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CITY OF WOLVERHAMPTON COUNCIL

Cabinet Meeting

19 July 2017

Report title	Treasury Management – Annual Report 2016-2017 and Activity Monitoring Quarter One 2017-2018		
Decision designation	RED		
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources		
Key decision	Yes		
In forward plan	Yes		
Wards affected	All		
Accountable director	Claire Nye, Director of Finance		
Originating service	Strategic Finance		
Accountable employee(s)	Michelle Howell Tel Email	Finance Business Partner 01902 553197 Michelle.Howell@wolverhampton.gov.uk	
Report to be/has been considered by	Strategic Executive Board Council Confident Capable Council Scrutiny Panel		4 July 2017 20 September 2017 27 September 2017

Recommendation(s) for action or decision:

That Cabinet recommends that Council approves:

1. The revised Minimum Revenue Provision (MRP) statement setting out the method used to calculate MRP for 2017-2018, in particular, the change regarding investment assets which is being backdated to 1 April 2013, as set out in appendix F to this report.

The Cabinet recommends that Council notes:

1. 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 2016-2017.

2. Revenue savings of £1.7 million for the General Fund and £2.5 million for the Housing Revenue Account were generated from treasury management activities in 2016-2017.

3. Revenue savings of £810,000 for the General Fund and £329,000 for the Housing Revenue Account are forecast from treasury management activities in 2017-2018.

Recommendations for noting:

The Cabinet is asked to note:

1. The capital programme figures included in this report assumes that the updated requests for capital resources which were reported to Cabinet (Resources) Panel on 27 June 2017 and Council on 19 July 2017 are approved. If this were not to be the case revised figures would be provided to Council on 20 September 2017.

1.0 Purpose

1.1 This report sets out the results of treasury management activities carried out in 2016-2017, 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 2017-2018, in line with the Prudential Indicators approved by Council in March 2017.

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 2017-2018 report which can be accessed online on the Council's website by following the link:

https://wolverhamptonintranet.moderngov.co.uk/documents/s37438/Item%206%20-%20Treasury%20Management%20Strategy%20201718.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 received quarterly reports during 2016-2017 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 2016-2017 and 2017-2018 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 2016-2017

3.1 The strategy for 2016-2017 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 2016-2017, the Council followed the recommendations as set out in the Treasury Management Strategy 2016-2017. This included the authorised borrowing limit set at £1,008.6 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 2016-2017 compared to budget is shown in Table 1.

Table 1 – Treasury management budget and outturn 2016-2017

	Approved Budget £000	Outturn £000	Variance £000
General Fund	14,647	12,963	(1,684)
Housing Revenue Account	13,310	10,843	(2,467)
Total	27,957	23,806	(4,151)

3.4 Overall there was a saving of £1.7 million for the General Fund for 2016-2017 and a saving of £2.5 million for the HRA. The savings are mainly due to a reduced borrowing need in year because of reprofiling in both capital programmes and the use of internal borrowing from reserves rather than external borrowing.

3.5 As reported in last years 'Treasury Management – Annual Report 2015/16 and Activity Monitoring Quarter One 2016/17' report, in order to ensure that the revenue implications of the capital programme do not impact adversely on the revenue budget, a Treasury Management Equalisation Reserve was established during 2015-2016. This specific reserve can be called on as and when required to support the revenue costs associated with reprofiling in the capital programme, there was no requirement to call on this reserve during 2016-2017 and the balance remains at £3.5 million.

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 2016-2017. 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 2015-2016 and 2016-2017.

Table 2 - Average interest rate payable and receivable in 2015-2016 and 2016-2017

	2015-2016 Actual	2016-2017 Actual
Average Interest Rate Payable	3.71%	3.68%
Average Interest Rate Receivable	0.47%	0.42%

Borrowing outturn for 2016-2017

3.9 The average debt interest rate decreased marginally from 3.71% in 2015-2016 to 3.68% in 2016-2017. The Council undertakes 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 slightly 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	1,000	0.34%	80,000	2.41%
Repayment of Loans	(55,000)	0.61%	(26,605)	2.22%
Net movement	**(54,000)**		**53,395**	

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 £842.2 million to £863.1 million throughout 2016-2017. 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 68.8% and 31.2% respectively (2015-2016: 66.2% and 33.8%).

3.12 Although the Council's CFR has increased, the level of external borrowing has slightly decreased as the increase was mainly financed by internal borrowing from reserves, as discussed in paragraph 3.4. Table 4 shows how the decrease in actual external borrowing arose during the year.

Table 4 – Decrease in actual external borrowing 2016-2017

	£000
Opening Balance at 1 April 2016	**655,666**
Less: Repayments - Maturity Loans from PWLB - Temporary Loans	 (26,605) (55,000)
Subtotal	(81,605)
Add: New Borrowing -PWLB Loan -Temporary Loans	 80,000 1,000
Subtotal	81,000
Net borrowing 2016-2017	**(605)**
Closing Balance at 31 March 2017	**655,061**

3.13 Appendix A shows a summary of this position along with a detailed breakdown of new loans and repayments made throughout the year.

Investment outturn for 2016-2017

3.14 The actual interest rate earned from investments decreased slightly from 0.47% in 2015-2016 to 0.42% in 2016-2017. This is due to the continuing low interest rates available, this has minimal impact on the budget due to savings generated by avoiding the cost of borrowing.

