Agenda Item No: **5**

CITY OF WOLVERHAMPTON COUNCIL

Cabinet Meeting

22 July 2015

Report title	Treasury Management – Annual Report 2014/15 and Activity Monitoring Quarter One 2015/16
Decision designation	RED
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources
Key decision	Yes
In forward plan	Yes
Wards affected	All
Accountable director	Mark Taylor, Director of Finance
Originating service	Strategic Finance
Accountable employee(s)	Claire Nye — Chief Accountant Tel — 01902 550478 Email — Claire.Nye@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board — 13 July 2015 Council — 23 September 2015 Confident Capable Council Scrutiny Panel — 7 October 2015

Recommendation(s) for action or decision:

1. The Cabinet is recommended to:

   (a) Approve the establishment of the Treasury Management Equalisation Reserve (paragraph 3.5).

2. The Cabinet recommends that Council notes:

   (a) 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 2014/15.

   (b) Revenue savings of £12.3 million for the General Fund and £6.0 million for the Housing Revenue Account were generated from treasury management activities in 2014/15.

(c) Revenue savings of £1.8 million for the General Fund and £2.3 million for the Housing Revenue Account are forecast from treasury management activities in 2015/16.

1.0 Purpose

1.1 This report sets out the results of treasury management activities carried out in 2014/15, 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 2015/16, in line with the Prudential Indicators approved by Council in March 2015.

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 2011. The primary requirements of the Code are the:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the council's treasury management activities.

- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

- Receipt by Cabinet / Council of an annual strategy report for the year ahead, a mid-year review report and an annual review report of the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Nomination of the Confident, Capable Council Scrutiny Panel to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2.2 Treasury management in this context 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 has been in place since 1 April 2004. This replaced the previous complex regulatory framework governing local authority capital expenditure. The current system is one based largely on self-regulation by local authorities themselves. At its heart is CIPFA's Prudential Code for Capital Finance.

2.4 Cabinet (Resources) Panel received quarterly reports during 2014/15 to monitor performance against the strategy and Prudential Indicators previously approved by Council.

2.5 The Council continued to use Capita Asset Services as treasury management advisors throughout 2014/15 and 2015/16 to date. Capita 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 2014/15

3.1 The strategy for 2014/15 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 the course of 2014/15, the Council followed the recommendations as set out in the Treasury Management Strategy 2014/15. This included the authorised borrowing limit set at £1,006.6 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 2014/15 compared to budget is shown in Table 1.

Table 1 – Treasury management budget and outturn 2014/15

	Approved Budget £000	Outturn £000	Variance £000
General Fund	22,852	10,579	(12,273)
Housing Revenue Account	16,975	10,999	(5,976)
Total	39,827	21,578	(18,249)

3.4 Overall there was a saving of £12.3 million for the General Fund for 2014/15 and a saving of £6.0 million for the HRA. The saving for the General Fund is mainly due to the revised MRP policy that was approved by Council on 4 March 2015. This revised approach to calculating MRP on an annuity basis was discussed with the Council's auditors who stated that they were "minded not to challenge" the revised approach. This revised approach to calculating MRP will generate significant savings which are already factored into the Council's Medium Term Financial Strategy (MTFS), helping to ensure that the minimum level of general reserves of £10 million by the end of 2015/16 is maintained. Work is being undertaken to identify any further opportunities to make MRP savings.

3.5 The MTFS 2015/16 to 2018/19 was approved by Council on 4 March 2015 which highlighted that further savings of £46.3 million by 2018/19 were required. In order to ensure that the revenue implications of the capital programme do not impact adversely on this savings target a Treasury Management Equalisation Reserve has been established. This specific reserve will be called on as and when required to support the revenue costs associated with slippage in the capital programme. Formal approval by Cabinet to this reserve is therefore sought. The Treasury Management Equalisation Reserve is included in the Reserves, Provisions and Balances 2014/15 report which is also being considered at this meeting.

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 2014/15. 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 2013/14 and 2014/15.

Table 2 - Average interest rate payable and receivable in 2013/14 and 2014/15

	2013/14 Actual	2014/15 Actual
Average Interest Rate Payable	3.97%	3.67%
Average Interest Rate Receivable	0.45%	0.44%

Borrowing outturn for 2014/15

3.9 The average debt interest rate fell from 3.97% in 2013/14 to 3.67% in 2014/15. This reduction was achieved by 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 lower overall average rate for the year.

