

Report title	Treasury Management Strategy 2024-2025	
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	James Howse Tel Email	Interim Director of Finance 01902 556710 James.Howse@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board Council Resources and Equality Scrutiny Panel	6 February 2024 28 February 2024 12 March 2024

Recommendations for decision:

The Cabinet recommends that Council approves:

1. The authorised borrowing limit for 2024-2025 to support the capital strategy as required under Section 3(1) of the Local Government Act 2003 to be set at £1,261.30 million (Reference PI 3, Appendix 3 to this report). The forecast borrowing is below the authorised borrowing limit.
2. The Treasury Management Strategy Statement 2024-2025 as set out in Appendix 1 to this report.
3. The Annual Investment Strategy 2024-2025 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 2024-2025 as set out in Appendix 4 to this report.

6. The Treasury Management Policy Statement and Treasury Management Practices as set out in Appendix 6 to this report.
7. That authority continues to be delegated to the Interim 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.
8. That authority continues to be delegated to the Interim 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 current economic climate.
9. That authority is delegated to the Cabinet Member for Resources, in consultation with the Interim Director of Finance, to amend the MRP statement should this be required following the outcome of the consultation.

Recommendations for noting:

The Cabinet recommends that Council is asked to note:

1. That the MRP charge for the financial year 2024-2025 will be £20.8 million; it is forecast to increase to £23.2 million in 2025-2026 (paragraph 2.13 of the report).
2. That Cabinet or Cabinet (Resources) Panel and Council will receive regular Treasury Management reports during 2024-2025 on performance against the key targets and Prudential and Treasury Management Indicators in the Treasury Management Strategy and Investment Strategy, as set out in the paragraph 2.11 and Appendices 2 and 3 to this report.

1.0 Purpose

1.1 This report sets out the Council's Treasury Management Strategy for 2024-2025 for approval by Full Council. The report 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, including 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 For the financial year 2024-2025 the Council needs to comply with a new accounting standard for leases. Under the 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 With effect from 1 April 2024, where the Council is the lessee, almost all lease contracts will become on balance sheet, the only exemptions being for short term leases and low value assets, these exemptions being optional. The Council is reviewing all of its lease contracts to establish the impact of this accounting rule change. As this work is continuing an estimate of £5.7 million has currently been included in the authorised borrowing limit.

2.6 The Council's Treasury Management Strategy will continue to 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.

2.7 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	Resources and Equality Scrutiny Panel	Annually before the start of the year
Scrutiny and review of treasury management performance	Resources and Equality Scrutiny Panel	Quarterly

The treasury management role of the Director of Finance

2.8 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.

- 2.9 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.

Treasury Management Strategy (Appendix 1)

- 2.10 Attached at Appendix 1 to the report is the recommended Treasury Management Strategy for 2024-2025. It summarises in strategic terms the approach the Council will take in performing its treasury management activities during 2024-2025. 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.

Annual Investment Strategy (Appendix 2)

- 2.11 The recommended Annual Investment Strategy for 2024-2025 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 the conditions under which the Council will place treasury management 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.

Prudential and Treasury Management Indicators (Appendix 3)

- 2.12 Attached at Appendix 3 to the report are the recommended prudential indicators for the Council for 2024-2025. The Prudential Code requires authorities to set and observe a range of prudential and treasury management indicators, and to keep these under review. Non-treasury management investment indicators required by the statutory guidance on local government investments are also included in this Appendix.

Minimum Revenue Provision (MRP) Statement (Appendix 4)

- 2.13 The recommended MRP statement for 2024-2025 is attached at Appendix 4 to the report. The formula for calculating MRP is slightly changed from the annuity basis used in 2023-2024.
- 2.14 As mentioned in the Treasury Management Strategy 2023-2024, the Government were consulting on the statutory guidance with regards MRP. The main change known at that time was an amendment which removed the ability to use future capital receipts to reduce the MRP charged in relation to the acquisition of share capital. Under this proposal, MRP would be charged on all borrowings.
- 2.15 This change would impact on the financial position that was outlined when the Help To Own Scheme was approved in March 2021. The financial strategy, at the time of writing the business case, recognised that the future return of investment through a capital receipt would be used to repay the borrowing and therefore this mitigated the need to set aside MRP. An annual review was going to be undertaken to assess any risk to the