3.15 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.

3.16 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.

4.0 2017-2018 forecast

4.1 The forecast outturn for treasury management activities in 2017-2018 compared to budget is shown in Table 5.

Table 5 – Treasury management budget and forecast outturn 2017-2018

	Approved Budget £000	Forecast Outturn £000	Variance £000
General Fund	16,192	15,382	(810)
Housing Revenue Account	10,975	10,646	(329)
Total	27,167	26,028	(1,139)

4.2 Overall savings of £810,000 for the General Fund and £329,000 for the HRA are projected for the year 2017-2018. 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 B 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 2017.

Borrowing forecast for 2017-2018

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 2016-2017 and forecast for 2017-2018.

Table 6 - Average interest rate payable in 2016-2017 and 2017-2018

	2016-2017 Actual	2017-2018 Forecast
Average Interest Rate Payable	3.68%	3.70%

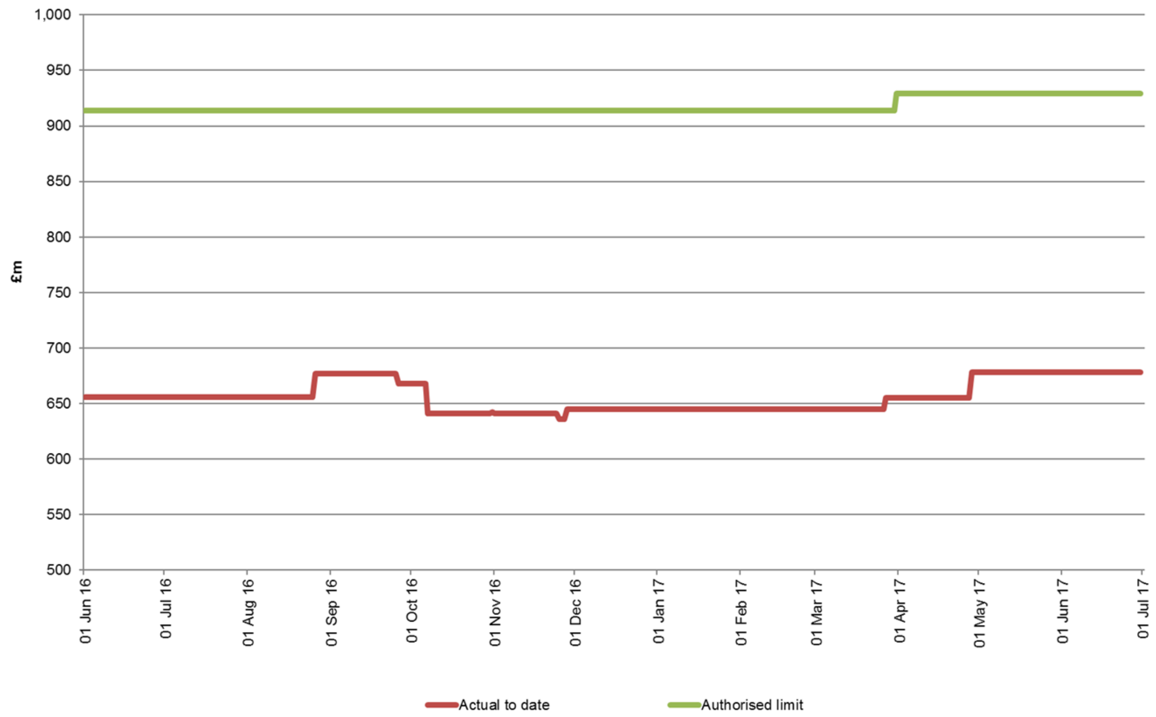
4.6 The average rate of interest payable by the Council is estimated to slightly increase from 3.68% to 3.70% for 2017-2018.

4.7 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 C shows the maturity profile of external borrowing.

4.8 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 D includes the Capita commentary for quarter one 2017-2018 and forecasts that interest rates across all periods will increase up to March 2020. The Director of Finance will continue to keep actual and forecast rates under close review.

4.9 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



4.10 The level of borrowing at 30 June 2017 is £678.1 million. Appendix A shows a summary of this position along with a detailed breakdown of new loans and repayments made throughout the year. £87.1 million of existing borrowing is due to be repaid between quarters two to four.

4.11 In March 2017, Council approved a net borrowing requirement for 2017-2018 of £215.7 million. The forecast net borrowing requirement for 2017-2018 is £211.7 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.

4.12 In March 2017 Council approved the Annual Minimum Revenue Provision (MRP) Statement setting out the method used to calculate MRP for 2017-2018 onwards. A review of this statement has identified potential savings that could be generated, with regard to investment assets, by backdating this element of the policy to 1 April 2013. Appendix F shows the proposed new statement requiring approval. In the opinion of the Director of Finance (Section 151 Officer) the methodology set out in the statement will generate an amount of MRP that is prudent.

Investment forecast for 2017-2018

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

4.14 Table 7 shows the total amount of surplus funds invested as at 31 March 2017 and in order to provide a timely report, 23 June 2017.

Table 7 – Total amounts invested 2017-2018

	31 March 2017 £000	**23 June 2017 £000**
Business Reserve Accounts Money Market Funds	90 7,785	504 41,855
	7,875	**42,359**
Average cash balance for the year to date	24,849	20,570

4.15 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.

