Agenda Item No: 5

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

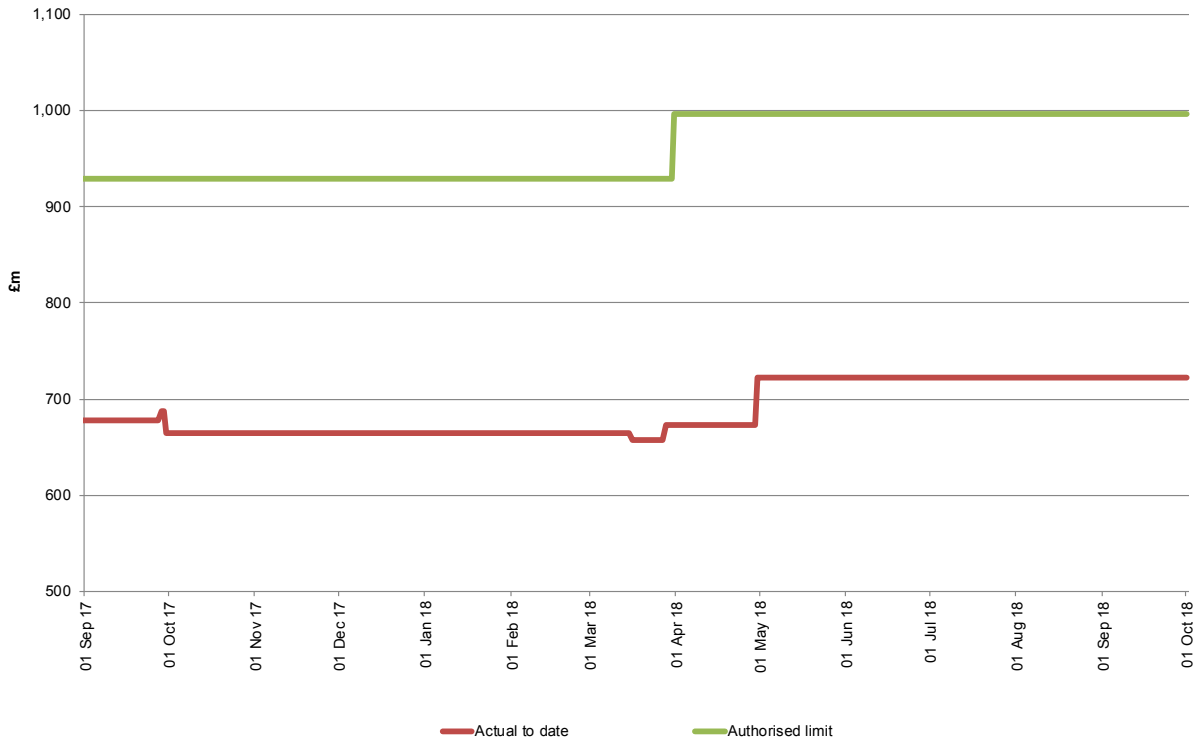
	2017-2018 Actual	2018-2019 Forecast
Average Interest Rate Payable	3.74%	3.74%

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	556	220
Money Market Funds	10,765	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

Appendix 1

Prudential Indicators (PI) required by The Prudential Code

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

PI 1 - Estimates and actual capital expenditure.
Full details of capital expenditure plans and funding can be found in the quarter two capital budget monitoring 2018-2019 report. This indicator was called PI 3 up to 2018-2019.

	Approved by Council 7 March 2018			As at 30 September 2018		
	2018-2019 Forecast £000	2019-2020 Forecast £000	2020-2021 Forecast £000	2018-2019 Forecast £000	2019-2020 Forecast £000	2020-2021 Forecast £000
General Fund	147,670	85,025	41,747	130,499	145,963	56,782
HRA	64,390	69,390	67,650	61,962	81,080	65,002
	212,060	154,415	109,397	192,461	227,043	121,784

PI 2 - 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. This indicator was called PI 4 up to 2018-2019.