Table 3 – Summary of borrowing and repayment activities

	Short Term £000	Average Rate %	Long Term £000	Average Rate %
New Loans Raised	45,400	0.60%	23,000	2.05%
Repayment of Loans	(40,200)	0.54%	-	-

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 £766.8 million to £779.0 million throughout 2014/15. 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 61.1% and 38.9% respectively (2013/14: 59.4% and 40.6%).

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

Table 4 – Increase in actual external borrowing 2014/15

	£000
Opening Balance at 1 April 2014	**563,157**
Less: Repayments - Maturity Loans from PWLB - Temporary Loans	 - (40,200)
Subtotal	(40,200)
Add: New Borrowing -PWLB Loan -Temporary Loans	 23,000 45,400
Subtotal	68,400
Net borrowing 2014/15	**28,200**
Closing Balance at 31 March 2015	**591,357**

3.13 Appendix A shows a detailed breakdown of new loans and repayments made throughout the year.

3.14 Appendix B shows a graphical summary of current borrowing by type; fixed and variable as at March 2015 and as at June 2015.

Investment outturn for 2014/15

3.15 The actual interest rate earned from investments fell from 0.45% in 2013/14 to 0.44% in 2014/15.

3.16 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.

3.17 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.

3.18 A review to the approach to investments to see if improved returns on investments were available was undertaken during the year, this identified that there were minimal opportunities when risk factors, security and liquidity were considered. However, work is ongoing to identify more opportunities.

4.0 2015/16 forecast

4.1 The forecast outturn for treasury management activities in 2015/16 compared to budget is shown in Table 5.

Table 5 – Treasury management budget and forecast outturn 2015/16

	Approved Budget £000	Forecast Outturn £000	Variance £000
General Fund	13,878	12,112	(1,766)
Housing Revenue Account	14,157	11,877	(2,280)
Total	28,035	23,989	(4,046)

4.2 Overall savings of £1.8 million for the General Fund and £2.3 million for the HRA are projected for the year 2015/16. This is mainly due to 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.

4.3 Appendix C 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 2015.

Borrowing forecast for 2015/16

4.4 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.

4.5 Table 6 shows the average rate of interest payable in 2014/15 and forecast for 2015/16.

Table 6 - Average interest rate payable in 2014/15 and 2015/16

	2014/15 Actual	2015/16 Forecast
Average Interest Rate Payable	3.67%	4.07%

4.6 The average rate of interest payable by the Council is estimated to rise from 3.67% to 4.07% for 2015/16.

4.7 Each year it is necessary to raise new loans to finance capital expenditure and to replace existing maturing debt. 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 debt) 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 D shows the maturity profile of external borrowing.

4.8 Any short term savings made by avoiding new long term external borrowing in 2015/16 and thereafter, will also need to be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years, when Public Works Loan Board (PWLB) long term rates are forecast to be significantly higher. Appendix E includes the Capita commentary for quarter one 2015/16 and forecasts that interest rates for both short and long term borrowing will increase up to March 2018. The Director of Finance will continue to keep actual and forecast rates under close review.

4.9 In March 2015, Council approved a net borrowing requirement for 2015/16 of £189.9 million. The forecast net borrowing requirement for 2015/16 is £202.6 million, as shown in appendix F. No borrowing has been taken out during quarter one, and £26.6 million of PWLB borrowing was repaid. £65.2 million of existing borrowing is due to be repaid between quarter’s two to four. Appendix A shows a detailed breakdown of new loans and repayments made throughout the year.

4.10 Appendix F shows details for the disclosure for certainty rate, which will enable the Council to submit a return for 2015/16 and thereby secure access to discounted borrowing at 0.20% below normal PWLB rates.

Investment forecast for 2015/16

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

4.12 Table 7 shows the total amount of surplus funds invested for 2014/15 and the year to date 2015/16.

Table 7 – Total amounts invested 2015/16

	31 March 2015 £000	30 June 2015 £000
Business Reserve Accounts	7	7
Money Market Funds	24,350	4,970
	24,357	**4,977**
Average cash balance for the year to date	33,181	24,501

4.13 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.

4.14 The Council's cash flow balance for the first quarter of the current financial year has moved between a low of £1.4 million and a maximum of £47.4 million. The average cash balance for the quarter being £24.5 million.

4.15 Table 8 shows the budgeted average rate of interest receivable in 2015/16 and the forecast for the year.

Table 8 – Average interest rate receivable in 2015/16

	2015/16 Budget	2015/16 Forecast
Average Interest Rate Receivable	0.60%	0.45%

4.16 This reduction is due to the reduced interest rates currently available and anticipated throughout the year. This will have minimal impact due to savings against the cost of borrowing.

