CITY OF WOLVERHAMPTON COUNCIL	**Our Council Scrutiny Panel** 17 March 2021

Time	6.00 pm	**Public Meeting?**	YES	**Type of meeting**	Scrutiny
Venue	Microsoft Teams Meeting				

Membership

Chair Cllr Bhupinder Gakhal (Lab)
Vice-chair Cllr Udey Singh (Con)

Labour	**Conservative**
Cllr Alan Bolshaw	Cllr Payal Bedi-Chadha
Cllr Milkinderpal Jaspal	Cllr Simon Bennett
Cllr Susan Roberts MBE	
Cllr Dr Paul John Birch J.P.	
Cllr Roger Lawrence	

Quorum for this meeting is three Councillors.

Information for the Public

If you have any queries about this meeting, please contact the Democratic Services team:

Contact Earl Piggott-smith
Tel/Email earl.piggott-smith@wolverhampton.gov.uk /01902 551251
Address Democratic Services, Civic Centre, 1st floor, St Peter's Square, Wolverhampton WV1 1RL

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Email democratic.services@wolverhampton.gov.uk
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Agenda

Part 1 – items open to the press and public

Item No. *Title*

1 **Welcome and Introductions**
[The Chair to welcome everyone to the meeting. The Scrutiny Officer will then read out a list of those invited to the meeting to confirm who is in attendance.]

2 **Meeting procedures to be followed**
[The Chair will explain how the meeting will proceed, how questions are to be asked and any matters of meeting etiquette.]

MEETING BUSINESS ITEMS

3 **Apologies**

4 **Declarations of interest**

5 **Minutes of previous meeting (20.1.21)** (Pages 3 - 8)
[To approve the minutes of the previous meeting as a correct record]

6 **Matters arising**
[To consider any matters arising from the minutes]

DISCUSSION ITEMS

7 **Specific Reserves Working Group Minutes (9.2.21)** (Pages 9 - 18)
[Earl Piggott-Smith, Scrutiny Officer, to present draft minutes for comment and approval]

8 **S106 Planning Agreements - Update (report to follow)**

9 **Portfolio Holder Statement and Question Time**

10 **Our People Plan - update on work to support employee development (report to follow)**

INFORMATION ITEM

11 **Treasury Management Strategy 2021-2022** (Pages 19 - 108)

CITY OF WOLVERHAMPTON COUNCIL

Our Council Scrutiny Panel

Minutes - 20 January 2021 Agenda Item No: 5

Attendance

Members of the Our Council Scrutiny Panel

Cllr Alan Bolshaw
Cllr Payal Bedi-Chadha
Cllr Susan Roberts MBE
Cllr Simon Bennett
Cllr Roger Lawrence
Cllr Bhupinder Gakhal (Chair)

In Attendance
Cllr Paula Brookfield Cabinet Member Governance

Employees

Earl Piggott-Smith	Scrutiny Officer
Martin Stevens	Scrutiny Officer
Julia Cleary	Scrutiny and Systems Manager
Alison Shannon	Chief Accountant
David Pattison	Director of Governance
Charlotte Johns	Director of Strategy
Claire Nye	Director of Finance
Jin Takhar	Equality, Diversion and Inclusion Manager
Julia Nock	Head of Assets
Mitchell Spencer	Estates Officer

Part 1 – items open to the press and public

Item No. *Title*

1 **Welcome and Introductions**
Cllr Bhupinder Gakhal, Chair, welcomed everyone to the virtual meeting and advised it was being live streamed to the press and public. Cllr Gakhal advised that he was not expecting any exempt or restricted items on the agenda. A recording of the meeting would be available for viewing on the Council's website at a future date

2 **Meeting procedures to be followed**
Cllr Gakhal explained the protocol to be followed during the meeting for asking questions and reminded everyone that microphones should be muted and cameras off, unless they have been invited to speak. Earl Piggott-Smith, Scrutiny Officer, confirmed the list of attendees at the meeting.

Please note that the following employees were also in attendance at the meeting:

Claire Nye
Charlotte Johns
Alison Shannon
Mitchell Spencer
Jin Takhar
Julia Nock
David Pattison
Martin Stevens
Julia Cleary

Cllr Paula Brookfield – Cabinet Member Governance was also in attendance

3 **Apologies**
Apologies were received from the following:

Cllr Udey Singh
Cllr Milkinderpal Jaspal
Cllr Dr Paul John Birch J.P.

4 **Declarations of interest**
The following declarations of interest was recorded.

Cllr Simon Bennett declared a non-pecuniary interest in Agenda Item 10 as a member of WV Living Company Shareholder Board.

5 **Minutes of previous meeting**
The panel members voted and approved the minutes of the meeting held on 25 November 2020, subject to the correction below, as being a correct record.

Page 9, correction to minutes.

The service is continuing to roll out key infrastructure changes such as the 5G network which will connect 170 public sector premises in the City and work on this continued during the lockdown. This should read such as the Local Full Fibre Network (LFFN) and not 5G as stated.

6 **Matters arising**
There were no matters arising from the minutes.

7 **Treasury Management Strategy**
Alison Shannon, Chief Accountant, introduced the report. The Chief Accountant briefed the panel on the requirements on the Council under The Local Government Act 2003 and supporting regulations to 'have regard to' the CIPFA Prudential and Treasury indicators. The aim is to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Chief Accountant advised the panel that treasury management includes the following functions, borrowing, investments and cashflow. The Council can only borrow to fund its capital programme. The capital programme plans in the treasury management strategy provide a guide to the borrowing needs of the Council to ensure that it can meet its capital spending obligations.

There is a risk management strategy to support this process which is approved on an annual basis at Annual Council. In addition, details about the performance and updates are reported quarterly to Cabinet and Our Council Scrutiny Panel. The Treasury Management Strategy is approved at Annual Council meeting.

The Chief Accountant detailed the six elements of the Treasury Management Strategy and gave a brief description of each.

The Chief Accountant detailed the eight prudential indicators that the service has been reporting against during this financial year.

The Chief Accountant briefed the panel on Public Works Load Board (PWLB) and changes to future lending terms introduced in November 2020. The changes were introduced to prevent local authorities from using the loans to support the purchase of investment assets primarily for the purpose of yield. In addition, Local Authorities will also need to include a breakdown of the expenditure under the six listed categories, for example, service spending – activity on areas such as education, highways & transport, social care, public health, cultural and related services, environmental and regulatory services.

Local authorities are now required to submit a high-level description of their capital spending and financing plans including the expected use of PWLB loans. The Section 151 Officer will be required to confirm that there is no intention to use the loan to buy investment assets primarily for yield with the aim of letting it out at market rates or continue to operate on a commercial basis without any additional investment.

The Chief Accountant reassured the panel there were no Council projects with the capital programme that fall within the new restrictions.

The Chief Accountant panel advised the panel a full treasury management strategy update report will be presented to the panel at a future meeting.

The panel were invited to comment on the Treasury Management strategy.

The panel queried the forecast in the presentation detailed in prudential indicators (PL3) authorised limit for external debt and whether it was correct that the current borrowing would be reach about one billion pounds by 2020-2021 and the implications of this for the Council.

The Chief Accountant advised the panel the figure refers to the authorised limit which the Council cannot exceed and that the current borrowing forecast for 2021- 2022 is £733 million. The indicators are set at the beginning of the year 2020 – 2021 and this figure referred to is updated quarterly and is what was anticipated that the debt could rise too at that time.

The panel queried the impact on the treasury management strategy in a situation where the HRA is under pressure. Claire Nye, Director of Finance, advised the panel that HRA Business Plan was presented to Cabinet at a meeting today. The report showed that the over the medium term the HRA was not under financial pressure and there has been a surplus each year. The surplus on the HRA has allowed the

Council to repay some of the debt and increase the financial headroom for the capital HRA programme.

If there was pressure on the HRA then this would directly affect the amount of borrowing for investment in new or existing housing and the amount of borrowing available for the capital programme. The prudential forecast indicators in the treasury management strategy would be adjusted in this situation.

The panel queried if the Council has ever been refused a loan from the PWLB. The Chief Accountant advised the panel that the Council has never been refused a loan during her time at the Council.

Resolved:

The panel agreed to note the presentation.

8 **CWC Employee Equalities Update Briefing**

David Pattison, Director of Governance, introduced the presentation to the panel. The Director of Governance gave a brief outline to background to equalities work across the Council. The issue of equalities is embedded in the Council Plan and the Relighting Our City documents. The Relighting Our City document was approved by Council in September 2020. The Council was awarded Excellence in Equality Framework for Local Government in October 2018.

The Director of Governance commented on the importance of equalities and that this important work continues to make a difference in tackling the inequalities in local communities and reflects the values of the Council. The Director of Governance commented on the renewed focus on equalities within the Council in response to events of George Floyd, Black Lives Matter campaign and the impact of Covid-19. The events have given the Council the opportunity to think about its role as an employer and how things can be done differently. The new ways working has created challenges but has also created opportunities to really engage with people across the board and build on the excellent platform of progress. The Director of Governance advised the panel that in response to the events in June 2020 a virtual session was held with 120 employees and the Chief Executive attended to listen to employee experiences and concerns. The event provided an excellent platform build on existing learning to improve and build partnership with employees, communities and partners.

A new Equality Diversity and Inclusion Strategy is due to presented to Cabinet in March 2021.

The Director of Governance briefed the panel on the good progress of the four employee forums, which have flourished over the time reflected in an increased levels of attendance. Each forum is supported by a member of SEB which has helped support the discussion and allowed them to hear directly about the concerns of employees. The Director of Governance commented on the work of the Equality Advisory Group. The group is chaired by the Equalities Champion. Each of the forums has appointed a Chair and Vice Chair and they are invited to attend meetings of the Equality Advisory Group.

The Director of Governance commented on the work with external partners and other community groups such as Wolverhampton Equality and Diversity Partnership and the importance of listening to the views of local communities and people particularly those with protected characteristics, in making sure their voice is listened too.

The Director of Governance commented on the work done to invest in employees by giving them opportunities for training and development and show the Council's commitment to tackle inequalities.

The Director of Governance commented the areas where further work is needed. To support this, work the Equalities Team led by Jin Takhar, Corporate EDI Manager, has had its resources increased in response in comments from the employee forum. In addition, there are plans to further support the work with a graduate placement.

This is an example of the commitment of the Council to tackle race inequality and diversity. The Director of Governance commented on the plans for four identified priority areas for action and highlighted achievements to date.

Cllr Paula Brookfield, Cabinet Member for Governance, expressed her appreciation for the leadership shown by Director of Governance since his appointment and the progress in successfully pushing forward the equalities agenda in all parts of the Council. The establishment and support of employee forums has provided the Council with the opportunity to really tackle equalities and inequalities issues.

The panel queried the progress in building inequalities into the assessment of employee performance and recruitment and suggested it would be helpful to have a report presented to a future meeting. The Director of Governance commented on work being done to support managers in addressing inequalities and agreed to attend a future meeting to provide more details of work being done in this area.

The panel thanked the Director of Governance for the presentation and praised his leadership in taking forward the issues of equalities and diversity and responding to concerns expressed at the time of his appointment.

Resolved:

1. The panel agreed to note the report.
2. The Director of Governance agreed to present a future report on the inclusion of inequalities in the assessment of employee performance and recruitment to a future meeting of the panel.

9 **Our Council Scrutiny Panel 2019 20 - Draft Work Programme**

Earl Piggott-Smith, Scrutiny Officer, presented the draft work programme and invited panel members to comment.

Resolved:

The panel agreed to note the report.

10 **CWC Asset Disposal Programme**

The panel approved the following statement

That in accordance with Section 100A (4) of the Local Government Act 1972 the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information on the grounds shown below

(Information relating to the financial or business affairs of any particular person (including the authority holding that information)

The MS Teams Live Event will now end, and the panel will meet in closed session to discuss the following exempt report.

CWC Asset Disposal Programme

Julia Nock, Head of Assets gave a presentation on the process for disposing of Council assets. The Head of Assets briefed the panel on progress of the 2020/21 disposals programme.

The Head of Assets briefed the panel on the 2021/22 disposals programme.

The Head of Assets briefed the panel on future plans and priorities of the disposal programme.

Resolved:

The panel agreed to note the report and progress.

CITY OF WOLVERHAMPTON COUNCIL

Specific Reserves Working Group

Agenda Item No: 7

Minutes - 9 February 2021

Attendance

Members of the Specific Reserves Working Group

Cllr Alan Bolshaw
Cllr Bhupinder Gakhal
Cllr Roger Lawrence
Cllr Udey Singh

Employees

Julia Cleary	Systems and Scrutiny Manager
Michelle Howell	Finance Business Partner
Earl Piggott-Smith	Scrutiny Officer
Alison Shannon	Chief Accountant
Martin Stevens	Scrutiny Officer

Part 1 – items open to the press and public

Item No. *Title*

1 **Welcome and Introductions**

Cllr Bhupinder Gakhal, Chair, welcomed everyone to the virtual meeting and advised it was being live streamed to the press and public. A recording of the meeting would be available for viewing on the Council's website at a future date

2 **Meeting procedures to be followed**

Cllr Gakhal explained the protocol to be followed during the meeting for asking questions and reminded everyone that microphones should be muted and cameras off, unless they have been invited to speak.

Earl Piggott-Smith, Scrutiny Officer, confirmed the list of attendees at the meeting.

Cllr Bhupinder Gakhal
Cllr Udey Singh
Cllr Alan Bolshaw
Cllr Roger Lawrence

Please note the following officers are also in attendance:

Alison Shannon
Michelle Howell
Martin Stevens
Julia Cleary

3 **Apologies for Absence**
There were no apologies for abscence

4 **Declarations of Interest**
There were no declarations of interest recorded.

5 **Specific Reserves Working Group - Terms of Reference**
Earl Piggott-Smith, Scrutiny Officer, presented the terms of reference which detailed the remit of the working group.

Resolved:

The panel agreed to note the report.

6 **Review of Specific Reserves**
Alison Shannon, Chief Accountant, introduced the report. The Chief Accountant advised the group that Michelle Howell, Finance Business Partner,was also in attendance to provide further information, if needed.

The Chief Account outlined the background to the report and explained the role of working group in reviewing the appropriateness of the specific reserves held by the Council as part of the budget review process.

The working group were asked to comment on any changes or further information that would help them to more effectively meet their responsibilities as detailed in the terms of reference.

The Chief Accountant explained the difference between the two appendices and that those listed in Appendix 2 have a specific criteria which limits their use.

The following is a summary of the comments and discussion on the specific reserves working group listed in Appendix 1.