	Approved by Council 7 March 2018			As at 30 September 2018		
	2018-2019 Forecast £000	2019-2020 Forecast £000	2020-2021 Forecast £000	2018-2019 Forecast £000	2019-2020 Forecast £000	2020-2021 Forecast £000
General Fund	736,387	765,583	779,265	672,618	731,723	744,857
HRA	279,027	307,117	335,603	270,748	308,784	333,347
	1,015,414	1,072,700	1,114,868	943,366	1,040,507	1,078,204

PI 3 - 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). This indicator was called PI 5 up to 2018-2019.

	Approved by Council 7 March 2018		
	2018-2019 Limit £000	2019-2020 Limit £000	2020-2021 Limit £000
Borrowing	996,745	1,068,662	1,136,052
Other Long Term Liabilities	90,754	86,628	82,351
Total Authorised Limit	1,087,499	1,155,290	1,218,403
Actual and Forecast External Debt as at 30 September 2018	915,965	1,040,107	1,077,803
Variance (Under) / Over Authorised limit	(171,534)	(115,183)	(140,600)

PI 4 - 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. This indicator was called PI 6 up to 2018-2019.

	Approved by Council 7 March 2018		
	2018-2019 Limit £000	2019-2020 Limit £000	2020-2021 Limit £000
Borrowing	964,873	1,047,456	1,117,437
Other Long Term Liabilities	90,731	86,606	82,328
Total Operational Boundary Limit	1,055,604	1,134,062	1,199,765
Actual and Forecast External Debt as at 30 September 2018	915,965	1,040,107	1,077,803
Variance (Under) / Over Operational Boundary Limit	(139,639)	(93,955)	(121,962)

Appendix 1

Prudential Indicators (PI) required by The Prudential Code

PI 5 - 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 2013-2014 onwards and was called PI 8a up to 2018-2019.

	Approved by Council 7 March 2018			As at 30 September 2018		
	2018-2019 Forecast £000	2019-2020 Forecast £000	2020-2021 Forecast £000	2018-2019 Forecast £000	2019-2020 Forecast £000	2020-2021 Forecast £000
Forecast Capital Financing Requirement at end of Second Year	1,114,868	1,114,868	1,114,868	1,078,206	1,078,206	1,078,206
Gross Debt	945,480	1,023,937	1,089,641	915,965	1,040,107	1,077,803
Capital Financing Requirement Greater than Gross Debt	Yes	Yes	Yes	Yes	Yes	Yes

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 6 - 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. This indicator was called PI 1 up to 2018-2019.

	Approved by Council 7 March 2018			As at 30 September 2018		
	2018-2019 Forecast	2019-2020 Forecast	2020-2021 Forecast	2018-2019 Forecast	2019-2020 Forecast	2020-2021 Forecast
General Fund	11.5%	15.6%	17.1%	12.6%	15.7%	17.8%
HRA	34.0%	33.6%	34.7%	34.0%	34.8%	35.8%

Local Prudential Indicators (LPI) set by City of Wolverhampton Council

LPI 1 - 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. This indicator was called PI 2 up to 2018-2019.

	Approved by Council 7 March 2018			As at 30 September 2018		
	2018-2019 Forecast £	2019-2020 Forecast £	2020-2021 Forecast £	2018-2019 Forecast £	2019-2020 Forecast £	2020-2021 Forecast £
Financial year impact						
Implications of the capital programme for year:						
For Band D council tax	215.17	277.34	326.34	94.19	207.18	258.12
For average weekly housing rents	3.44	6.79	10.04	2.58	6.59	9.35
Marginal impact to previous quarter						
Implications of the capital programme for year:						
For Band D council tax	(45.46)	2.78	21.68	(28.94)	(2.37)	5.17
For average weekly housing rents	0.33	0.78	1.17	(0.11)	0.42	0.19

LPI 2 - 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. This indicator was called PI 7 up to 2018-2019.

