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CITY OF WOLVERHAMPTON COUNCIL	**Cabinet** 13 November 2019

Report title	Treasury Management Activity Monitoring – Mid Year Review 2019-2020	
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 Our Council Scrutiny Panel	31 October 2019 11 December 2019 15 January 2020

Recommendations for decision:

That Cabinet is recommended to recommend 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 2019.

2. That revenue underspends of £253,000 for the General Revenue Account and £124,000 for the Housing Revenue Account are forecast from treasury management activities in 2019-2020.

1.0 Purpose

1.1 The report provides a monitoring and progress report on treasury management activity for the second quarter of 2019-2020 as part of the mid-year review, in line with the Prudential Indicators approved by Council in 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 2019-2020 report which can be accessed online on the Council's website here.

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

2.5 The Council continues to use Link Asset Services as its treasury management advisors throughout 2019-2020. 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 2019-2020

3.1 On 10 July 2019 Cabinet received the 'Treasury Management – Annual Report 2018-2019 and Activity Monitoring Quarter One 2019-2020' report. In this report it was noted that an underspend of £910,000 for 2019-2020 for the Housing Revenue Account (HRA) was forecast. Subsequently, on 23 July 2019 Cabinet (Resources) Panel approved a reduction of £1.0 million in the interest budget for the HRA resulting in the approved treasury management budget now being £9.9 million.

3.2 The forecast outturn for treasury management activities in 2019-2020 compared to budget is shown in Table 1.

Table 1 – Treasury management budget and forecast outturn 2019-2020

	Approved Budget £000	Forecast Outturn £000	Variance at Quarter two £000
General Revenue Account	33,683	33,430	(253)
Housing Revenue Account	9,868	9,744	(124)
Total	**43,551**	**43,174**	**(377)**

3.3 Overall, underspends of £253,000 for the General Revenue Account and £124,000 for the Housing Revenue Account are projected for the year 2019-2020.

3.4 The underspend for the General Revenue Account is mainly due to a reduced borrowing need in year arising as a result of re-phasing of the capital programme offset against an increase in Minimum Revenue Provision (MRP) charges and loss of income for interest charged on loans to others. The MRP has increased due to the amount of borrowing applied in 2018-2019 against short life assets compared to the forecast. The loss of interest income is due to the revised timing of loan requests from WV Living.

3.5 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.

3.6 Appendix 1 to this report 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 2019.

4.0 Borrowing forecast for 2019-2020

4.1 The main source of borrowing for local authorities is the Public Works Loan Board (PWLB). The Government set a statutory limit for the maximum net amount of PWLB loans that can be outstanding at any time, on 8 October 2019 legislation increased this limit from £85 billion to £95 billion. On 9 October 2019, in response to an increase in local authorities using the PWLB in recent months, HM Treasury increased the margin that applies to new loans from the PWLB by one percentage point with immediate effect.

4.2 There was no prior warning that this would happen. Local authorities are now reassessing how to finance their external borrowing needs, including the financial viability of capital projects in their capital programme, due to this unexpected increase in the cost of borrowing.

4.3 The Council has previously relied on the PWLB as its main source of funding, we are now considering alternative cheaper sources of borrowing to finance capital programmes. At the current time, this is a developmental area as this event has also taken the financial services industry by surprise. It is expected that various financial institutions will enter the market or make products available to local authorities. Updates will be provided in future reports as and when necessary as this area evolves.

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 2 shows the average rate of interest payable in 2018-2019 and forecast for 2019-2020.

