CITY OF WOLVERHAMPTON COUNCIL

Cabinet Meeting

30 November 2016

Report title	Treasury Management Activity Monitoring – Mid Year Review 2016/17	
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 Tel Email	Chief Accountant 01902 550478 Claire.Nye@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board Council Confident, Capable Council Scrutiny Panel	15 November 2016 14 December 2016 15 March 2017

Recommendation(s) for action or decision:

1. The Cabinet recommends that Council notes:

   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 2016.

   b) Savings of £533,000 for the General Fund and £2.3 million for the Housing Revenue Account (HRA) are forecast from treasury management activities in 2016/17.

Recommendation(s) for noting:

1. The Cabinet is asked to note:

   a) In the event of updated capital programme figures being reported to Cabinet (Resources) Panel or Cabinet outside of the 'Capital budget quarter two monitoring 2016/17', a revised version of this report will be presented to Council on 14 December 2016.

1.0 Purpose

1.1 This report provides a monitoring and progress report on treasury management activity for the second quarter of 2016/17 as part of the mid-year review, in line with the Prudential Indicators approved by Council in March 2016.

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 2016/17 report which can be accessed online on the Council's website by following the link:

https://wolverhamptonintranet.moderngov.co.uk/documents/s21176/Treasury%20management%20strategy%20201617.pdf

2.2 Treasury management 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 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 Capita Asset Services as its treasury management advisors throughout 2016/17. 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 2016/17 forecast

3.1 The forecast outturn for treasury management activities in 2016/17 compared to budget is shown in Table 1.

Table 1 – Treasury management budget and forecast outturn 2016/17

	Approved Budget	Forecast Outturn	Variance
	£000	£000	£000
General Fund	14,419	13,886	(533)
Housing Revenue Account	13,310	10,961	(2,349)
Total	27,729	24,847	(2,882)

3.2 Savings of £533,000 for the General Fund and £2.3 million for the HRA are projected for the year 2016/17. The main reasons are due to a reduced borrowing need in year because of slippage in the capital programme and, following the publication of the Council's Statement of Accounts 2015/16, a detailed analysis of the balance sheet has been undertaken to update the split of interest between the General Fund and HRA. This has resulted in a reduced proportion to the HRA which has been reflected in the forecasts above. 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.

3.3 Appendix A 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 2016.

3.4 The forecasts in this report are based on the capital programme requirements included in the report 'Capital budget quarter two monitoring 2016/17' also being presented at this meeting. In the event of updated capital programme figures being reported to Cabinet (Resources) Panel or Cabinet outside of this report, a revised version of this treasury report will be presented to Council on 14 December 2016 which will include the impact of any such changes.

4.0 Borrowing forecast for 2016/17

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 2015/16 and forecast for 2016/17.

Table 2 – Average interest rate payable in 2015/16 and 2016/17

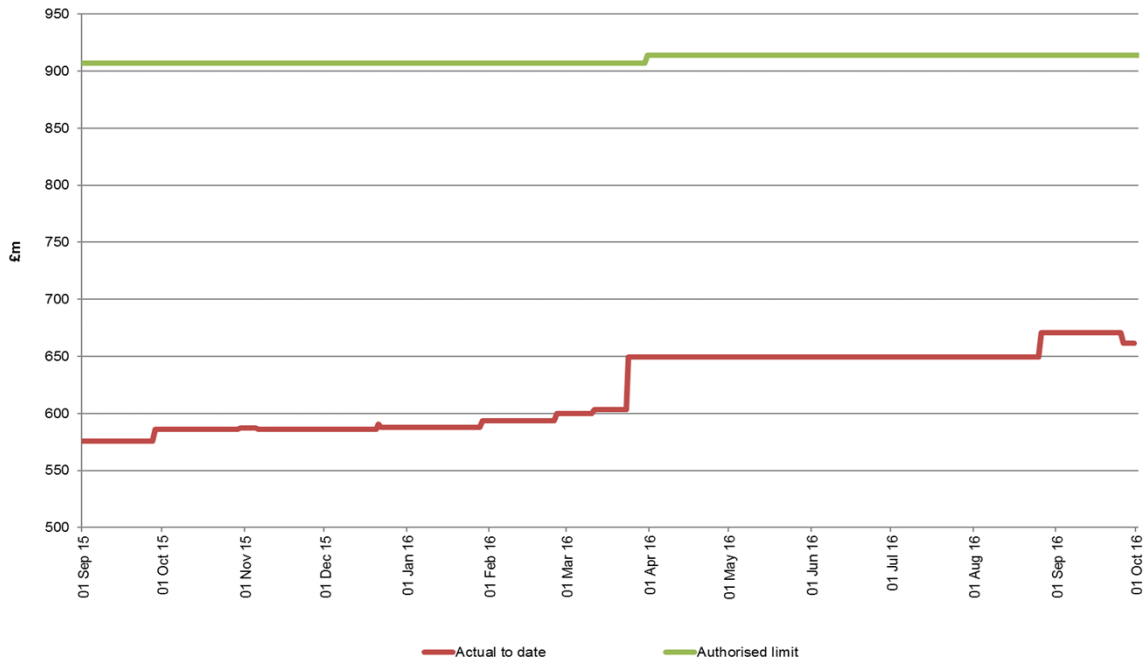
	2015/16 Actual	2016/17 Forecast
Average Interest Rate Payable	3.74%	3.71%

