

# Meeting of the City Council

## 16 December 2015

<b>Report title</b>	Treasury Management Activity Monitoring – Mid Year Review 2015/16	
<b>Referring body</b>	Cabinet, 9 December 2015	
<b>Councillor to present report</b>	Councillor Andrew Johnson	
<b>Wards affected</b>	All	
<b>Cabinet Member with lead responsibility</b>	Councillor Andrew Johnson Resources	
<b>Accountable director</b>	Mark Taylor, Director of Finance	
<b>Originating service</b>	Strategic Finance	
<b>Accountable employee(s)</b>	Claire Nye Tel Email	Chief Accountant 01902 550478 <a href="mailto:Claire.Nye@wolverhampton.gov.uk">Claire.Nye@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Strategic Executive Board Cabinet Confident, Capable Council Scrutiny Panel	17 November 2015 9 December 2015 3 February 2016

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### Recommendations for noting:

Subject to the decision of Cabinet on 9 December, the Council is recommended to note:

1. 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 2015.
2. Savings of £1.9 million for the General Fund and £2.9 million for the Housing Revenue Account (HRA) are forecast from treasury management activities in 2015/16.

## 1.0 Purpose

- 1.1 To provide Council with a monitoring and progress report on treasury management activity for the second quarter of 2015/16 as part of the mid-year review, in line with the Prudential Indicators approved by Council in March 2015.

## 2.0 Background

- 2.1 On 9 December 2015 Cabinet considered a report on 'Treasury management activity monitoring – mid-year review 2015/16'. The report can be accessed online on the Council's website. [Click here to access the report.](#)
- 2.2 Since then three further reports have been considered by Cabinet (Resources) Panel on 15 December 2015 which would amend the capital programme requirements and therefore potentially impact on the treasury management position. The three reports are private and are only available for the Committee to view: [\(Click here to log in to access the reports.\)](#)
- Improving the City Housing Offer: Tower Works and Fort Works, Pelham Street/Ashland Street, residential development procurement
  - Improving the City Housing Offer: Strategic Construction Partnership - Newbuild Council housing Phase 2
  - Occupancy of Floorspace at i10, Interchange
- 2.3 The capital programme requirements have been fully reflected in the treasury management calculations and although they do not alter the forecast revenue outturn position for 2015/16, they do change the Prudential and Treasury Management Indicators and the Disclosure for Certainty Rate. Appendix A details the revised indicators; it should however be noted that even with these changes the Council continues to operate with the limits and requirements approved in March 2015.
- 2.4 Subject to the decision of Cabinet on 9 December, Cabinet recommended to Full Council that it:
1. Notes that:
    - (a) 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 2015.
    - (b) Savings of £1.9 million for the General Fund and £2.9 million for the Housing Revenue Account (HRA) are forecast from treasury management activities in 2015/16.

### **3.0 Financial, legal, equalities, environmental, human resources and corporate landlord implications**

3.1 The implications are detailed in the Cabinet report of 9 December 2015 and Cabinet (Resources) Panel reports of 15 December 2015.

### **4.0 Schedule of background papers**

4.1 9 December 2015 Cabinet report – Treasury Management Activity Monitoring – Mid-Year Review 2015/16

4.2 15 December 2015 Cabinet (Resources) Panel report - Improving the City Housing Offer: Tower Works and Fort Works, Pelham Street/Ashland Street, residential development procurement

4.3 15 December 2015 Cabinet (Resources) Panel report - Improving the City Housing Offer: Strategic Construction Partnership - Newbuild Council housing Phase 2

4.4 15 December 2015 Cabinet (Resources) Panel report - Occupancy of Floorspace at i10, Interchange

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 September 2015		
	2015/16	2016/17	2017/18	2015/16	2016/17	2017/18
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
General Fund	6.1%	8.2%	8.9%	5.1%	7.4%	8.4%
HRA	11.3%	13.2%	13.0%	33.0%	33.9%	34.8%

**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 September 2015		
	2015/16	2016/17	2017/18	2015/16	2016/17	2017/18
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	£	£	£	£	£	£
<b>Financial year impact</b>						
Implications of the capital programme for year:						
For Band D council tax	202.52	235.55	239.70	102.50	149.37	167.98
For average weekly housing rents	6.21	6.69	7.38	2.41	4.39	5.28
<b>Marginal impact to previous quarter</b>						
Implications of the capital programme for year:						
For Band D council tax	-	-	-	(5.85)	12.36	22.55
For average weekly housing rents	-	-	-	(1.18)	(0.73)	(0.80)

**PI 3 - Estimates and actual capital expenditure.**

Full details of capital expenditure plans and funding can be found in the quarter two capital budget monitoring 2015/16 report and subsequent reports to Cabinet (Resources) Panel of 15 December 2015.

