CITY OF WOLVERHAMPTON COUNCIL	**Cabinet Meeting** 29 November 2017

Report title	Treasury Management Activity Monitoring – Mid Year Review 2017-2018	
Decision designation	RED	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Corporate Plan priority	Confident Capable Council	
Key decision	Yes	
In forward plan	Yes	
Wards affected	(All Wards)	
Accountable Director	Claire Nye, Finance	
Originating service	Strategic Finance	
Accountable employee	Michelle Howell Tel Email	Finance Business Partner 01902 553197 michelle.howell@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board Council Confident, Capable Council Scrutiny Board	7 November 2017 13 December 2017 18 April 2018

Recommendations for decision:

That Cabinet recommends that Council notes:

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 2017.

2. That savings of £1.1 million for the General Fund and £643,000 for the Housing Revenue Account (HRA) are forecast from treasury management activities in 2017-2018.

1.0 Purpose

1.1 This report provides a monitoring and progress report on treasury management activity for the second quarter of 2017-2018 as part of the mid-year review, in line with the Prudential Indicators approved by Council in March 2017.

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 2017-2018 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=5994&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 Cabinet and 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 Asset Services (formerly known as Capita Asset Services which has been acquired by the Link Group) as its treasury management advisors throughout 2017-2018. Link Asset Services 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 2017-2018

3.1 The forecast outturn for treasury management activities in 2017-2018 compared to budget is shown in Table 1.

Table 1 – Treasury management budget and forecast outturn 2017-2018

	Approved Budget £000	Forecast Outturn £000	Variance at Quarter two £000	Variance at Quarter one £000
General Fund	16,337	15,229	(1,108)	(810)
Housing Revenue Account	10,975	10,332	(643)	(329)
Total	**27,312**	**25,561**	**(1,751)**	**(1,139)**

3.2 Savings of £1.1 million for the General Fund and £643,000 for the HRA are projected for the year 2017-2018. The main reasons are due to a reduced borrowing need in year because of re-phasing in the capital programme and changes in interest rates. 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.

3.3 Appendix A 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 2017.

4.0 Borrowing forecast for 2017-2018

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 2016-2017 and forecast for 2017-2018.

Table 2 – Average interest rate payable in 2016-2017 and 2017-2018

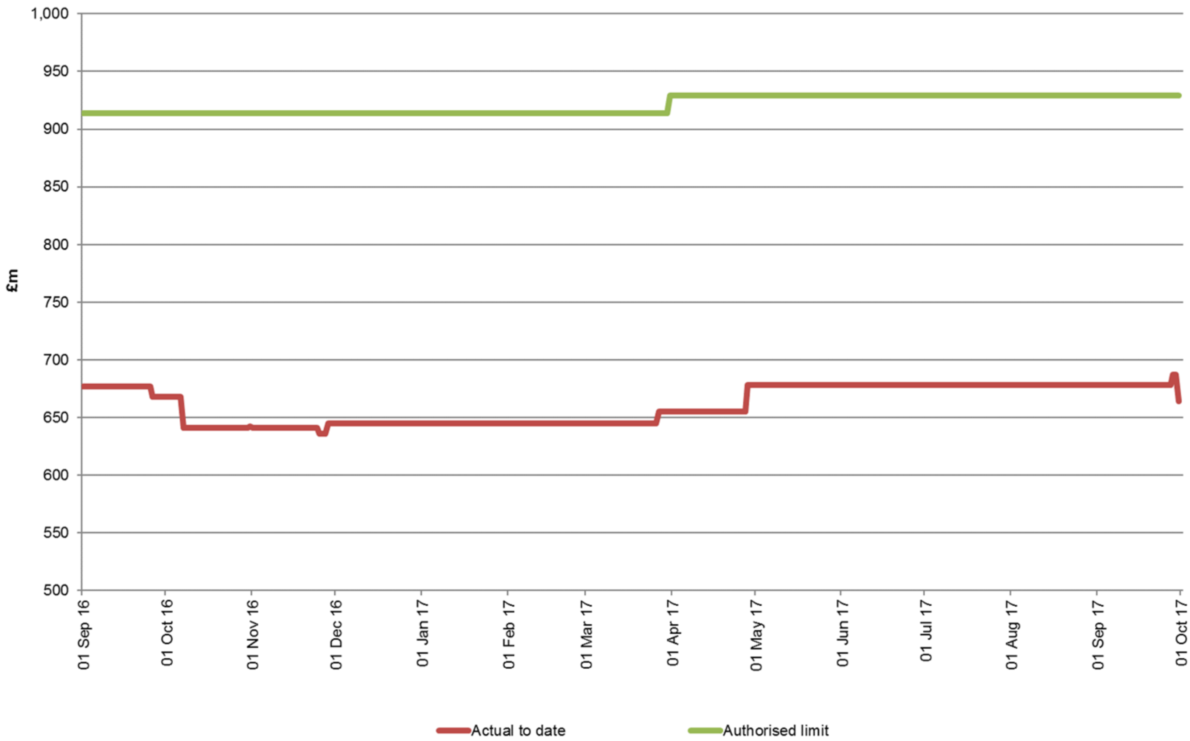
	2016-2017 Actual	2017-2018 Forecast
Average Interest Rate Payable	3.68%	3.75%