return of investment and a provision through MRP would have been made if it was determined as necessary. Whilst in practical terms the financial strategy is still correct the Council would need to set aside funds through MRP throughout the life of the business plan if the change were to be implemented. This is a very prudent approach and fully mitigates any future risk of impairment of the equity investment from the start of the programme. The Government have recently published draft wording of the revised guidance which does require MRP to be charged on all borrowings with an implementation date of 1 April 2024. Therefore, in anticipation of the revised guidance being formally issued the MRP calculations and policy reflect the current draft guidance and MRP will be charged with regards Help To Own Scheme.

- 2.16 The MRP statement also reflects other elements of the guidance with regards the detail required to now be included in the statement. As at the time of writing this report the guidance is in draft version, it is proposed that authority be delegated to the Cabinet Member for Resources, in consultation with the Interim Director of Finance, to amend the MRP statement should this be required following the outcome of the consultation.
- 2.17 The forecast MRP charge would be £20.8 million for 2024-2025, increasing to £23.2 million in 2025-2026. This allowance has been incorporated into the Treasury Management budget and the Council's Section 151 Officer considers that this approach is prudent.

Certainty Rate (Appendix 5)

- 2.18 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 Department for Levelling Up, Housing and Communities (DLUHC) detailing their budgeted plans for capital expenditure and borrowing requirements. Appendix 5 to the report details the main information that will be required to enable the Council to submit a return for 2024-2025.

Treasury Management Policy Statement and Practices (Appendix 6)

- 2.19 Attached at Appendix 6 to the report is an updated version of the Council's treasury management policy statement and practices.

Allocation of net interest payable

- 2.20 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 2023-2024 (the inferred net cash balance of each fund). It should be noted that the underlying basis of this calculation is the Council's balance sheet position at 31 March 2023. As the final balance sheet position for 2022-2023 is awaiting the final sign off by the Council's external auditors, the proportion split used to calculate the figure for each fund could potentially change, however, the method used is unaltered.

3.0 Evaluation of alternative options

- 3.1 The Treasury Management Strategy 2024-2025 outlined reflect the requirements of CIPFA's Code of Practice on Treasury Management and the Prudential Code for Capital Finance along with the DLUHC's Guidance on Local Government Investments and Minimum Revenue Provision.
- 3.2 The DLUHC 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 decision

- 4.1 To seek approval of the Treasury Management Strategy 2024-2025 in accordance with both government guidance and Codes of Practice.

5.0 Financial implications

- 5.1 These are detailed within the report.
[SH/08022024/Q]

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 relevant secondary legislation including the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended).
- 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 'DLUHC Guidance on Local Government Investments' issued initially in 2004 and reissued in 2010 and 2018. This guidance includes statutory guidance.
- 6.4 The aim of the reporting arrangements as detailed above are 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.

[TC/08022024/B]

7.0 Equalities implications

7.1 Whilst there are no direct equalities implications arising from treasury management activity, the Council's capital programme of individual projects can have significant impact on specific groups and equality implications. These implications are considered when the individual capital projects are being developed.

8.0 All other implications

8.1 There are no other implications arising from this report.

9.0 Schedule of background papers

9.1 Cabinet, 21 February 2024 – [2024-2025 Budget and Medium Term Financial Strategy 2024-2025 to 2026-2027](#)

9.2 Cabinet, 21 February 2024 – [Capital Programme 2023-2024 to 2027-2028 Quarter Three Review and 2024-2025 to 2028-2029 Budget Strategy](#).

10.0 Appendices

10.1 Appendix 1 - Treasury Management Strategy Statement 2024-2025

10.2 Appendix 2 – Annual Investment Strategy 2024-2025

10.3 Appendix 3 – Prudential and Treasury Management Indicators 2024-2025

10.4 Appendix 4 – Annual MRP Statement 2024-2025

10.5 Appendix 5 – Disclosure for Certainty Rate

10.6 Appendix 6 – Treasury Management Policy Statement and Treasury Management Practices February 2024