Table 2 – Average interest rate payable in 2018-2019 and 2019-2020

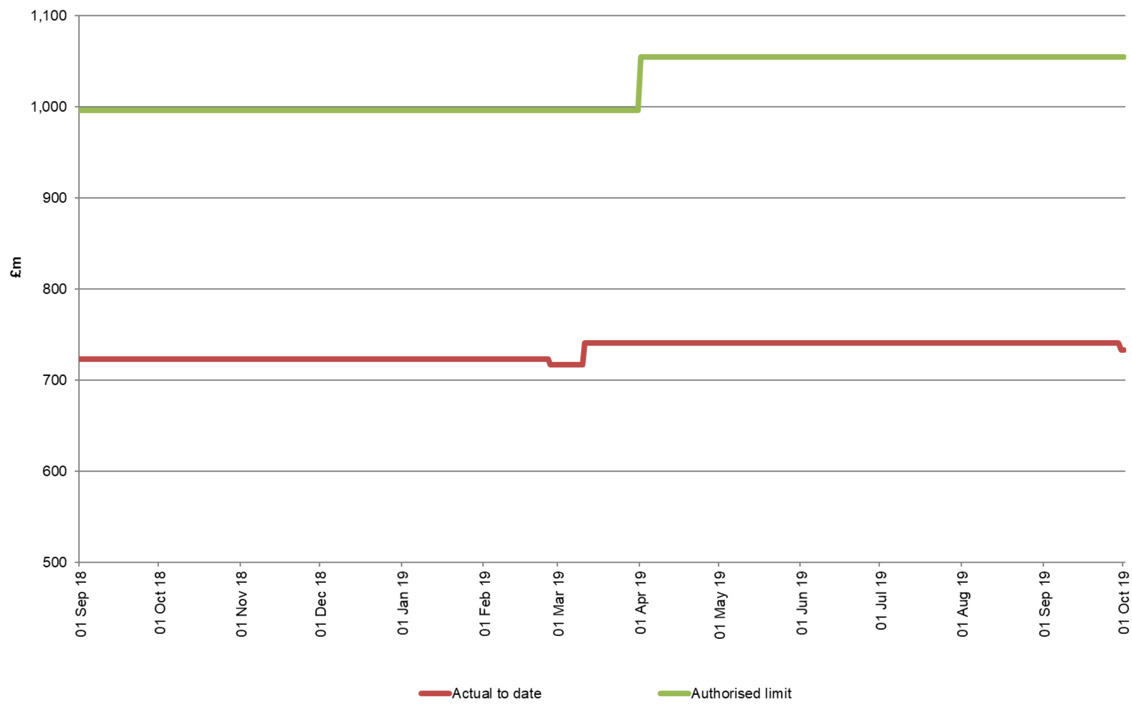
	2018-2019 Actual	2019-2020 Forecast
Average Interest Rate Payable	3.75%	3.73%

4.6 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 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.

4.7 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 interest rate forecast for quarter two 2019-2020 which 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.

4.8 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



4.9 The level of borrowing at 30 September 2019 is £732.9 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. There is no existing borrowing due to be repaid between quarters three and four.

4.10 In March 2019, Council approved a net borrowing requirement for 2019-2020 of £206.8 million. The forecast net borrowing requirement for 2019-2020 is £114.1 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 PWLB rates.

5.0 Investment forecast for 2019-2020

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 2019 and 31 May 2019.

Table 3 – Total amounts invested 2019-2020

	31 May 2019 £000	30 September 2019 £000
Business Reserve Accounts	112	120
Money Market Funds	32,335	20,190
	32,447	**20,310**
Average cash balance for the year to date	35,225	35,165

5.3 Money Market Funds and Business Reserve Accounts are the main investments used as these have high credit ratings and instant access which is consistent with the Council's strategy.

5.4 The Council's cash flow balance for the second quarter of the current financial year has moved between a low of £16.4 million and a maximum of £45.5 million. The average cash balance for the quarter being £35.1 million.

5.5 Table 4 shows the budgeted average rate of interest receivable in 2019-2020 and the forecast for the year.

Table 4 – Average interest rate receivable in 2019-2020

	2019-2020 Budget	2019-2020 Forecast
Average Interest Rate Receivable	0.60%	0.72%

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 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 two 2019-2020 the Director of Finance has not been required to use her discretion to temporarily exceed any upper limits with approved counter-parties.

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 2019-2020, there are no alternative options available.

7.0 Reasons for decisions

7.1 This report provides an update on treasury management activities undertaken in line with the approved Treasury Management Strategy 2019-2020.

8.0 Financial implications

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

[SH/25102019/V]

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 This 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 Public Services', contains treasury management indicators and advice on treasury management strategy. Investment strategy is regulated by 'MHCLG

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/24102019/R]

10.0 Equalities implications

10.1 There are no equalities implications arising from this report.

11.0 Climate change and environmental implications

11.1 There are no climate change and 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 Cabinet, 20 February 2019 – 'Treasury Management Strategy 2019-2020'

15.2 Cabinet, 10 July 2019 - 'Treasury Management – Annual Report 2018-2019 and Activity Monitoring Quarter One 2019-2020'

16.0 Appendices

Appendix 1 – Prudential and Treasury Management Indicators

Appendix 2 – Borrowing maturity profile

Appendix 3 – Link interest rate forecasts

Appendix 4 – Borrowing type, borrowing and repayments

Appendix 5 – Disclosure for certainty rate

Appendix 6 – Lending list