Alison Shannon, Chief Accountant, advised the working group that as part of the annual budget setting process this report is being presented for comments and feedback on the appropriateness of the specific reserves held by the Council. The report lists all the reserves that the Council is holding as at 31 March 2020 and the planned usage for this financial year ending March 2021.

The findings and recommendations from the working group will be presented to Our Council Scrutiny Panel meeting on 17 March 2021. Under the Council's financial procedure rules the specific reserves balances must be reviewed at least twice per financial year, as part of the outturn and budget preparation processes. The last such review was reflected in the 'Reserves, Provisions and Balances 2019-2020' report to Cabinet on 8 July 2020.

The Chief Accountant advised the group that Council's current specific reserves balances is detailed at **Appendix 1**. The reserves in **Appendix 2** can only be used in accordance with the specific criteria they were set up for.

The panel asked for clarification about the use of the Council reserves and confirmation that it is to be used for internal purposes to meet borrowing needs if required. The panel commented that it was important to understand that money held in reserves is not kept in a savings account earning interest and it is used by the Council for internal borrowing purposes, which brings revenue savings over borrowing costs. The reserves can be increased using external borrowing.

The Chief Accountant confirmed that the Council uses reserves are used to meet the Council's internal borrowing first before undertaking any external borrowing as it reduces the amount of interest charged. The cash balances from the reserves can be moved to support the capital programme during the financial year.
During this financial year the Council has not had to borrow funds externally to fund its capital programme and instead has used its cash balances to support this expenditure.

The Chief Accountant suggested that each of the specific reserves listed should be considered in turn and then the group will have the chance to comment after a brief explanation.

The following is a summary of the notes on each specific reserve listed in **Appendix 1 and 2** and any comments, from the group, on their appropriateness.

Adults Social Care Reserve

The Chief Account advised the group that there has been increasing demand for adult social care services over a number of years. In response to this a specific reserve was set up to deal with these fluctuations in demand. There is £1.2 million in the account, which is planned to be used by the end of the financial year. The Chief Accountant advised the panel that it was reported that there was a overspend in Quarter 2 of £1.4 million on the adult social care budget. However, as at Quarter 3 the current plan is to use £600,000 of the reserves.

Safeguarding Partnership Board

The Chief Accountant advised the group that this reserve consists of funds contributed by partner agencies to fund the running costs of the Safeguarding Partnership Board. The reserve is used to meet the cost pressures within the budget arising from undertaking safeguarding reviews, if required.

HRA Homelessness

The Chief Accountant advised the group that the reserve was set up to support early intervention initiatives aimed at preventing homelessness. The reserve is anticipated to be fully used by the end of the current financial year.

Kickstart Loans

The Chief Accountant advised the group that the reserve is anticipated to be fully used by the end of the financial year to support minor private sector housing improvements.

Climate Change Reserve

The Chief Accountant advised the group that the reserve was set up at the end of 2019-2020 as part of Council's response to tackling climate change. The fund will be used to support projects aimed at achieving carbon reductions. The reserve will be used to fund some commitments by the end of the March 2021.

Transformation Reserve

The Chief Accountant advised the group the purpose of reserve and where the fund has been used to deliver greater efficiencies, for example, paying for professional expertise to establish an external operator for the refurbished Civic Halls that is expected to generate efficiencies in the future.

Budget Contingency Reserve

The Chief Accountant advised the group of the purpose of reserve is to address in year and budget pressures that cannot be met from within existing budgets, for example costs arising as a result of directed conversions by the Department for Education from Schools to Academies where deficit balances are retained by the Council.

Efficiency Reserve

The Chief Accountant advised the group that the use of the reserve allows the Council to pump prime projects where the main aim is to generate efficiencies in the future. The reserve is also be used to buy investments to deliver future savings.

The panel queried the reasoning for holding separate reserves for funds which are intended to deliver similar outcomes based on their criteria, for example, the development reserve, efficiency reserve and the budget contingency reserve.

There was concern about the risk of a lack of misunderstanding about their use due to the overlapping aims. As a result, the funds may not be used as intended. The panel suggested that in view of the sums involved that it would be useful to review their current and future use to ensure the money is being used as intended and avoid a situation where the funds are not used. The panel suggested that there was scope for simplification of the criteria for each of these funds. The review should consider how the funds have been used in the past and how and when they might be used in future years. The Chief Accountant responded that there is a multi-year review of these reserves which will provide details about how the funds will be used in future years. The Chief Accountant agreed to review the use of these funds as part of the end of year budget process and will look at the current commitments for the transformation reserves in future years. The Chief Accountant added that the Budget Contingency Reserve has a different purpose and is used to deal with in-year financial pressures which is kept separately. The Chief Accountant advised that the review can look at what contributions have been made to these reserves, what they have been used for and what the reserves balance situation will look like in the next few years based on current assessments and commitments.

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The Chief Accountant advised the group that the reserve was set up at the end of 2019-2020 as part of Council's response to tackling climate change. The fund will be used to support projects aimed at achieving carbon reductions. The reserve will be used to fund some commitments by the end of the March 2021.

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The Chief Accountant advised that the review can look at what contributions have been made to these reserves, what they have been used for and what the reserves balance situation will look like in the next few years based on current assessments and commitments.

Job Evaluation Reserve

The Chief Accountant advised the group the purpose of the reserve and the advised that the fund is forecast to be fully used by the end of March 2021.

Development Reserve

The Chief Accountant advised the group the purpose of the reserve. The reserve is expected to be fully used by the end of March 2021.

Enterprise Zone Business Rates Equalisation Reserve

The Chief Accountant advised the group the purpose of the reserve. There are no plans to use this reserve by the end of March 2021.

Business Rates Equalisation Reserve

The Chief Accountant advised the group the purpose of the reserve. There are no plans to use this reserve by the end of March 2021. The budget strategy report approved by Cabinet in November 2022 that some of the funds will be used in 2021-2022 to offset the deficit on the Collection Fund brought forward from 2019- 2020.

Treasury Management Equalisation Reserve

The Chief Accountant advised the group the purpose of the reserve. There are no plans to use this reserve by the end of March 2021.

Budget Strategy Reserve

The Chief Accountant advised the group the purpose of the reserve. There are no plans to use this reserve by the end of March 2021.

Budget Strategy Reserve 2020 -2021

The Chief Accountant advised the group the purpose of the reserve. The funds will be fully used in accordance with the 2020-2021 Budget approved by Cabinet on 19 February 2020. The funds have been transferred into the 2020-2021 Budget Strategy Reserve.

Recovery Reserve

The Chief Accountant advised the group of the purpose of the reserve and it was newly set up last financial year. The Council was able to set up a £3 million which is available to support investment in services following the Covid-19 pandemic. There are no plans to use any of the funds this financial year.

Our Technology Reserve

The Chief Accountant advised the group of the purpose of the reserve and explained that it was set up to deal with any issues arising from the introduction of the Agresso system. The system requires updates and upgrades and this reserve has been used to meet this cost.

Revenues and Benefits Strategy Reserve

The Chief Accountant advised the group of the purpose of the reserve. It is not currently anticipated that this reserve will be used in 2020-2021. Any forecast use of this reserve will be detailed in the quarterly budget monitoring report to Councillors.

Election Reserve

The Chief Accountant advised the group that this was a newly established fund this financial year. As there was a fallow election year in 2020 as a result of the Covid-19 pandemic the funds there was an underspend on electoral services. The funds will be used to cover future election cost pressures.

Building Resilience Reserve

The Chief Accountant advised the group the purpose of the reserve. There are no plans to use this reserve by the end of March 2021.

The Chief Accountant made a general comment that use of the reserves below has been reduced by the impact of Covid-19 pandemic in terms of activity.

Art Gallery Touring Exhibitions Reserve

The Chief Accountant advised the group that this reserve will not be used this financial year**.**

Regeneration Reserve

The Chief Accountant advised the group the purpose of the reserve. The reserve will be used to support various regeneration projects by the end of March 2021.

Schools Arts Service Reserve

The Chief Accountant advised the group that this reserve will not be used this financial year.

Community Initiatives and Crowdfund Wolves

The Chief Accountant advised the group the purpose of the reserve. The fund consists of £10,000 for crowdfunding initiatives and will be fully spent by the end of March 2021.

Appendix 2 - Other Specific Reserves with Specific Criteria by Division

The Chief Accountant advised the group that the criteria attached to funds listed in this section restricts how they can be used.

Mary Ellen Bequest – Oxley Training Centre Reserve

The Council is currently reviewing this fund and its specific purpose.

Regional Adoption Agency (RAA)

The Chief Accountant advised the group that the fund is made up of contributions from three other local authorities as part of an agreement. The fund is used to deal with any fluctuations during the year in terms of increasing demand and costs. There are plans to use some of the reserve during this financial year.

Victoria Square Sinking Fund Reserve

The Chief Accountant advised the group that there is a plan for an increase of £2000 in the reserve budget during this financial year.

Magistrates Court Reserve

The Chief Accountant advised the group the purpose of reserve. There are no plans to use this fund before the end of March 2021.

Private Sector Housing – Civil Penalties

The Chief Accountant advised the group that this reserve fund was set up during the last financial year. The fund holds fines for private sector landlords and there has been agreement for the Council to contribute towards the reserve this financial year.

Private Sector Housing – Licencing Fees

The Chief Accountant advised the group that the fund is made up of fines levied on private sector landlords. The Chief Accountant advised the group about the criteria for using the fund and that it was not currently anticipated it would be used in 2020-2021.

Markets Reserve

The Chief Accountant advised the group the purpose of reserve. There are no plans to use this fund before the end of March 2021.

Licensing Reserve

The Chief Accountant advised the group the purpose of reserve. There are no plans to use this fund before the end of March 2021.

Wholesale Market Sinking Fund

The group queried if the Markets Reserve and the Wholesale Market Sinking Fund were two distinct reserves. The Chief Accountant confirmed this. The Chief Accountant advised the group the purpose of reserve and that there were no plans to use this fund before the end of March 2021.

Highway Management Reserve

The group queried if the reported reduction in the reserves was used as set out in the description and also if the money that has gone into the fund this financial year was reduced than previous years due to the reduction in the number of car journeys during the pandemic. The Chief Accountant advised the group that funds will be reinvested into transportation projects and highway improvement works in accordance with Section 55 of the Road Traffic Act. The funds are drawn down in accordance with the Act.

Funds and Bequests Reserve

The Chief Accountant advised the group the purpose of reserve. There are no plans to use this fund before the end of March 2021.

Revenue Grants Unapplied (IFRS) Reserve

The Chief Accountant advised the group the purpose of reserve. There are no plans to use this fund before the end of March 2021.

Mayors Award

The Chief Accountant advised the group the purpose of reserve. There are no plans to use this fund before the end of March 2021.

The Education (Penalty Notices) Regulations 2007

The Chief Accountant advised the group the purpose of reserve and the reasons for levying a charge against parents. There are no plans to use this fund before the end of March 2021. The funds can only be used when specific criteria have been met.

PFI Surplus Reserve

The Chief Accountant advised the group the purpose of reserve. There are no plans to use this fund before the end of March 2021.

Insurance Reserve

The Chief Accountant advised the group the purpose of reserve. There are no plans to use this fund before the end of March 2021.

Community Safety

The Chief Accountant advised the group the purpose of reserve. There are no plans to use this fund before the end of March 2021. The funds can only be used in accordance with the award criteria.

Public Health

The Chief Accountant advised the group that this is a ring-fenced award and any unused funds have to go into the reserve fund.

Building Control Service Improvements

The Chief Accountant advised the group about the purpose of ring-fenced reserve. A small amount is expected to be used by end of March 2021.

The working group thanked the Chief Accountant for the report and presentation.

The working group agreed to accept the recommendations of the report.

The panel discussed the appropriateness of reserves and suggested it would be useful to distinguish between those reserves which need to be maintained at a set level or added to over time. The panel requested a report detailing plans for using the reserves for Public Health as an example. The Chief Accountant agreed to discuss the idea further with colleagues and present a paper to a future meeting of the group.

Resolved:

1. The working group agreed to accept the recommendations of the report.

2. The Chief Accountant to present a paper on the appropriateness of reserves held by the Council as detailed in Appendix 1 of the report to a future meeting of the Specific Reserves Working Group.

Agenda Item No: 11

Cabinet Member Consultation			
Report title:	Treasury Management Strategy 2021-2022		
Cabinet member(s) consulted	**Consulting employee**	**Mode of consultation**	**Primary date of consultation**
Cllr Louise Miles	Alison Shannon	Email	5 February 2021
Key comments arising from consultation (if applicable): Include as applicable or explain why no consultation undertaken.			

CITY OF WOLVERHAMPTON COUNCIL

Our Council Scrutiny Panel

17 March 2021

Report title	Treasury Management Strategy 2021-2022	
Cabinet member with lead responsibility	Councillor Louise Miles Resources	
Wards affected	All	
Accountable director	Tim Johnson, Chief Executive	
Originating service	Strategic Finance	
Accountable employee(s)	Claire Nye Tel Email	Director of Finance 01902 550478 Claire.Nye@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board Cabinet Council	5 February 2021 17 February 2021 3 March 2021

Recommendation for noting:

Members of the Our Council Scrutiny Panel are asked to note the contents of the report.

1.0 Purpose

1.1 To bring to the panel's attention, information about the Council's treasury management activity that has been reported to Cabinet on 17 February 2021.

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) Treasury Management Code of Practice. The Code requires a nominated body be responsible for ensuring effective scrutiny of the Council's treasury management strategy and policies, the Our Council Scrutiny Panel fulfils this role.

2.2 On 17 February 2021 Cabinet received the report 'Treasury Management Strategy 2021-2022'. This report can be found in Appendix A.

2.3 The Scrutiny Panel are asked to note the activity outlined in this report.

3.0 Financial implications

3.1 The financial implications are detailed in the Cabinet report of 17 February 2021. [SH/26022021/C]

4.0 Legal implications

4.1 The legal implications are detailed in the Cabinet report of 17 February 2021. [TS/26022021/W]

5.0 Equalities implications

5.1 The equalities implications are detailed in the Cabinet report of 17 February 2021.

6.0 All other implications

6.1 All other implications are detailed in the Cabinet report of 17 February 2021.

7.0 Schedule of background papers

7.1 Treasury Management Strategy 2021-2022, report to Cabinet, 17 February 2021

Agenda Item No: 6

CITY OF WOLVERHAMPTON COUNCIL	**Cabinet** 17 February 2021

Report title	Treasury Management Strategy 2021-2022	
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	Tim Johnson, Chief Executive	
Originating service	Strategic Finance	
Accountable employee	Claire Nye Tel Email	Director of Finance 01902 550478 Claire.Nye@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board Council Our Council Scrutiny Panel	5 February 2021 3 March 2021 17 March 2021

Recommendations for decision:

The Cabinet recommends that Council approves:

1. The authorised borrowing limit for 2021-2022 to support the capital strategy as required under Section 3(1) of the Local Government Act 2003 to be set at £1,166.2 million (PI3, Appendix 3 to this report); the forecast borrowing is below the authorised borrowing limit.