4.17 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).

4.18 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 G shows the Council's current specified investments lending list.

4.19 In quarter one 2015/16 the Director of Finance has not been required to use his discretion to temporarily exceed any upper limits with approved counter-parties.

5.0 Financial implications

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

[SH/10072015/F]

6.0 Legal implications

6.1 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.

6.2 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.

[Legal Code: TS/09072015/D]

7.0 Equalities implications

7.1 This report has no equality implications.

8.0 Environmental implications

8.1 This report has no environmental implications.

9.0 Human resources implications

9.1 This report has no human resources implications.

10.0 Corporate landlord implications

10.1 This report has no corporate landlord implications.

11.0 Schedule of background papers

11.1 Treasury Management Strategy 2014/15, Report to Cabinet, 25 February 2014

Treasury Management – Annual Report 2013/14 and Activity Monitoring Quarter One 2014/15, Report to Cabinet, 23 July 2014

2015/16 Budget and Medium Term Financial Strategy 2015/16 – 2018/19, Report to Cabinet, 22 October 2014

Treasury Management Activity Monitoring – Mid Year Review 2014/15, Report to Cabinet (Resources) Panel, 9 December 2014

2015/16 Budget and Medium Term Financial Strategy 2015/16 – 2018/19, Report to Cabinet, 4 February 2015

Quarter Three Treasury Management Activity Monitoring, Report to Cabinet (Resources) Panel, 10 February 2015

Treasury Management Strategy 2015/16, Report to Cabinet, 25 February 2015

Reserves, Provisions and Balances 2014/15, Report to Cabinet, 22 July 2015

12.0 Schedule of appendices

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APPENDIX A

Borrowing in 2014/15

	Maturity Date	Amount £000	Length	Interest Rate	Full Year Interest
2014/15 Borrowing					
PWLB Fixed Maturity			years		
503341	30/09/2017	23,000	3	2.05%	£471,500
		£23,000		**2.05%**	**£471,500**
Temporary Loans			days		
Nottingham City Council	27/02/2015	2,200	119	0.55%	£3,945
Welwyn Hatfield BC	27/02/2015	2,000	119	0.48%	£3,130
Wirral Borough Council	27/02/2015	1,000	119	0.48%	£1,565
West Midlands Police Authority	27/11/2015	5,000	364	0.65%	£32,411
Bristol City Council	27/11/2015	6,000	364	0.70%	£41,885
Milton Kenyes Borough Council	21/12/2015	10,000	364	0.68%	£67,814
Portsmouth City Council	22/12/2015	3,000	365	0.64%	£19,200
Bath & North East Somerset DC	30/01/2015	7,400	364	0.60%	£44,278
Stevenage Borough Council	30/01/2015	3,800	364	0.61%	£23,116
London Borough of Havering	30/01/2015	5,000	364	0.64%	£31,912
		£45,400		**0.60%**	**£269,256**

Repayments in 2014/15

	Maturity Date	Amount £000	Length	Interest Rate	Full Year Interest
2014/15 Repayments					
PWLB Fixed Maturity			years		
		£0		**0.00%**	**£0**
Temporary Loans			days		
Caerphilly BC	02/05/2014	5,000	86	0.35%	£4,123
Portsmouth City Council	29/08/2014	6,000	182	0.43%	£12,865
Derbyshire CC Super. Fund	29/08/2014	4,000	182	0.45%	£8,975
London Borough of Croydon	30/01/2015	5,000	364	0.67%	£33,408
Wandsworth Borough Council	30/01/2015	5,000	364	0.67%	£33,408
London Borough of Havering	30/01/2015	5,000	364	0.65%	£32,411
Northampton Borough Council	30/01/2015	5,000	364	0.65%	£32,411
Nottingham City Council	27/02/2015	2,200	119	0.55%	£3,945
Welwyn Hatfield BC	27/02/2015	2,000	119	0.48%	£3,130
Wirral Borough Council	27/02/2015	1,000	119	0.48%	£1,565
		£40,200		**0.54%**	**£166,241**

