CITY OF WOLVERHAMPTON COUNCIL	**Cabinet** 21 November 2018

Report title	Treasury Management Activity Monitoring – Mid Year Review 2018-2019	
Decision designation	RED	
Cabinet member with lead responsibility	Councillor Louise Miles Resources	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All Wards	
Accountable Director	Claire Nye, Director of Finance	
Originating service	Strategic Finance	
Accountable employee	Alison Shannon Tel Email	Chief Accountant 01902 554561 Alison.Shannon@wolverhampton.gov.uk
Report to be/has been considered by	Council Confident, Capable Council	5 December 2018 6 February 2019

Recommendations for decision:

That Cabinet recommends that Council notes:

1. That a mid-year review of the Treasury Management Strategy Statement has been undertaken and the Council has operated within the limits and requirements approved in March 2018.
2. That a revenue net overspend of £2.2 million for the General Fund and an underspend of £12,000 for the Housing Revenue Account (HRA) are forecast from treasury management activities in 2018-2019.
3. That the detailed guidance notes for the Code of Practice on Treasury Management and the Prudential Code have recently been published by CIPFA and are under review by the Director of Finance. Therefore, the Treasury Management Statements for 2018-2019 are still based on the Council's interpretation of these Codes.
4. The updated position on the revised guidance on Local Government Investments and Minimum Revenue Provision as detailed in paragraphs 2.6 and 2.7 of the report.

5. The position regarding the Money Market Fund reform which is effective from 21 January 2019 and will require an update to the Annual Investment Strategy for 2018-2019 as detailed in paragraph 5.11 of the report.

1.0 Purpose

1.1 This report provides a monitoring and progress report on treasury management activity for the second quarter of 2018-2019 as part of the mid-year review, in line with the Prudential Indicators approved by Council in March 2018.

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 2018-2019 report which can be accessed online on the Council's website by following the link:

https://wolverhamptonintranet.moderngov.co.uk/ieListDocuments.aspx?CId=130&MId=7536&Ver=4

2.2 Treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.3 The system of controls on local authority capital investment is based largely on self-regulation by local authorities themselves. At its heart is CIPFA's Prudential Code for Capital Finance.

2.4 CIPFA updated and released new versions of both the Code of Practice on Treasury Management and Prudential Code in December 2017. Although the Codes had been released and are effective for the 2018-2019 financial year, the detailed sector specific guidance had not been issued and therefore, the strategy statements for 2018-2019 were prepared on an interpretation of the Codes. CIPFA acknowledged that the requirement to produce a Capital Strategy, which is a requirement under the Prudential Code, may require a longer lead-in time and that this requirement may not be able to be fully implemented until the 2019-2020 financial year. CIPFA recommended that the requirement of both Codes are implemented as soon as possible.

2.5 The detailed guidance notes for the Codes have recently been published and are currently under review by the Director of Finance to assess any necessary changes.

2.6 On 2 February 2018 the Ministry of Housing, Communities & Local Government (MHCLG) issued its new Statutory Guidance on Local Government Investments and Minimum Revenue Provision. The guidance on Local Government Investments was effective from 1 April 2018, however, MHCLG acknowledged due to timescales this may not have been practical to implement and approve before this date. Therefore, the disclosures and requirements can be presented for approval the first time the

relevant strategy document is updated or superseded after 1 April 2018. Due to the linkages with the new guidance notes issued by CIPFA this particular guidance is being reviewed in tandem with those as detailed in paragraph 2.5.

2.7 With regard to the guidance on Minimum Revenue Provision (MRP) the effective date is 1 April 2019, except for the elements 'Changing Methods for Calculating MRP' which apply from 1 April 2018. Early adoption of the guidance is encouraged. This guidance has been reviewed, the main impact for the Council has been the introduction of a maximum useful economic life of 50 years (this is the maximum time that can be used for spreading the cost of borrowing) and MRP to be charged for all borrowings. The effective date for these changes is 1 April 2019 and therefore, when the Annual MRP Statement for 2019-2020 is put to Councillors for approval, they will be incorporated into the statement. The ongoing effect on the revenue budget will also be built into the Medium Term Financial Strategy (MTFS).

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

2.9 The Council continues to use Link Asset Services as its treasury management advisors throughout 2018-2019. Link Asset Services provides market data and intelligence on which the Council can make decisions regarding all aspects of treasury management activities and in particular, managing the risks associated with investing surplus cash.