4.16 The Council's cash flow balance for the first quarter of the current financial year has moved between a low of £5.5 million and a maximum of £42.4 million. The average cash balance for the quarter being £20.6 million.

4.17 Table 8 shows the budgeted average rate of interest receivable in 2017-2018 and the forecast for the year.

Table 8 – Average interest rate receivable in 2017-2018

	2017-2018 Budget	2017-2018 Forecast
Average Interest Rate Receivable	0.10%	0.24%

4.18 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 in the first quarter.

4.19 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).

4.20 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.

4.21 In quarter one 2017-2018 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/30062017/I]

6.0 Legal implications

6.1 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.

6.2 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.

6.3 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. RB/30062017/J

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

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

Treasury Management Activity Monitoring – Mid Year Review 2016/17, Report to Cabinet, 30 November 2016

Quarter Three Treasury Management Activity Monitoring, Report to Cabinet (Resources) Panel, 28 February 2017

2017/18 Budget and Medium Term Financial Strategy 2017/18 – 2019/20, Report to Cabinet, 22 February 2017

Treasury Management Strategy 2017/18, Report to Cabinet, 22 February 2017

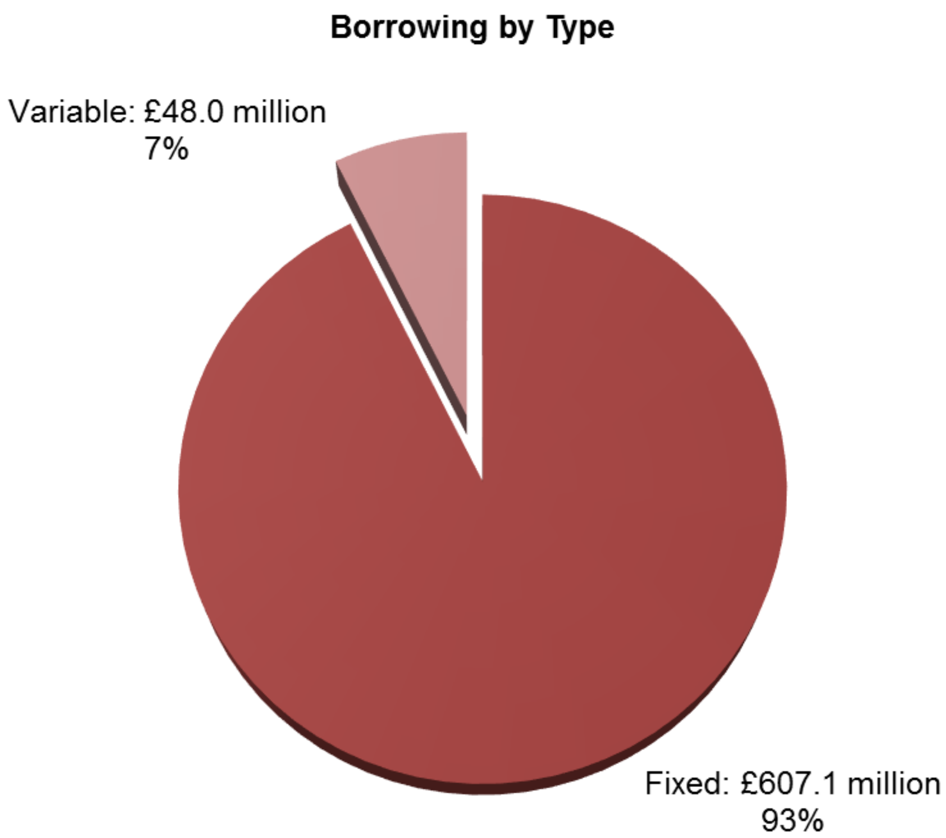
12.0 Schedule of appendices

App	Title
A	Borrowing type, borrowing and repayments
B	Prudential and Treasury Management Indicators
C	Maturity rate profile
D	Capita commentary quarter one 2017/18
E	Certainty rate disclosure
F	MRP policy
G	Lending list

APPENDIX A

Borrowing: Graphical Summary

As at 31 March 2017



APPENDIX A

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
505514	28/11/2016	28/11/2062	15,000	46	2.63%	394,500
505615	19/12/2016	19/12/2056	15,000	40	2.73%	409,500
505921	27/03/2017	27/03/2032	10,000	15	2.39%	239,000
Sub total for PWLB			**80,000**		**2.41%**	**1,803,000**
Temporary Loans:				**days**		
Rhondda Cynon Taff Pension Fund	31/10/2016	01/11/2016	1,000	1	0.34%	3,400
Sub total for temporary loans			**1,000**		**0.34%**	**3,400**
Grand total borrowing			**81,000**			**1,806,400**

