CITY OF WOLVERHAMPTON COUNCIL	**Cabinet** 11 July 2018

Report title	Treasury Management – Annual Report 2017-2018 and Activity Monitoring Quarter One 2018-2019		
Decision designation	RED		
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@wolverhampton.gov.uk	
Report to be/has been considered by	Strategic Executive Board Council Confident Capable Council Scrutiny Panel		26 June 2018 18 July 2018 26 September 2018

Recommendations for decision:

The Cabinet is recommended to recommend that Council notes:

1. The Council operated within the approved Prudential and Treasury Management Indicators, and also within the requirements set out in the Council's approved Treasury Management Policy Statement during 2017-2018.

2. Revenue underspends of £1.6 million for the General Fund and £731,000 for the Housing Revenue Account were generated from treasury management activities in 2017-2018.

3. A revenue underspend of £1.2 million for the General Fund and an overspend of £263,000 for the Housing Revenue Account are forecast from treasury management activities in 2018-2019, subject to the impact of the Minimum Revenue Provision (MRP) review.

4. That the detailed guidance notes for the new Code of Practice on Treasury Management and the Prudential Code are still to be published by CIPFA and therefore the Treasury Management Statements for 2018-2019 are still based on the Council's interpretation of these Codes.

5. The revised guidance on Local Government Investments and Minimum Revenue Provision is under review by the Director of Finance and updates will be provided to Councillors in due course.

Recommendation for noting:

The Cabinet is asked to note:

1. The financial information included in this report is based on the 'Capital budget outturn 2017-2018 including quarter one capital budget monitoring 2018-2019' report also on the agenda for this meeting. The capital report is subject to a report being separately approved by Cabinet also at this meeting. Therefore, if this approval is not obtained, a revised version of this report will be presented to Council on 18 July 2018.

2. That it is proposed that a total of £900,000 of the treasury underspend in 2017-2018 will be transferred into the Treasury Management Equalisation Reserve, this is subject to approval by Cabinet in the Reserves, Provisions and Balances 2017-2018 report which is also being considered at this meeting (paragraph 3.5).

1.0 Purpose

1.1 This report sets out the results of treasury management activities carried out in 2017-2018, together with performance against the Prudential Indicators previously approved by Council. It also provides a monitoring and progress report on treasury management activity for the first quarter of 2018-2019, in line with the Prudential Indicators approved by Council in March 2018.

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:

https://wolverhamptonintranet.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 borrowing, investments and 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 CIPFA updated and released new versions of both the Code of Practice on Treasury Management and Prudential Code in December 2017. However, although the Codes have been released and are effective for the 2018-2019 financial year, the detailed sector specific guidance have not been issued. In addition, CIPFA have acknowledged that the requirement to produce a Capital Strategy, which is a requirement under the Prudential Code, may require a longer lead-in time and that this requirement may not be able to be fully implemented until the 2019-2020 financial year. CIPFA are recommending that the requirement of both Codes are implemented as soon as possible.

2.5 As the detailed guidance had not been received by the Council, the strategy statements for 2018-2019 were prepared on an interpretation of the Codes to ensure compliance. At the time of writing this report, the detailed guidance notes have still not been published by CIPFA.

2.6 On 2 February 2018 the Ministry of Housing, Communities & Local Government (MHCLG) issued its new Statutory Guidance on Local Government Investments and Minimum Revenue Provision. The guidance on Local Government Investments was effective from 1 April 2018, however, MHCLG acknowledged due to timescales this may

not have been practical to implement and approve before this date. Therefore, the disclosures and requirements can be presented for approval the first time the relevant strategy document is updated or superseded after 1 April 2018.

2.7 With regard to the guidance on Minimum Revenue Provision the effective date is 1 April 2019, except for the elements 'Changing Methods for Calculating MRP' which apply from 1 April 2018. Early adoption of the guidance is encouraged.

2.8 Both sets of the guidance are currently under review by the Director of Finance to assess any necessary changes to the Council's strategies with regards investments and MRP.

2.9 Cabinet / Cabinet (Resources) Panel received quarterly reports during 2017-2018 to monitor performance against the strategy and Prudential Indicators previously approved by Council.