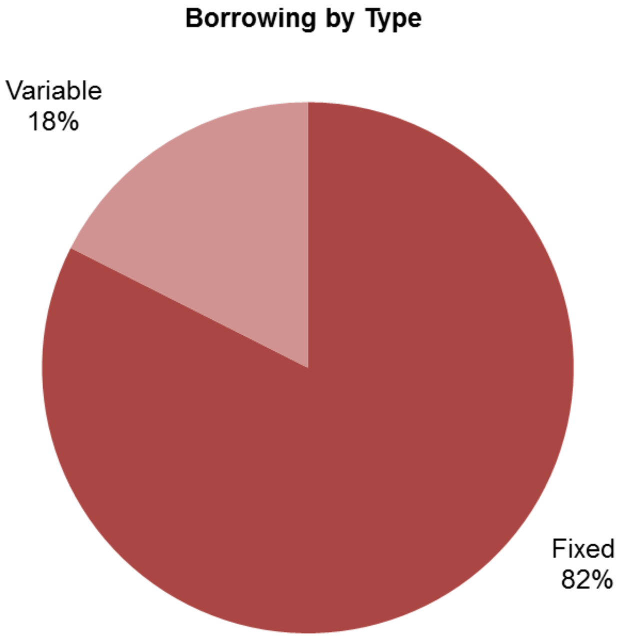
APPENDIX A

Borrowing and Repayments in 2015/16

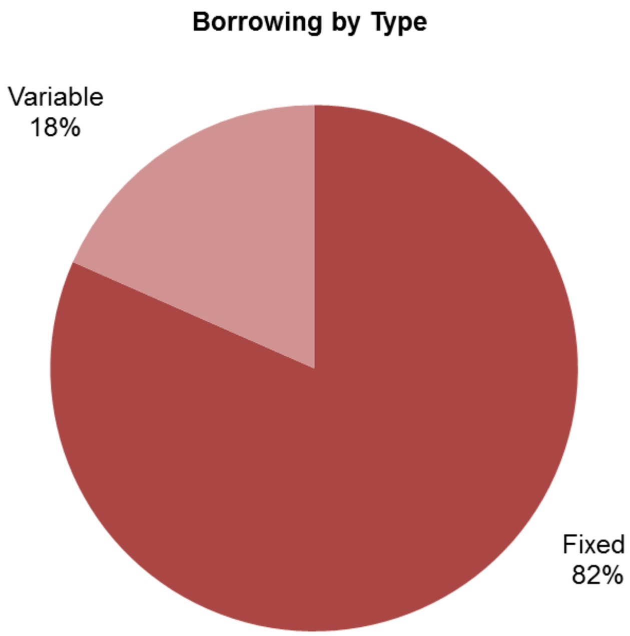
	Maturity Date	Amount £000	Length	Interest Rate	Full Year Interest
2015/16 Borrowing					
No activity for quarter 1					
2015/16 Repayments					
PWLB Fixed Maturity			years		
497365	25/05/2015	26,605	5	2.37%	£630,539
		£26,605		**2.37%**	**£630,539**
Temporary Loans			days		
		£0		**0.00%**	**£0**

APPENDIX B

Borrowing: Graphical Summary
As at 31 March 2015



As at 30 June 2015



APPENDIX C

Debt and Treasury Management - Prudential and Treasury Management Indicators

Prudential Indicators (PI)

PI for Affordability - These indicators are used to ensure the total capital investment of the council is within a sustainable limit and the impact of these decisions are considered with regard to acceptable council tax and housing rent levels.

PI 1 - Estimates and Actual ratio of financing costs to net revenue stream.
This represents the cost of financing capital expenditure as a % of net revenue for both the General Fund and HRA.

	Approved by Council 4 March 2015				As at 30 June 2015			
	2014/15 Forecast	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast	2014/15 Actual	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast
General Fund	4.5%	6.1%	8.2%	8.9%	4.4%	5.3%	7.5%	8.1%
HRA	11.0%	11.3%	13.2%	13.0%	33.6%	33.8%	34.2%	34.1%

PI 2 - Estimates of the incremental impact of capital investment decisions on the council tax and housing rents.
The council could consider different options for its capital investment programme in relation to their different impact on the council tax and housing rents. Negatives reflect a reduction in total capital expenditure.

	Approved by Council 4 March 2015				As at 30 June 2015			
	2014/15 Forecast £	2015/16 Forecast £	2016/17 Forecast £	2017/18 Forecast £	2014/15 Actual £	2015/16 Forecast £	2016/17 Forecast £	2017/18 Forecast £
For Band D council tax								
Implications of the Capital Programme for Year	104.08	202.52	235.55	239.70	72.58	180.93	209.59	218.03
Financial Year Impact	104.08	202.52	235.55	239.70	72.58	180.93	209.59	218.03
For average weekly housing rents								
Implications of the Capital Programme for Year	3.11	6.21	6.69	7.38	1.81	5.40	6.93	7.90
Financial Year Impact	3.11	6.21	6.69	7.38	1.81	5.40	6.93	7.90
For Band D council tax								
Implications of the Capital Programme for Year	-	-	-	-	(31.50)	(21.59)	(25.97)	(21.69)
Marginal Impact to Treasury Management Strategy	-	-	-	-	(31.50)	(21.59)	(25.97)	(21.69)
For average weekly housing rents								
Implications of the Capital Programme for Year	-	-	-	-	(1.30)	(0.81)	0.24	0.51
Marginal Impact to Treasury Management Strategy	-	-	-	-	(1.30)	(0.81)	0.24	0.51