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 B 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 C includes the Capita commentary for quarter two 2016/17 and forecasts that interest rates across all periods will increase up to March 2020. Due to the current climate following the result of the EU Referendum and the US Presidential Election, Capita have refreshed their interest rate forecasts on 15 November 2016 and these have been reflected in this report. 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 30 September 2016 is £661.6 million. Appendix D shows a summary of this position along with a detailed breakdown of new loans and repayments made throughout the year. £52.6 million of existing borrowing is due to be repaid between quarter's three and four.

4.7 The Council holds a number of Lender Option Borrower Option (LOBO) variable rate loans with a total value of £103.8 million. During the quarter, the Council was notified by one of the lenders that they will waive their rights under the lender's option to change the interest rate in the future on the LOBO's currently held with them. Therefore, these loans totalling £55.8 million have now become fixed rate loans which alters the borrowing type percentage between variable and fixed shown in appendix D.

4.8 In March 2016, Council approved a net borrowing requirement for 2016/17 of £165.7 million. The forecast net borrowing requirement for 2016/17 is £167.4 million, as shown in appendix E. 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 2016/17

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 June 2016 and 30 September 2016.

Table 3 – Total amounts invested 2016/17

	30 June 2016 £000	30 September 2016 £000
Business Reserve Accounts	10,255	258
Money Market Funds	7,920	23,955
	18,175	**24,213**
Average cash balance for the year to date	30,541	34,244

5.3 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.

5.4 The Council's cash flow balance for the second quarter of the current financial year has moved between a low of £24.1 million and a maximum of £61.0 million. The average cash balance for the quarter being £36.8 million.

5.5 Table 4 shows the budgeted average rate of interest receivable in 2016/17 and the forecast for the year.

Table 4 – Average interest rate receivable in 2016/17

	2016/17 Budget	2016/17 Forecast
Average Interest Rate Receivable	0.50%	0.47%

5.6 The low interest rates will have minimal impact on the budget due to savings generated by avoiding the cost of borrowing.

5.7 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 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 F shows the Council's current specified investments lending list.

5.10 In quarter two 2016/17 the Director of Finance has not been required to use his discretion to temporarily exceed any upper limits with approved counter-parties.

6.0 Financial implications

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

[SH/10112016/B]

7.0 Legal implications

7.1 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.

7.2 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.

7.3 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 re-issued in 2010. Part 2 of this Guidance is statutory guidance.