2. The Treasury Management Strategy Statement 2021-2022 as set out in Appendix 1 to this report.

3. The Annual Investment Strategy 2021-2022 as set out in Appendix 2 to this report.

4. The Prudential and Treasury Management Indicators as set out in Appendix 3 to this report.

5. The Annual Minimum Revenue Provision (MRP) Statement setting out the method used to calculate MRP for 2021-2022 as set out in Appendix 4 to this report.

6. The method used to calculate MRP for 2020-2021 as set out in the Annual MRP Statement approved by Council on 4 March 2020 be amended to the method as set out in Appendix 4 to this report.

7. The Treasury Management Policy Statement and Treasury Management Practices as set out in Appendix 6 to this report.

8. That authority continues to be delegated to the Director of Finance to amend the Treasury Management Policy and Practices and any corresponding changes required to the Treasury Management Strategy, the Prudential and Treasury Management Indicators, the Investment Strategy and the Annual MRP Statement to ensure they remain aligned. Any amendments will be reported to the Cabinet Member for Resources and Cabinet (Resources) Panel as appropriate.

9. That authority continues to be delegated to the Director of Finance to lower the minimum sovereign rating in the Annual Investment Strategy, in the event of the UK's credit rating being downgraded by the third credit rating agency, due to the unprecedented impact of Covid-19 on the economy.

The Cabinet is recommended to approve:

1. That authority is delegated to the Cabinet Member for Resources in consultation with the Director of Finance to progress feasibility and investment propositions in a timely manner. Updates on any propositions will be provided to Cabinet or Cabinet (Resources) Panel in future reports.

Recommendations for noting:

The Cabinet recommends that Council is asked to note:

1. That the MRP charge for the financial year 2021-2022 will be £18.2 million; it is forecast to increase to £25.5 million in 2022-2023 (paragraph 2.14 of the report).

2. That Cabinet or Cabinet (Resources) Panel and Council will receive regular Treasury Management reports during 2021-2022 on performance against the key targets and Prudential and Treasury Management Indicators in the Treasury Management Strategy and Investment Strategy as set out in paragraph 2.12 and Appendices 2 and 3 to this report.

1.0 Purpose

1.1 This report sets out the Council's Treasury Management Strategy for 2021-2022 for approval by Full Council. The strategy incorporates six elements, which are detailed in separate documents, appended to this report. These documents are:

- The Treasury Management Strategy
- The Annual Investment Strategy
- The Prudential and Treasury Management Indicators
- Minimum Revenue Provision (MRP) Statement
- The Disclosure for Certainty Rate
- The Treasury Management Policy Statement and Practices

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 Policy Statement and Treasury Management Practices which are appended to this report.

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 The Treasury Management Strategy for 2020-2021 included the implementation of a new accounting standard for leases. Under current guidance there are two forms of lease, a finance lease (on balance sheet) and an operating lease (off balance sheet). On balance sheet leases are classified as 'Other Long Term Liabilities' and are treated as a form of debt which must count towards the authorised borrowing limit required by statute.

2.5 This new accounting standard was originally to be implemented in 2020-2021 and would have meant almost all lease contracts would become on balance sheet. The only exemptions being for short term leases and low value assets, these exemptions are optional. At the time, the Council reviewed all of its lease contracts to establish the impact of this accounting rule change and an estimate of £5.0 million was included in the authorised borrowing limit for 2020-2021. However, due to the Covid-19 pandemic, implementation was delayed by one year to 2021-2022 and has since been deferred a further year to 2022-2023 because of the continuing pandemic pressures.

2.6 On 1 February 2021 CIPFA announced two consultations on proposed changes to the Treasury Management Code and the Prudential Code. This is to reflect the changing environment in treasury management and following recommendations from the Public Accounts Committee. Both consultations will close on 12 April 2021 with the results published towards the end of 2021-2022 and full adoption expected from 2022-2023. The Council will review the consultations in detail and consider any potential impact it may have and report back to Councillors as and when required.

2.7 The Council's Treasury Management Strategy will be approved annually by Council and there will also be a mid-year report to Council. In addition, there will be quarterly monitoring reports and regular review by Councillors in both Executive and Scrutiny functions. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function are fully aware of the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

2.8 This Council will adopt the following reporting arrangements in accordance with the requirements of the Code.

Area of Responsibility	Council / Committee / Employee	Frequency of Update and Approval
Treasury Management Policy Statement and Treasury Management Practices	Director of Finance	As required
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Cabinet (Feb) & Full Council (March)	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid-year report	Full Council	Mid-year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Full Council	As required
Annual Treasury Outturn Report	Cabinet and Full Council	Annually by 30 September after the end of the year
Treasury Management Monitoring Reports	Cabinet (Resources) Panel	Quarterly
Scrutiny and review of treasury management strategy	Our Council Scrutiny Panel	Annually before the start of the year
Scrutiny and review of treasury management performance	Our Council Scrutiny Panel	Quarterly

2.9 **The treasury management role of the Director of Finance**

The following are the key duties of the Director of Finance under the Code:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budget variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit, and liaising with external audit.
- recommending the appointment of external service providers.

2.10 With regards the Practices for non-treasury investments, the main focus is that these types of investment should be of benefit to the economic, social or environmental wellbeing of the area served by City of Wolverhampton Council and/or the West Midlands Combined Authority, as detailed in the Council's Capital Strategy.

2.11 **Treasury Management Strategy (Appendix 1)**

Attached at Appendix 1 to the report is the recommended Treasury Management Strategy for 2021-2022. This has been prepared in accordance with the CIPFA Treasury Management Code, and fully reflects the requirements of the Code. It summarises in strategic terms the approach the Council will take in performing its treasury management activities during 2021-2022. It also highlights some of the key current risks and issues relating to treasury management that will be monitored over the course of the year.

2.12 **Annual Investment Strategy (Appendix 2)**

The recommended Annual Investment Strategy for 2021-2022 is attached at Appendix 2 to the report. This builds on the Treasury Management Strategy by focussing in greater detail on investment activities. It sets out in considerable detail the conditions under which the Council will place investments. This represents the Council's approach to managing a number of risks inherently associated with investment. These are discussed in greater detail in the Strategy itself.

2.13 **Prudential and Treasury Management Indicators (Appendix 3)**

Attached at Appendix 3 to the report are the recommended prudential indicators for the Council for 2021-2022. The Prudential Code requires authorities to set and observe a range of prudential and treasury management indicators, and to keep these under review. The indicators set out in the appendix are the minimum required by the Code and associated guidance.

2.14 **MRP Statement (Appendix 4)**

The recommended MRP statement for 2021-2022 is attached at Appendix 4 to the report. The formula for calculating MRP is mainly unchanged from the annuity basis used in 2020-2021, with just a point of clarification which has been added relating to acquisition of share capital. The forecast MRP charge is £18.2 million for 2021-2022; increasing to £25.5 million in 2022-2023. The Council's Section 151 Officer considers that this approach is prudent.

2.15 **Certainty Rate (Appendix 5)**

The certainty rate enables eligible councils to access cheaper borrowing rates of 20 basis points (bps) below the standard rate across all loan types and maturities from the Public Works Loan Board. In exchange for the reduced rate, councils must complete an annual return to Ministry of Housing, Communities & Local Government (MHCLG) detailing their budgeted plans for capital expenditure and borrowing requirements. Appendix 5 to the report details the information that will be required to enable the Council to submit a return for 2021-2022.

2.16 **Treasury Management Policy Statement and Practices (Appendix 6)**

Attached at Appendix 6 to the report is an updated version of the Council's treasury management policy statement and practices as required by the CIPFA Code of Practice on Treasury Management.

2.17 **Allocation of net interest payable**

The Council is required to determine a method of splitting its interest costs between the Housing Revenue Account (HRA) and the General Fund in a way which is fair and reasonable. The method of splitting interest is unchanged from that used in 2020-2021 (the inferred net cash balance of each fund).

3.0 Evaluation of alternative options

3.1 The Treasury Management Strategy 2021-2022 outlined in this document meets the requirements of CIPFA's Code of Practice on Treasury Management and the Prudential Code for Capital Finance along with the MHCLG's Guidance on Local Government Investments and Minimum Revenue Provision. The MHCLG guidance defines a prudent investment policy as having two objectives, security which must be achieved first, followed by liquidity. Only after these have been met should yield be considered. The criteria included in this report are that which meet all the above guidance.

4.0 Reasons for decisions

4.1 To seek approval of the Treasury Management Strategy 2021-2022 in accordance with both government guidance and Codes of Practice.

5.0 Financial implications

5.1 These are detailed within the report.

[SH/08022021/M]

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 'MHCLG Guidance on Local Government Investments' issued initially in 2004 and reissued in 2010 and 2018. Part 2 of this Guidance is statutory guidance.

[TS/05022021/Q]

7.0 Equalities implications

7.1 There are no equalities implications arising from this report.

8.0 All other implications

8.1 The impact of Covid-19 on the capital programme is being monitored and any re-phasing required to reflect new timescales for completing projects, taking into account work starting on sites again and any social distancing measures which may be required, reduces the borrowing need in year. In addition, the Council is monitoring its cash balances to see how the economic impact of Covid-19 is affecting the cash that it receives from local taxpayers. Any pressure in this area may have a negative impact on the Council's cash flow balances which may require borrowing to be undertaken sooner than planned to temporarily fund revenue costs.

8.2 As highlighted in the treasury management activity monitoring reports, Covid-19 has impacted on the economy resulting in lower interest rates being available for investments and may affect the UK's sovereign rating. So far two of the three rating agencies have reduced the UK's rating, if the remaining third agency follows suit the Council's minimum sovereign rating will need to be lowered to allow the Council's bank to remain on the lending list. The impact on the treasury management budget of the reduced interest rates available for the Council's investments will be closely monitored.

8.3 The Council has agreed variations to loans provided to the Council's wholly owned housing company, WV Living. There is no detrimental impact on the Council's budget over the medium term, however, it will impact on short term cash balances.

9.0 Schedule of background papers

9.1 Cabinet, 17 February 2021 – [2021-2022 Budget and Medium Term Financial Strategy 2021-2022 to 2024-2025]

9.2 Cabinet, 17 February 2021 – [Capital Programme 2020-2021 to 2024-2025 quarter three review and 2021-2022 to 2025-2026 Budget Strategy]

10.0 Appendices

10.1 Appendix 1 – Treasury Management Strategy Statement 2021-2022

10.2 Appendix 2 – Annual Investment Strategy 2021-2022

10.3 Appendix 3 – Prudential and Treasury Management Indicators 2021-2022

10.4 Appendix 4 – Annual MRP Statement 2021-2022

10.5 Appendix 5 – Disclosure for Certainty Rate

10.6 Appendix 6 – Treasury Management Policy Statement and Treasury Management Practices February 2021

APPENDIX 1

Treasury Management Strategy Statement 2021-2022

1.0 Introduction

1.1 The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice, and to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) (included as Appendix 2 of this report), which sets out the Council's policies for managing its investments and in particular for giving priority to the security and liquidity of those investments.

1.3 Part of the treasury management operation is to ensure that the Council's cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's approach to risk management, providing adequate liquidity initially before considering investment return.

1.4 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.5 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General balance.

1.6 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

CIPFA defines treasury management 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."

1.7 In 2019-2020 a new requirement for a capital strategy was introduced. The capital strategy provides a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is reported separately.

1.8 The capital strategy provides the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed.
- the implications for future financial sustainability

1.9 The aim of the capital strategy is to ensure that all elected councillors on Full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.10 The capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy shows:

- the corporate governance arrangements for these types of activities
- any service objectives relating to the investments
- the expected income, costs and resulting contribution
- the debt related to the activity and the associated interest costs

1.11 The recommended strategy for 2021-2022 in respect of the following aspects of the treasury management function is based upon the Director of Finance's views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Link Group.

The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the Minimum Revenue Provision (MRP) strategy

1.12 **Balanced budget requirement**

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority, when calculating its budget requirement for the forthcoming financial year, to include the revenue costs that result from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in interest charges, MRP and other costs associated with borrowing to finance capital expenditure, as well as any increases in running costs from new capital projects, are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

1.13 **Training**

The CIPFA Code requires the Director of Finance to ensure that councillors with responsibility for treasury management receive adequate training in treasury management. The training needs of councillors and treasury management employees are periodically reviewed to ensure that they have the appropriate level of knowledge for their roles in respect of treasury management.

1.14 **Treasury management consultants**

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon the external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties, property funds and equity investments. The commercial type investments require specialist advisers, and the Council uses a range of consultants with relevant industry knowledge, dependant on the specific commercial aspects of the project, in relation to this activity.

2.0 Treasury limits for 2021-2022 to 2023-2024

2.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales, the Authorised Limit represents the legislative limit specified in the Act.

2.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council tax and Council housing rent levels is 'acceptable'.

2.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of financing such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years. Details of the Authorised Limit can be found in Appendix 3 of this report.

2.4 The revised Treasury Management Code of Practice has removed the interest rate exposure indicator from a formal indicator to a narrative in the Treasury Management Strategy. The Council will continue to manage and monitor its interest rate exposure against the limits set previously:

Upper limit for fixed rate	100%
Upper limit for variable rate	20%

3.0 Current portfolio position

3.1 The Council's forecast treasury portfolio position at 31 March 2021 is shown below:

	Forecast £000	Average Rate %
External Debt		
Fixed rate borrowing - PWLB / Local Authorities	677,513	3.6549
Fixed rate borrowing - Market	55,800	4.4700
Variable rate borrowing - Market	48,000	4.2823
Total Gross Borrowing	781,313	3.7581
Other Long Term Liabilities	82,238	-
Total External Debt	863,551	-
Total Investments *	5,000	0.1913

*It is the policy to use cash balances to fund capital expenditure to avoid the need for borrowing, therefore, the level of cash investments is forecast to be minimal.