3.0 2018-2019

3.1 The forecast outturn for treasury management activities in 2018-2019 compared to budget is shown in Table 1.

Table 1 – Treasury management budget and forecast outturn 2018-2019

	Revised Budget £000	Forecast Outturn £000	Variance at Quarter two £000
General Fund	26,663	28,881	2,218
Housing Revenue Account	10,431	10,419	(12)
Total before use of reserve	**37,094**	**39,300**	**2,206**
Approved use of the Treasury Management Equalisation Reserve	(1,430)	(1,430)	-
Total after use of reserve	**35,664**	**37,870**	**2,206**

3.2 A revenue net overspend of £2.2 million for the General Fund and an underspend of £12,000 for the HRA are projected for the year 2018-2019. For the General Fund the main reasons are an increase in MRP charges for the year, following a review of MRP, offset against an underspend due to a reduced borrowing need in year because of re-phasing in the capital programme. Work will be undertaken to see if there are any opportunities to reduce the level of MRP in 2018-2019. However, if the forecast outturn is realised the overspend can be met by a further drawdown from the Treasury Management Equalisation Reserve subject to approval by Councillors. 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 1 to this report shows a comparison of the latest estimates of Prudential and Treasury Management Indicators over the medium term period with the equivalent figures which were approved by Council in March 2018.

4.0 Borrowing forecast for 2018-2019

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 2017-2018 and forecast for 2018-2019.

Table 2 – Average interest rate payable in 2017-2018 and 2018-2019

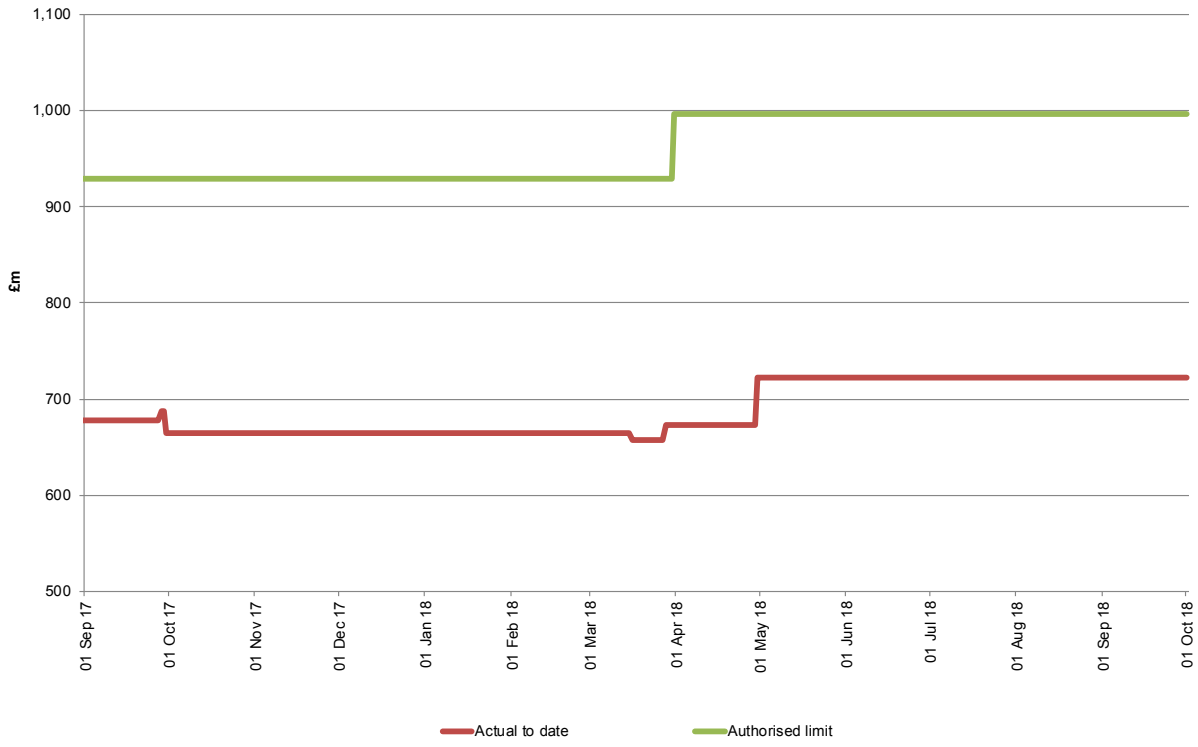
	2017-2018 Actual	2018-2019 Forecast
Average Interest Rate Payable	3.74%	3.74%

4.3 Each year it is necessary to raise new loans to finance capital expenditure and to replace existing maturing borrowing. The Council's policy is to prioritise the use of capital receipts to finance capital expenditure. Balances which are set aside to meet credit liabilities (i.e. to repay borrowing) are used to reduce the external borrowing requirement. Decisions to take borrowing will be made by the Director of Finance when it is judged that rates are likely to be at their lowest levels, and probably about to rise according to market indications, and only when an inflow of funds is required to meet imminent cash flow commitments. This will keep overall surplus cash balances to a minimum, in line with the current strategy. Appendix 2 to this report shows the maturity profile of external borrowing.