[Legal Code: TS/10112016/F]

8.0 Equalities implications

8.1 This report has no equality implications.

9.0 Environmental implications

9.1 This report has no environmental implications.

10.0 Human resources implications

10.1 This report has no human resources implications.

11.0 Corporate landlord implications

11.1 This report has no corporate landlord implications.

12.0 Schedule of background papers

Treasury Management Strategy 2016/17, Report to Cabinet, 24 February 2016

Treasury Management – Annual Report 2015/16 and Activity Monitoring Quarter One 2016/17, Report to Cabinet, 20 July 2016

Capital budget quarter two monitoring 2016/17, Report to Cabinet, 30 November 2016

13.0 Schedule of appendices

App	Title
A	Prudential and Treasury Management Indicators
B	Maturity rate profile
C	Capita commentary quarter two 2016/17
D	Borrowing type, borrowing and repayments
E	Certainty rate disclosure
F	Lending list

APPENDIX A

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 2 March 2016			As at 30 September 2016		
	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast
General Fund	6.0%	7.6%	14.4%	6.4%	7.9%	13.6%
HRA	35.2%	36.1%	38.0%	33.4%	34.2%	35.1%

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 2 March 2016			As at 30 September 2016		
	2016/17 Forecast £	2017/18 Forecast £	2018/19 Forecast £	2016/17 Forecast £	2017/18 Forecast £	2018/19 Forecast £
Financial year impact						
Implications of the capital programme for year:						
For Band D council tax	97.03	120.34	127.56	99.08	229.17	269.22
For average weekly housing rents	1.42	3.36	3.93	1.08	3.55	4.52
Marginal impact to previous quarter						
Implications of the capital programme for year:						
For Band D council tax	7.98	12.65	14.11	(6.72)	62.38	89.84
For average weekly housing rents	(0.25)	(0.50)	(0.60)	(0.77)	(0.68)	(0.28)

PI 3 - Estimates and actual capital expenditure.
An update of capital expenditure plans and funding can be found in the Capital budget quarter two capital budget monitoring 2016/17 report.

	Approved by Council 2 March 2016			As at 30 September 2016		
	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000
General Fund	108,733	45,622	13,884	118,982	125,229	42,454
HRA	48,616	52,014	32,269	41,518	60,391	39,258
	157,349	97,636	46,153	160,500	185,620	81,712

APPENDIX A

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 2 March 2016			As at 30 September 2016		
	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000
General Fund	632,523	646,065	636,114	611,480	695,399	710,207
HRA	293,338	304,899	301,482	281,904	298,862	299,292
	925,861	950,964	937,596	893,384	994,261	1,009,499

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 2 March 2016		
	2016/17 Limit £000	2017/18 Limit £000	2018/19 Limit £000
Borrowing	914,038	913,021	918,009
Other Long Term Liabilities	94,585	92,488	90,005
Total Authorised Limit	1,008,623	1,005,509	1,008,014
Actual and Forecast External Debt as at 30 September 2016	827,633	942,702	977,916
Variance (Under) / Over Authorised limit	(180,990)	(62,807)	(30,098)

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 2 March 2016		
	2016/17 Limit £000	2017/18 Limit £000	2018/19 Limit £000
Borrowing	893,284	902,994	915,006
Other Long Term Liabilities	94,585	92,488	90,005
Total Operational Boundary Limit	987,869	995,482	1,005,011
Actual and Forecast External Debt as at 30 September 2016	827,633	942,702	977,916
Variance (Under) / Over Operational Boundary Limit	(160,236)	(52,780)	(27,095)

APPENDIX A

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 2 March 2016			As at 30 September 2016		
	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000
HRA Debt Limit	356,770	356,770	356,770	356,770	356,770	356,770
HRA Capital Financing Requirement	293,338	304,899	301,482	281,904	298,862	299,292
Headroom	63,432	51,871	55,288	74,866	57,908	57,478

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

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 2 March 2016			As at 30 September 2016		
	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000
Forecast Capital Financing Requirement at end of Second Year	950,963	950,963	950,963	1,009,499	1,009,499	1,009,499
Gross Debt	829,350	867,363	876,892	827,633	942,702	977,916
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

APPENDIX A

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 2 March 2016			As at 30 September 2016		
	2016/17 Limit	2017/18 Limit	2018/19 Limit	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast
Upper limit for fixed rate	100%	100%	100%	93%	94%	95%
Upper limit for variable rate	20%	20%	20%	7%	6%	5%