APPENDIX 1

4.0 Borrowing requirement

4.1 The Council's forecast borrowing requirement is summarised below. The table shows the forecast external debt against the underlying capital borrowing need (the Capital Financing Requirement), highlighting any over or under borrowing:

External Debt	2020-2021 Forecast £000	2021-2022 Forecast £000	2022-2023 Forecast £000	2023-2024 Forecast £000
Borrowing at 1 April	732,947	781,313	925,114	964,392
Expected change in borrowing	48,366	143,801	39,278	19,952
Other long term liabilities at 1 April	86,515	82,238	79,626	79,928
Expected change in other long term liabilities	(4,277)	(2,612)	302	(2,968)
Forecast debt at 31 March	863,551	1,004,740	1,044,320	1,061,304
Capital Financing Requirement	959,261	1,070,391	1,085,971	1,102,955
Under / (over) borrowing	95,710	65,651	41,651	41,651
External debt for commercial activities / non-financial investments				
Forecast debt at 31 March	41,317	45,874	45,874	45,874
Percentage of total external debt	5%	5%	4%	4%

5.0 Prospects for interest rates

5.1 The Council has appointed Link Group as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. A more detailed interest rate view can be found in Appendix 2. The Link Group view of the Bank Rate is that it is unlikely to rise from the current 0.10% for a considerable period at the point of writing.

APPENDIX 1

6.0 Borrowing strategy

6.1 Borrowing rates

The Link forecast for the PWLB new borrowing rate is as follows:

Link Group Interest Rate View 9.11.20 These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

When undertaking any new borrowing the Director of Finance will give consideration to the following to ensure the best deal is obtained for the Council:

1. Internal / external borrowing.
2. Temporary borrowing (less than 1 year).
3. Variable / fixed rate.
4. Short / long term borrowing.
5. PWLB / market debt.

When considering the above, the balance and spread of debt in the Council's portfolio will be taken into account along with the financial implications for the medium term financial strategy.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy has been prudent since investment returns have been low and counterparty risk is still an issue that needs to be considered, however the Director of Finance will keep this strategy under review and consider opportunities to secure higher returns on investment where the balance of risk, return, security and liquidity are considered acceptable.

6.2 Sensitivity of the forecast – In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. Council employees, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- if it was felt that there was a significant risk of a sharp fall in borrowing rates, then borrowing will be postponed.

- if it was felt that there was a significant risk of a much sharper rise in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

6.3 **External versus internal borrowing**

The general aim of this treasury management strategy is to maintain cash balances at a reduced level, keeping under review the level of forecast reserves and therefore anticipated cash balances and opportunities for longer term investment, whilst maintaining an appropriate level of risk; therefore keeping to a minimum the credit risk incurred by holding investments. Measures taken over the last few years have already reduced the level of credit risk and the difference between borrowing rates and investment rates has been carefully considered to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

Where investment rates are below long term borrowing rates, 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).

However, short term savings by avoiding new long term external borrowing will also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be higher.

6.4 **Policy on borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates, will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue costs created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow

- consider the merits and demerits of alternative forms of funding

- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use

- consider the impact of borrowing in advance on temporarily increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, having regard to the controls in place to minimise such risks.

7.0 Debt rescheduling

7.1 The spread between the rates applied to new borrowing and repayment of debt has meant that PWLB to PWLB debt restructuring is now much less attractive than it was. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds in using replacement PWLB refinancing. Therefore, rescheduling of current borrowing in the Council's debt portfolio is unlikely to occur.

7.2 If rescheduling was done, it will be reported to the Cabinet (Resources) Panel, at the earliest meeting following its action.

8.0 New financial institutions as a source of borrowing

8.1 Currently, the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the sources below for the following reasons:

- Local authorities (primarily shorter dated maturities out to three years or so as can still be cheaper than the Certainty Rate)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years)
- Municipal Bond Agency (possibly still a viable alternative depending on market circumstances prevailing at the time.

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

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Annual Investment Strategy 2021-2022

1.0 Annual Investment Strategy

1.1 Investment policy

The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, as managed by the Treasury Management team. Non-financial investments, essentially the purchase of income yielding assets, are covered in the separate Capital Strategy report.

The Council's investment policy has regard to the following:

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- the Audit Commission's report on Icelandic investments
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code")
- CIPFA Treasury Management Guidance Notes 2018.

The Council's investment priorities are:

(a) firstly, the security of capital and
(b) secondly, the liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

The above guidance place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

2. However, ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council

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will engage with its advisors to maintain a monitor on market pricing such as ‘credit default swaps’ and overlay that information on top of the credit ratings.

3. Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. Investment instruments identified for use in the financial year are listed under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be as set through the Council’s Treasury Management Practices – Schedules.
    - Specified investments are those with a high level of credit quality and subject to a maturity limit of one year, or have less than a year left to run to maturity, if they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.
    - Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Councillors and officers before being authorised for use.

5. Non-specified investments limit: the Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of total investments with a cap of £35.0 million.

6. Lending limits, amounts and maturity, for each counterparty will be set through applying the methodology in the following section.

7. Transaction limits are set for each type of investment.

8. The Council will set a limit for the amount of its investments which are invested for longer than 365 days.

9. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.

10. The Council has engaged external consultants to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in sterling.

12. As a result of the change in accounting standards for 2020-2021 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Revenue Account. In November 2018, MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023.

However, the Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year

The above criteria are unchanged from last year.

1.2 **Creditworthiness policy**

This Council applies the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach using credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The table below details Link's recommendations of bands and durations along with the more prudent parameters that the Council will apply:

	Link	Wolverhampton
Yellow (is for UK Government debt or equivalent, money market funds and collateralised deposits where the collateral is UK Government debt)	5 years	-
Dark Pink (for Ultra-Short Dated Bond Funds with a credit score of 1.25)	5 years	-
Light Pink (for Ultra-Short Dated Bond Funds with a credit score of 1.5)	5 years	-
Purple	2 years	1 year
Blue (only applies to nationalised or semi nationalised UK Banks)	1 year	3 months
Orange	1 year	6 months
Red	6 months	3 months
Green	100 days	50 days
No Colour	Not to be used	Not to be used

This list will be reviewed on any changes to the methodology used by Link and the Council may revert back to using Link's recommended durations if or when investment balances are at higher levels and longer deposits are possible without significantly increased risk to liquidity.

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1+ and a Long Term rating of AA-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored each time the Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. A severe downgrade may prompt the Director of Finance to instruct treasury management employees to take steps to withdraw any investment considered to be at risk. The potential penalties for such an action would need to be assessed.

- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and other market data on a daily basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this bought-in service. In addition, the Council will also use market data and market information, information on any external support for banks to help support its decision making process.

1.3 **Creditworthiness**

Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30 June 2020 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during quarter one and quarter two of 2020, banks made provisions for expected credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on actual levels of credit losses (quarterly earnings reports are normally announced in the second half of the month following the end of the quarter). This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the

Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6 August 2020 revised down their expected credit losses for the UK banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the Monetary Policy Committee's (MPC's) central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

1.4 **CDS prices**

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. Nevertheless, prices are still elevated compared to end-February 2020. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information.

1.5 **Country limits**

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

- **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio with a cap of £35.0 million.
- **Country limit**. The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report is shown below. This list will be amended by employees should ratings change in accordance with this policy.
- **Other limits**. In addition:
    - No more than 20% will be placed with any non-UK country at any time;
    - Limits in place above will apply to a group of companies;
    - Sector limits will be monitored regularly for appropriateness.

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Approved countries for investments

AAA
- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.S.A.

AA+
- Canada
- Finland

AA
- Abu Dhabi (UAE)
- France

AA-
- Belgium
- Hong Kong
- Qatar
- U.K.

The above ratings are those used by Fitch. During 2020-2021 Fitch and Moody's both downgraded the UK's sovereign rating from AA to AA-, or equivalent, due to the unprecedented impact of Covid-19 pandemic on the economy. However, as Standard & Poors rating is still the equivalent of AA the Council has kept this as the sovereign limit. The Director of Finance has delegated authority to lower the minimum sovereign rating in the Annual Investment Strategy in the event that this position changes.

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1.6 Specified investments

All such investments will be sterling denominated, with maturities up to a maximum of one year, meeting the minimum ‘high’ rating criteria where applicable.

Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under 12 months.

	Minimum 'High' Credit Criteria
Debt Management Agency Deposit Facility	Government backed
Money Market Funds CNAV > LVNAV	AAAmmf / Aaa-mf
Term deposits - UK Government	Government backed
Term deposits - Local Authorities	High Security
Term deposits - Banks & Building Societies	Short-term F1+, Long-term AA-

1.7 Non-specified investments

These are any investments which do not meet the specified investment criteria. A maximum of 50% of total investments with a cap of £35.0 million can be held in aggregate in non-specified investments.

	Minimum Credit Criteria	Max Limit	Max Maturity Period
Term deposits - UK Government (with maturities in excess of 1 year)	Government Backed	£10.0 million	5 years
Term deposits - Local Authorities (with maturities in excess of 1 year)	High Security	£10.0 million per LA	5 years
Term deposits - Banks & Building Societies (with maturities in excess of 1 year)	Short-term F1+ Long-term AA-	£10.0 million per Bank	5 years
Property funds	Internal and external due diligence	£20.0 million per single fund	5 years

Property funds – the use of these instruments can be deemed capital expenditure, and as such will be an application of capital resources. This Authority will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

1.8 Accounting treatment of investments

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue implications, which may arise from these differences, the accounting implications of new transactions will be thoroughly reviewed before they are undertaken.

1.9 **Investment strategy**

In-house funds: All of the Council's funds are managed in-house. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. Whilst most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that the Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that the Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable for longer periods.

Interest rate outlook: Bank Rate is forecast to unlikely rise from the current 0.10% for a considerable time.

The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to Covid-19 and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by the deal the UK agreed as part of Brexit.

There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, and so PWLB rates, in the UK.

The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile, within the risk parameters set by this Council.

For 2021-2022 the Council will budget for an investment return of 0.05% on investments placed during the financial year. In addition, an upper limit for principal sums invested for longer than 365 days of £35.0 million is asked to be approved as can be seen in Appendix 3 Prudential and Treasury Indicators 2021-2022.

For its cash flow generated balances, the Council will seek to use its money market funds, business reserve accounts and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest, whilst maintaining liquidity.

Negative investment rates: While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6-12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided grants to local authorities to help deal with the Covid-19 crisis; this has caused some local authorities to have sudden increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surplus of money around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

1.10 **End of year investment report**

At the end of the financial year, a report will be submitted to the Cabinet and full Council on the Council's investment activity as part of its Annual Treasury Report.

1.11 **Combined Authority**

The Council will be prepared to lend to the Combined Authority. Such lending may be as part of arrangements agreed with the Combined Authority and other constituent authorities.

1.12 **Council Owned Companies**

The Council will be prepared to lend or invest in companies which are wholly or partly owned by the Council. In doing this, consideration will be given to the benefits and risks to the Council.

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2.0 Interest rate forecasts

2.1 The table below has been provided by Link Asset Services and shows a more detailed interest rate view along with the view of Capital Economics (an independent forecasting consultancy). PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of 1 November 2012.

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Link Group Interest Rate View 9.11.20						(The Capital Economics forecasts were done 11.11.20)							
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Bank Rate													
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
5yr PWLB Rate													
Link	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-
10yr PWLB Rate													
Link	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-
25yr PWLB Rate													
Link	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-
50yr PWLB Rate													
Link	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-

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City of Wolverhampton Council

Specified Investments Lending List

Institution	Country (Sovereign Rating)	Limit £000	Term Limit
Bank Netherlandse Gemeenten	Netherlands (AAA)	20,000	12 mths
DBS Bank Ltd	Singapore (AAA)	10,000	6 mths
HSBC Bank plc	UK (AA-)	5,000	3 mths
Landwirtschaftliche Rentenbank	Germany (AAA)	20,000	12 mths
National Bank of Abu Dhabi	Abu Dhabi (U.A.E) (AA)	5,000	3 mths
NRW.BANK	Germany (AAA)	20,000	12 mths
Oversea Chinese Banking Corporation Ltd	Singapore (AAA)	10,000	6 mths
United Overseas Bank Ltd	Singapore (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
AAA Rated and Government Backed Securities			
Debt Management Office	UK (AA-)	20,000	30 mths
Money Market Funds	**Fund Rating**		
Invesco STIC Account	Fitch AAAmmf	20,000	Instant Access
Aberdeen Liquidity Fund (LUX) Class 2	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.

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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 three capital budget monitoring 2020-2021 report.

	As at 17 February 2021			
	2020-2021 Forecast £000	2021-2022 Forecast £000	2022-2023 Forecast £000	2023-2024 Forecast £000
General *	96,395	173,116	32,264	13,003
HRA	49,386	95,287	86,260	84,280
	145,781	268,403	118,524	97,283
* Commercial activities / non-financial investments included in General figure. These relate to areas such as capital expenditure on investment properties and loans to third parties etc.	17,710	23,057	10,000	10,000

PI 2 - Estimates and actual capital financing requirement General and HRA.
The capital financing requirement measures the authority's underlying need to borrow for a capital purpose.

	As at 17 February 2021			
	2020-2021 Forecast £000	2021-2022 Forecast £000	2022-2023 Forecast £000	2023-2024 Forecast £000
General *	692,048	754,006	728,584	706,460
HRA	267,213	316,385	357,387	396,495
Total capital financing requirement	959,261	1,070,391	1,085,971	1,102,955
* Commercial activities / non-financial investments included in General figure. These relate to areas such as capital expenditure on investment properties and loans to third parties etc.	20,138	23,789	15,744	14,816
Movement in capital financing requirement represented by:				
New borrowing for capital expenditure	65,412	145,604	60,572	60,336
Less minimum revenue provision/voluntary minimum revenue provision	(32,323)	(34,474)	(44,992)	(43,352)
Movement in capital financing requirement	33,089	111,130	15,580	16,984

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 is a self determined level reviewed and set each budget setting cycle.

	As at 17 February 2021			
	2020-2021 Limit £000	2021-2022 Limit £000	2022-2023 Limit £000	2023-2024 Limit £000
Borrowing	1,049,311	1,086,578	1,121,741	1,182,515
Other Long Term Liabilities	87,249	79,626	81,928	78,960
Total Authorised Limit	1,136,560	1,166,204	1,203,669	1,261,475
Forecast External Debt as at 17 February 2021	863,551	1,004,740	1,044,320	1,061,304
Variance (Under) / Over Authorised limit	(273,009)	(161,464)	(159,349)	(200,171)
Authorised limit for commercial activities / non-financial investments included in the above figures				
Total Authorised Limit	45,893	47,014	45,874	45,874
Forecast External Debt as at 17 February 2021	41,317	45,874	45,874	45,874
Variance (Under) / Over Authorised limit	(4,576)	(1,140)	-	-

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Prudential Indicators (PI) required by The Prudential Code

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 is a self determined level reviewed and set each budget setting cycle.