PI 3 - Estimates and actual capital expenditure.
Full details of capital expenditure plans and funding can be found in the Capital budget outturn 2014/15 including quarter one capital budget monitoring 2015/16 and financial strategy report.

	Approved by Council 4 March 2015				As at 30 June 2015			
	2014/15 Forecast £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000	2014/15 Actual £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000
General Fund	91,621	78,032	39,093	9,305	65,143	124,495	64,465	25,466
HRA	73,035	62,501	29,057	30,326	56,325	68,673	42,338	33,802
	164,656	140,533	68,150	39,631	121,468	193,168	106,803	59,268

APPENDIX C

Debt and Treasury Management - Prudential and Treasury Management Indicators

PI 4 - Estimates and actual capital financing requirement General Fund and HRA.
The capital financing requirement measures the authority's underlying need to borrow for a capital purpose.

	Approved by Council 4 March 2015				As at 30 June 2015			
	2014/15 Forecast £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000	2014/15 Actual £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000
General Fund	535,427	598,167	617,974	618,602	475,779	583,878	600,810	604,252
HRA	321,232	344,687	333,959	323,772	303,225	332,832	335,365	328,634
	856,659	942,854	951,933	942,374	779,004	916,710	936,175	932,886

PI 5 - Authorised limit for external debt.
These limits apply to the total external debt gross of investments and separately identify borrowing from other long term liabilities such as finance leases including Private Finance Initiatives (PFI).

	Approved by Council *			
	2014/15 Limit £000	2015/16 Limit £000	2016/17 Limit £000	2017/18 Limit £000
Borrowing	896,862	906,895	915,620	923,031
Other Long Term Liabilities	109,740	96,557	94,671	92,574
Total Authorised Limit	1,006,602	1,003,452	1,010,291	1,015,605
Actual and Forecast External Debt as at 30 June 2015	651,006	804,319	840,565	856,216
Variance (Under) / Over Authorised limit	(355,596)	(199,133)	(169,726)	(159,389)

* 2014/15 approved by Council 5 March 2014, 2015/16 onwards approved by Council 4 March 2015

PI 6 - Operational boundary for external debt.
This is based on the same estimates as the authorised limit but directly reflects the Director of Finance's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included.

	Approved by Council *			
	2014/15 Limit £000	2015/16 Limit £000	2016/17 Limit £000	2017/18 Limit £000
Borrowing	870,926	880,937	908,683	920,161
Other Long Term Liabilities	100,057	96,557	94,671	92,574
Total Operational Boundary Limit	970,983	977,494	1,003,354	1,012,735
Actual and Forecast External Debt as at 30 June 2015	651,006	804,319	840,565	856,216
Variance (Under) / Over Operational Boundary Limit	(319,977)	(173,175)	(162,789)	(156,519)

* 2014/15 approved by Council 5 March 2014, 2015/16 onwards approved by Council 4 March 2015

APPENDIX C

Debt and Treasury Management - Prudential and Treasury Management Indicators

PI 7 - 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.

	Approved by Council 4 March 2015				As at 30 June 2015			
	2014/15 Forecast £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000	2014/15 Actual £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000
HRA Debt Limit	356,770	356,770	356,770	356,770	356,770	356,770	356,770	356,770
HRA Capital Financing Requirement	321,232	344,687	333,959	323,772	303,225	332,832	335,365	328,634
Headroom	35,538	12,083	22,811	32,998	53,545	23,938	21,405	28,136

PI for Prudence - Ensuring that external debt is sustainable and compliance with good professional practice are essential features of prudence.

PI 8a - Gross debt and the capital financing requirement.
"In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years". This replaced PI 8 net debt and the capital financing requirement from 2013/14 onwards.