	Approved by Council 4 March 2015			As at 30 September 2015		
	2015/16	2016/17	2017/18	2015/16	2016/17	2017/18
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	£000	£000	£000	£000	£000	£000
General Fund	78,032	39,093	9,305	117,040	71,366	33,408
HRA	62,501	29,057	30,326	62,762	50,133	32,892
	140,533	68,150	39,631	179,802	121,499	66,300

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 September 2015		
	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000
General Fund	598,167	617,974	618,602	580,038	608,930	619,060
HRA	344,687	333,959	323,772	314,519	321,563	314,150
	942,854	951,933	942,374	894,557	930,493	933,210

**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 4 March 2015		
	2015/16 Limit £000	2016/17 Limit £000	2017/18 Limit £000
Borrowing	906,895	915,620	923,031
Other Long Term Liabilities	96,557	94,671	92,574
Total Authorised Limit	1,003,452	1,010,291	1,015,605
Actual and Forecast External Debt as at 30 September 2015	785,540	839,441	860,870
Variance (Under) / Over Authorised limit	(217,912)	(170,850)	(154,735)

**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 4 March 2015		
	2015/16 Limit £000	2016/17 Limit £000	2017/18 Limit £000
Borrowing	880,937	908,683	920,161
Other Long Term Liabilities	96,557	94,671	92,574
Total Operational Boundary Limit	977,494	1,003,354	1,012,735
Actual and Forecast External Debt as at 30 September 2015	785,540	839,441	860,870
Variance (Under) / Over Operational Boundary Limit	(191,954)	(163,913)	(151,865)

Debt and Treasury Management - Prudential and Treasury Management Indicators

<b>PI 7 - HRA limit on indebtedness.</b>						
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 September 2015		
	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £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
HRA Capital Financing Requirement	344,687	333,959	323,772	314,519	321,563	314,150
Headroom	12,083	22,811	32,998	42,251	35,207	42,620

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

<b>PI 8a - Gross debt and the capital financing requirement.</b>						
"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 September 2015		
	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £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	933,209	933,209	933,209
Gross Debt	835,260	861,120	870,501	785,540	839,441	860,870
Capital Financing Requirement Greater than Gross Debt	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

Debt and Treasury Management - Prudential and Treasury Management Indicators

Treasury Management Indicators (TMI)

<b>TMI 1 - Upper limits on fixed interest and variable interest exposures.</b>						
These relate to the levels of net outstanding principal sums exposed to fixed and variable interest rates.						
	Approved by Council 4 March 2015			As at 30 September 2015		
	2015/16 Limit	2016/17 Limit	2017/18 Limit	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast
Upper limit for fixed rate	100%	100%	100%	85%	86%	86%
Upper limit for variable rate	20%	20%	20%	15%	14%	14%

<b>TMI 2 - Upper and lower limits to the maturity structure of its borrowing.</b>			
These limits relate to the % of fixed rate debt maturing.			
	Approved by Council 4 March 2015		As at 30 September 2015
	Upper Limit	Lower Limit	2015/16 Forecast Borrowing
Under 12 months	25%	0%	12.66%
12 months and within 24 months	25%	0%	11.21%
24 months and within 5 years	40%	0%	7.97%
5 years and within 10 years	50%	0%	3.67%
10 years and above	90%	50%	64.49%

<b>TMI 3 - Upper limits to the total of principal sums invested longer than 364 days.</b>						
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 4 March 2015			As at 30 September 2015		
	2015/16 Limit £000	2016/17 Limit £000	2017/18 Limit £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

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 September 2015		
	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000	2015/16 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000
<b>Net Borrowing Requirement:</b>						
Borrowing to Finance approved Capital Expenditure	103,832	27,746	11,478	97,712	55,787	23,526
Existing Maturity Loans to be Replaced During the Year	101,805	76,605	123,000	103,055	82,355	146,000
Less:						
Minimum Revenue Provision for Debt Repayment	0	0	0	0	0	0
Voluntary Debt Repayment	(15,729)	(16,781)	(18,940)	(19,103)	(17,965)	(18,712)
	(15,729)	(16,781)	(18,940)	(19,103)	(17,965)	(18,712)
Loans Replaced Less Debt Repayment	86,076	59,824	104,060	83,952	64,390	127,288
Net Advance Requirement	189,908	87,570	115,538	181,664	120,177	150,814