

Cabinet Meeting

20 February 2018

Report title	Treasury Management Strategy 2018-2019	
Decision designation	RED	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Corporate Plan priority	Confident Capable Council	
Key decision	Yes	
In forward plan	Yes	
Wards affected	(All Wards)	
Accountable Director	Claire Nye, Director of Finance	
Originating service	Strategic Finance	
Accountable employee	Michelle Howell	Finance Business Partner
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Report to be/has been considered by	Strategic Executive Board	6 February 2018
	Council	7 March 2018
	Confident, Capable Council	18 April 2018
	Scrutiny Board	

Recommendations for decision:

That Cabinet recommends that Council approves:

1. The authorised borrowing limit for 2018-2019 as required under Section 3(1) of the Local Government Act 2003 be set at £1,087.5 million (PI 3, Appendix 3 to this report).
2. The Treasury Management Strategy Statement 2018-2019 as set out in Appendix 1 to this report.
3. The Annual Investment Strategy 2018-2019 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 2018-2019 onwards as set out in Appendix 4 to this report.

6. The Treasury Management Policy Statement and Treasury Management Practices as set out in Appendix 5 to this report.
7. 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.

That Cabinet recommends that Council notes:

1. That the MRP charge for the financial year 2018-2019 will be £7.8 million increasing to £14.7 million in 2019-2020 (paragraph 2.16).
2. That Cabinet (Resources) Panel and Council will receive regular Treasury Management reports during 2018-2019 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 2.14 and Appendices 2 and 3 to this report.
3. That the detailed guidance notes for the new Code of Practice on Treasury Management and the Prudential Code are still to be published by CIPFA and therefore the current statements are based on the Council's interpretation of these Codes.
4. Revised guidance on Local Government Investments and Minimum Revenue Provision was issued by the Ministry of Housing, Communities and Local Government on 2 February 2018. The new guidance is currently being reviewed by the Director of Finance and updates will be provided to Councillors in due course.

Recommendations for noting:

That Cabinet is asked to note:

1. The financial information included in this report is based on the 'Capital programme 2017-2018 to 2021-2022 quarter three review and 2018-2019 to 2022-2023 budget strategy' report also on the agenda for this meeting. The capital report is subject a report being separately approved by Cabinet also at this meeting. Therefore, if this approval is not obtained, a revised version of this report will be presented to Council on 7 March 2018.

1.0 Purpose

1.1 This report sets out the Council's Treasury Management Strategy for 2018-2019 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

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 is 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 CIPFA updated and released new versions of both the Code of Practice on Treasury Management and Prudential Code in December 2017. However, although the Codes have been released and are effective for the 2018-2019 financial year, the detailed sector specific guidance have not been issued. In addition, CIPFA have acknowledged that the requirement to produce a Capital Strategy, which is a requirement under the Prudential Code, may require a longer lead-in time and that this requirement may not be able to be fully implemented until 2019-2020 financial year. CIPFA are recommending that the requirement of both Codes are implemented as soon as possible.

2.5 Until this detailed guidance is received by the Council the strategy statements appended to this report have been prepared on an interpretation of the Codes to ensure compliance. Accordingly, 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 appreciate fully 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.

2.6 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	Audit / Scrutiny Committee	Annually before the start of the year
Scrutiny and review of treasury management performance	Audit / Scrutiny Committee	Quarterly

2.7 As mentioned in paragraph 2.4 above, there is now a requirement for an additional report, a Capital Strategy report, which is intended to provide the following:

- a high-level 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.

The aim of this report is to ensure that all elected Councillors at Council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all Councillors to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

2.8 On 2 February 2018 the Ministry of Housing, Communities & Local Government (MHCLG) issued its new Statutory Guidance on Local Government Investments and Minimum Revenue Provision. This new guidance has been issued, after a period of consultation, following the implementation of more innovative types of investment activity and calculating MRP practices by local authorities over recent years due to the economic environment. The main consultation focus was on the following changes:

- The widening of the definition of an investment to include items not managed as part of the normal treasury management processes and delegations e.g. loans to a wholly owned company/associate, joint ventures or third parties or non-financial investments relating to assets.
- Strengthening the transparency and accountability of these investments including ensuring all parties, officers and councillors, involved in these activities are aware of the core principles of the prudential framework.
- Changing the definition of MRP prudent provision and overpayment.
- Introducing maximum useful economic lives of assets for applying to MRP calculations.

Both sets of the new guidance are currently under review by the Director of Finance to assess any necessary changes to the Council's strategies with regards investments and MRP. Therefore, due to timescales, this report and appendices are based on the guidance previously issued and not these new versions.

2.9 The guidance on Local Government Investments is effective from 1 April 2018, however, MHCLG has acknowledge due to timescales this may not be practical to implement and approve before this date. Where this is the case, the disclosures and requirements should be presented for approval the first time the relevant strategy document is updated or superseded after 1 April 2018.

2.10 With regards the guidance on Minimum Revenue Provision the effective date is 1 April 2019, except for the elements 'Changing Methods for Calculating MRP' which apply from 1 April 2018. Early adoption of the guidance is encouraged.