	Approved by Council 4 March 2015				As at 30 June 2015			
	2014/15 Forecast £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000	2014/15 Actual £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000
Forecast Capital Financing Requirement at end of Second Year	951,933	951,933	951,933	951,933	936,174	936,174	936,174	936,174
Gross Debt	733,336	835,260	861,120	870,501	651,006	804,319	840,565	856,216
Capital Financing Requirement Greater than Gross Debt	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

PI 9 - Has the local authority adopted the CIPFA Treasury Management in the Public Services: Code of Practice.	**Yes**

APPENDIX C

Debt and Treasury Management - Prudential and Treasury Management Indicators

Treasury Management Indicators (TMI)

TMI 1 - Upper limits on fixed interest and variable interest exposures.
These relate to the levels of net outstanding principal sums exposed to fixed and variable interest rates.

	Approved by Council *				As at 30 June 2015			
	2014/15 Limit	2015/16 Limit	2016/17 Limit	2017/18 Limit	2014/15 Actual	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast
Upper limit for fixed rate	100%	100%	100%	100%	82%	85%	86%	86%
Upper limit for variable rate	20%	20%	20%	20%	18%	15%	14%	14%

* 2014/15 approved by Council 5 March 2014, 2015/16 onwards approved by Council 4 March 2015

TMI 2 - Upper and lower limits to the maturity structure of its borrowing.
These limits relate to the % of fixed rate debt maturing.

	Approved by Council 4 March 2015		As at 30 June 2015	
	Upper Limit	Lower Limit	2014/15 Actual Borrowing	2015/16 Forecast Borrowing
Under 12 months	25%	0%	18.83%	9.83%
12 months and within 24 months	25%	0%	5.46%	11.55%
24 months and within 5 years	40%	0%	14.97%	11.00%
5 years and within 10 years	50%	0%	3.55%	3.48%
10 years and above	90%	50%	57.19%	64.15%

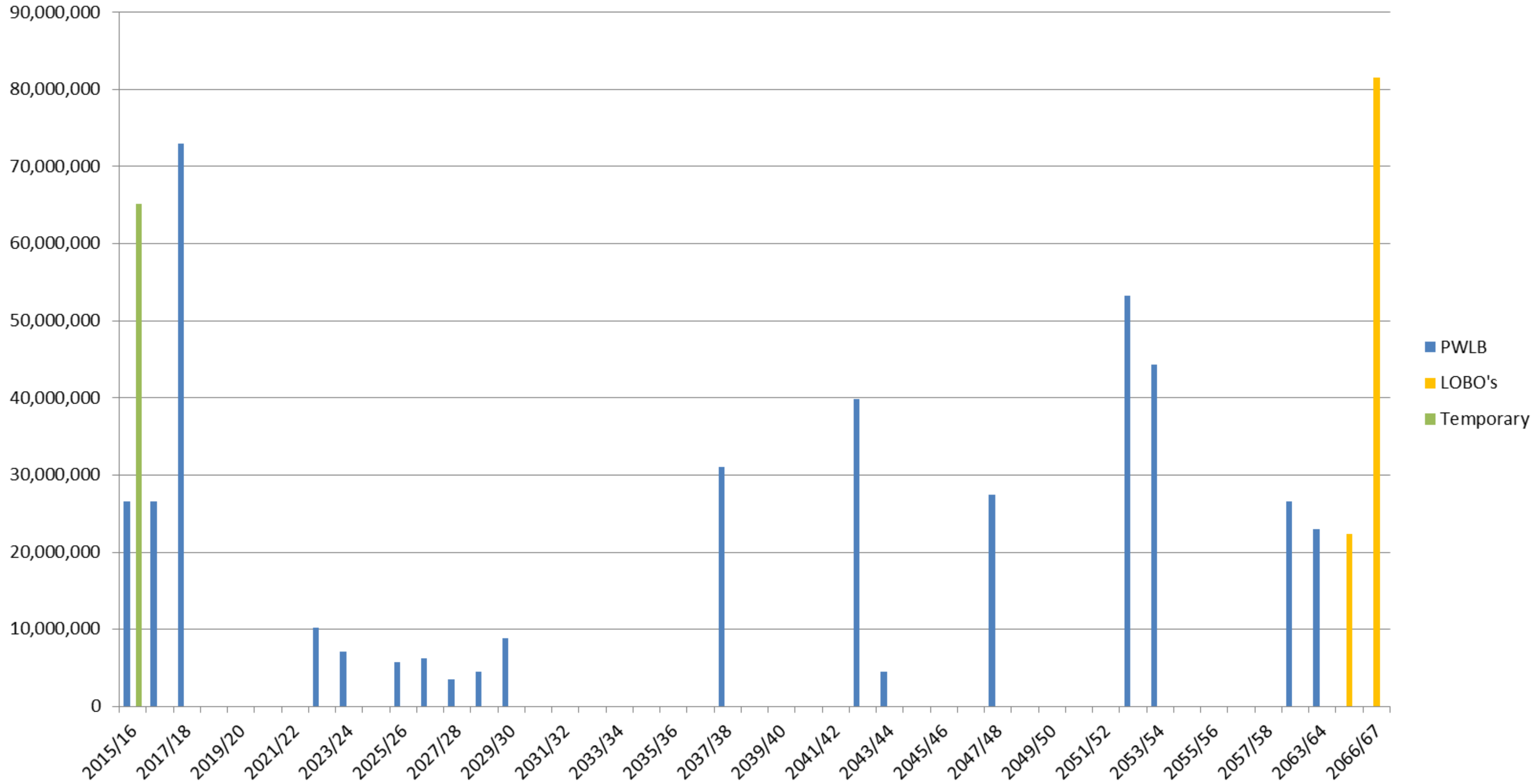
TMI 3 - Upper limits to the total of principal sums invested longer than 364 days.
This details the maximum amount which can be invested for up to 5 years (as per paragraph 1.6 of the Annual Investment Strategy).