	Approved by Council 7 March 2018			As at 30 September 2018		
	2018-2019 Forecast £000	2019-2020 Forecast £000	2020-2021 Forecast £000	2018-2019 Forecast £000	2019-2020 Forecast £000	2020-2021 Forecast £000
HRA Debt Limit *	356,770	356,770	356,770	356,770	356,770	356,770
HRA Capital Financing Requirement	279,027	307,117	335,603	270,748	308,784	333,347
Headroom	77,743	49,653	21,167	86,022	47,986	23,423

* With effect 30 October 2018 the HRA Debt Limit was revoked, the figures above are provided as they relate to the quarter two position before this effective date.

Appendix 1

Treasury Management Indicators (TMI) required by The Treasury Management Code

TMI 1 - Upper limits to the total of principal sums invested over 365 days.
This details the maximum amount which can be invested for up to 5 years (as per paragraph 1.5 of the Annual Investment Strategy). It has been deteremined that a maximum of 50% of total investments with a cap of £35.0 million could be prudently committed to long term investments should the Director of Finance decide it is appropriate to. This indicator was called TMI 3 up to 2018-2019.

	Approved by Council 7 March 2018		
	2018-2019 Limit £000	2019-2020 Limit £000	2020-2021 Limit £000
Upper limit for more than 365 days	35,000	35,000	35,000
Actual and Forecast Invested at 30 September 2018	-	-	-
Variance (Under) / Over Limit	(35,000)	(35,000)	(35,000)

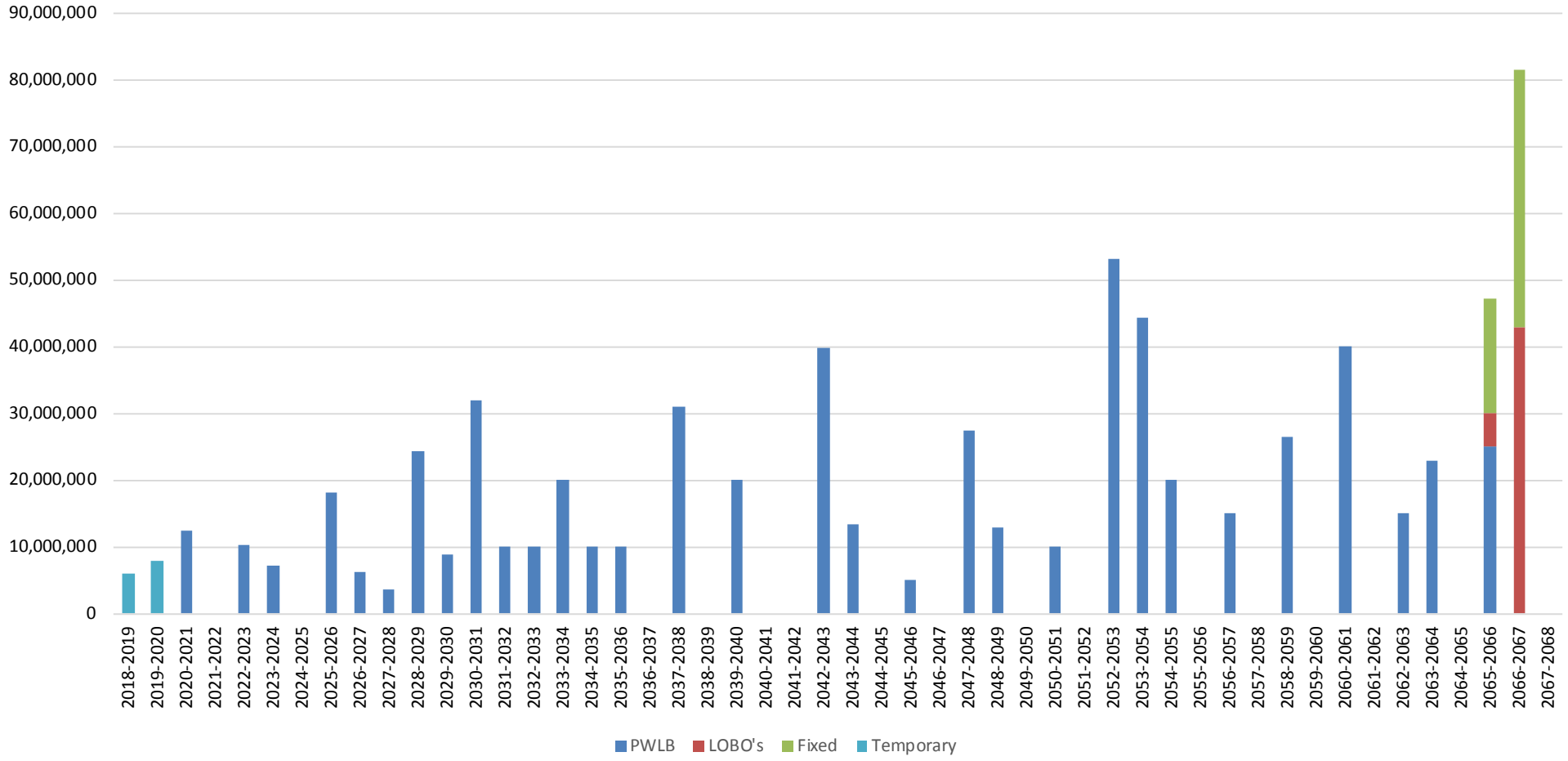
TMI 2 - Upper and lower limits to the maturity structure of its borrowing.
These limits relate to the % of fixed and variable rate debt maturing. Upto 2018-2019 this indicator only included fixed rate debt, the new Code of Practice issued December 2017 changed this requirement to include variable debt from 2018-2019.