2.10 The Council continued to use Link Asset Services as treasury management advisors throughout 2017-2018 and 2018-2019 to date. 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 The strategy and outturn for 2017-2018

3.1 The strategy for 2017-2018 was to maintain cash balances at a reduced level, therefore keeping to a minimum the credit risk incurred by holding investments and to avoid the higher costs of external borrowing compared to interest foregone on cash balances, thereby generating revenue savings.

3.2 During 2017-2018, the Council followed the recommendations as set out in the Treasury Management Strategy 2017-2018. This included the authorised borrowing limit set at £1,024.1 million, the Treasury Management Strategy, the Annual Investment Strategy, the Prudential Indicators and the Annual Minimum Revenue Provision (MRP) Statement.

3.3 The Treasury Management outturn for 2017-2018 compared to budget is shown in Table 1.

Table 1 – Treasury management budget and outturn 2017-2018

	Approved Budget £000	Outturn £000	Variance £000	Variance at Quarter three £000
General Fund	16,137	14,517	(1,620)	(821)
Housing Revenue Account	10,975	10,244	(731)	(677)
Total	**27,112**	**24,761**	**(2,351)**	**(1,498)**

3.4 Overall there was an underspend of £1.6 million for the General Fund for 2017-2018 and an underspend of £731,000 for the HRA. The underspends are mainly due to a reduced borrowing need in year because of re-phasing in the capital programme and changes in interest rates.

3.5 In order to ensure that the revenue implications of the capital programme do not impact adversely on the revenue budget, a Treasury Management Equalisation Reserve was established during 2015-2016. This specific reserve can be called on as and when required to support the revenue costs associated with re-phasing in the capital programme. Of the above mentioned General Fund underspend of £1.6 million in 2017-2018, £900,000 will be transferred into this reserve, subject to approval of the Reserves, Provisions and Balances 2017-2018 report which is also being considered at this meeting. If approved, the balance on this reserve at 31 March 2018 will increase from £3.5 million to £4.4 million.

3.6 No institutions in which investments were made had any difficulty in repaying investments or interest in full during the year 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.

3.7 No debt was rescheduled in 2017-2018. Opportunities for rescheduling are now minimal since the Public Works Loans Board (PWLB) amended their discount calculation basis, and no opportunity to reschedule arose during the year.

3.8 Table 2 shows the average rate of interest payable and receivable in 2016-2017 and 2017-2018.

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

	2016-2017 Actual	2017-2018 Actual
Average Interest Rate Payable	3.68%	3.74%
Average Interest Rate Receivable	0.42%	0.27%

Borrowing outturn for 2017-2018

3.9 The average debt interest rate increased marginally from 3.68% in 2016-2017 to 3.74% in 2017-2018. The Council undertakes borrowing only when necessary to maintain sufficient cash flow balances and after monitoring the market to take advantage of the best available rates. A summary of the borrowing and repayment activities is shown below with the average interest rates; this activity has resulted in a slightly higher overall average rate for the year.

Table 3 – Summary of borrowing and repayment activities

	PWLB Loans £000	Average Rate %	Temporary Loans £000	Average Rate %	Other Loans £000	Average Rate %	Total Loans £000
New Loans Raised	97,000	2.62%	8,000	0.80%	-	-	105,000
Repayment of Loans	(73,000)	1.89%	(8,000)	0.94%	(6,114)	0.00%	(87,114)
Net movement	**24,000**		**-**		**(6,114)**		**17,886**

3.10 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.

3.11 The Council's Capital Financing Requirement (CFR) increased from £863.1 million to £876.5 million throughout 2017-2018. This reflects a net increase in the Council's underlying need to borrow for capital purposes. This was split between the General Fund and Housing Revenue Account at a rate of 71.0% and 29.0% respectively (2016-2017: 68.8% and 31.2%).

3.12 Table 4 shows how the increase in actual external borrowing arose during the year.

Table 4 – Increase in actual external borrowing 2017-2018

	£000
Opening Balance at 1 April 2017	**655,061**
Less: Repayments	
- Maturity Loans from PWLB	(73,000)
- Temporary Loans	(8,000)
- Regional Infrastructure Fund	(6,114)
Subtotal	(87,114)
Add: New Borrowing	
-PWLB Loan	97,000
-Temporary Loans	8,000
Subtotal	105,000
Net borrowing 2017-2018	**17,886**
Closing Balance at 31 March 2018	**672,947**

3.13 Appendix 1 shows a summary of this position along with a detailed breakdown of new loans and repayments made throughout the year.