4.4 As always, the Council needs to be mindful that the opportunity to secure short term savings by postponing longer term borrowing requirements takes into account the risk of long term rates increasing in the future. Appendix 3 to this report includes the Link Asset Services commentary for quarter two 2018-2019 and forecasts that interest rates across all periods will increase up to March 2021. 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 2018 is £722.9 million. Appendix 4 to this report shows a summary of this position along with a detailed breakdown of new loans and repayments made throughout the year. £6.0 million of existing borrowing is due to be repaid between quarters three and four.

4.7 In March 2018, Council approved a net borrowing requirement for 2018-2019 of £151.2 million. The forecast net borrowing requirement for 2018-2019 is £158.3 million, as shown in Appendix 5 to this report. This appendix also shows the details for the disclosure for certainty rate, which enables the Council to access discounted borrowing at 0.20% below normal PWLB rates.

5.0 Investments forecast for 2018-2019

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 31 May 2018 and 30 September 2018.

Table 3 – Total amounts invested 2018-2019

	31 May 2018 £000	30 September 2018 £000
Business Reserve Accounts Money Market Funds	556 10,765	220 11,465
	11,321	**11,685**
Average cash balance for the year to date	13,358	20,901

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 £11.7 million and a maximum of £43.6 million. The average cash balance for the quarter being £24.1 million.

5.5 Table 4 shows the budgeted average rate of interest receivable in 2018-2019 and the forecast for the year.

Table 4 – Average interest rate receivable in 2018-2019

	2018-2019 Budget	2018-2019 Forecast
Average Interest Rate Receivable	0.30%	0.57%

5.6 Due to the continuing low interest rates on offer, a prudent percentage was used for budgeting purposes, as can be seen a slightly higher rate is forecast based on rates achieved so far during the year.

5.7 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 6 to this report shows the Council's current specified investments lending list.

5.10 In quarter two 2018-2019 the Director of Finance has not been required to use her discretion to temporarily exceed any upper limits with approved counter-parties.

5.11 As mentioned above, Money Market Funds (MMF) are the main investments used by the Council. Since the financial crisis in 2008 various reforms have taken place across the financial sector to enhance resilience and stability. The latest reform issued by the EU effects MMF where the category of fund is changing with effect 21 January 2019. The impact of this change for the Council is currently under review by the Director of Finance and it will require an amendment to the Annual Investment Strategy for 2018-2019. Once this review has been completed a revised strategy will be put to Councillors for approval.

6.0 Evaluation of alternative options

6.1 As this is a monitoring report of treasury management activities undertaken in line with the approved Treasury Management Strategy 2018-2019, there are no alternative options available.

7.0 Reasons for decisions

7.1 This report provides an update on treasury management activities undertaken in line with the approved Treasury Management Strategy 2018-2019.

8.0 Financial implications

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

[SH/07112018/Y]

9.0 Legal implications

9.1 The Council's Treasury Management activity must be carried out in accordance with the requirements of the Local Government Act 2003. In addition the Local Government and Housing Act 1989 sets out requirements for local authorities in respect of capital controls, borrowing and credit arrangements. The Council is also required to comply with the Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008.

9.2 Treasury Management relates to the management of the Council's cash flow, borrowing and cash investments. This involves seeking the best rates of interest for borrowing, earning interest on investments, whilst managing risk in making financial decisions and adopting proper accounting practice.

9.3 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 and 2018. Part 2 of this Guidance is statutory guidance.

[TS/07112018/Q]

10.0 Equalities implications

10.1 There are no equalities implications arising from this report.

11.0 Environmental implications

11.1 There are no environmental implications arising from this report.

12.0 Human resources implications

12.1 There are no human resources implications arising from this report.

13.0 Corporate landlord implications

13.1 There are no corporate landlord implications arising from this report.

14.0 Health and Wellbeing implications

14.1 There are no health and wellbeing implications arising from this report.

15.0 Schedule of background papers

Cabinet, 20 February 2018 – 'Treasury Management Strategy 2018-2019'

Cabinet, 11 July 2018 – 'Treasury Management – Annual Report 2017-2018 and Activity Monitoring Quarter One 2018-2019'

16.0 Appendices

Appendix 1: Prudential and Treasury Management Indicators

Appendix 2: Maturity profile

Appendix 3: Link Commentary

Appendix 4: Borrowing type, borrowing and repayments

Appendix 5: Certainty rate disclosure

Appendix 6: Lending list