CITY OF WOLVERHAMPTON COUNCIL	**Cabinet (Resources) Panel** 5 March 2019

Report title	Treasury Management Activity Monitoring Quarter Three 2018-2019		
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	Claire Nye, Director of Finance		
Originating service	Strategic Finance		
Accountable employee	Alison Shannon Tel Email	Chief Accountant 01902 554561 Alison.Shannon@wolverhamton.gov.uk	
Report to be/has been considered by	Strategic Executive Board Confident, Capable Council Scrutiny Panel		19 February 2019 10 April 2019

Recommendation for decision:

The Cabinet (Resources) Panel is recommended to:

1. Approve the use of the Treasury Management Equalisation Reserve up to the value of £2.0 million in 2018-2019 in the event that an overspend against the General Revenue Account budget is realised.

Recommendations for noting:

The Cabinet (Resources) Panel is recommended 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 Policy Statement for 2018-2019.

2. That a revenue net overspend of £2.0 million for the General Revenue Account and an underspend of £171,000 for the Housing Revenue Account (HRA) are forecast from treasury management activities in 2018-2019.

3. That the Prudential and Treasury Management Indicators included in this report are the same figures as those seen by Cabinet on 20 February 2019 and will be submitted for approval by Council on 6 March 2019.

1.0 Purpose

1.1 This report provides a monitoring and progress report on treasury management activity for the third quarter of 2018-2019 and highlights the revised Prudential Indicators which are subject to approval by Council on 6 March 2019.

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 requirements of the Code please refer to the Treasury Management Strategy 2018-2019 report which can be accessed online on the Council's website by following the link:

http://wolverhampton.moderngov.co.uk/ieListDocuments.aspx?CId=130&MId=7536&Ver=4

2.2 Treasury management is defined as:

"The management of the local authority's cash flows, 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 In December 2017 CIPFA updated and released new versions of both the Code of Practice on Treasury Management and Prudential Code. Although the Codes had been released and are effective for the 2018-2019 financial year, the detailed sector specific guidance had not been issued at the point of writing in February 2018 and therefore, the strategy statements for 2018-2019 were prepared on an interpretation of the Codes. In addition, in February 2018 the Ministry of Housing, Communities & Local Government issued its new Statutory Guidance on Local Government Investments and Minimum Revenue Provision. The detailed guidance notes for the Codes have now been published and these have been reviewed along with the new Statutory Guidance by the Director of Finance and the changes are discussed below.

2.5 The Council's Capital Strategy, a new requirement under the Prudential Code, was seen by Cabinet on 20 February 2019 as part of the 'Capital programme 2018-2019 to 2022-2023 quarter three review and 2019-2020 to 2023-2024 budget strategy' report and will be submitted for approval by Council on 6 March 2019.

2.6 Furthermore, as part of the 'Treasury Management Strategy 2019-2020' report to Cabinet on 20 February, a revised set of Prudential and Treasury Management Indicators, which included the new requirement for the identification of commercial/non-financial investments were submitted and require approval by Council on 6 March 2019. The same report also included a recommendation for Council to remove the Local Prudential

Indicator LPI 2 – HRA limit on indebtedness from the 2018-2019 Prudential and Treasury Management Indicators approved by Council on 7 March 2018. This indicator compared the HRA Debt Limit (the borrowing cap) with the HRA Capital Financing Requirement and can be seen below.

LPI 2 - HRA limit on indebtedness.
This maximum debt limit has been set by Government as part of the self-financing regime and is compared to the HRA capital financing requirement. This indicator was called PI 7 up to 2018-2019.

	Approved by Council 7 March 2018		
	2018-2019 Forecast £000	2019-2020 Forecast £000	2020-2021 Forecast £000
HRA Debt Limit *	356,770	356,770	356,770
HRA Capital Financing Requirement	279,027	307,117	335,603
Headroom	77,743	49,653	21,167

In October 2018 it was announced that the borrowing cap would be revoked with effect from 30 October 2018, hence Council on 6 March 2019 will be asked to approve the removal of this indicator from those approved by Council on 7 March 2018. This revised set of indicators include the 2018-2019 financial year and can be seen in Appendix 1 to this report.

2.7 Cabinet / Cabinet (Resources) Panel receives quarterly reports throughout the year to monitor performance against the strategy and Prudential Indicators that have previously been approved by Council.

2.8 The Council continues to use Link Asset Services as its treasury management advisors throughout 2018-2019. 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.