Investment outturn for 2017-2018

3.14 The actual interest rate earned from investments decreased from 0.42% in 2016-2017 to 0.27% in 2017-2018. This is due to the continuing low interest rates available, this has minimal impact on the budget due to efficiencies generated by avoiding the cost of borrowing.

3.15 The approach during the year was to continue to use cash balances to finance capital expenditure so as to keep cash balances low. This minimised counterparty risk on investments and also maximised treasury management budget savings as investment rates were much lower than most new borrowing rates.

3.16 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.

4.0 2018-2019 forecast

4.1 It should be noted that in order to provide a timely report, only investment activities up to and including the 31 May 2018 have been included. Borrowing activities include the month of June. The forecast outturn for treasury management activities in 2018-2019 compared to budget is shown in Table 5.

Table 5 – Treasury management budget and forecast outturn 2018-2019

	Approved Budget £000	Forecast Outturn £000	Variance at Quarter one £000
General Fund	25,233	24,031	(1,202)
Housing Revenue Account	10,431	10,694	263
Total before use of reserve	**35,664**	**34,725**	**(939)**

4.2 Overall, an underspend of £1.2 million for the General Fund and a forecast overspend of £263,000 for the HRA are projected for the year 2018-2019.

4.3 The General Fund net underspend of £1.2 million is mainly due to a reduced borrowing need in year arising as a result of re-phasing of the capital programme, and interest and fees charged on loans provided to WV Living.

4.4 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 underspends wherever possible.

4.5 Appendix 2 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 2018.

Borrowing forecast for 2018-2019

4.6 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.

4.7 Table 6 shows the average rate of interest payable in 2017-2018 and forecast for 2018-2019.

Table 6 - Average interest rate payable in 2017-2018 and 2018-2019

	2017-2018 Actual	2018-2019 Forecast
Average Interest Rate Payable	3.74%	3.70%

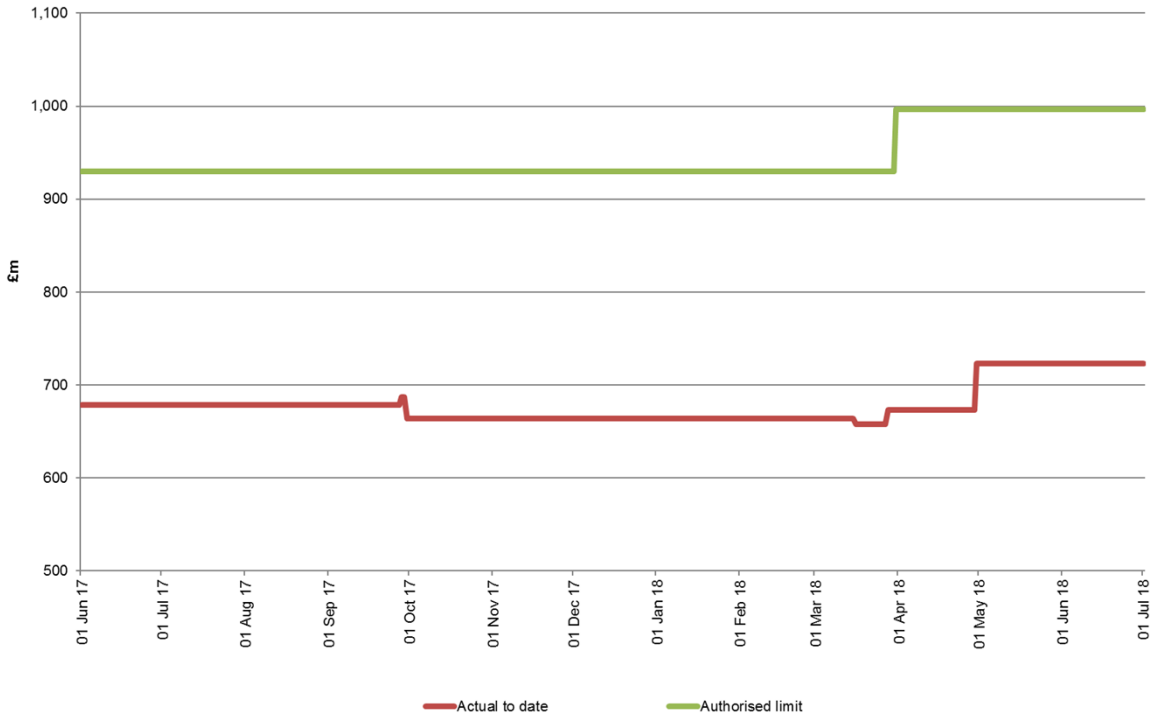
4.8 The average rate of interest payable by the Council is estimated to slightly decrease from 3.74% to 3.70% for 2018-2019.

