

Report title	Treasury Management Activity Monitoring Quarter Three 2019-2020	
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	Chief Accountant
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Report to be/has been considered by	Strategic Executive Board	19 February 2020
	Our Council Scrutiny Panel	11 March 2020

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 Strategy for 2019-2020.
2. That revenue underspends of £481,000 for the General Revenue Account and £243,000 for the Housing Revenue Account (HRA) are forecast from treasury management activities in 2019-2020.
3. That the Prudential and Treasury Management Indicators included in this report are the same figures as those seen by Cabinet on 19 February 2020 and will be submitted for approval by Council on 4 March 2020.

1.0 Purpose

- 1.1 This report provides a monitoring and progress report on treasury management activity for the third quarter of 2019-2020 and highlights the revised Prudential Indicators which are subject to approval by Council on 4 March 2020.

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 receives 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 forecast

- 3.1 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 three £000
General Revenue Account	33,683	33,202	(481)
Housing Revenue Account	9,868	9,625	(243)
Total	43,551	42,827	(724)

- 3.2 Overall, underspends of £481,000 for the General Revenue Account and £243,000 for the HRA are projected for the year 2019-2020.
- 3.3 The main reasons for the underspend for the General Revenue Account are as previously reported; 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.
- 3.4 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 efficiencies wherever possible.
- 3.5 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 4 March 2020.

4.0 Borrowing forecast for 2019-2020

- 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 2018-2019 and forecast for 2019-2020.

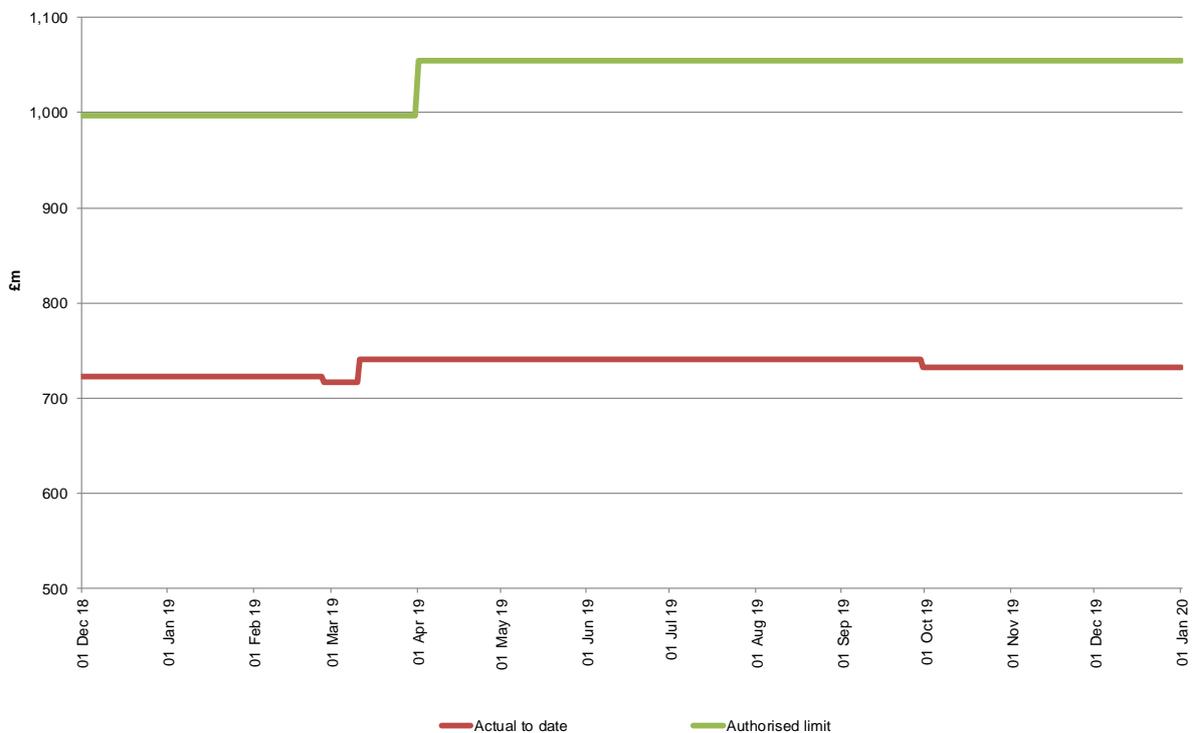
Table 2 – Average interest rate payable in 2018-2019 and 2019-2020

	2018-2019 Actual	2019-2020 Forecast
Average Interest Rate Payable	3.75%	3.74%

- 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 interest rate forecast for quarter three 2019-2020 which forecasts that interest rates across all periods will increase up to March 2023. 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 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 in quarter four.
- 4.7 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 £77.4 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 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 December 2019.

Table 3 – Total amounts invested 2019-2020

	30 September 2019 £000	31 December 2019 £000
Business Reserve Accounts	120	8,049
Money Market Funds	20,190	20,755
	20,310	28,804
Average cash balance for the year to date	35,165	33,972

- 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 third quarter of the current financial year has moved between a low of £20.0 million and a maximum of £40.9 million. The average cash balance for the quarter being £31.3 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%	0.71%

- 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 three 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 decision

- 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/07022020/U]

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/06022020/Q]

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’](#)

15.3 Cabinet, 13 November 2019 – [‘Treasury Management Activity Monitoring – Mid Year Review 2019-2020’](#)

15.4 Cabinet, 19 February 2020 – [‘Treasury Management Strategy 2020-2021’](#)

16.0 Appendices

16.1 Appendix 1 – Prudential and Treasury Management Indicators

16.2 Appendix 2 – Borrowing maturity profile

16.3 Appendix 3 – Link interest rate forecasts

16.4 Appendix 4 – Borrowing type, borrowing and repayments

16.5 Appendix 5 – Disclosure for certainty rate

16.6 Appendix 6 – Lending list