	As at 17 February 2021			
	2020-2021 Limit £000	2021-2022 Limit £000	2022-2023 Limit £000	2023-2024 Limit £000
Borrowing	1,018,328	1,050,255	1,107,444	1,167,501
Other Long Term Liabilities	85,247	79,626	79,928	76,960
Total Operational Boundary Limit	1,103,575	1,129,881	1,187,372	1,244,461
Forecast External Debt as at 17 February 2021	863,551	1,004,740	1,044,320	1,061,304
Variance (Under) / Over Operational Boundary Limit	(240,024)	(125,141)	(143,052)	(183,157)
Operational boundary for commercial activities / non-financial investments included in the above figures				
Total Operational Boundary Limit	43,867	45,874	45,874	45,874
Forecast External Debt as at 17 February 2021	41,317	45,874	45,874	45,874
Variance (Under) / Over Operational Boundary Limit	(2,550)	-	-	-

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".

	As at 17 February 2021			
	2020-2021 Forecast £000	2021-2022 Forecast £000	2022-2023 Forecast £000	2023-2024 Forecast £000
Forecast Capital Financing Requirement at end of Second Year	1,085,972	1,102,955	1,102,955	1,102,955
Gross Debt	863,551	1,004,740	1,044,320	1,061,304
Capital Financing Requirement Greater than Gross Debt	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 and HRA.

	As at 17 February 2021			
	2020-2021 Forecast	2021-2022 Forecast	2022-2023 Forecast	2023-2024 Forecast
General *	13.9%	14.5%	18.6%	16.5%
HRA	29.4%	29.3%	29.5%	30.1%
* Commercial activities / non-financial investments included in General figure. These relate to areas such as capital expenditure on investment properties and loans to third parties etc.	1.0%	1.0%	1.0%	0.9%

APPENDIX 3

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.

	As at 17 February 2021			
	2020-2021 Limit £000	2021-2022 Limit £000	2022-2023 Limit £000	2023-2024 Limit £000
Upper limit for more than 365 days	35,000	35,000	35,000	35,000
Actual and Forecast Invested at 17 February 2021	-	-	-	-
Variance (Under) / Over Limit	(35,000)	(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.

	As at 17 February 2021		
	Upper Limit	Lower Limit	March 2021 Forecast
Under 12 months	25%	0%	-
12 months and within 24 months	25%	0%	1.31%
24 months and within 5 years	40%	0%	3.25%
5 years and within 10 years	50%	0%	9.61%
10 years and within 20 years	50%	0%	14.21%
20 years and within 30 years	50%	0%	24.79%
30 years and within 40 years	50%	0%	25.49%
40 years and within 50 years	50%	0%	21.34%
50 years and within 60 years	50%	0%	-

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APPENDIX 4

Annual MRP Statement 2021-2022

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. On 2 February 2018 the Ministry of Housing, Communities & Local Government (MHCLG) issued its new Statutory Guidance on Minimum Revenue Provision which is effective from 1 April 2019, except for the elements ‘Changing Methods for Calculating MRP’ which applied from 1 April 2018. This new guidance supersedes the previous versions. The main changes of the guidance are the introduction of a maximum useful economic life which should normally not exceed 50 years, MRP to be charged for all borrowings and defining what can be classed as an ‘overpayment’ thereby removing the option to retrospectively change the method of calculating MRP in prior years.

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.

4. Timing

This statement shall take effect from 1 April 2020, 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

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

C is the useful economic life (UEL) 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 but in accordance with the new maximum UEL in the Guidance. 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. The choice to make an overpayment of MRP requires a separate disclosure in the MRP Statement presented to full Council detailing the in year and cumulative amount. Subsequently, any offsetting of an overpayment also requires disclosure in the MRP Statement along with any remaining cumulative amount to full Council.

The Method shall be varied in the following circumstances:

1. Where an asset is under construction, the method above will commence once the asset becomes operational.

2. For historical Magistrates' Courts Loan Charges, 4% charge will be made.

3. With regard to PFI and leases the MRP will be charged in accordance with the financial model imbedded in the legal agreements.

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4. For capitalised expenditure, the variable “C” should be given the maximum values as set out below in accordance with the Guidance. This is based on the principle that where the capitalised expenditure can be indirectly linked to an asset the estimated UEL should be used, however, where this is not the case a default of 25 years will apply.

Expenditure type	Maximum value of "C" in initial year
Expenditure capitalised by virtue of a **direction under s.16(2)(b)**	"C" equals 20 years.
Regulation 25(1)(a) Expenditure on computer programmes	"C" equals the shorter of the UEL of the hardware or the length of the software license.
Regulation 25(1)(b) Loans and grants towards capital expenditure by third parties	"C" equals the UEL of the assets for in relation to which the third party expenditure is incurred.
Regulation 25(1)(c) Repayment of grants and loans for capital expenditure	"C" equals 25 years or the period of the loan if longer.
Regulation 25(1)(d) Acquisition of share capital	"C" equals 20 years.
Regulation 25(1)(e) Expenditure on works to assets not owned by the authority	"C" equals UEL of the assets.
Regulation 25(1)(ea) Expenditure on assets for use by others.	"C" equals UEL of the assets.
Regulation 25(1)(f) Payment of levy on large scale voluntary transfers (LSVT) of dwellings	"C" equals 25 years.

In the event that the Council has an opinion from an appropriately qualified professional advisor that an asset will deliver service functionality for more than 50 years, it will use the life suggested by the professional advisor.

5. For capital expenditure on acquisition of share capital, where the equity is for a fixed term the following will apply instead of the table in paragraph 4:

Terms of equity	Annual assessment of security required	Amount of MRP to be charged
Equity repayments annually or more frequently	No.	Nil, the capital receipt equity repayments will be used to reduce the capital financing requirement (CFR).
Equity with no repayment in a financial year	Yes, secure.	Nil, the future capital receipt equity repayment will be used to reduce the CFR when received.
	Yes, risk of non-repayment.	If there is a reasonable risk, MRP will commence on the amount at risk in accordance with the capitalised expenditure table above.

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 2021-2022

	As at 17 February 2021			
	2020-2021 Forecast £000	**2021-2022 Forecast £000**	**2022-2023 Forecast £000**	**2023-2024 Forecast £000**
Net Borrowing Requirement:				
Borrowing to finance planned capital expenditure	65,306	145,292	57,189	60,057
Existing maturity loans to be replaced during the year	23,500	30,059	88,199	57,095
Less:				
Minimum Revenue Provision for debt repayment	(17,101)	(18,153)	(25,546)	(21,987)
Voluntary debt repayment	(10,839)	(13,397)	(16,365)	(18,118)
	(27,940)	(31,550)	(41,911)	(40,105)
Loans replaced less debt repayment	(4,440)	(1,491)	46,288	16,990
Net Advance Requirement	**60,866**	**143,801**	**103,477**	**77,047**

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APPENDIX 6

Treasury Management Policy Statement and Treasury Management Practices February 2021

1.0 Introduction

1.1 In December 2017 CIPFA issued a revised Code of Practice on Treasury Management following developments in the marketplace and the introduction of the Localism Act 2011. It is a requirement of the Code that the Council should formally adopt the Code.

1.2 The Code seeks to satisfy nine main purposes:

1. To assist public service organisations in the development and maintenance of firm foundations and clear objectives for their treasury management activities and thereby to add to their credibility in the public eye.
2. To emphasise the overriding importance of effective risk management as the foundation for treasury management in all public service bodies.
3. To provide transparency for treasury management decisions including the use of counterparties and financial instruments that individual public service organisations intend to use for the prudent management of their financial affairs.
4. To encourage the pursuit of value for money in treasury management, and to promote the reasoned use, development and appreciation of appropriate and practical measures of performance.
5. To enable CIPFA members to fulfil their professional and contractual responsibilities to the organisations they serve and, in accordance with the members' charter, "to maintain and develop the professional competence of both themselves and those they supervise".
6. To help facilitate a standardisation and codification of treasury management policies and practices in the public services.
7. To assist those involved in the regulation and review of treasury management in the public services, particularly those charged with the audit of the same.
8. To foster a continuing debate on the relevance and currency of the statutory and regulatory regimes under which treasury management in the various parts of the public services operates.
9. To further the understanding and confidence of, and to act as a reference work for, financial and other institutions whose businesses bring them into contact with the treasury management activities of public service organisations.

1.3 The approved activities cover borrowing arrangements for funding capital expenditure, debt repayment and rescheduling, managing cash flow and investment of surplus balances and monitoring the underlying risks associated with the Authority's activities.

1.4 Arrangements made for the control and operation of bank accounts operated by schools come within this definition but day-to-day management of funds is the responsibility of the

Head Teachers and the Governors under arrangements for the local management of schools. Banking arrangements for schools with their own cheque accounts are closely monitored by the Director of Finance.

1.5 Management of the West Midlands Pension Fund is not included as part of Wolverhampton Council's treasury management activities but similar arrangements have been adopted by the Pension Fund Investments Division.

1.6 Subject to the above, the Council's cash is aggregated for the purposes of treasury management and is under the control of the Director of Finance in accordance with Section 151 of the Local Government Act 1972. The executive control and administration of financial policy is under the direction of the Cabinet (Resources) Panel.

1.7 All external investments of surplus internal balances are restricted to authorised investments in accordance with the Local Authorities (Capital Finance and Approved Investments) (Amendment) Regulations 1996. The Director of Finance is responsible for making any investments, subject to the guidelines agreed by the Council or subsequently amended by the Cabinet (Resources) Panel.

2.0 Adoption of the code

2.1 The revised 2017 CIPFA Code identifies three key principles:

Key Principle 1

The Council puts in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities.

Key Principle 2

That these policies and practices make clear that the effective management and control of risk are prime objectives of its treasury management activities and the responsibility for these lie clearly within the Council. The Council’s appetite for risk should form part of its annual strategy including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing treasury management funds.

Key Principle 3

To acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures are valid and important tools to employ in support of the Council’s business and service objectives; and that within the context of effective risk management, its treasury management policies and practices reflect this.

2.2 In order to achieve the above, the Council will adopt the following four clauses:

1. The Council will create and maintain, as the cornerstones for effective treasury management:

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- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;

- suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the Council materially deviating from the Code's key principles.

2. Full Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in the TMPs.

3. Full Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet (Resources) Panel, and for the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

4. The Council nominates Our Council Scrutiny Panel to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

3.0 Treasury Management Policy Statement

3.1 The Council's treasury management policy statement defines the policies and objectives of its treasury management activities, as follows:

1. Treasury management activities are defined as:

   "The management of the Council'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. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.

3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

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4.0 Treasury Management Practices (TMPs) – Main principles

4.1 The Council's Treasury Management Practices (TMPs) set out the manner in which the Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. The main principles are below with more detailed explanations in the attached schedules; these follow the CIPFA Code and have been suitably amended where necessary to reflect the Council's particular needs and circumstances.

4.2 **TMP 1 – Risk management**

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The Director of Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements.

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in Schedule 1 to this document.

[1] Credit and counterparty risk management

The Council will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its treasury management investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments, methods and techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

[2] Liquidity risk management

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

[3] Interest rate risk management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

[4] Exchange rate risk management

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

[5] Inflation risk management

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

[6] Refinancing risk management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

[7] Legal and regulatory risk management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

[8] Fraud, error and corruption, and contingency management

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

[9] Price risk management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

4.3 TMP 2 – Performance measurement

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of on-going analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in Schedule 2 to this document.

4.4 TMP 3 – Decision-making and analysis

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reach those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in Schedule 3 to this document.

4.5 **TMP 4 – Approved instruments, methods and techniques**

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in Schedule 4 to this document, and within the limits and parameters defined in TMP1 Risk management.

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

The Council has reviewed its classification with financial institutions under MIFID II and has set out in Schedule 4 to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

4.6 **TMP 5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements**

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, the reduction of the risk of fraud or error, and the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director of Finance will ensure that the reasons are properly reported in accordance with TMP 6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The Director of Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The Director of Finance will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in Schedule 5 to this document.

The Director of Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in Schedule 5 to this document.

The delegations to the Director of Finance in respect of treasury management are set out in Schedule 5 to this document. The Director of Finance will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

4.7 **TMP 6 – Reporting requirements and management information arrangements**

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, Council will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

Cabinet (Resources) Panel will receive regular monitoring reports on treasury management activities and risks including the treasury management indicators as detailed in their sector-specific guidance notes.

Our Council Scrutiny Panel will have responsibility for the scrutiny of treasury management policies and practices.

The present arrangements and the form of these reports are detailed in Schedule 6 to this document.

4.8 **TMP 7 – Budgeting, accounting and audit arrangements**

The Director of Finance will prepare, and Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP 1 Risk management, TMP 2 Performance measurement, and TMP 4 Approved instruments, methods and techniques. The Director of Finance will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP 6 Reporting requirements and management information arrangements.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

4.9 TMP 8 – Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Director of Finance, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director of Finance will ensure that these are adequate for the purposes of monitoring compliance with TMP1[2] Liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in Schedule 8 of this document.

4.10 TMP 9 – Money laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in Schedule 9 to this document.

4.11 TMP 10 – Training and qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Finance will recommend and implement the necessary arrangements.

The Director of Finance will ensure that councillors tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in Schedule 10 to this document.

4.12 **TMP 11 – Use of external service providers**

The Council recognises that responsibility for treasury management decisions remains with the Council at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Finance, and details of the current arrangements are set out in Schedule 11 to this document.

4.13 **TMP 12 – Corporate governance**

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in Schedule 12 to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Director of Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

APPENDIX 6

Treasury management schedules

Schedule 1 : TMP 1 – Risk management

1.1 **Creditworthiness policy**

The Council will use credit criteria in order to select creditworthy counterparties for placing investments with.

This Council applies the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach using credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The table below details Link's recommendations of bands and durations along with the more prudent parameters that the Council will apply:

	Link	Wolverhampton
Yellow (is for UK Government debt or equivalent, money market funds and collateralised deposits where the collateral is UK Government debt)	5 years	-
Dark Pink (for Ultra-Short Dated Bond Funds with a credit score of 1.25)	5 years	-
Light Pink (for Ultra-Short Dated Bond Funds with a credit score of 1.5)	5 years	-
Purple	2 years	1 year
Blue (only applies to nationalised or semi nationalised UK Banks)	1 year	3 months
Orange	1 year	6 months
Red	6 months	3 months
Green	100 days	50 days
No Colour	Not to be used	Not to be used

This list will be reviewed on any changes to the methodology used by Link and the Council may revert back to using Link's recommended durations if or when investment balances are at higher levels and longer deposits are possible without significantly increased risk to liquidity.

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1+ and a Long Term rating AA-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored each time the Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. A severe downgrade may prompt the Director of Finance to instruct treasury management employees to take steps to withdraw any investment considered to be at risk. The potential penalties for such an action would need to be assessed.

- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx European Financials benchmark and other market data on a daily basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this bought-in service. In addition the Council will also use market data and market information, information on any external support for banks to help support its decision making process.