4.9 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 3 shows the maturity profile of external borrowing.

4.10 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. The Director of Finance will continue to keep actual and forecast rates under close review.

4.11 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



4.12 The level of borrowing at 30 June 2018 is £722.9 million. Appendix 1 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 between quarters two to four.

4.13 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 £132.7 million, as shown in appendix 4. 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.

Investment forecast for 2018-2019

4.14 The approach during the year is to continue to use cash balances to finance capital expenditure so as to keep cash balances low.

4.15 Table 7 shows the total amount of surplus funds invested as at 31 March 2018 and in order to provide a timely report, 31 May 2018.

Table 7 – Total amounts invested 2018-2019

	31 March 2018 £000	31 May 2018 £000
Business Reserve Accounts Money Market Funds	162 7,380	556 10,765
	7,542	**11,321**
Average cash balance for the year to date	22,449	13,358

4.16 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.

4.17 The Council's cash flow balance for the first quarter of the current financial year has moved between a low of £4.6 million and a maximum of £25.7 million. The average cash balance for the quarter being £13.4 million.

4.18 Table 8 shows the budgeted average rate of interest receivable in 2018-2019 and the forecast for the year.

Table 8 – Average interest rate receivable in 2018-2019

	2018-2019 Budget	2018-2019 Forecast
Average Interest Rate Receivable	0.30%	0.49%

4.19 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 up to 31 May 2018.

4.20 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 debt (this is referred to as internal borrowing).

4.21 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 5 shows the Council's current specified investments lending list.

4.22 In quarter one 2018-2019 the Director of Finance has not been required to use her discretion to temporarily exceed any upper limits with approved counter-parties.

5.0 Evaluation of alternative options

5.1 As this is a monitoring report of treasury management activities undertaken in line with the approved Treasury Management Strategy for 2017-2018 and 2018-2019, there are no alternative options available.

6.0 Reasons for decision

6.1 This report provides an update on treasury management activities undertaken in line with the approved Treasury Management Strategy for 2017-2018 and 2018-2019.

7.0 Financial implications

7.1 The financial implications are discussed in the body of this report.

[SH/21062018/O]

8.0 Legal implications

8.1 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.

8.2 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.

8.3 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 reissued in 2010 and 2018. Part 2 of this Guidance is statutory guidance.

[RB/22062018/F]

9.0 Equalities implications

9.1 There are no equality implications arising from this report.

10.0 Environmental implications

10.1 There are no environmental implications arising from this report.

11.0 Human resources implications

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

12.0 Corporate landlord implications

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

13.0 Schedule of background papers

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

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

13.3 Treasury Management Activity Monitoring – Mid Year Review 2017-2018, Report to Cabinet, 29 November 2017

13.4 Quarter Three Treasury Management Activity Monitoring, Report to Cabinet (Resources) Panel, 20 March 2018

13.5 2018-2019 Budget and Medium Term Financial Strategy 2018-2019 – 2019-2020, Report to Cabinet, 20 February 2018

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

14.0 Appendices

Appendix 1: Borrowing type, borrowing and repayments

Appendix 2: Prudential and Treasury Management Indicators

Appendix 3: Maturity profile

Appendix 4: Certainty rate disclosure

Appendix 5: Lending list