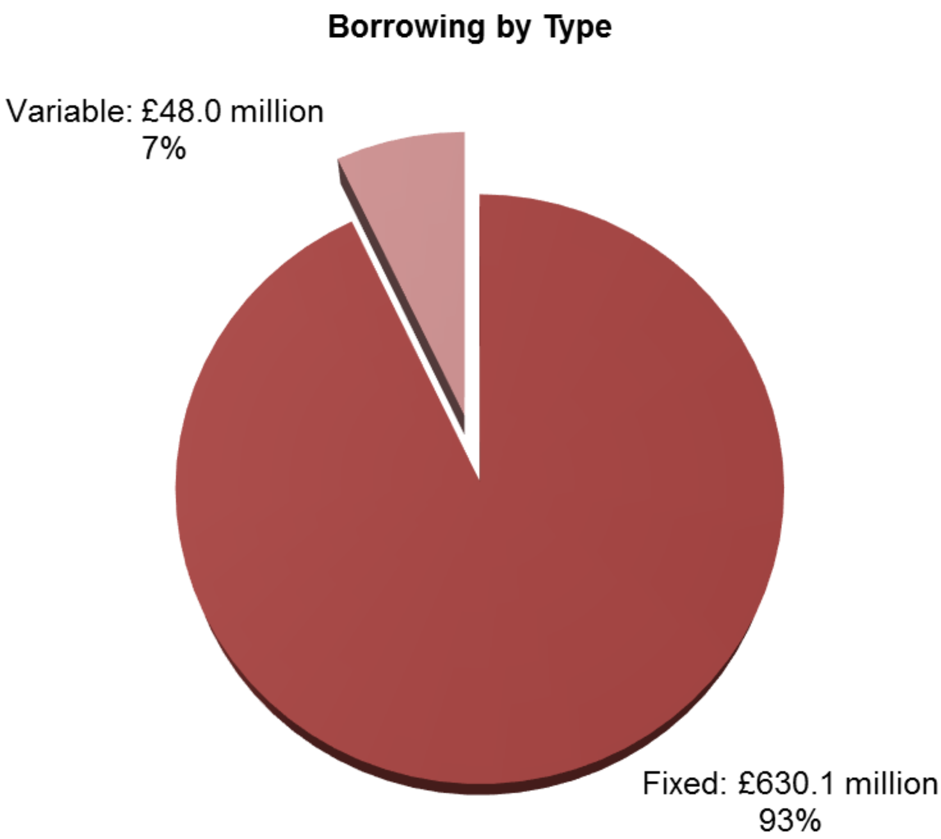
	Start Date	Maturity Date	Amount £000	Length	Interest Rate	Full Year Interest £
2016/17 Repayments						
PWLB Fixed Maturity:				**years**		
498079	08/10/2010	07/10/2016	26,605	6	2.22%	590,631
Sub total for PWLB			**26,605**		**2.22%**	**590,631**
Temporary Loans:				**days**		
Bristol City Council	28/08/2015	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
Rhondda Cynon Taff Pension Fund	31/10/2016	01/11/2016	1,000	1	0.34%	3,400
Solihull MBC	27/11/2015	25/11/2016	2,000	364	0.65%	13,000
Derbyshire County Council	27/11/2015	25/11/2016	3,000	364	0.67%	20,100
Bristol City Council	30/11/2015	28/11/2016	6,000	364	0.65%	39,000
Milton Kenyes Borough Council	21/12/2015	19/12/2016	10,000	364	0.64%	64,000
West Sussex County Council	21/12/2015	19/12/2016	4,000	364	0.70%	28,000
Bath & North East Somerset DC	21/12/2015	19/12/2016	1,000	364	0.64%	6,400
Sub total for temporary loans			**55,000**		**0.61%**	**341,500**
Grand total repayments			**81,605**			**932,131**

Net movement			**(605)**			**874,269**

APPENDIX A

Borrowing: Graphical Summary

As at 30 June 2017



APPENDIX A

Borrowing and Repayments in 2017/18

	Start Date	Maturity Date	Amount £000	Length	Interest Rate	Full Year Interest £
2017/18 Borrowing						
PWLB Fixed Maturity:				**years**		
506026	28/04/2017	28/04/2032	10,000	15	2.34%	234,000
506027	28/04/2017	28/04/2048	13,000	31	2.55%	331,500
Sub total for PWLB			**23,000**		**2.45%**	**565,500**
Temporary Loans:						
No activity in quarter 1						
Grand total borrowing			**23,000**			**565,500**

	Start Date	Maturity Date	Amount £000	Length	Interest Rate	Full Year Interest £
2017/18 Repayments						
PWLB Fixed Maturity:						
No activity in quarter 1						
Temporary Loans:						
No activity in quarter 1						

Net movement			**23,000**			**565,500**

APPENDIX B

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 1 March 2017				As at 30 June 2017			
	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2016/17 Actual	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast
General Fund	6.0%	7.7%	12.6%	14.8%	5.9%	7.1%	11.7%	14.7%
HRA	33.2%	34.3%	34.9%	34.8%	33.1%	33.6%	34.0%	33.9%

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 1 March 2017				As at 30 June 2017			
	2016/17 Forecast £	2017/18 Forecast £	2018/19 Forecast £	2019/20 Forecast £	2016/17 Actual £	2017/18 Forecast £	2018/19 Forecast £	2019/20 Forecast £
Financial year impact								
Implications of the capital programme for year:								
For Band D council tax	88.90	208.46	249.50	257.29	59.86	202.76	259.33	270.58
For average weekly housing rents	0.99	2.44	5.04	7.31	0.25	1.98	4.50	6.75
Marginal impact to previous quarter								
Implications of the capital programme for year:								
For Band D council tax	(10.20)	(17.02)	(15.37)	(14.77)	(29.04)	(5.70)	9.81	13.28
For average weekly housing rents	(0.09)	(1.15)	0.47	2.09	(0.74)	(0.47)	(0.55)	(0.57)

PI 3 - Estimates and actual capital expenditure.
Full details of capital expenditure plans and funding can be found in the Capital budget outturn 2016/17 including quarter one capital budget monitoring 2017/18 report.