	Approved by Council *				As at 30 June 2015			
	2014/15 Limit £000	2015/16 Limit £000	2016/17 Limit £000	2017/18 Limit £000	2014/15 Actual £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000
Upper limit for more than 364 days	35,000	35,000	35,000	35,000	-	35,000	35,000	35,000

* 2014/15 approved by Council 5 March 2014, 2015/16 onwards approved by Council 4 March 2015

APPENDIX D

Borrowing Maturity at 30 June 2015



APPENDIX E

Economic Background

The following economic background has been provided by the Council's Treasury Advisors, Capita Asset Services.

After strong UK GDP growth in 2013 at an annual rate of 2.7% and 3.0% in 2014, quarter 1 of 2015 was disappointing at only 0.4%, though subsequent data indicates that this could well be revised up further down the line and also indicates a return to stronger growth in quarter 2. In its May quarterly Inflation Report, the Bank of England reduced its GDP forecast for 2015 from 2.9% to 2.5% and from 2.9% to 2.7% in 2016, while increasing its forecast for 2017 from 2.4% to 2.7%.

Uncertainty around the likely result of the UK general election in May has obviously now evaporated although this has been replaced by some uncertainty around the potential impact on the UK economy of the EU referendum promised by, or in, 2017. In addition, the firm commitment of the Conservative Government to eliminating the deficit within the term of this Parliament will have an impact on GDP growth rates. However, the MPC is fully alert to this and will take that into account, and also the potential spill over effects from the Greek crisis, in making its decisions on the timing of raising Bank Rate.

As for the American economy, confidence has improved markedly in this quarter that the US will start increasing the Fed funds rate by the end of 2015 due to a return to strong economic GDP growth after a disappointing start to the year in quarter 1, (a contraction of 0.2%), after achieving 2.4% growth in 2014.

In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth, though it remains to be seen whether this will have an enduring effect as strong as the recovery in the US and UK.

APPENDIX E

Interest rate forecast

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%
5yr PWLB rate	2.30%	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%
10yr PWLB rate	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%
25yr PWLB rate	3.60%	3.70%	3.80%	4.00%	4.10%	4.20%	4.30%	4.40%	4.40%	4.50%	4.60%
50yr PWLB rate	3.60%	3.70%	3.80%	4.00%	4.10%	4.20%	4.30%	4.40%	4.40%	4.50%	4.60%

Capita Asset Services undertook a review of its interest rate forecasts after the May Bank of England Inflation Report. The ECB's quantitative easing programme to buy up EZ debt caused an initial widespread rise in bond prices and, correspondingly, a fall in bond yields to phenomenally low levels, including the debt of some European countries plunging into negative yields. Since then, fears about recession in the EZ, and around the risks of deflation, have abated and so there has been an unwinding of this initial phase with bond yields rising back to more normal, though still historically low yields.

This latest forecast includes a move in the timing of the first increase in Bank Rate from quarter 1 of 2016 to quarter 2 of 2016 as a result primarily of poor growth in quarter 1, weak wage inflation and the recent sharp fall in inflation due to the fall in the price of oil and the impact of that on core inflation. The UK fell marginally into deflation in April (-0.1%) and figures near zero will prevail for about the next six months until the major fall in oil prices in the latter part of 2014 falls out of the twelve month calculation of CPI inflation. The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when average disposable income is only just starting a significant recovery as a result of recent increases in the rate of wage inflation, though some consumers will not have seen that benefit come through for them.