3.0 2018-2019 forecast

3.1 The forecast outturn for treasury management activities in 2018-2019 compared to budget is shown in Table 1.

Table 1 – Treasury management budget and forecast outturn 2018-2019

	Revised Budget £000	Forecast Outturn £000	Variance at Quarter three £000
General	26,663	28,624	1,961
Housing Revenue Account	10,431	10,260	(171)
Total before use of reserve	**37,094**	**38,884**	**1,790**
Approved use of the Treasury Management Equalisation Reserve	(1,430)	(1,430)	-
Total after use of reserve	**35,664**	**37,454**	**1,790**

3.2 A revenue net overspend of £2.0 million for the General Revenue Account and an underspend of £171,000 for the HRA are projected for the year 2018-2019. For the General Revenue Account the main reasons are as previously reported; an increase in MRP charges for the year, following a review of MRP, offset against an underspend due to a reduced borrowing need in year because of re-phasing in the capital programme. If the forecast outturn is realised the overspend can be met by a further drawdown from the Treasury Management Equalisation Reserve subject to approval by Councillors. Cabinet (Resources) Panel approval is therefore sought for the use of the Treasury Management Equalisation Reserve up to the value of £2.0 million in 2018-2019 in the event that an overspend against the General Revenue Account budget is realised. 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 efficiencies wherever possible.

3.3 Appendix 1 to this report shows the revised Prudential and Treasury Management Indicators over the medium term period which are subject to approval by Council on 6 March 2019.

4.0 Borrowing forecast for 2018-2019

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 2017-2018 and forecast for 2018-2019.

Table 2 – Average interest rate payable in 2017-2018 and 2018-2019

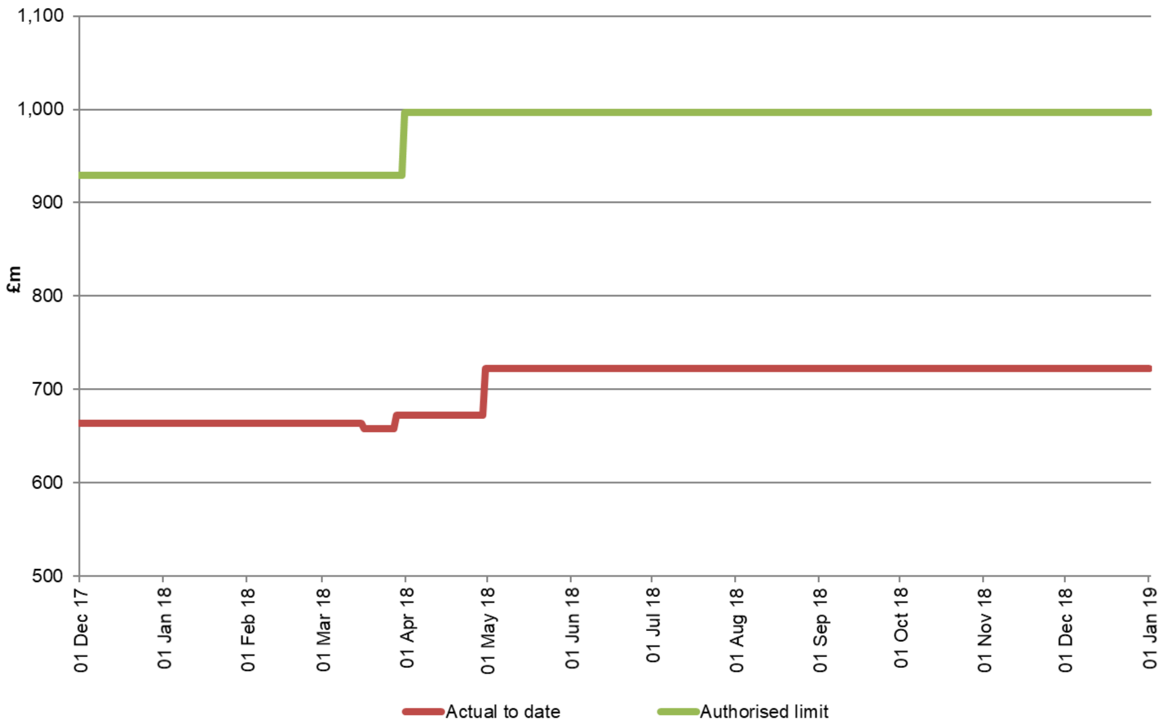
	2017-2018 Actual	2018-2019 Forecast
Average Interest Rate Payable	3.74%	3.75%

4.3 Each year it is 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. 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.

4.4 As always, the Council needs to be mindful that the opportunity to secure short term savings 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 Asset Services commentary for quarter three 2018-2019 and forecasts that interest rates across all periods will increase up to March 2022. The Director of Finance will continue to keep actual and forecast rates under close review.