	Approved by Council 1 March 2017				As at 30 June 2017			
	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000	2019/20 Forecast £000	2016/17 Actual £000	2017/18 Forecast £000	2018/19 Forecast £000	2019/20 Forecast £000
General Fund	113,768	116,888	49,281	11,544	82,105	133,880	69,986	17,985
HRA	43,052	47,977	59,158	53,197	33,626	52,295	62,358	53,197
	156,820	164,865	108,439	64,741	115,731	186,175	132,344	71,182

APPENDIX B

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 1 March 2017				As at 30 June 2017			
	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000	2019/20 Forecast £000	2016/17 Actual £000	2017/18 Forecast £000	2018/19 Forecast £000	2019/20 Forecast £000
General Fund	604,640	683,790	699,787	686,515	594,161	688,910	716,040	704,667
HRA	278,679	279,825	299,412	314,176	268,969	273,421	292,285	307,010
	883,319	963,615	999,199	1,000,691	863,130	962,331	1,008,325	1,011,677

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 1 March 2017			
	2016/17 Limit £000	2017/18 Limit £000	2018/19 Limit £000	2019/20 Limit £000
Borrowing	914,038	929,492	979,783	1,006,517
Other Long Term Liabilities	94,585	94,591	90,770	86,644
Total Authorised Limit	1,008,623	1,024,083	1,070,553	1,093,161
Actual and Forecast External Debt as at 30 June 2017	753,006	869,158	935,207	966,698
Variance (Under) / Over Authorised limit	(255,617)	(154,925)	(135,346)	(126,463)

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 1 March 2017			
	2016/17 Limit £000	2017/18 Limit £000	2018/19 Limit £000	2019/20 Limit £000
Borrowing	893,284	904,372	964,701	998,154
Other Long Term Liabilities	94,585	94,591	90,770	86,644
Total Operational Boundary Limit	987,869	998,963	1,055,471	1,084,798
Actual and Forecast External Debt as at 30 June 2017	753,006	869,158	935,207	966,698
Variance (Under) / Over Operational Boundary Limit	(234,863)	(129,805)	(120,264)	(118,100)

APPENDIX B

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

	Approved by Council 1 March 2017				As at 30 June 2017			
	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000	2019/20 Forecast £000	2016/17 Actual £000	2017/18 Forecast £000	2018/19 Forecast £000	2019/20 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	278,679	279,825	299,412	314,176	268,969	273,421	292,285	307,010
Headroom	78,091	76,945	57,358	42,594	87,801	83,349	64,485	49,760

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 1 March 2017				As at 30 June 2017			
	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000	2019/20 Forecast £000	2016/17 Actual £000	2017/18 Forecast £000	2018/19 Forecast £000	2019/20 Forecast £000
Forecast Capital Financing Requirement at end of Second Year	999,199	1,000,692	1,025,180	1,025,180	1,008,325	1,011,678	1,035,974	1,035,974
Gross Debt	819,680	916,769	973,277	1,002,604	753,006	869,158	935,207	966,698
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 B

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 1 March 2017				As at 30 June 2017			
	2016/17 Forecast	2017/18 Limit	2018/19 Limit	2019/20 Limit	2016/17 Actual	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast
Upper limit for fixed rate	93%	100%	100%	100%	93%	94%	94%	95%
Upper limit for variable rate	7%	20%	20%	20%	7%	6%	6%	5%