	Approved by Council 7 March 2018		As at 30 September 2018
	Upper Limit	Lower Limit	2018-2019 Forecast Borrowing
Under 12 months	25%	0%	1.68%
12 months and within 24 months	25%	0%	5.41%
24 months and within 5 years	40%	0%	3.58%
5 years and within 10 years	50%	0%	6.31%
10 years and within 20 years			15.87%
20 years and within 30 years			21.92%
30 years and within 40 years	90%	50%	20.35%
40 years and within 50 years			24.88%
50 years and within 60 years			-

This page is intentionally left blank

Appendix 2

Borrowing Maturity at 30 September 2018



This page is intentionally left blank

Appendix 3

Economic Background

UK

The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

EU

Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

USA

President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however,

is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

China
Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan
Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Interest rate forecasts

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

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
BANK RATE	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
5 yr PWLB	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10 yr PWLB	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25 yr PWLB	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50 yr PWLB	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.

- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

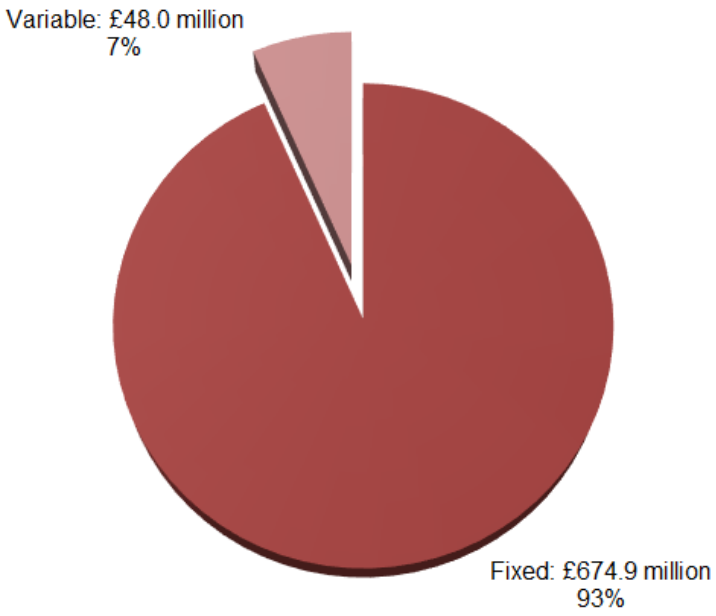
This page is intentionally left blank

Appendix 4

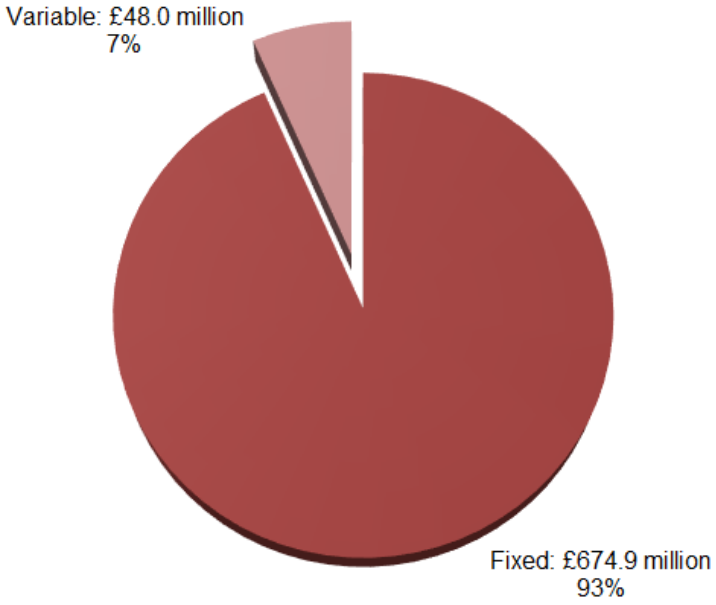
Borrowing: Graphical Summary

Borrowing by Type

As at 30 June 2018



As at 30 September 2018



Appendix 4

Borrowing and Repayments in 2018-2019

	Start Date	Maturity Date	Amount £000	Length	Interest Rate	Full Year Interest £
