

Cabinet (Resources) Panel

20 March 2024

Report title	Treasury Management Activity Monitoring Quarter Three 2023-2024	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Louise Miles Resources	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All Wards	
Accountable Director	Tim Johnson, Chief Executive	
Originating service	Strategic Finance	
Accountable employee	James Howse Tel Email	Interim Director of Finance 01902 556710 James.Howse@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board Resources and Equality Scrutiny Panel	27 February 2024 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 2023-2024.
2. That revenue underspends of £1.6 million for the General Fund and £1.6 million for the Housing Revenue Account (HRA) are forecast from treasury management activities in 2023-2024.

1.0 Purpose

- 1.1 This report provides a monitoring and progress report on treasury management activity for the third quarter of 2023-2024 and highlights the revised Prudential Indicators which were approved by Council on 28 February 2024.

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 2023-2024 report which can be accessed online on the Council's website by following the link:

[Agenda for Cabinet on Wednesday, 22nd February, 2023, 5.00 pm :: Wolverhampton City Council \(moderngov.co.uk\)](https://www.moderngov.co.uk/Agenda-for-Cabinet-on-Wednesday-22nd-February-2023-5.00-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 2023-2024. 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 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. During the third quarter the Council has undertaken borrowing of £25.0 million to support the HRA capital programme (using the reduced HRA Project Rate available from the Public Works Loan Board (PWLB), being an additional 40 basis points cheaper than the usual rate the Council borrows at), and £5.0 million of temporary borrowing, also to support the Council's capital programme and to maintain cashflow headroom over the Christmas period, the last time any external borrowing was undertaken was March 2019. Due to loans maturing during 2023-2024 and the new borrowing undertaken, the Council's external borrowing has a net increase of £11.9 million, standing at £722.2 million at 31 December 2023.

- 2.7 On 28 February 2024, 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.
- 2.8 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
 - 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
- 2.9 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 four cross cutting principles – Climate Action, Driven by Digital, Fair and Equal, Wolverhampton Pound.

3.0 2023-2024

- 3.1 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

	Approved Budget £000	Forecast Outturn £000	Variance at Quarter Three £000
General Fund	38,765	37,122	(1,643)
Housing Revenue Account	12,999	11,395	(1,604)
Total	51,764	48,517	(3,247)

- 3.2 Overall, underspends of £1.6 million for the General Fund and £1.6 million for the Housing Revenue Account (HRA) are projected for the year 2023-2024.
- 3.3 In the main, both the General Fund and HRA underspends are due to; delaying borrowing to support the capital programme until quarter three of 2023-2024, a reduced borrowing need in year arising as a result of re-phasing of the capital programme and, better interest rates achieved on the investment of surplus cash balances than budgeted.
- 3.4 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 2023-2024 financial year.
- 3.5 The forecast positions will be considered and incorporated in the Performance and Budget monitoring report to Cabinet on 20 March 2024.

- 3.6 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.
- 3.7 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 21 February 2024 and approved by Council on 28 February 2024.

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

	2022-2023	2023-2024
	Actual	Forecast
Average Interest Rate Payable	3.78%	3.74%

- 4.3 The average interest rate payable for 2023-2024 in Table 2 includes the latest rates forecast provided by Link on 8 January 2024. 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 marginally lower 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 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. During quarter three, the following LOBOs were 'called':

Table 3 – LOBOs called during 2023-2024

LOBO Reference	Principal	Interest Rate	Proposed New Interest Rate
	£000	%	%
1	4,000	4.95	5.81
14	7,000	4.60	5.94
Total principal	11,000		

- 4.7 Following consultation with Link and a review of alternative options available to the Council, the Council decided to reject the proposals and the loans were repaid. In order to be prudent, an assumption that more LOBOs will be called has been reflected in the borrowing requirement over the medium term.
- 4.8 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 2023-2024 which forecasts that Bank Rate may remain at 5.25% for the remainder of the 2023-2024 financial year. The Interim Director of Finance will continue to keep actual and forecast rates under close review.
- 4.9 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



- 4.10 The level of borrowing at 31 December 2023 is £722.2 million, Appendix 4 to the report shows a summary of this position. During quarter three, two loans totalling £30.0 million were taken and two loans totalling £11.0 million were repaid, £5.0 million of existing borrowing is due to be repaid in quarter four. There was no debt rescheduled during quarter three.
- 4.11 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 £133.0 million, as shown in Appendix 5, mainly due to the repayment of the two LOBO loans, 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 Public Works Loan Board (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 4 shows the total amount of surplus funds invested as at 30 September 2023 and 31 December 2023.

Table 4 – Total amounts invested 2023-2024

	30 September 2023 £000	31 December 2023 £000
Business Reserve Accounts	322	9,710
Debt Management Account Deposit Facility	-	-
Money Market Funds	17,035	10,510
Total invested	17,357	20,220
Average cash balance for the year to date	37,750	32,612

- 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 £6.7 million and a maximum of £33.4 million. The average cash balance for the quarter being £22.3 million.
- 5.5 Table 5 shows the budgeted average rate of interest receivable in 2023-2024 and the forecast for the year.

Table 5 – Average interest rate receivable in 2023-2024

	2023-2024 Budget	2023-2024 Forecast
Average Interest Rate Receivable	2.20%	4.70%

- 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 31 December 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 Interim 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 three 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/29022024/E]

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/22022024/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 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 [Treasury Management Activity Monitoring – Mid Year Review 2023-2024](#), Report to Cabinet, 15 November 2023

12.4 [Performance and Budget Monitoring 2023-2024](#), Report to Cabinet, 20 March 2024

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