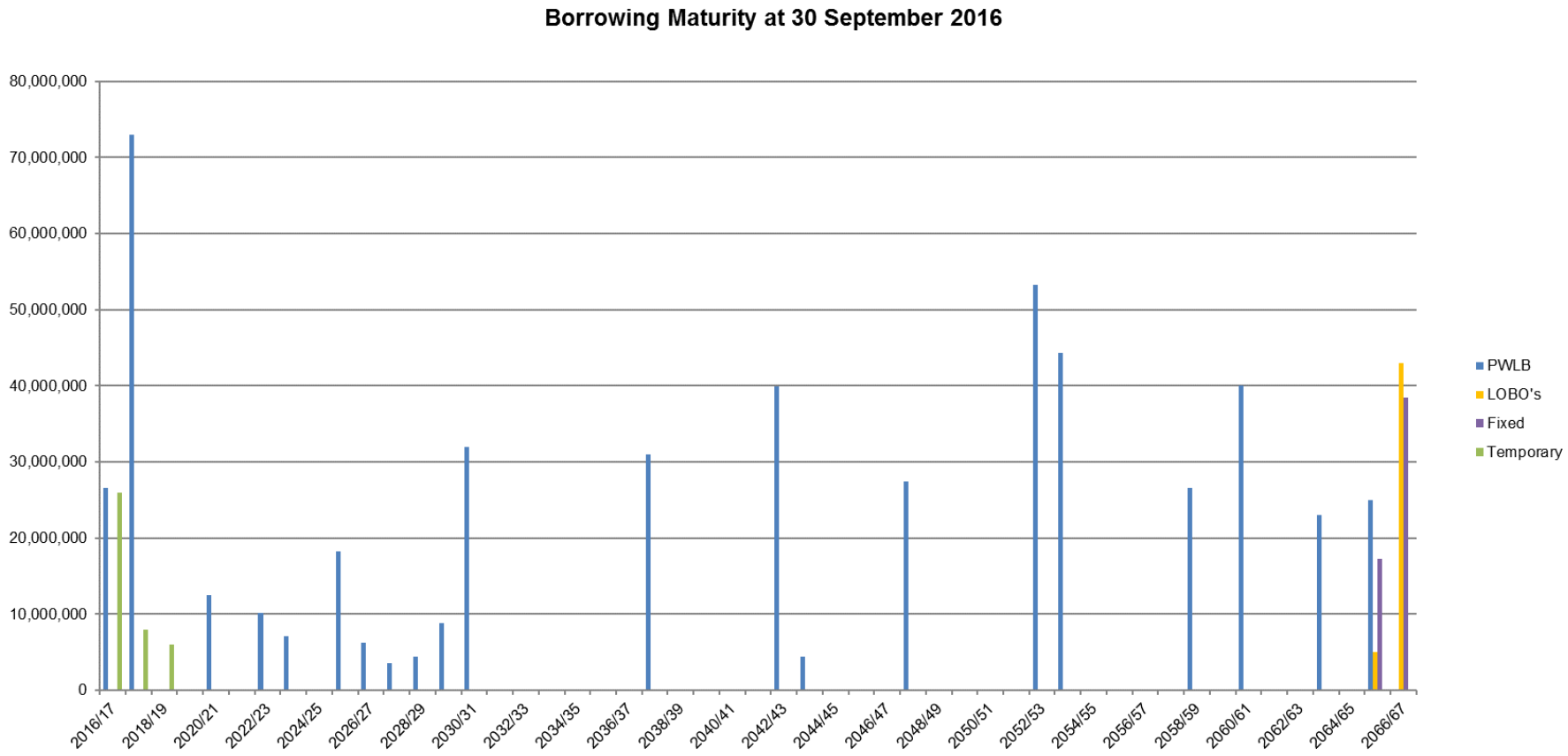
TMI 2 - Upper and lower limits to the maturity structure of its borrowing.
These limits relate to the % of fixed rate debt maturing.