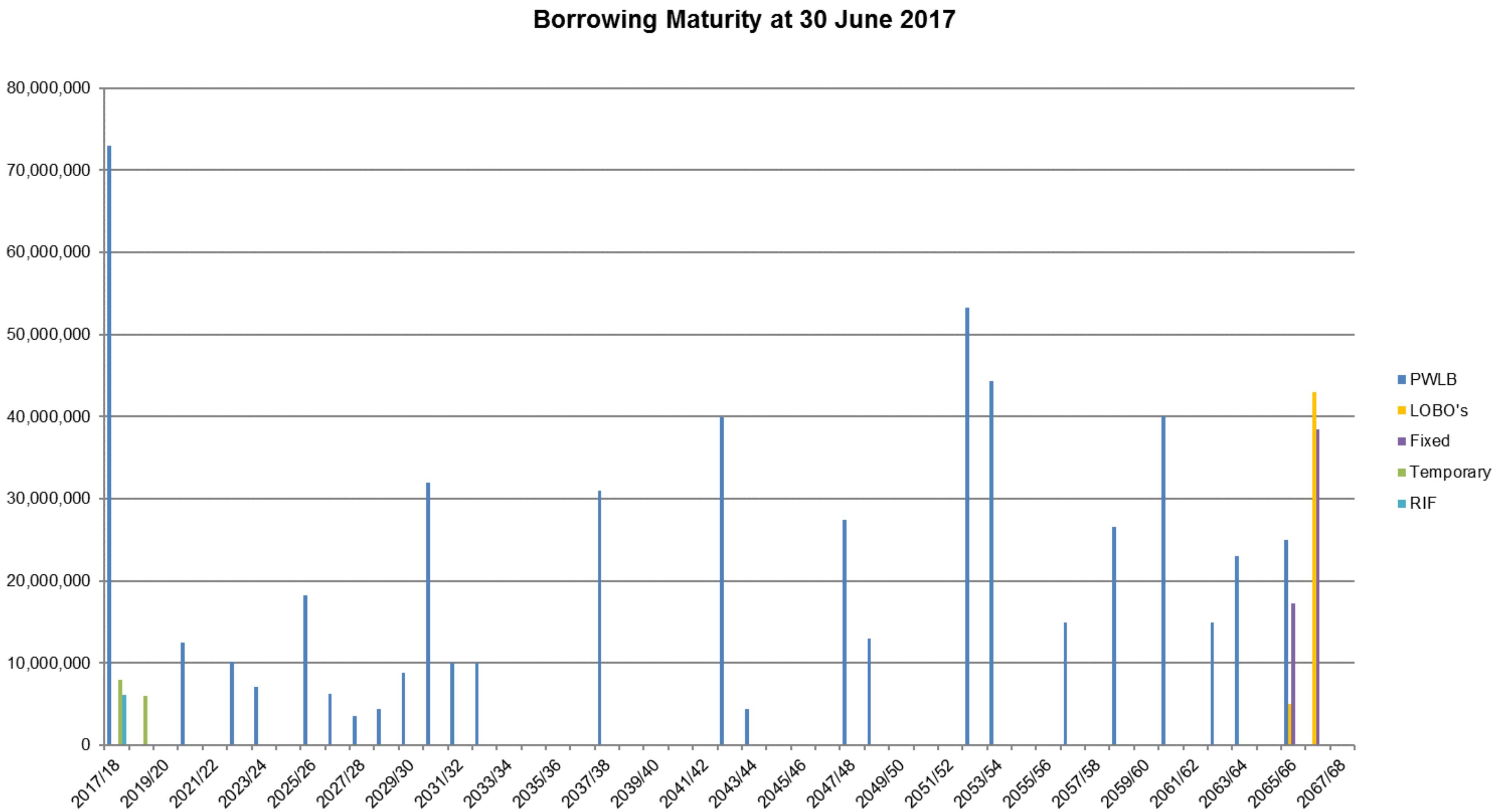
TMI 2 - Upper and lower limits to the maturity structure of its borrowing.
These limits relate to the % of fixed rate debt maturing.

	Approved by Council 1 March 2017		As at 30 June 2017	
	Upper Limit	Lower Limit	2016/17 Actual Borrowing	2017/18 Forecast Borrowing
Under 12 months	25%	0%	13.83%	10.64%
12 months and within 24 months	25%	0%	0.95%	4.89%
24 months and within 5 years	40%	0%	1.98%	1.53%
5 years and within 10 years	50%	0%	6.63%	5.10%
10 years and above	90%	50%	76.61%	77.85%

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 1.7 of the Annual Investment Strategy).

	Approved by Council 1 March 2017			
	2016/17 Limit £000	2017/18 Limit £000	2018/19 Limit £000	2019/20 Limit £000
Upper limit for more than 364 days	35,000	35,000	35,000	35,000
Actual and Forecast Invested at 30 June 2017	-	-	-	-
Variance (Under) / Over Limit	(35,000)	(35,000)	(35,000)	(35,000)

APPENDIX C


Borrowing Maturity at 30 June 2017
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
2017/18
2019/20
2021/22
2023/24
2025/26
2027/28
2029/30
2031/32
2033/34
2035/36
2037/38
2039/40
2041/42
2043/44
2045/46
2047/48
2049/50
2051/52
2053/54
2055/56
2057/58
2059/60
2061/62
2063/64
2065/66
2067/68
PWLB
LOBO's
Fixed
Temporary
RIF

APPENDIX D

Economic Background

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

UK

As a result of the General Election on the 8th June, the Conservatives have formed a minority government with the help of the DUP although it is unclear as to how stable this government will be. Nonetheless, discussions with regards to leadership and the UK's stance on Brexit remain key topics in respect of the economy. Markets have remained relatively calm in the immediate aftermath of the result, with Sterling holding at $1.27 against the dollar and the FTSE 100 remaining close to 7,500.

The Bank of England (BoE) cut the bank rate for the first time since 2009 to 0.25% in August 2016, as the Monetary Policy Committee (MPC) voted unanimously in favour of a cut. It also expanded its Quantitative Easing (QE) programme by £60bn to £435bn, however three policymakers voted against the expansion. In addition, the BoE unveiled two new schemes: one to buy £10bn of high grade corporate bonds and the "Term Funding Scheme". This could be worth up to £100bn and is aimed at ensuring banks keep lending into the real economy even after rates have been cut. Both the Bank Rate and Quantitative Easing program were left unchanged in the June MPC meeting, however three members did vote for a rate hike.

The May Inflation Report showed the BoE amended its growth forecast for the UK to reach 1.9% in 2017. Inflation forecasts are now expected to remain above the 2% target until 2020.

