

<b>CITY OF WOLVERHAMPTON COUNCIL</b>	<b>Cabinet</b> <b>17 February 2021</b>
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<b>Report title</b>	Treasury Management Strategy 2021-2022		
<b>Decision designation</b>	RED		
<b>Cabinet member with lead responsibility</b>	Councillor Louise Miles Resources		
<b>Key decision</b>	Yes		
<b>In forward plan</b>	Yes		
<b>Wards affected</b>	All Wards		
<b>Accountable Director</b>	Tim Johnson, Chief Executive		
<b>Originating service</b>	Strategic Finance		
<b>Accountable employee</b>	Claire Nye	Director of Finance	
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<b>Report to be/has been considered by</b>	Strategic Executive Board	5 February 2021	
	Council	3 March 2021	
	Our Council Scrutiny Panel	17 March 2021	

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### 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.

<b>Area of Responsibility</b>	<b>Council / Committee / Employee</b>	<b>Frequency of Update and Approval</b>
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