	Approved by Council 2 March 2016		As at 30 September 2016
	Upper Limit	Lower Limit	2016/17 Forecast Borrowing
Under 12 months	25%	0%	11.30%
12 months and within 24 months	25%	0%	13.79%
24 months and within 5 years	40%	0%	2.50%
5 years and within 10 years	50%	0%	5.17%
10 years and above	90%	50%	67.24%

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 2 March 2016		
	2016/17 Limit £000	2017/18 Limit £000	2018/19 Limit £000
Upper limit for more than 364 days	35,000	35,000	35,000
Actual and Forecast Invested at 30 September 2016	-	-	-
Variance (Under) / Over Limit	(35,000)	(35,000)	(35,000)

APPENDIX B


Borrowing Maturity at 30 September 2016
80,000,000
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
2016/17
2018/19
2020/21
2022/23
2024/25
2026/27
2028/29
2030/31
2032/33
2034/35
2036/37
2038/39
2040/41
2042/43
2044/45
2046/47
2048/49
2050/51
2052/53
2054/55
2056/57
2058/59
2060/61
2062/63
2064/65
2066/67
PWLB
LOBO's
Fixed
Temporary

APPENDIX C

Economic Background

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

UK

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

USA

The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed. embarked on its long

APPENDIX C

anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

Eurozone

In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in their economies and economic growth.

Interest rate forecasts

The Council's treasury advisor, Capita Asset Services, has provided this updated forecast as at November:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions); will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

APPENDIX C

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities.

We have pointed out consistently that the Fed. Rate is likely to go up more quickly and more strongly than Bank Rate in the UK and recent events have not changed that view, just that the timing of such increases may well have been deferred somewhat during 2016. While there is normally a high degree of correlation between the two yields, we would expect to see a growing decoupling of yields between the two i.e. we would expect US yields to go up faster than UK yields. We will need to monitor this area closely and the resulting effect on PWLB rates.

The overall balance of risks to economic recovery in the UK remains to the downside, particularly with the current uncertainty over the final terms of Brexit.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are at present. We are experiencing exceptional levels of volatility which are highly correlated to geo-political and sovereign debt crisis developments. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:-

- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:-

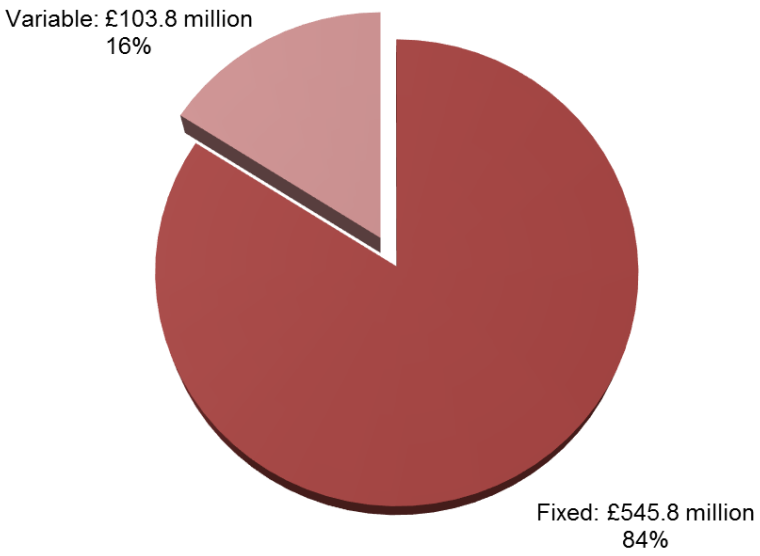
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