APPENDIX F

Disclosure for Certainty Rate

Certainty Rate
This table details the information that is required to enable the Council to submit a return for 2015/16.

	As at 25 February 2015				As at 30 June 2015			
	2014/15 Forecast £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000	2014/15 Actual £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000
Net Borrowing Requirement:								
Borrowing to Finance approved Capital Expenditure	71,714	103,832	27,746	11,478	34,613	116,491	38,132	17,748
Existing Maturity Loans to be Replaced During the Year	85,200	101,805	76,605	123,000	54,316	101,805	76,605	123,000
Less:								
Minimum Revenue Provision for Debt Repayment	0	0	0	0	(23)	0	0	0
Voluntary Debt Repayment	(18,911)	(15,729)	(16,781)	(18,940)	(20,506)	(15,729)	(16,781)	(18,940)
	(18,911)	(15,729)	(16,781)	(18,940)	(20,529)	(15,729)	(16,781)	(18,940)
Loans Replaced Less Debt Repayment	66,289	86,076	59,824	104,060	33,787	86,076	59,824	104,060
Net Advance Requirement	138,003	189,908	87,570	115,538	68,400	202,567	97,956	121,808

APPENDIX G

Wolverhampton City Council
2015/16 Specified Investments Lending List as at 30 June 2015

Institution	Country (Sovereign Rating)	Limit £000	Term Limit
Australia & New Zealand Banking Group Ltd	Australia (AAA)	10,000	6 mths
Bank Netherlandse Gemeenten	Netherlands (AAA)	20,000	12 mths
Bank of Montreal	Canada (AAA)	10,000	6 mths
Bank of New York Mellon, The	USA (AAA)	20,000	12 mths
Bank of Nova Scotia	Canada (AAA)	10,000	6 mths
Canadian Imperial Bank of Commerce	Canada (AAA)	10,000	6 mths
Clearstream Banking	Luxembourg (AAA)	20,000	12 mths
Commonwealth Bank of Australia	Australia (AAA)	10,000	6 mths
Cooperatieve Centrale Raiffeisen - Boerenleenbank BA	Netherlands (AAA)	10,000	6 mths
DBS Bank Ltd	Singapore (AAA)	10,000	6 mths
Hong Kong and Shanghai Banking Corporation Ltd	Hong Kong (AA+)	10,000	6 mths
HSBC Bank plc	UK (AA+)	10,000	6 mths
HSBC Bank USA	USA (AAA)	10,000	6 mths
JP Morgan Chase Bank NA	USA (AAA)	5,000	3 mths
National Australia Bank Ltd	Australia (AAA)	10,000	6 mths
Nordea Bank AB	Sweden (AAA)	10,000	6 mths
Nordea Bank Finland plc	Finland (AAA)	10,000	6 mths
Northern Trust Company	USA (AAA)	5,000	3 mths
Oversea Chinese Banking Corporation Ltd	Singapore (AAA)	10,000	6 mths
Royal Bank of Canada	Canada (AAA)	10,000	6 mths
Standard Chartered Bank	UK (AA+)	10,000	6 mths
Svenska Handelsbanken AB	Sweden (AAA)	10,000	6 mths
Toronto Dominion Bank	Canada (AAA)	10,000	6 mths
United Overseas Bank Ltd	Singapore (AAA)	10,000	6 mths
Wells Fargo Bank NA	USA (AAA)	10,000	6 mths
Westpac Banking Corporation	Australia (AAA)	10,000	6 mths
Nationalised Banks			
Royal Bank of Scotland Group plc			
National Westminster Bank plc	UK (AA+)	10,000	3 mths
The Royal Bank of Scotland plc	UK (AA+)	10,000	3 mths
Money Market Funds	**Fund Rating**		
Invesco STIC Account	Fitch AAAmmf	20,000	Instant Access
Standard Life Investments Sterling Liquidity Fund	Fitch AAAmmf	20,000	Instant Access
Federated Short-Term Sterling Prime Fund	Fitch AAAmmf	20,000	Instant Access
Black Rock Sterling Liquidity Fund	Moody's Aaa-mf	20,000	Instant Access
Scottish Widows Sterling Liquidity Fund	Moody's Aaa-mf	20,000	Instant Access

Non-rated Institutions

County Councils, London Boroughs, Metropolitan Districts and Unitary Authorities - limits £6m and 12 months. Shire District Councils, Fire and Civil Defence Authorities, Passenger Transport Authorities and Police Authorities - limits £3m and 12 months.