Country limits

The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).

Approved counterparties

The complete list of approved counterparties is included in the Treasury Management Strategy and in each quarterly monitoring report. The Finance Manager will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection.

Investment Strategy

The Council will have regard to the MHCLG's Guidance on Local Government Investments, the Audit Commission's report on Icelandic investments and the 2017 revised CIPFA Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

This Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the heading Specified investments and Non-specified investments. These are listed below:

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Specified investments - all investments listed below must be sterling-denominated.

Investment	Minimum 'High' Credit Criteria	Maximum Period
Debt Management Agency Deposit Facility	Government backed	6 months
Money Market Funds CNAV > LVNAV	AAAmmf / Aaa-mf	Period of investment may not be determined at outset but will be subject to cash flow and liquidity
Term deposits - UK Government	Government backed	12 months
Term deposits - Local Authorities	High Security	12 months
Term deposits - Banks & Building Societies	Short-term F1+, Long-term AA-	12 months

Non-specified investments – a maximum of 50% of total investments with a cap of £35.0 million will be held in aggregate

	Minimum Credit Criteria	Max Limit	Max Maturity Period
Term deposits - UK Government (with maturities in excess of 1 year)	Government Backed	£10.0 million	5 years
Term deposits - Local Authorities (with maturities in excess of 1 year)	High Security although Local Authorities are not credit rated	£10.0 million per LA	5 years
Term deposits - Banks & Building Societies (with maturities in excess of 1 year)	Short-term F1+ Long-term AA-	£10.0 million per Bank	5 years
Property funds	Internal and external due diligence	£20.0 million per single fund	5 years

Property funds – the use of these instruments can be deemed capital expenditure, and as such will be an application of capital resources. This Authority will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

Accounting treatment of investments

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue implications, which may arise from these differences, the accounting implications of new transactions will be thoroughly reviewed before they are undertaken.

1.2 Liquidity

Cash Balances

Cash balances are derived from reserves, surpluses, provisions and any capital receipts held pending future use. These are invested externally with approved institutions.

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Investment of surplus funds

After the aggregation of all internal balances, surplus funds will be invested externally to earn interest and returned to the Council in order to meet projected future shortfalls in cash flow.

The Council's aggregate daily internal balances can vary quite markedly from day-to-day. Active cash flow management is essential to ensure that sufficient cash balances are available to meet commitments on pay days and creditor and other payment days.

Temporary loans (maximum of 364 days)

Temporary loans can be obtained within the borrowing limits to provide short term finance or to match any cash flow shortfall pending receipt of other revenues or longer term loans. In the current low interest rate climate, they may be used to obtain short term borrowing at exceptionally low interest rates.

Banking facilities and limits

An overdraft facility is provided on a net balance and on the aggregate of the core main account balances.

As some of the accounts may be in debit whilst others may be in credit, the net balance of each account will be maintained within the net limit. The aggregate of all balances will be maintained within the gross limit.

Net Limit:	£500,000
Gross limit:	£9,000,000

Core main bank accounts:

- WCC Current Account
- WCC Automated Income Account
- WCC Payments Account
- WCC Local Taxes Account

Overdraft pricing is based on base rate + 1% with an annual fee of £2,500.

There is an additional group of Imprest bank accounts whose balances are pooled for interest purposes, these do not have an authorised overdraft facility.

Gross limit: £1,000,000

If an individual account does go overdrawn, the interest charged is base rate + 3%.

Bankers' Automated Clearing Services (BACS) - the following service credit limits are in place:

993695	Payroll	£25,000,000
972860	Payments	£20,000,000
971926	Council Tax	£1,250,000

920046	NNDR	£2,500,000
973636	Housing Benefit	£4,000,000
973531	Electoral	£150,000

Clearing House Automated Payments System (CHAPS) - CHAPS are able to be made when insufficient funds are held on the bank balance.

The bank will make payment in anticipation of receiving covering funds by the end of the business day. This risk is called the intraday limit which is set at £40,000,000.

The bank reserves the right to refuse any payment in excess of this limit.

The bank may review the risk it is willing to take on this limit with the Council at its discretion.

These transactions are completed using online banking and are done in accordance with the Council's procedures.

Policy in terms of borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue costs created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- consider the impact of borrowing in advance on temporarily increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, having regard to the controls in place to minimise such risks.

1.3 **Interest rate**

Maximum proportions of variable rate debt/interest

The Council will continue to manage and monitor its upper limits on variable interest rate exposure against the limit previously set of:

Upper limit for variable rate	20%

APPENDIX 6

Maximum proportions of fixed rate debt/interest

The Council will continue to manage and monitor its upper limits on fixed interest rate exposure against the limit previously set of:

Upper limit for fixed rate	100%

Policies concerning the use of financial derivatives for interest rate risk management

Financial derivatives are not an approved instrument and will therefore not be used.

1.4 **Exchange rate**

Details of approved exchange rate exposure limits for cash investments/debt

It is Council policy to undertake transactions in pounds sterling only and therefore, the exposure to fluctuations in exchange rates is limited to grants or payments from a third party that may be received in a foreign currency. Accordingly, there are no approved exchange rate exposure limits.

Approved criteria for managing changes in exchange rate levels

In respect of any sums received in a foreign currency, steps will be taken to convert to sterling as soon as practicable to minimise the risk. In respect of third party payments, the third party carries this risk.

Policies concerning the use of financial derivatives for exchange rate risk management

Financial derivatives are not an approved instrument and will therefore not be used.

1.5 **Refinancing**

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- the generation of cash savings at minimum risk
- to reduce the average interest rate
- to amend the maturity profile and/or the balance of volatility of the debt portfolio

Rescheduling will be reported to the Cabinet (Resources) Panel at the meeting immediately following its action.

In considering the affordability of its capital plans, the Council will consider all the resources currently available estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax and housing rent levels. It will also take into account affordability in the longer term beyond this three year period.

The Council will always keep revenue implications of capital financing under review to ensure they continue to be affordable and sustainable in the context of the Medium Term Financial Strategy.

The Council will use the definition provided in the Prudential Code for borrowing, capital expenditure, capital financing requirement, debt, financing costs, investments, net borrowing, net revenue stream and other long term liabilities.

1.6 Fraud, error and corruption, and contingency management

Details of systems and procedures to be followed including internet services

In all the services the Council undertakes, it is committed to acting at all times with integrity and in an open and honest manner.

The Council will not accept any level of fraud or corruption and will vigorously investigate all allegations of fraud or corruption.

The Council is committed to having in place procedures and systems so as to limit as far as possible the opportunities for fraudulent acts or enable their early detection, together with procedures to ensure such acts are promptly and thoroughly investigated. The Council will:

- Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
- Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

The practices and procedures outlined in the Treasury Management Practices are designed to fully document all transactions and to clearly demonstrate that the highest standards have been adhered to.

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Emergency and contingency planning arrangements

The Council has a Business Continuity Plan for performing the cash flow as part of its service resilience. In the event of an emergency or other event which prevent this plan being used, the bank account structure allows any balances at the end of the working day be transferred to a Business Reserve account to accrue interest.

Insurance cover details

It is normal practice in the private and public sector for employing bodies to indemnify their employees. Employees are currently covered by a Finance and General Purposes Committee Resolution of 13 April 1987:

"That the Council shall indemnify in perpetuity all employees and former employees of the Council against all liability, professional or otherwise for negligence or negligent omission or breach of contractual or statutory duty arising out of the employee's employment with the Council and that such indemnity shall extend to any such liability arising out of the employee's engagement of duties undertaken by the Council on behalf of any other authority or body.

Provided that such indemnity shall not extend to any liability arising as a result of fraud, dishonesty or other criminal activity or of wilful misconduct, gross negligence or gross dereliction of duty on the part of the employee".

The indemnity will not apply if any employee, without the written authority of the Authority, admits liability or negotiates or attempts to negotiate a settlement of any claim falling within the scope of this Resolution.

The indemnity does not extend to loss or damage directly or indirectly caused by or arising from:

- Fraud, dishonesty or any other criminal act on the part of the employee;
- Actions outside his/her normal duties;
- Wilful misconduct, gross negligence or gross dereliction of duty, including liability in respect of surcharges made by the External Auditor.

Insurance cover for employees is as follows:

- Public and employers' liability
- Officers' indemnity (financial loss to third parties)
- Libel and slander
- Fidelity guarantee and special contingency for cheques
- Cash in transit
- Personal accident (assault)
- Travel cover on request for official journeys outside the U.K.

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1.7 **Market value of investments**

Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDS, etc.)

In the event that opportunities for making such investments appear to the Director of Finance to be in the Council's financial interests, a report will be submitted to the Cabinet (Resources) Panel setting out the costs, benefits and potential risks.

No such investments will proceed without prior approval of such a report by the Cabinet (Resources) Panel.

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Schedule 2 : TMP 2 – Performance measurement

2.1 Evaluation and review of treasury management decisions

The Council has a number of approaches to evaluating treasury management decisions:

- the treasury management team will carry out ongoing reviews of its activities
- reviews will be undertaken with its treasury management consultants
- annual review after the end of the year is reported to full council
- quarterly reports to Cabinet (Resources) Panel
- comparative reviews with other local authorities
- strategic, scrutiny and efficiency value for money reviews

Ongoing periodic reviews during the financial year

The Director of Finance regularly reviews the actual activity against the Treasury Management Strategy Statement and cash flow forecasts. This includes monitoring debt including average rate, maturity profile and the Council's borrowing strategy; and investments including average rate, maturity profile and changes to the above from the previous review and against the Treasury Management Strategy (Annual Investment Strategy). The Council's credit rating methodology and current counterparty list is also reviewed regularly.

Reviews with the Council's treasury management consultants

The treasury management team holds reviews with the Council's treasury management consultants to review the performance of its investments and debt portfolios. The Council's borrowing strategy and counterparty risk strategy are also reviewed at these meetings, which are held periodically, usually to coincide with a specific need (e.g. the imminent need to borrow, or following a significant change in the market/economy). At least one review meeting is held during each financial year.

Annual review after the end of the financial year

An Annual Treasury Report is submitted to the Council each year after the end of the financial year which reviews the performance of the debt/investment portfolios. This report covers the following:

- total debt and investments at the beginning and close of the financial year and average interest rates
- borrowing strategy for the year compared to actual strategy
- investment strategy for the year compared to actual strategy
- explanations for variance between original strategies and actual
- debt rescheduling done in the year
- actual borrowing and investment rates available through the year
- comparison of return on investments to the investment benchmark
- compliance with Prudential and Treasury Indicators any other relevant information

Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios, (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data will be sourced from relevant professional bodies e.g. CIPFA.

2.2 Benchmarks and calculation methodology

Debt management

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average rate on internal borrowing
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year

Investment

Where applicable, the performance of investment earnings will be measured against the following benchmarks:

Bank of England Base Lending Rate; 7 day LIBID; 1 month LIBID; 3 month LIBID

2.3 Policy concerning methods for testing value for money in treasury management

Frequency and processes of tendering

These will be determined in accordance with the Council's Constitution.

Banking services

Banking services will be re-tendered every five years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

Money-broking services

Money market brokers are used for placing surplus internal funds with approved financial institutions on a short term basis as part of the Council's cash flow management. Surplus internal funds are invested in the money markets in accordance with the guidelines set out in Section 1.1. Money market brokers are also used to assist the Council in meeting any temporary borrowing requirements. The current panel of brokers used by the Council are as follows:

- ICAP Europe Limited
- Martin Brokers (UK) plc
- Tradition UK Limited
- Tullett Prebon (Europe) Limited

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Consultants'/advisers' services

The Council has appointed Link Group as its professional treasury management advisers.

Policy on external managers (other than relating to pension funds)

The Council's current policy is not to appoint external investment fund managers. The reasons for this are:

- the estimated level of surplus funds likely to be available over the medium term can be adequately managed by the Director of Finance;
- In light of this appointment of external fund managers would not be cost effective.

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Schedule 3 : TMP 3 – Decision-making and analysis

3.1 Funding, borrowing, lending and new instruments/techniques

Records to be kept

The Director of Finance shall be the Council's registrar of stocks, bonds and mortgages and shall maintain records of all borrowings and investments of money by the Council. All records and documents shall be available for inspection by internal audit and the Council's external auditors. All borrowings and investments of money under the Council's control shall be made in the name of the Council.

Processes to be pursued

The Chief Accountant shall document for the approval of the Director of Finance the systems, procedures and processes which deliver the approved Treasury Management Policies and Practices. The documentation will be kept up-to-date. The aim will be to provide a treasury management systems document which has day to day relevance and within which all treasury management staff are aware of their duties and responsibilities.

Issues to be addressed

In respect of every decision made, the Council will:

- above all be clear about the nature and extent of the risks to which the organisation may become exposed;
- be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained;
- be content that the documentation is adequate both to deliver the organisation's objectives and protect the organisation's interests, and to deliver good housekeeping;
- ensure that third parties are judged satisfactory in the context of the organisation's creditworthiness policies, and that limits have not been exceeded;
- be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

In respect of borrowing and other funding decisions, the Council will:

- evaluate the economic and market factors that might influence the manner and timing of any decision to fund;
- consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships;
- consider the alternative interest rate options available, the most appropriate periods to fund and repayment profiles to use, consider the on-going revenue costs, and the implications for the Council's future plans and budgets.

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In respect of investment decisions, the Council will:

- consider the optimum period, in the light of cash flow availability and prevailing market conditions;
- consider the alternative investment products and techniques available, especially the implications of using any which may expose the organisation to changes in the value of its capital.

APPENDIX 6

Schedule 4 : TMP 4 – Approved instruments, methods and techniques

4.1 Approved activities of the treasury management operation

- Borrowing
- Lending
- debt repayment and rescheduling
- consideration, approval and use of new financial instruments and treasury management techniques
- managing cash flow
- banking activities
- leasing
- the use of external fund managers (other than in respect of the Pension Fund)
- managing the underlying risk associated with the Council's capital finance and investment activities

4.2 Approved instruments for investments

In accordance with The Local Authorities (Capital Finance and Approved Investments) (Amendment) Regulations 1996, the instruments approved for investment and commonly used by local councils are:

- Gilts
- Treasury Bills
- Deposits with banks, building societies or local organisations (and certain other bodies) for up to 364 days
- Certificates of deposits with banks or building societies for up to 364 days
- Euro-Sterling issues by certain Supra-national bodies listed on the London and Dublin Stock Exchanges
- Triple A rated money market funds
- Debt Management Account (run by DMO/PWLB)

4.3 Approved techniques

The following are approved techniques:

- Forward dealing up to 5 years
- A limit of £35.0 million for deposits over 1 year and up to 5 years.