The headline inflation figure, CPI, rose to 2.9% in May on an annual basis, whilst the monthly figure was recorded at 0.3%. The weaker pound is seen as a key contributor to this rise.

The second estimates for UK Q1 GDP showed quarterly growth slowed to 0.2% q/q. Growth rose by 2.0% y/y, an increase from 1.9% previously recorded in Q4 2016. Both figures were downward revisions from the previous estimates of 0.3% q/q and 2.1% y/y.

The UK unemployment rate remained at 4.6% in April 2017, the unemployment figure was recorded at 1.530m. British wage growth, including bonuses, rose by 2.1% in April on an annual basis. Excluding bonuses, growth in average weekly earnings in April rose by 1.7% year-on-year.

Nationwide revealed house prices fell for the third consecutive month in May by 0.2%, up slightly from the 0.4% fall recorded in April. On an annual basis, house prices in May rose by 2.1%. Both figures indicate that the household market is starting to lose momentum as the market experiences a slowdown. According to Halifax, house prices rose by 0.4% in May. In the three months to May, annual house price growth fell to a four-year low as it rose by 3.3% compared with the same period last year.

APPENDIX D

The Public Sector Net Borrowing stood at a deficit of £6.7bn in May, 4.9% lower than May 2016. Public Sector Net Borrowing, excluding state owned banks, for the 2017/18 financial year is forecast to come in at a deficit of £53.8bn. Public Sector Net Debt excluding banks stood at £1.737tn in May 2017.

In the March Budget the Government stated that they remain on course to meet their fiscal rules. The OBR expects borrowing to fall to 0.7% of GDP by 2021-22, which is forecast to be the lowest level as a share of GDP in two decades. Debt is expected to peak at 88.8% of GDP in 2017-18, before falling back to 79.8% of GDP in 2021-22.

US

The second estimates for Q1 GDP in the US was recorded at an annual growth rate of 1.2%, a fall from the 2.1% recorded in Q4 . It was reported that this slowdown was as a result of little growth in consumer spending which rose by 0.6%, the slowest pace since the fourth quarter of 2009.

In June 2017, the Fed raised interest rates to a range between 1.00%-1.25% after increasing them in March 2017. The stance of monetary policy remains accommodative, supporting further strengthening in labour market conditions.

Nonfarm payrolls increased by 138,000 in May, a fall from the downwardly revised 174,000 jobs created in April. The unemployment rate fell to 4.3%.

EU

Final figures for Eurozone Q1 2017 GDP showed quarterly growth at 0.6%. Q1 Annual growth rose to 1.9% from 1.8% recorded in Q4.

In its June meeting, the European Central Bank (ECB) stuck with the status quo keeping both its main refinancing rate and deposit rate steady at 0% and -0.40% respectively. The ECB announced their QE programme in January 2015 and began the programme in March 2015. They initially planned to inject €1.1trn into the economy by purchasing private and public assets worth €60bn per month, this was later expanded to €80bn per month. In its June 2017 meeting, the ECB confirmed that the net asset purchases are intended to run until the end of December, or beyond if necessary, at the monthly pace of €60bn.

China

China's annual GDP grew at a rate of 6.9% in the first quarter of 2017. This rise was driven by a surge in industrial activity, property investment and credit growth. Growth was strongest towards the end of the period suggesting momentum is building into the second quarter of 2017. The People's Bank of China temporarily lowered the reserve requirement ratio for the five biggest banks by 1% to 16% in January 2017.

In an attempt to boost its slowing economy, China surprised markets and devalued the Yuan after a run of poor economic data. It is intended to help combat the large falls seen in exports.

APPENDIX D

Interest Rate Forecast

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

	May-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%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.20%	1.40%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	1.90%	2.00%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.40%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

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 2017/18.

	Approved by Council 1 March 2017				As at 30 June 2017			
	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000	2019/20 Forecast £000	2016/17 Actual £000	2017/18 Forecast £000	2018/19 Forecast £000	2019/20 Forecast £000
Net Borrowing Requirement:								
Borrowing to finance approved capital expenditure	72,145	100,481	60,329	33,453	43,365	119,545	69,870	35,617
Existing maturity loans to be replaced during the year	103,605	132,000	31,537	50,000	56,925	109,114	58,000	68,000
Less:								
Minimum Revenue Provision for debt repayment	-	-	(8,182)	(14,457)	(21)	-	(7,632)	(14,922)
Voluntary debt repayment	(18,434)	(16,793)	(12,741)	(13,378)	(19,269)	(16,952)	(12,422)	(13,217)
	(18,434)	(16,793)	(20,923)	(27,835)	(19,290)	(16,952)	(20,054)	(28,139)
Loans Replaced Less Debt Repayment	85,171	115,207	10,614	22,165	37,635	92,162	37,946	39,861
Net Advance Requirement	**157,316**	**215,688**	**70,943**	**55,618**	**81,000**	**211,707**	**107,816**	**75,478**

APPENDIX F

Annual MRP Statement 2017/18

Minimum Revenue Provision – an introduction

1. What is Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. In accordance with proper practice, the financing of such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual charge known as Minimum Revenue Provision (MRP), which is determined by the Council under guidance.

