

# Confident Capable Council Scrutiny Panel

18 April 2018

<b>Report title</b>	Treasury Management	
<b>Cabinet member with lead responsibility</b>	Councillor Andrew Johnson Resources	
<b>Wards affected</b>	All	
<b>Accountable director</b>	Claire Nye, Director of Finance	
<b>Originating service</b>	Strategic Finance	
<b>Accountable employee(s)</b>	Alison Shannon Tel Email	Chief Accountant 01902 554561 Alison.Shannon@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>		

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## Recommendation(s) for action or decision:

The Scrutiny Panel is recommended to:

1. Scrutinise the arrangements included in the treasury management strategy and policies.

## Recommendations for noting:

The Scrutiny Panel is asked to note:

1. The position with regard to the new Codes of Practice on Treasury Management and the Prudential Code where detailed guidance is still to be issued by CIPFA.

This report is PUBLIC  
[NOT PROTECTIVELY MARKED]

2. The position regarding the new guidance issued by the Ministry of Housing, Communities and Local Government on Local Government Investments and Minimum Revenue Provision which is being reviewed by the Director of Finance.

## 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 either Cabinet or Cabinet (Resources) Panel during 2017-2018 including:

- Treasury Management - Annual Report 2016-2017 and Activity Monitoring Quarter One 2017-2018
- Treasury Management Activity Monitoring – Mid Year Review 2017-2018
- Quarter Three Treasury Management Activity Monitoring
- Treasury Management Strategy 2018-2019

## 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 Confident, Capable Council Scrutiny Panel fulfils this role.

2.2 During 2017-2018, three reports have been received by Cabinet, as set out below:

Cabinet, 19 July 2017

- Treasury Management - Annual Report 2016-2017 and Activity Monitoring Quarter One 2017-2018

Cabinet, 29 November 2017

- Treasury Management Activity Monitoring – Mid Year Review 2017-2018

Cabinet, 20 February 2018

- Treasury Management Strategy 2018-2019

2.3 In addition, one report has been received by Cabinet (Resources) Panel, as set out below:

Cabinet (Resources) Panel, 20 March 2018

- Quarter Three Treasury Management Activity Monitoring

With the exception of the Treasury Management Strategy 2018-2019 report which is included at Appendix 1, in order to minimise printing costs, the Panel Chair has agreed that full versions of the reports will not be circulated again. It is recommended, however, that Panel members review the reports ahead of the meeting, and are requested to please bring the full versions that were circulated with the relevant Cabinet and Cabinet

(Resources) Panel agenda papers to the meeting. Summaries of the relevant reports are shown below together with, for each report, a link to the original document.

### **3.0 Treasury Management - Annual Report 2016-2017 and Activity Monitoring Quarter One 2017-2018**

- 3.1 This report, considered on 19 July 2017, provided Cabinet with an update on matters relating to the year-end position with regard to treasury management arrangements and activity and treasury management activity in 2017-2018. The report is available [via this link](#).
- 3.2 The report recommended that Cabinet recommends that Council approves the revised Minimum Revenue Provision (MRP) statement setting out the method used to calculate MRP for 2017-2018, in particular, the change regarding investment assets which is being backdated to 1 April 2013, as set out in Appendix F to the report.
- 3.3 Cabinet also recommended that Council note that:
1. The Council operated within the approved Prudential and Treasury Management Indicators, and also within the requirements set out in the Council's approved Treasury Management Policy Statement during 2016-2017.
  2. Revenue savings of £1.7 million for the General Fund and £2.5 million for the Housing Revenue Account were generated from treasury management activities in 2016-2017.
  3. Revenue savings of £810,000 for the General Fund and £329,000 for the Housing Revenue Account are forecast from treasury management activities in 2017-2018.
- 3.4 Cabinet was also asked to note that the capital programme figures included in the report assumed that the updated requests for capital resources which were reported to Cabinet (Resources) Panel on 27 June 2017 and Council on 19 July 2017 were approved. If this were not to be the case revised figures would be provided to Council on 20 September 2017.

### **4.0 Treasury Management Activity Monitoring – Mid Year Review 2017-2018**

- 4.1 This report was considered on 29 November 2017 and is available [via this link](#).
- 4.2 The purpose of this report was to provide a monitoring and progress report on treasury management activity for the second quarter of 2017-2018 as part of the mid-year review, in line with the Prudential Indicators approved by Council in March 2017.
- 4.3 The Cabinet recommended that Council note:
1. That a mid-year review of the Treasury Management Strategy Statement had been undertaken and the Council had operated within the limits and requirements approved in March 2017.

2. That savings of £1.1 million for the General Fund and £643,000 for the Housing Revenue Account (HRA) were forecast from treasury management activities in 2017-2018.