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 B 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 C includes the Link Asset Services commentary for quarter two 2017-2018 and forecasts that interest rates across all periods will increase up to March 2021. These forecasts take into account the Bank of England's Base Rate increase on 2 November 2017 from 0.25% to 0.50%. 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 30 September 2017 is £664.1 million. Appendix D to this report shows a summary of this position along with a detailed breakdown of new loans and repayments made throughout the year. £56.1 million of existing borrowing is due to be repaid between quarters three and four.

4.7 In March 2017, Council approved a net borrowing requirement for 2017-2018 of £215.7 million. The forecast net borrowing requirement for 2017-2018 is £190.5 million, as shown in Appendix E 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 PWLB rates.

5.0 Investments forecast for 2017-2018

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 23 June 2017 and 30 September 2017.

Table 3 – Total amounts invested 2017-2018

	23 June 2017 £000	30 September 2017 £000
Business Reserve Accounts Money Market Funds	504 41,855	94 33,575
	42,359	**33,669**
Average cash balance for the year to date	20,570	26,879

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 low appetite for risk.

5.4 The Council's cash flow balance for the second quarter of the current financial year has moved between a low of £24.8 million and a maximum of £47.4 million. The average cash balance for the quarter being £32.7 million.

5.5 Table 4 shows the budgeted average rate of interest receivable in 2017-2018 and the forecast for the year.

Table 4 – Average interest rate receivable in 2017-2018

	2017-2018 Budget	2017-2018 Forecast
Average Interest Rate Receivable	0.10%	0.22%

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 F to this report shows the Council's current specified investments lending list.

5.10 In quarter two 2017-2018 the Director of Finance has not been required to use her discretion to temporarily exceed any upper limits with approved counter-parties.

5.11 At its meeting of 18 October 2017 Cabinet considered the 'Draft Budget and Medium Term Financial Strategy 2018-2019 to 2019-2020' report. Included in this report was an update of the impact of the Markets in Financial Instruments Directive II (MiFID II) being introduced by the Financial Conduct Authority coming into effect 3 January 2018. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from this date. Cabinet approved the relevant applications (where they are required) for opt-up from retail to professional status with institutions that the Council currently uses as part of its Treasury Management Strategy. This will enable the continued use of the current instruments post 3 January 2018.

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 2017-2018, 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 2017-2018.

8.0 Financial implications

8.1 The financial implications are discussed in the body of this report.
[SH/31102017/Z]

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. Part 2 of this Guidance is statutory guidance.
[TS/31202017/R]

10.0 Equalities implications

10.1 This report has no equality implications.

11.0 Environmental implications

11.1 This report has no environmental implications.

12.0 Human resources implications

12.1 This report has no human resources implications.

13.0 Corporate landlord implications

13.1 This report has no corporate landlord implications.

14.0 Schedule of background papers

Treasury Management Strategy 2017-2018, Report to Cabinet, 22 February 2017

Treasury Management – Annual Report 2016-2017 and Activity Monitoring Quarter One 2017-2018, Report to Cabinet, 19 July 2017

Draft Budget and Medium Term Financial Strategy 2018-2019 to 2019-2020, Report to Cabinet, 18 October 2017

15.0 Schedule of appendices

App	Title
A	Prudential and Treasury Management Indicators
B	Maturity profile
C	Link commentary quarter two 2017-2018
D	Borrowing type, borrowing and repayments
E	Certainty rate disclosure
F	Lending list