2. Statutory duty

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended by Statutory Instrument 2008 no. 414 s4) lay down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

3. Government guidance

Along with the above duty, the Government issued guidance which came into force on 31 March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. Although it is up to each Council to determine for itself how to calculate its MRP, the guidance suggests four methodologies, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that:

1. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

2. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

APPENDIX F

4. Timing

This statement shall take effect from 1 April 2017, unless an alternative date is stated below, and shall take precedence over any statements previously approved.

5. Calculation

MRP shall be calculated by adding together the amount calculated using the method as stated below.

Method

To be used for all capital expenditure taking into account only capital expenditure and financing decisions, and the classification of fixed assets, reflected in the Council's accounts for the preceding year.

With the variations set out below, MRP will be calculated, on an individual fixed asset basis (unless they are land or community assets (no depreciation), where it is capitalised under statute/direction (equal pay, REFCUS etc.) or when one grouped "asset" is created for MRP calculation purposes for each category for individual years), in accordance with the annuity method whereby MRP for each year will be the amount presumed to be the principal element of the equal amounts that would be payable each year in respect of a loan at the specified rate of interest that would reduce the outstanding principal amount to zero at the end of the estimated useful life.

The specified rate of interest will be the average interest rate of the Council's debt as at the end of the year preceding the first year in which the annuity rate is to be applied. Where the interest rate on debt is variable the rate to be used in calculating the average shall be the interest rate on the debt at 31 March of the year for which the average is being calculated.

MRP will thus be calculated in accordance with the following formula:

$$PPMT\ (A,B,C,D-E) + F - G$$

Where

PPMT is the PPMT financial function in Microsoft Excel 2010

A is the specified interest rate

B is the number of years (including the current year) for which MRP has been charged on an annuity basis

APPENDIX F

C is the useful economic life of the asset as at the start of the year for which MRP is first charged on an annuity basis. C shall be equal to the useful life of the fixed asset in question, as estimated by the Council. For assets with a useful life of more than 99 years, C shall equal 99. C shall not be varied for changes in the useful life of the asset unless the Council considers that special circumstances apply that would mean that a change would result in MRP being more reasonably calculated on a prudent basis; for example the useful life of a particular asset (as assessed for depreciation purposes) could change so dramatically that continued use of the option would no longer be supportable as prudent. For example, a property could be sold only a short time into its originally estimated useful life.

D is the total need to borrow for capital purposes (resulting from capital expenditure).

E is the aggregate value of any anticipated future capital receipts that are an integral part of the capital scheme in question. E shall be reviewed each year on performing the calculation, and amended if necessary.

F is an amount determined by the Section 151 Officer. The cumulative total of F, taken across all past and current years, shall never be less than zero.

G is an adjustment arising where the Section 151 Officer considers that the previous method of calculating MRP has been overly prudent. An adjustment can be made (G) to reverse the overly prudent sum; the following conditions apply to this adjustment:

(a) The total MRP after applying this new adjustment (G) will not be less than zero in any financial year;
(b) The cumulative total of this new adjustment (G) will never exceed the amount of the calculated overly prudent sum.
(c) The use of the new adjustment will be reviewed on an annual basis or more frequently if there is a mid-year revision for any reason.

The Method shall be varied in the following circumstances:

(a) For non-operational assets, for which no charge will be made. Where an asset is classed as non-operational because it is under construction, the method above will commence once the asset becomes operational.

(b) For expenditure on fixed assets that are not or would not be classed as fixed assets of the Council in accordance with proper accounting practice, in these instances C shall initially be equal to the estimated remaining useful life of the fixed asset in question.

(c) For expenditure capitalised under direction, for which C shall initially equal 20, and shall not be reviewed or amended.

APPENDIX F

(d) For land acquired on or after 1 April 2015, no charge will be made. In circumstances where an acquisition relates to both land and buildings this policy will only be applied to the element relating to the land value.

(e) For historical Magistrates' Courts Loan Charges, 4% charge will be made.

(f) West Midlands Combined Authority: Collective Investment Fund
The agreed Combined Authority Devolution Deal proposes the establishment of a Collective Investment Fund to support investment in the region. It is possible that some of this investment may be delivered by individual districts, and funded from prudential borrowing.

MRP on capitalised loan advances to other organisations or individuals will not be required. Instead, the capital receipts arising from the capitalised loan repayments will be used as provision to repay debt. However, revenue MRP contributions would still be required equal to the amount of any impairment of the loan advanced.

MRP on investments in Equities will be made on an annuity profile over 20 years, as recommended by Government Guidance.

(g) With regard to PFI and leases the most appropriate MRP method as deemed by the Section 151 Officer will be charged; either in accordance with the financial model imbedded in the legal agreements or annuity and useful economic life.

(h) Where an asset is classified as an investment asset from 1 April 2013 and generates sufficient income to meet the total costs of borrowing, no charge will be made.

APPENDIX G

City of Wolverhampton Council
2017/18 Specified Investments Lending List as at 23rd June 2017

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 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
DBS Bank Ltd	Singapore (AAA)	10,000	6 mths
HSBC Bank plc	UK (AA)	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
Oversea Chinese Banking Corporation Ltd	Singapore (AAA)	10,000	6 mths
Royal Bank of Canada	Canada (AAA)	10,000	6 mths
Toronto Dominion Bank	Canada (AAA)	10,000	6 mths
United Overseas Bank Ltd	Singapore (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.