The following may be used by organisations which are not local authorities:

- Swaps
- Caps
- Collars
- Options

The Council will not use any of the above techniques.

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4.4 Approved methods and sources of raising capital finance

Finance will only be raised in accordance with statute, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On balance sheet

- PWLB
- Municipal bond agency
- Local authorities
- Banks
- Pension funds
- Insurance companies
- EIB
- Finance Leases
- Market (long term)
- Market (temporary)
- Market (LOBOs)
- Stock issues
- Local Temporary
- Local Bonds
- Local authority bills
- Overdraft
- Negotiable Bonds
- Internal (capital receipts and revenue balances)
- Commercial Paper
- Medium Term Notes
- Deferred Purchase
- PFI / PPP

Other methods of financing

- Government and EC Capital Grants
- Lottery monies

All forms of funding will be considered by the Director of Finance taking into consideration the prevailing economic climate, regulations and local considerations. The Director of Finance has delegated powers through this Policy and the Strategy to take the most appropriate form of borrowing from the approved sources.

All borrowing transactions entered into by the Director of Finance will be reported to the Cabinet (Resources) Panel.

APPENDIX 6

4.5 **Professional client status under MIFID II**

The following is a list of institutions where the Council has opted up to professional client status under MIFID II.

Confirmed professional client status:

Money Market Funds

- Federated Hermes (UK) LLP
- Invesco Global Asset Management Limited
- Aberdeen Liquidity Fund (LUX)

External treasury management advisors

- Link Group

Money-broking services

- ICAP Europe Limited
- Martin Brokers (UK) plc
- Tradition UK Limited
- Tullet Prebon (Europe) Limited

Application outstanding:

None.

No requirement to opt up

Money Market Funds

- Black Rock Institutional Sterling Liquidity Fund

APPENDIX 6

Schedule 5 : TMP 5 – Organisation, clarity and segregation of responsibilities, and dealing arrangements

5.1 **Limits to responsibilities/discretion at Council and Cabinet (Resources) Panel**

Council

- Approving the annual report on treasury management policies, practices and activities.
- Approving the Treasury Management Strategy Statement/Annual Investment Strategy/MRP Policy, including a mid-year review and any other revisions/updates.
- Approving the Annual Treasury Report
- Approval of Treasury Management budgets

Cabinet

- Recommending the Annual Treasury Report to Council.

Cabinet (Resources) Panel

- Receiving and reviewing the quarterly Treasury Management Monitoring reports.
- Monitoring performance against budgets.
- Approval of the division of responsibilities.
- Receiving and reviewing external audit reports and acting on recommendations.
- Approving the selection of external service providers and agreeing terms of appointment.

5.2 **Principles and practices concerning segregation of duties**

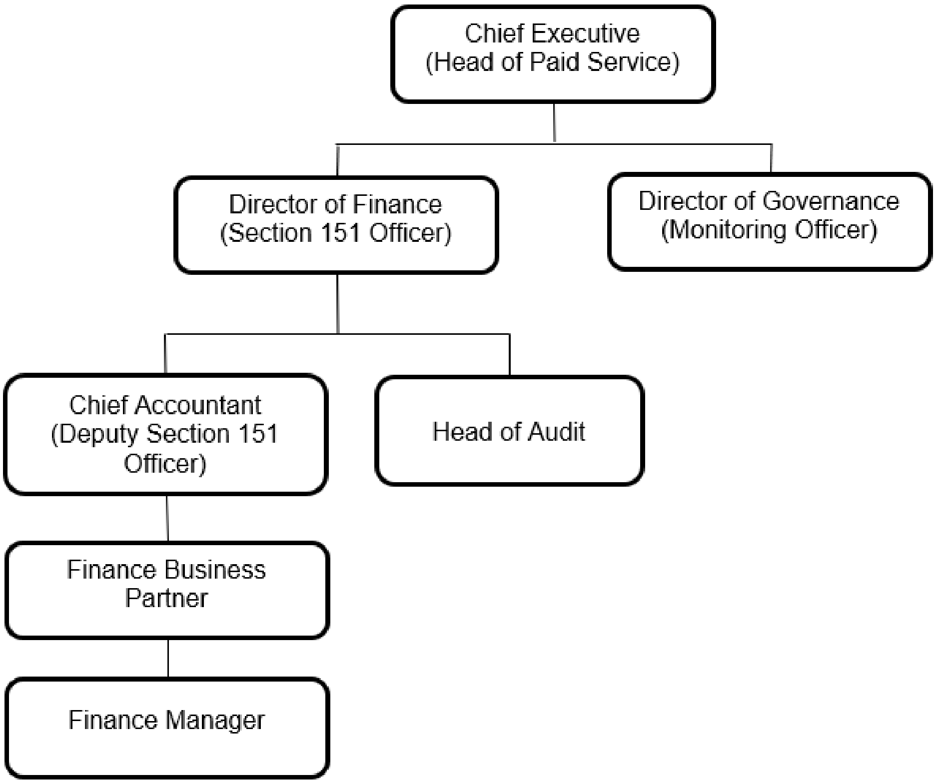
The varied aspects of treasury management and the large volume of funds involved require a clear segregation of duties. The Council's Treasury Management Practices reflect the separation of duties, namely:

- Policy formulation - approved by Council and monitored/amended by Cabinet (Resources) Panel.
- Treasury advice - the Director of Finance is the responsible officer for advising Council and Cabinet (Resources) Panel. The recommendations made to Councillors will also reflect the advice provided to the Director of Finance by specialist external advisors.
- Dealing in the Market - undertaken by rotating use of one of four approved brokers based on best rates on offer.
- Recording, administration and recommendations to the Director of Finance on treasury activity is carried out by the Finance Manager (Treasury Management).
- All transactions are subject to both internal and external audit.
- The Chief Executive has responsibility for ensuring that a specified system is implemented.
- The Director of Governance has responsibility for ensuring compliance with the law.

APPENDIX 6

5.3 **Treasury management organisation chart**

The treasury management organisation chart as at February 2021 is as follows:



5.4 **Statement of duties/responsibilities of each treasury post**

Director of Finance (Section 151 Officer)

1. The Director of Finance will:

- Recommend treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submit regular treasury management policy reports to Cabinet (Resources) Panel.
- Submit reports on performance against budgets to Cabinet (Resources) Panel.
- Receive and review management information reports.
- Review the performance of the treasury management function and promote best value reviews.
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensure the adequacy of internal audit.
- Liaising with external audit.
- Recommend the appointment of external service providers.

2. The Director of Finance has delegated powers to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.

3. The Director of Finance may delegate their power to borrow and invest to members of their staff. The Director of Finance, Deputy Section 151 Officer, Finance Business Partner or any other officer nominated by the Director of Finance must conduct all dealing transactions, or staff authorised by the Director of Finance to act as temporary cover for leave/sickness. All transactions must be authorised by at least one of the named officers above.
4. The Director of Finance and the Director of Governance will ensure that the treasury management policy is adhered to, and if not, will bring the matter to the attention of elected councillors as soon as possible.
5. Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Director of Finance to be satisfied, by reference if appropriate to the Director of Governance, and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.
6. It is also the responsibility of the Director of Finance to ensure that the Council complies with the requirements of the UK Money Markets Code (which supersedes The Non Investment Products Code, formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

Finance Manager

Under the direction and supervision of either the Director of Finance or, in their absence, the Deputy Section 151 Officer, the Finance Manager will be responsible for:

- Execution of transactions
- Adherence to agreed policies and practices on a day-to-day basis
- Ensuring that adequate records are maintained and procedures are fully documented
- Maintaining cash flow projections
- Maintaining relationships with third parties and external service providers
- Supervising treasury management staff
- Monitoring performance on a day-to-day basis
- Submitting regular management information reports to the Director of Finance
- Informing treasury management activity, including borrowing options
- Identifying and recommending opportunities for improved practices
- Reporting any actual or potential variations to agreed policies and procedures as they arise.

Chief Executive (Head of the Paid Service)

The responsibilities of this post will be:

- Ensuring that the treasury management system is specified and implemented

- Ensuring that the Director of Finance reports regularly to the Council and Cabinet (Resources) Panel on treasury policy, activity and performance.

Director of Governance (Monitoring Officer)

The responsibilities of this post will be:

- Ensuring compliance by the Director of Finance with the treasury management policy statement and treasury management practices and that they comply with the law.
- Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- Giving advice to the Director of Finance when advice is sought.

Internal Audit

The responsibilities of Internal Audit will be:

- Reviewing compliance with approved policy and procedures.
- Reviewing division of duties and operational practice.
- Assessing value for money from treasury activities.
- Undertaking probity audit of treasury function.

5.5 **Absence cover arrangements**

The Deputy Section 151 Officer will ensure that other staff within Strategic Finance who do not deal with treasury management activities on a daily basis are sufficiently trained so that they can provide absence cover. Such cover will be limited to dealing with the production of daily up-dates of the Council's cash flow statements and, in exceptional circumstances, communicating deals through to the Council's brokers and bank once instructions have been received from either the Director of Finance or the Deputy Section 151 Officer.

5.6 **List of approved brokers**

ICAP Europe Limited
Martin Brokers (UK) plc
Tradition UK Limited
Tullett Prebon (Europe) Limited

5.7 **Policy on brokers' services**

To avoid an over-reliance on a single broker and thereby enhance objective dealings, deals will be spread amongst brokers on a rotation basis. The exception being when undertaking temporary borrowing in which case all brokers will be approached to obtain the best rate available.

5.8 **Policy on taping of conversations**

Taping of conversations with the Council's brokers and bank is not normally carried out by the Director of Finance or their staff.

5.9 **Direct dealing practices**

Direct dealing with counterparties by the Director of Finance or their staff is undertaken with the following, in order to achieve higher rates than dealing with them via our brokers and to maintain adequate levels of liquidity:

- The Council's bankers (National Westminster Bank plc, trading as RBS Commercial & Private Banking) - overnight deposits only
- Invesco Global Asset Management Limited (previously Aim Global Ltd and STIC) - Money Market Fund
- Black Rock Institutional Sterling Liquidity Fund – Money Market Fund
- Aberdeen Liquidity Fund (LUX) (previously called Standard Life Investments Liquidity Fund and Ignis Sterling Liquidity Fund) – Money Market Fund
- Federated Hermes (UK) LLP (previously Prime Rate Sterling Liquidity Fund) - Money Market Fund
- Santander - Business Reserve Account
- Natwest - Call Account
- Debt Management Account Deposit Facility – Debt Management Office (DMO)

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. However, the accounts will remain open for future dealings if or when their credit ratings recover.

5.10 **Settlement transmission procedures**

Deals will normally be made by telephone and/or confirmed by fax, with payments being made and sums being received by telephonic transfer.

5.11 **Documentation requirements**

Every deal will be fully documented showing the name of the broker used, amount, period, counterparty, interest rate, date, commission and transmission arrangements. All documentation will be available for inspection by internal and external audit. All documentation will be retained for six years.

5.12 **Arrangements concerning the management of third party funds**

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the average rate for internal balances for the year.

APPENDIX 6

Schedule 6 : TMP 6 – Reporting requirements and management information arrangements

6.1 Annual Treasury Management Strategy Statement

The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Council for approval as part of the overall budget and council tax determination process prior to the commencement of each financial year.

The formulation of the annual Treasury Management Statement involves determining the appropriate borrowing and investment decisions in light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, the Director of Finance may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early (subject to borrowing in advance of need) if fixed interest rates are expected to rise.

The Treasury Management Strategy is concerned with the following elements:

- Prudential and Treasury Indicators
- current treasury portfolio positions
- borrowing requirement
- prospects for interest rates
- borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- investment strategy
- creditworthiness policy
- policy on the use of external service providers
- any extraordinary treasury issues
- the Council's MRP policy

The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

6.2 Annual Investment Strategy

At the same time that the Council receives the Treasury Management Strategy Statement it will also receive a report the Annual Investment Strategy which will set out the following:

- the Council's risk appetite in respect of security, liquidity and optimum performance
- the definition of high credit quality
- the investment instruments that the Council will use
- whether they will be used by the in-house team, external managers or both
- the Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list

- which credit ratings the council will use
- how the Council will deal with changes in rating, rating watches and rating outlooks
- limits for individual counterparties and group limits
- country limits
- levels of cash balances
- interest rate outlook
- budget for investment earnings
- policy on the use of external fund providers

6.3 **Annual Minimum Revenue Provisions Statement**

This will set out how the Council will make revenue provision for repayment of its borrowing and will be submitted at the same time as the Annual Treasury Management Strategy Statement and Annual Investment Strategy Statement.

6.4 **Policy on Prudential and Treasury Indicators**

The Council will approve before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.

The Director of Finance is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Director of Finance shall submit the changes for approval to full Council.

6.5 **Mid-year review**

In addition to the annual review, the council will review its treasury management activities and strategy on at least one occasion during the financial year in question. This review will consider the following:

- activities undertaken
- variations, if any, from agreed policy/practices
- interim performance report
- regular monitoring
- monitoring of treasury management indicators for local authorities

6.6 **Annual report on treasury management activity**

An annual report will be presented to the Cabinet and to Council, at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following:

- transactions executed and their revenue effects
- report on risk implications of decisions taken and transactions executed

- compliance report on agreed policies and practices, and on statutory/regulatory requirements
- performance report
- report on compliance with CIPFA Code recommendations
- monitoring of treasury management indicators

6.7 **Management information reports**

Management information reports will be prepared regularly by the Finance Manager and will be presented to the Director of Finance.

These reports will contain the following information:

- a summary of transactions executed and their revenue effects
- measurements of performance including effect on loan charges/investment income
- degree of compliance with original strategy and explanation of variances
- any non-compliance with Prudential limits or other treasury management limits

6.8 **Quarterly monitoring reports**

A quarterly monitoring report will be submitted by the Director of Finance to meetings of the Cabinet (Resources) Panel or Cabinet as appropriate to compare actual performance, practices and activity with the current approved Treasury Management Policy Statement/Practices.

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Schedule 7 : TMP 7 – Budgeting, accounting and audit arrangements

7.1 Statutory/regulatory requirements

The accounts are drawn up in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom which is recognised by statute as representing proper accounting practices. The Council has also adopted in full the principles set out in CIPFA's Treasury Management in the Public Services – Code of Practice (the CIPFA Code), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 Accounting practices and standards

Due regard is given to the Code of Practice on Local Authority Accounting in the United Kingdom.

7.3 Sample budgets / accounts / prudential and treasury indicators

The Director of Finance will prepare a medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The Director of Finance will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators, and will report upon and recommend any changes required in accordance with TMP6.