4.5 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



4.6 The level of borrowing at 31 December 2018 is £722.9 million. Appendix 4 to this report shows a summary of this position along with a detailed breakdown of new loans and repayments made throughout the year. £6.0 million of existing borrowing is due to be repaid in quarter four.

4.7 In March 2018, Council approved a net borrowing requirement for 2018-2019 of £151.2 million. The forecast net borrowing requirement for 2018-2019 is £123.9 million, as shown in Appendix 5 to this report. 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 2018-2019

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 2018 and 31 December 2018.

Table 3 – Total amounts invested 2018-2019

	30 September 2018 £000	31 December 2018 £000
Business Reserve Accounts Money Market Funds	220 11,465	67 13,975
	11,685	**14,042**
Average cash balance for the year to date	20,901	20,588

5.3 Money Market Funds and Business Reserve Accounts are the main investments used as these have high credit ratings and instant access. This is based on the Council's risk appetite.

5.4 The Council's cash flow balance for the third quarter of the current financial year has moved between a low of £8.9 million and a maximum of £31.7 million. The average cash balance for the quarter being £20.0 million.

5.5 Table 4 shows the budgeted average rate of interest receivable in 2018-2019 and the forecast for the year.

Table 4 – Average interest rate receivable in 2018-2019

	2018-2019 Budget	2018-2019 Forecast
Average Interest Rate Receivable	0.30%	0.62%

5.6 Due to the continuing low interest rates on offer, a prudent percentage was used for budgeting purposes, as can be seen a slightly higher rate is forecast based on rates achieved so far during the year.

5.7 The Council will avoid locking into longer term deals while investment rates are at historically low levels. Investment rates are expected to continue to be below long term borrowing rates, in which case, 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, most investments have been placed for shorter durations.

5.9 The approved Treasury Management Code of Practice 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 three 2018-2019 the Director of Finance has not been required to use her discretion to temporarily exceed any upper limits with approved counter-parties.

5.11 As mentioned in the 'Treasury Management Activity Monitoring - Mid Year Review 2018-2019' report, the impact of the latest EU reform on Money Market Funds (MMF) was being reviewed by the Director of Finance. Following this review and under the delegation to the Director of Finance, the Treasury Management Policy and Practices and Annual Investment Strategy 2018-2019 have been amended to reflect the revised category of the Council's MMF. The amendments approved by the Director of Finance are not anticipated to cause any operational or performance differences of the funds but are more of a technical change to reflect the category they will now fall under.

6.0 Evaluation of alternative options

6.1 As this is a monitoring report of treasury management activities undertaken in line with the approved Treasury Management Strategy 2018-2019, there are no alternative options available.

7.0 Reasons for decision

7.1 This report provides an update on treasury management activities undertaken in line with the approved Treasury Management Strategy 2018-2019.

8.0 Financial implications

8.1 The financial implications are discussed in the body of this report.
[SH/12022019/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 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 'DCLG Guidance on Local Government Investments' issued initially in 2004 and re-issued in 2010 and 2018. Part 2 of this Guidance is statutory guidance.
[TS/08022019/T]

10.0 Equalities implications

10.1 There are no equalities implications arising from this report.

11.0 Environmental implications

11.1 There are no environmental implications arising from this report.

12.0 Human resources implications

12.1 There are no human resources implications arising from this report.

13.0 Corporate Landlord implications

13.1 There are no corporate landlord implications arising from this report.

14.0 Health and Wellbeing implications

14.1 There are no health and wellbeing implications arising from this report.

15.0 Schedule of background papers

15.1 Treasury Management Strategy 2018-2019, Report to Cabinet, 20 February 2018

15.2 Treasury Management – Annual Report 2017-2018 and Activity Monitoring Quarter One 2018-2019, Report to Cabinet, 11 July 2018

15.3 Draft Budget and Medium Term Financial Strategy 2019-2020 to 2020-2021, Report to Cabinet, 17 October 2018

15.4 Treasury Management Activity Monitoring – Mid Year Review 2018-2019, Report to Cabinet, 21 November 2018

15.5 Capital programme 2018-2019 to 2022-2023 quarter three review and 2019-2020 to 2023-2024 budget strategy, Report to Cabinet, 20 February 2019

15.6 Treasury Management Strategy 2019-2020, Report to Cabinet, 20 February 2019

16.0 Appendices

16.1 Appendix 1: Prudential and Treasury Management Indicators

16.2 Appendix 2: Borrowing maturity profile

16.3 Appendix 3: Link commentary

16.4 Appendix 4: Borrowing type, borrowing and repayments

16.5 Appendix 5: Disclosure for certainty rate

16.6 Appendix 6: Lending list