2018-2019 Borrowing						
PWLB Fixed Maturity:				**years**		
507271	30/04/2018	30/04/2028	20,000	10	2.40%	480,000
507272	30/04/2018	30/04/2034	10,000	16	2.66%	266,000
507273	30/04/2018	30/04/2054	20,000	36	2.61%	522,000
Sub total for PWLB			**50,000**		**2.56%**	**1,268,000**
Temporary Loans:						
No activity in quarter 2						
Grand total borrowing			**50,000**			**1,268,000**

	Start Date	Maturity Date	Amount £000	Length	Interest Rate	Full Year Interest £
2018-2019 Repayments						
PWLB Fixed Maturity:						
No activity in quarter 2						
Temporary Loans:						
No activity in quarter 2						
Net movement			**50,000**			**1,268,000**

Appendix 5

Disclosure for Certainty Rate

Certainty Rate
This table details the information that is required to enable the Council to submit a return for 2018-2019

	Approved by Council 7 March 2018			As at 30 September 2018		
	2018-2019 Forecast £000	2019-2020 Forecast £000	2020-2021 Forecast £000	2018-2019 Forecast £000	2019-2020 Forecast £000	2020-2021 Forecast £000
Net Borrowing Requirement:						
Borrowing to finance planned capital expenditure	134,207	89,303	74,461	97,711	128,576	69,696
Existing maturity loans to be replaced during the year	40,000	72,000	62,500	87,682	80,000	62,500
Less:						
Minimum Revenue Provision for debt repayment	(7,775)	(14,650)	(16,316)	(12,012)	(15,817)	(18,222)
Voluntary debt repayment	(15,186)	(13,241)	(11,700)	(15,033)	(11,492)	(9,500)
	(22,961)	(27,891)	(28,016)	(27,045)	(27,309)	(27,722)
Loans replaced less debt repayment	17,039	44,109	34,484	60,637	52,691	34,778
Net Advance Requirement	**151,246**	**133,412**	**108,945**	**158,348**	**181,267**	**104,474**

Appendix 6

City of Wolverhampton Council
2018-2019 Specified Investments Lending List at 30 September 2018

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.