7.4 List of information requirements of external auditors

- Reconciliation of loans outstanding in the financial ledger to treasury management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest, discounts received and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Principal and interest charges reports
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision

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The Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

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Schedule 8 : TMP 8 – Cash and cash flow management

8.1 Arrangements for preparing/submitting cash flow statements

The Finance Manager prior to the start of a new financial year will prepare a cash flow statement showing the Council's expected payments and income over that forthcoming financial year. This will be updated daily by no later than 11.00 a.m. to form rolling cash flow forecasts. The cash flow forecast will be monitored on a regular basis by the Director of Finance or, in her absence, the Deputy Section 151 Officer.

The cash flow forecast will identify the following factors:

- Payments
  - Repayment of maturity and instalment loans
  - Profile of salary payments
  - Profile of payments to HMRC for income tax and national insurance
  - Profile of payments to precepting authorities
  - Profile of creditor payments
  - CHAPS and Telephone Transfer payments to be identified in advance
- Income
  - Profile of Government Grants for RSG purposes
  - Profile of Dedicated Schools Grant
  - Profile of other Government Grants
  - Profile of daily cash income
  - Profile of VAT reimbursements
  - Profile of weekly Collection Fund income
  - Large capital receipts to be identified

The cash flow forecast for the financial year will be updated on a daily basis. In addition, a forecast for the following financial year will be created 3 months prior to the start of that year. Forecasts will be monitored against daily bankings and clearings.

The estimated daily bank overdraft is not to exceed £500,000.

8.2 Bank statement procedures

Daily bank statements for all accounts are available through online banking which are reconciled to all income and expenditure.

8.3 Payment scheduling and agreed terms of trade with creditors

All contracts for the supply of goods or services must be subject to the Council’s standard payment terms – monthly in arrears. Any contracts which require special financing arrangements these must be agreed by the Director of Finance.

Where a contract provides for payments to be made by instalments following the delivery of services or completion of work, a cost plan must be prepared for such contracts and payments monitored against that plan.

Work carried out by 'statutory undertakings' is excluded from the Competition Requirements of the Contracts Procedure Rules and payment in advance of the works being carried out is considered to be acceptable.

The standard method of payment of creditors is by BACS, 30 days from date of invoice unless the invoice is in dispute.

8.4 **Arrangements for monitoring debtor/creditor levels**

Revenues and Benefits carry out regular analysis of debtor levels.

The Hub Payments Team carry out regular analysis of creditor levels.

8.5 **Procedures for banking of funds**

The Director of Finance shall approve the arrangements for the collection and banking of all money due to the Council.

Each officer shall ensure the prompt raising of debtor invoices for the recovery of income due.

All stationery used in connection with the collection and allocation of income shall be held and distributed under approval from the Director of Finance.

On receipt of income the employee shall; immediately record the transaction, provide the customer with verification of payment and subsequently bank the monies in accordance with Council procedure rules.

No deduction may be made from any income receipted without approval from the Director of Finance.

In accordance with the Accounts and Audit Regulations 2015, the amount of each cheque shall be recorded on either the bank paying in slip or an attached cheque listing detailing; the amount, the receipt number or reconciling information.

Personal cheques shall not be cashed through the Council's bank accounts.

Any transfer of physical money from one employee to another will be evidenced in the records of the responsible service.

The Council has established an Anti-Money Laundering Policy to ensure it is compliant with the requirements of the current Money Laundering Regulations.

Therefore, all employees receiving cash on behalf of the Council should ensure that they comply with this policy.

To help prevent money laundering, cash payments (including notes, coin or travellers cheques in any currency) above £5,000 will not be accepted for any Council service.

All income streams in excess of £25,000 that were not included in the approved budget shall be reported to the Director of Finance at the earliest opportunity.

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Schedule 9 : TMP 9 – Money laundering

The Council last updated its anti-money laundering policy and procedure in 2017, below is a copy of this policy approved by Audit and Risk Committee. The policy is currently being updated to reflect the recent Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations. Once updated it will be taken back to the Audit and Risk Committee for approval.

9.1 Introduction

Money laundering is any process whereby funds derived from criminal activity are given the appearance of being legitimate. The Council must be alert to the possibility that attempts could be made to utilise funds obtained from criminal activity to pay for Council services.

The Council is committed to preventing money laundering by having anti-money laundering systems in place to establish the legitimacy of the sources of income.

This Anti-Money Laundering Policy makes it clear that it is extremely important that all employees are familiar with:

- the legal responsibilities;
- the criminal sanctions that may be imposed for breaches of the money laundering legislation;
- the need to be vigilant and take appropriate steps to reduce the opportunities for breaches of the Money Laundering Regulations;
- The key requirement to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer.

9.2 Legal requirements

The Money Laundering Regulations 2007

These regulations set out detailed requirements for organisations to establish procedures to prevent its services being utilised for the purposes of money laundering.

While public authorities are not legally obliged to apply the provisions of the regulations as they do not fall under the term ‘regulated activity’. Certain public authorities must, if they know or suspect or have reasonable grounds for knowing or suspecting, that a person is or has engaged in money laundering or terrorist financing, as soon as reasonably practical inform the National Crime Agency. The Council is not one of the certain public authorities, but it will nonetheless inform the National Crime Agency in the same way.

Therefore, as a responsible public body the Council is employing policies and procedures which embrace the UK’s anti-terrorist financing, and anti-money laundering requirements, with a particular focus on CIPFA’s “Combatting Financial Crime – Further Guidance on Anti-money Laundering for Public Service Organisations”.

The Terrorism Act 2000

This applies to all individuals and businesses in the UK and therefore all employees and councillors within the Council have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for terrorism or its laundering where it relates to information that comes to them in the course of their business or employment. The primary offence states a person commits an offence if he enters into or becomes concerned in an arrangement which facilitates the retention or control by or on behalf of another person of terrorist property by concealment, by removal from the jurisdiction, by transfer to nominees, or in any other way.

The Proceeds of Crime Act (POCA) 2002

This Act applies to all individuals and organisations and further defines the offences of money laundering and creates mechanisms for investigating and recovering the proceeds of crime as well as placing an obligation on the Council, employees and councillors to report suspected money laundering activities. The primary offences are:

- Section 327 - concealing, disguising, converting, transferring or removing criminal property from the UK;
- Section 328 - entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person;
- Section 329 - acquiring, using or possessing criminal property.

9.3 **Which service areas may be affected by money laundering?**

Examples of how the Council may be exposed to money laundering include accepting large cash amounts, the involvement of third parties, the request of a large refund and property investment or purchases.

Also, the Money Laundering legislation defines ‘regulated activity’ as the provision ‘by way of business’ of advice about tax affairs, accounting services, treasury management, investment or other financial services, audit services, legal services, estate agency, services involving the formation, operation or arrangement of a company or trust or, dealing in goods wherever a transaction involves a payment of €15,000 (approx. £12,500) or more.

To help prevent money laundering, cash payments (including notes, coin or travellers cheques in any currency) above £5,000 will not be accepted for any Council service.

9.4 **Establishing the identity of a new business relationship**

As a responsible Council, we should be aware of any suspicions arising out of funds received from a source from which we are unfamiliar. If the Council forms a new business relationship (including a significant one-off transaction) care should be taken to ensure

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that the client is identifiable by making basic checks on their credentials, along with confirmation of where funds are coming from. This should not be an onerous task, but, we should ensure that we are clear about whom we are conducting business with. This will be especially important if the parties concerned are not physically present for identification purposes and to situations where someone may be acting for absent third parties. This is known as due diligence and must be carried out before any such business is entered into with the customer. If there is uncertainty whether such due diligence is required then advice must be obtained from the Money Laundering Reporting Officer.

Due diligence can be used to evidence a customer's identity by, for example:

- checking with the customer's website to confirm their business address
- conducting an on-line search via Companies House to confirm the nature and business of the customer and confirm the identities of any directors
- Conducting personal identity checks for example, requesting that the customer provide their current passport/driving licence, birth certificates

In certain circumstances enhanced customer due diligence may need to be carried out, for example, where:

- the customer has not been physically present for identification
- the customer is a politically exposed person
- there is a beneficial owner who is not the customer – a beneficial owner is any individual who holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.

If it is believed that enhanced customer due diligence is required then the Money Laundering Reporting Officer should be consulted prior to carrying it out. Customer due diligence should be completed for all relevant new customers and for existing customers, during the life of a business relationship, proportionate to the risk of money laundering and terrorist funding.

9.5 Reporting suspected cases of Money Laundering

Where an employee or Councillor knows or suspects that money laundering activity is taking/has taken place, or becomes concerned that their involvement in a matter may amount to a prohibited act under sections 327 to 329 of POCA, they must disclose this without delay or as soon as reasonably practicable to the Money Laundering Reporting Officer. Failure to report such activity may render the employee subject to prosecution and/or disciplinary action in accordance with the Council's disciplinary policy. The procedure for disclosure is:

- to complete a 'Disclosure Report to the Money Laundering Reporting Officer Form' and to include as much detail as possible e.g. name, date of birth, address, company names, directorships, phone numbers, nature of the activity etc;

The Council has appointed the following employee as the Money Laundering Reporting Officer (MLRO):

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Peter Farrow - Head of Audit Services
Tel: (01902) 554460
e-mail: peter.farrow@wolverhampton.gov.uk

In the absence of the MLRO listed above, the following employee is authorised to deputise:

Mark Wilkes, Client Lead Auditor
Tel: (01902) 554462
e-mail: mark.wilkes@wolverhampton.gov.uk

Further advice on money laundering matters can also be obtained from:

Claire Nye – Director of Finance (S151 Officer)
Tel: (01902) 550478
e-mail: claire.nye@wolverhampton.gov.uk

David Pattison – Director of Governance/Monitoring Officer
Tel: (01902) 553840
e-mail: david.pattison@wolverhampton.gov.uk

9.6 **Investigating and Reporting Money Laundering**

How will the Money Laundering Reporting Officer investigate a disclosure?

The Money Laundering Reporting Officer will:

- acknowledge receipt of the disclosure report;
- assess the information provided to make a judgment as to whether there are reasonable grounds for knowledge or suspicion of money laundering activities and;
- prepare a Suspicious Activity Report (SAR) to the National Crime Agency (NCA), where appropriate;
- The employee or councillor must follow any directions given by the Money Laundering Reporting Officer
- The employee or councillor must cease all involvement in the transaction (not make any further enquiries into the matter themselves) unless or until consent is provided by the NCA.
- The employee or councillor must specify in the disclosure report if such consent is required to comply with any transaction deadlines.
- Any necessary investigation will be undertaken by the NCA. Employees and councillors will be required to co-operate with any subsequent money laundering investigation.
- At no time and under no circumstances should the employee or councillor voice any suspicions to the person(s) suspected of money laundering, even if the NCA

has given consent to a particular transaction proceeding, without the specific consent of the Money Laundering Reporting Officer.

- Where the Money Laundering Reporting Officer concludes that there are no reasonable grounds to suspect money laundering then they shall mark the disclosure report accordingly and give their consent for any ongoing or imminent transaction(s) to proceed.
- All in-house disclosure reports and NCA Suspicious Activity Reports will be retained for a minimum of five years after the business relationship ends or an occasional transaction is completed.

9.7 **Record Keeping**

Each area of the Council which conducts relevant business must maintain suitable records of any completed due diligence checks and details of relevant transactions must be maintained for at least five years. This provides an audit trail and evidence for any subsequent investigation into money laundering, for example, distinguishing the client and the relevant transaction and recording in what form any funds were received or paid. In practice, the Council will be routinely making records of work carried out for clients in the course of normal business and these should suffice in this regard.

9.8 **Review of the Money Laundering Policy**

The Money Laundering Policy will be reviewed on an annual basis by the Head of Audit and the Audit and Risk Committee to ensure that it remains up to date, fit for purpose and represents generally acceptable good practice.

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Schedule 10 : TMP 10 – Training and qualifications

10.1 Details of approved training courses, etc.

Principally using seminars and training, where appropriate, provided by Link Group:

- bi-annual seminars, including workshops
- regional training
- specific training or individual briefing sessions

A record will be maintained of all training courses and seminars attended by staff and councillors engaged in treasury management activities.

All staff engaged on treasury management activities will undergo regular management development reviews to assist in career development.

The Deputy Section 151 Officer, Finance Business Partner and Finance Manager will be professionally qualified accountants, preferably CIPFA.

Councillors charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

10.2 Standards of professional practice (SOPP)

The Council's Director of Finance is a member of CIPFA. The postholder is committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained. Other senior staff involved in treasury management activities who are members of CIPFA will also comply with the SOPP.

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Schedule 11 : TMP 11 – Use of external service providers

11.1 **Details of contracts with service providers, including bankers, brokers, consultants, advisers and details of services provided**

Core Banking Services

Name of supplier of service - National Westminster Bank plc, trading as RBS Commercial & Private Banking.

Contract commenced 1 April 2015 and runs for five years with the option to extend for a further two years.

The above contract was awarded by Individual Executive Decision Notice on 11 November 2014.

Merchant Acquiring Services (Card Acquiring Services)

Name of supplier service – Lloyds Banking Group.

Contract commenced 1 April 2015 and runs for five years with the option to extend for a further two years.

The above contract was awarded by Individual Executive Decision Notice on 30 January 2015.

Money-broking services

ICAP Europe Limited

Martin Brokers (UK) plc

Tradition UK Limited

Tullett Prebon (Europe) Limited

Cash/fund management services

No external suppliers are used to provide these services.

Consultants'/advisers' services

Name of supplier of service – Link Group

Contract commenced 1 January 2018 for three years until 31 December 2020 with a possibility of two further extensions of twelve months each. The first option to extend the contract until 31 December 2021 has been taken.

Service provided - treasury management specialist advice

11.2 **Procedures and frequency for tendering services**

See Schedule 2 : TMP 2 Performance measurement.

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Schedule 12 : TMP 12 – Corporate governance

12.1 List of documents to be made available for public inspection

The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

The Council will make available to any interested party:

- Treasury Management Policy and Practices Statement
- Treasury Management Strategy Statement
- Annual Investment Strategy
- Minimum Revenue Provision policy statement
- Annual Treasury Report
- Treasury Management monitoring reports (quarterly)
- Annual Statement of Accounts and financial instruments disclosure note
- Annual budget and Medium Term Financial Strategy
- HRA Business Plan
- Approved Capital Programme
- Minutes of Council/Cabinet meetings

12.2 Procedures for consultation with stakeholders

Stakeholders have an opportunity to comment on the Council's Treasury Management activities as part of the overall annual budget consultation process and to inspect any transactions when the Council's accounts are placed on deposit for inspection each year.

12.3 List of external funds managed on behalf of others and the basis of attributing interest earned and costs to these investments

The Council does not manage funds on behalf of other organisations.

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