2.11 **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

The revised Codes include an extension of the functions of this role, especially in respect of non-financial investments (which CIPFA has defined as being part of treasury management):

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe e.g. 20+ years or number appropriate for local priorities.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money.
- ensuring the due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority.
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources.
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities.
- provision to Councillors of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees.
- ensuring that Councillors are adequately informed and understand the risk exposures taken on by the authority.
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.
- creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed, to include the following:
 - risk management (NTMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios.
 - performance measurement and management (NTMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments.
 - decision making, governance and organisation (NTMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making.

- reporting and management information (NTMP6 and schedules), including where and how often monitoring reports are taken.
- training and qualifications (NTMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

2.12 With regards the Treasury Management Practices for non-treasury investments, the main focus is that these types of investment should be of benefit to the economic, social or environmental well-being of the area served by City of Wolverhampton Council and/or the West Midlands Combined Authority.

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

Attached at Appendix 1 to the report is the recommended Treasury Management Strategy for 2018-2019. This has been prepared in accordance with the CIPFA Treasury Management Code, and fully reflects the requirements of the Code under the Council's interpretation. It summarises in strategic terms the approach the Council will take in performing its treasury management activities during 2018-2019. 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.

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

The recommended Annual Investment Strategy for 2018-2019 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.

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

Attached at Appendix 3 to the report are the recommended prudential indicators for the Council for 2018-2019. 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.

2.16 **MRP Statement (Appendix 4)**

The recommended MRP statement for 2018-2019 is attached at Appendix 4 to the report. The formula for calculating MRP is unchanged from the annuity basis used in 2017-2018. The result is a £7.8 million charge for 2018-2019, increasing to £14.7 million in 2019-2020. As Councillors are aware, following a review of the MRP policy a switch was made to the annuity method back in 2014-2015. This identified an over-prudent sum of some

£37.0 million which has been utilised each year since 2014-2015 resulting in a zero MRP charge for these years. This over-prudent sum is fully recognised as being recovered during 2018-2019 resulting in a lower charge for this year, with the full MRP amount being charged from 2019-2020 onwards. The Council's Section 151 Officer considers that this approach is prudent.

2.17 Certainty Rate (Appendix 5)

As part of the Budget 2012 announced by Government, a new 'certainty rate' was introduced from 1 November 2012. This rate enables eligible councils to access cheaper borrowing rates of 20 basis points 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 the Department for Communities and Local Government 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 2018-2019.

2.18 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.

2.19 Allocation of net interest payable

As a result of the introduction of the Housing Revenue Account (HRA) self-financing regime in 2012-2013, the Council was required to determine a method of splitting its interest costs between the HRA and the General Fund. In so doing, it was required to determine a method that in its view was fair and reasonable. The method of splitting interest is unchanged from that used in 2017-2018 (the inferred net cash balance of each fund). As mentioned in the 2017-2018 Strategy, because the HRA is making voluntary debt repayments this is resulting in a disproportionate favourable split to the HRA. The policy of how to split interest is therefore still under review to identify an alternative method.

3.0 Evaluation of alternative options

- 3.1 The Treasury Management Strategy 2018-2019 outlined in this document meets the Council's interpretation of the requirements of CIPFA's Code of Practice on Treasury Management and the Prudential Code for Capital Finance along with the DCLG's Guidance on Local Government Investments. The DCLG 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 Council's risk appetite is low in order to give priority to the security of its investments.

The criteria included in this report is that which meets all the above guidance and risk appetite.

4.0 Reasons for decisions

4.1 To seek approval of the Treasury Management Strategy 2018-2019 in accordance with both government guidance and Codes of Practice.

5.0 Financial implications

5.1 These are detailed within the report.
[SH/02022018/Y]

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 advise on Treasury Management Strategy. Investment strategy is regulated by 'DCLG Guidance on Local Government Investments' issues initially in 2004 and re-issued in 2010. Part 2 of this Guidance is statutory guidance.
[TS/01022018/R]

7.0 Equalities implications

7.1 This report has no equalities implications.

8.0 Environmental implications

8.1 This report has no environmental implications.

9.0 Human resources implications

9.1 This report has no human resources implications.

10.0 Corporate Landlord implications

10.1 This report has no corporate landlord implications.

11.0 Schedule of background papers

2018-2019 Budget and Medium Term Financial Strategy 2018-2019 to 2021-2022, Report to Cabinet, 20 February 2018.

Capital Programme 2017-2018 to 2021-2022 quarter three review and 2018-2019 to 2022-2023 Budget Strategy, Report to Cabinet, 20 February 2018.

12.0 Appendices

Appendix 1: Treasury Management Strategy Statement 2018-2019

Appendix 2: Annual Investment Strategy 2018-2019

Appendix 3: Prudential and Treasury Management Indicators

Appendix 4: Annual MRP Statement 2018-2019

Appendix 5: Disclosure for Certainty Rate

Appendix 6: Treasury Management Policy Statement and Treasury Management Practices February 2018.