
2. That revenue underspends of £793,000 for the General Fund and £1.5 million for the Housing Revenue Account (HRA) are forecast from treasury management activities in 2023-2024.



2.8 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
- Health, inclusive communities
- Good homes in well-connected neighbourhoods
- More local people into good jobs and training
- Thriving economy in all parts of the city

2.9 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 Action, Driven by Digital, Fair and Equal.

### 3.0 2023-2024

3.1 The Performance and Budget monitoring report to Cabinet, also on the agenda for this meeting, seeks approval to a virement of £1.5 million from the General Fund treasury management budget to go towards the efficiency target for 2023-2024. The General Fund budget has therefore been reduced from £40.3 million to £38.8 million in this report.

3.2 In addition, the Performance and Budget monitoring report is also seeking approval for a virement of £1.8 million from Housing Revenue Account held to fund interest payments to support additional cost pressures on repairs and maintenance. The HRA budget has therefore been reduced from £14.7 million to £12.9 million.

3.3 The forecast outturn for treasury management activities in 2023-2024 compared to budget is shown in Table 1.

**Table 1 – Treasury management budget and forecast outturn 2023-2024**

	<b>Approved Budget £000</b>	<b>Forecast Outturn £000</b>	<b>Variance at Quarter Two £000</b>
General Fund	38,765	37,972	(793)
Housing Revenue Account	12,999	11,512	(1,487)
<b>Total</b>	<b>51,764</b>	<b>49,484</b>	<b>(2,280)</b>

3.4 Overall, underspends of £793,000 for the General Fund and £1.5 million for the Housing Revenue Account (HRA) are projected for the year 2023-2024.

3.5 In the main, the General Fund underspend is due to; no borrowing being undertaken so far in 2023-2024 and better interest rates achieved on the investment of surplus cash balances than budgeted.

- 3.6 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 2023-2024 financial year.
- 3.7 The forecast positions will be considered and incorporated in the Performance and Budget monitoring report to Cabinet also on the agenda for this meeting.
- 3.8 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.
- 3.9 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 2023.

#### **4.0 Borrowing forecast for 2023-2024**

- 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 2022-2023 and forecast for 2023-2024.

**Table 2 – Average interest rate payable in 2022-2023 and 2023-2024**

	<b>2022-2023</b>	<b>2023-2024</b>
	<b>Actual</b>	<b>Forecast</b>
Average Interest Rate Payable	3.78%	3.81%

- 4.3 The average interest rate payable for 2023-2024 in Table 2 includes the latest rates forecast provided by Link on 25 September 2023. Although interest rates have been rising, due to the majority of the maturing loans in 2023-2024 being a higher rate than those available now, the weighted average rate is forecast to be only marginally higher than that achieved in 2022-2023.
- 4.4 Each year it is usually necessary to raise new loans to finance capital expenditure and to replace existing maturing borrowing. Any borrowing (whether internal or external) must comply with CIPFA's Prudential Code for Capital Finance, importantly this means that borrowing has to be within prudent and sustainable levels and can only be used to invest in local priorities and services that deliver benefits for the City and residents, including physical regeneration with communities, job creation, economic growth etc. 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 At 31 March 2023, the Council held nine Lender Option Borrower Option loans (LOBOs) totalling £48.0 million which were due to mature in 2065-2066 and 2066-2067. LOBOs carry the risk that the lender can 'call' the loan i.e. change certain conditions of the loan such as the dates and the interest rate. If this occurs, the Council then has the option of either continuing with the loan or redeeming it in full without a penalty, so long as this is done within the allowed timescale. Due to current market conditions some LOBO lenders are 'calling' their options and offering inflated long term rates deliberately set unattractively high so it would not be accepted. In October, the Council received one such 'call' for a £7.0 million loan with an interest rate of 4.60%, proposing a new interest rate of 5.94%. Following consultation with Link and a review of alternative options available to the Council, the Council decided to reject the proposal and the loan was repaid, it will be shown as repaid in the quarter three report. In order to be prudent, an assumption that more LOBOs will be called has been reflected in the borrowing requirement for 2023-2024.
- 4.7 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 2023-2024 which forecasts that Bank Rate may remain at 5.25% for the remainder of the 2023-2024 financial 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 2023 is £703.2 million, Appendix 4 to the report shows a summary of this position. During quarter two no new loans or repayments have occurred, £7.0 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 2023, Council approved a net borrowing requirement for 2023-2024 of £158.8 million. The forecast net borrowing requirement for 2023-2024 is £160.7 million, as shown in Appendix 5, mainly due to the inclusion of the potential for repaying any LOBO loans being called during the remainder of the financial year, offset by re-phasing of both the capital programme and the allowance made for switching some internal borrowing into external borrowing. 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 2023-2024

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 2023 and 30 September 2023.

**Table 3 – Total amounts invested 2023-2024**

	31 May 2023 £000	30 September 2023 £000
Business Reserve Accounts	288	322
Debt Management Account Deposit Facility	-	-
Money Market Funds	29,705	17,035
<b>Total invested</b>	<b>29,993</b>	<b>17,357</b>
Average cash balance for the year to date	34,233	37,750

- 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 £17.4 million and a maximum of £57.2 million. The average cash balance for the quarter being £39.1 million.
- 5.5 Table 4 shows the budgeted average rate of interest receivable in 2023-2024 and the forecast for the year.

**Table 4 – Average interest rate receivable in 2023-2024**

	2023-2024 Budget	2023-2024 Forecast
Average Interest Rate Receivable	2.20%	5.20%

- 5.6 At the time the budget was set a prudent percentage was used for budgeting purposes as the economic uncertainties made it difficult to forecast what future investment rates could be achieved. As the Bank of England has increased the base rate since budget setting, the rates achieved on investments has increased. With the current inflation uncertainties remaining and the subsequent impact this may have on future base rate levels, a prudent rate is forecast based on the increased rates achieved to the 30 September 2023.
- 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 placed 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 2023-2024 no upper limits with approved counterparties were exceeded. 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 2023-2024, 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 2023-2024.

## **8.0 Financial implications**

- 8.1 The financial implications are discussed in the body of this report.  
[SH/26102023/G]

## **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.

[TC/26102023/B]

## **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 paper**

12.1 [Treasury Management Strategy 2023-2024](#), Report to Cabinet, 22 February 2023

12.2 [Treasury Management – Annual Report 2022-2023 and Activity Monitoring Quarter One 2023-2024](#), Report to Cabinet, 12 July 2023

12.3 [Performance and Budget Monitoring 2023-2024](#), Report to Cabinet, 15 November 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