## **5.0 Treasury Management Strategy 2018-2019**

- 5.1 The Treasury Management Strategy for 2018-2019 was presented to Cabinet on 20 February 2018. The report (available [via this link](#) and also included at the end of this report with associated appendices) sets out the Council's Treasury Management Strategy for 2018-2019 for approval by Council.
- 5.2 The strategy incorporates six elements, which are detailed in separate documents appended to the report (the Treasury Management Strategy, the Annual Investment Strategy, the Prudential and Treasury Management Indicators, Minimum Revenue Provision (MRP) Statement, the Disclosure for Certainty Rate and the Treasury Management Policy Statement and Treasury Management Practices).

### **Changes in Code of Practice**

- 5.3 The report also included how CIPFA have updated and released new versions of both the Code of Practice on Treasury Management and Prudential Code in December 2017.
  - The Code of Practice on Treasury Management underpins the treasury management activities of the Council.
  - The system of controls on local authority capital investment is based largely on self-regulation by local authorities themselves, at its heart is the Prudential Code.
- 5.4 Although the Codes have been released and are effective for the 2018-2019 financial year, the detailed sector specific guidance has not been issued. In addition, CIPFA have acknowledged that the requirement to produce a Capital Strategy, which is a new 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.
- 5.5 The Capital Strategy report 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 is to ensure that all elected Councillors at Council fully understand the overall strategy, governance procedures and risk appetite entailed by the 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. CIPFA are recommending that the requirement of both Codes are implemented as soon as possible.

Until this detailed guidance is received by the Council, the strategy statements appended to the report were prepared on an interpretation of the Codes to ensure compliance.

### **Changes in Statutory Guidance**

5.6 On 2 February 2018 the Ministry of Housing, Communities & Local Government (MHCLG) issued its new Statutory Guidance on Local Government Investments and Minimum Revenue Provision. This new guidance was issued after a period of consultation which focused mainly 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 regard to investments and MRP. Therefore, due to timescales the report and appendices were based on the guidance previously issued and not the new versions.

5.7 The guidance on Local Government Investments is effective from 1 April 2018, however, MHCLG has acknowledged 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.

5.8 With regard to 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.

5.9 As a result of the report, Cabinet recommended that Council approved:

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 the report).
2. The Treasury Management Strategy Statement 2018-2019 as set out in Appendix 1 of the report.
3. The Annual Investment Strategy 2018-2019 as set out in Appendix 2 of the report.

4. The Prudential and Treasury Management Indicators as set out in Appendix 3 of the 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 of the report.
  6. The Treasury Management Policy Statement and Treasury Management Practices as set out in Appendix 5 of the 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.
- 5.10 Cabinet also recommended that Council note:
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 of the report).
  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 of the 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.
- 5.11 Cabinet were asked to note:
1. The financial information included in the report was 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 the meeting. The capital report was subject to a report being separately approved by Cabinet also at the meeting. Therefore, if the approval was not obtained, a revised version of the report would be presented to Council on 7 March 2018.

## **6.0 Quarter Three Treasury Management Activity Monitoring**

- 6.1 This report was considered by Cabinet (Resources) Panel on 20 March 2018 and is available [via this link](#).
- 6.2 The report provided a monitoring and progress report on treasury management activity for the third quarter of 2017-2018, in line with the Prudential Indicators approved by Council in March 2017.
- 6.3 Cabinet (Resources) Panel was asked to note:
1. The contents of the report and in particular that the Council is continuing to operate within the Prudential and Treasury Management Indicators approved by Council, and also within the requirements set out in the Council's approved Treasury Management Policy Statement for 2017-2018.
  2. Saving of £821,000 for the General Fund and £677,000 for the Housing Revenue Account are forecast from treasury management activities in 2017-2018.

## **7.0 Financial implications**

- 7.1 These are detailed within the individual reports to Cabinet and Cabinet (Resources) Panel.  
[MH/09042018/C]

## **8.0 Legal implications**

- 8.1 These are detailed within the individual reports to Cabinet and Cabinet (Resources) Panel.  
[RB/09042018/W]

## **9.0 Equalities implications**

- 9.1 These are detailed within the individual reports to Cabinet and Cabinet (Resources) Panel.

## **10.0 Environmental implications**

- 10.1 These are detailed within the individual reports to Cabinet and Cabinet (Resources) Panel.

## **11.0 Human resources implications**

- 11.1 These are detailed within the individual reports to Cabinet and Cabinet (Resources) Panel.

## **12.0 Corporate landlord implications**

12.1 These are detailed within the individual reports to Cabinet and Cabinet (Resources) Panel.

## **13.0 Schedule of background papers**

Treasury Management - Annual Report 2016-2017 and Activity Monitoring Quarter One 2017-2018, report to Cabinet, 19 July 2017

Treasury Management Activity Monitoring – Mid Year Review 2017-2018, report to Cabinet, 29 November 2017

Treasury Management Strategy 2018-2019, report to Cabinet, 20 February 2018

Quarter Three Treasury Management Activity Monitoring, report to Cabinet (Resources) Panel, 20 March 2018