APPENDIX D

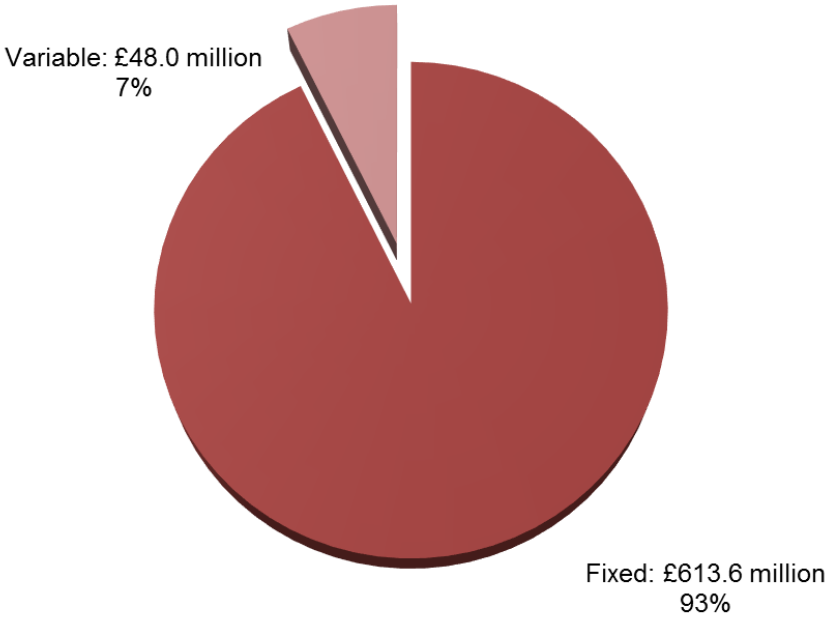
Borrowing: Graphical Summary

Borrowing by Type

As at 30 June 2016



As at 30 September 2016



APPENDIX D

Borrowing and Repayments in 2016/17

	Start Date	Maturity Date	Amount £000	Length	Interest Rate	Full Year Interest £
2016/17 Borrowing						
PWLB Fixed Maturity:				**years**		
505322	26/08/2016	20/08/2060	40,000	44	1.90%	760,000
Sub total for PWLB			**40,000**		**1.90%**	**760,000**
Grand total borrowing			**40,000**			**760,000**

	Start Date	Maturity Date	Amount £000	Length	Interest Rate	Full Year Interest £
2016/17 Repayments						
Temporary Loans:				**days**		
Bristol City Council	28/08/2015	26/08/2016	14,000	364	0.60%	84,000
Bristol City Council	28/08/2015	26/08/2016	3,000	364	0.60%	18,000
Wokingham Borough Council	28/08/2015	26/08/2016	2,000	364	0.58%	11,600
London Borough of Hillingdon	28/09/2015	26/09/2016	7,000	364	0.60%	42,000
Solihull MBC	28/09/2015	26/09/2016	2,000	364	0.60%	12,000
Sub total for temporary loans			**28,000**		**0.60%**	**167,600**
Grand total repayments			**28,000**			**167,600**

Net movement			**12,000**			**592,400**

APPENDIX E

Disclosure for Certainty Rate

Certainty Rate
This table details the information that is required to enable the Council to submit a return for 2016/17.

	Approved by Council 2 March 2016			As at 30 September 2016		
	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000
Net Borrowing Requirement:						
Borrowing to Finance approved Capital Expenditure	83,018	40,110	12,012	80,098	118,461	39,035
Existing Maturity Loans to be Replaced During the Year	97,605	134,000	50,000	103,605	151,000	74,000
Less:						
Minimum Revenue Provision for Debt Repayment	-	-	(12,315)	-	-	(8,251)
Voluntary Debt Repayment	(14,882)	(12,910)	(10,582)	(16,322)	(14,192)	(11,724)
	(14,882)	(12,910)	(22,897)	(16,322)	(14,192)	(19,975)
Loans Replaced Less Debt Repayment	82,723	121,090	27,103	87,283	136,808	54,025
Net Advance Requirement	165,741	161,200	39,115	167,381	255,269	93,060

APPENDIX F

City of Wolverhampton Council
2016/17 Specified Investments Lending List as at 30 September 2016

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
Commonwealth Bank of Australia	Australia (AAA)	10,000	6 mths
Cooperatieve Rabobank U.A.	Netherlands (AAA)	10,000	6 mths
DBS Bank Ltd	Singapore (AAA)	10,000	6 mths
HSBC Bank plc	UK (AA)	10,000	6 mths
JP Morgan Chase Bank NA	USA (AAA)	10,000	6 mths
National Australia Bank Ltd	Australia (AAA)	10,000	6 mths
National Bank of Abu Dhabi	Abu Dhabi (U.A.E) (AA)	5,000	3 mths
Nordea Bank AB	Sweden (AAA)	10,000	6 mths
Nordea Bank Finland plc	Finland (AA+)	10,000	6 mths
Oversea Chinese Banking Corporation Ltd	Singapore (AAA)	10,000	6 mths
Qatar National Bank	Qatar (AA)	5,000	3 mths
Royal Bank of Canada	Canada (AAA)	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)	20,000	12 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.