CITY OF WOLVERHAMPTON COUNCIL	**Cabinet** 23 February 2022

Report title	Treasury Management Strategy 2022-2023	
Decision designation	RED	
Cabinet member with lead responsibility	Councillor Ian Brookfield Leader of the Council	
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	11 February 2022 2 March 2022 TBC

Recommendations for decision:

The Cabinet recommends that Council approves:

1. The authorised borrowing limit for 2022-2023 to support the capital strategy as required under Section 3(1) of the Local Government Act 2003 to be set at £1,163.3 million (PI3, Appendix 3 to this report). The authorised borrowing limit includes a forecast provision for potential business cases that may be brought forward during the year, additional borrowing will only be authorised if the business case proves to be affordable over the medium term. The forecast borrowing is below the authorised borrowing limit.
2. The Treasury Management Strategy Statement 2022-2023 as set out in Appendix 1 to this report.
3. The Annual Investment Strategy 2022-2023 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 2022-2023 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 be delegated to Cabinet to approve updates to the Treasury Management Strategy and corresponding practices during 2022-2023 to reflect the additional reporting requirements detailed in the most recent publication of the revised Treasury Management and Prudential Codes. It is important to note that, the Council complies with the principles of the codes however due to the timing of the release of the new Codes, CIPFA has allowed reporting on the Codes to be deferred until 2023-2024.
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 Portfolio Holder 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 current economic climate.
10. That authority is delegated to the Portfolio Holder for Resources, in consultation with the Director of Finance, to amend the MRP statement should this be required following the outcome of the consultation.

The Cabinet is recommended to approve:

1. That authority is delegated to the Portfolio Holder 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.

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Recommendations for noting:

The Cabinet recommends that Council is asked to note:

1. That the MRP charge for the financial year 2022-2023 will be £19.8 million; it is forecast to increase to £21.1 million in 2023-2024 (paragraph 2.20 of the report).
2. That Cabinet or Cabinet (Resources) Panel and Council will receive regular Treasury Management reports during 2022-2023 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 2.18 and Appendices 2 and 3 to this report.

3. That the new Treasury Management and Prudential Codes have been published and are effective immediately. However, due to the date of their release some elements, mainly changes to the capital strategy, prudential indicators and investment reporting can be deferred until 2023-2024. The documents covered in this report have been updated where possible to reflect the new Codes, any changes not reflected due to the timescales will be implemented and approval sought during 2022-2023.
4. That the documents covered in this report have been updated to reflect the latest interest rate forecasts available, however, due to uncertainties with the economy, should interest rates increase quicker than forecast, this may create a budget pressure on the treasury management budget. In the event that this were to occur, approval would be sought to accommodate the budget pressure by making a call on the Budget Contingency Reserve. This will continue to be monitored and reviewed in light of the changing economic environment, with updates provided to Councillors throughout 2022-2023 as part of the quarterly update reports.

1.0 Purpose

1.1 This report sets out the Council's Treasury Management Strategy for 2022-2023 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 2022-2023 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 2022, 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 are 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 On 3 February 2022 CIPFA issued an exceptional consultation on emergency proposals for updating the 2021-2022 Code of Practice on Local Authority Accounting in the United

Kingdom and the 2022-2023 Code. This follows a request from the Department of Levelling Up, Housing and Communities to CIPFA to consider ways in which the Code may alleviate delays to the publication of audited financial statements. Only 9% of local authority accounts in England met the audit publication deadline of 30 September 2021. One of the proposals within the consultation is the deferral of the implementation of the new accounting standard for leases mentioned above to 2023-2024. As the consultation will close on 3 March 2022 this report assumes the implementation date of 2022-2023 still stands as the outcome will not be known.

2.7 As reported to Councillors in previous treasury management reports during 2021, CIPFA has been undertaking consultations on proposed changes to the Treasury Management Code and the Prudential Code. In December 2021 the revised Codes were published with the detailed guidance notes being released in late January 2022. The Council must have regard to the new codes from the date of publication, however additional reporting requirements are recommended. It is important to note that the Council compiles with the principles of the codes, however due to the timing of the release of the new Codes, CIPFA has allowed reporting on the codes to be deferred until 2023-2024, including changes to the capital strategy, prudential indicators and investment reporting.

2.8 The Treasury Management Code introduces strengthened requirements for skills and training, and for investments that are not specifically for treasury management purposes. With regards the Prudential Code, there are two new required indicators; net income from commercial and service investments to net revenue stream and a new debt liability benchmark treasury indicator. Quarterly reporting of approved indicators will continue and will now incorporate the non-treasury management investment indicators required by the statutory guidance on local government investments.

2.9 The Prudential Code provides details of what is classed as legitimate examples of borrowing and what is classed as not prudent. Definitions are also provided for investments for treasury management, commercial and service purposes and the additional capital strategy requirements of these categories.

2.10 Where possible the changes to the Codes have been implemented in the documents covered in this report. However, due to timescales, some areas will be implemented during 2022-2023. It is therefore proposed that Council delegate authority to Cabinet to approve updates to the Treasury Management Strategy and corresponding practices.

2.11 It should be noted that the Council does not undertake commercial investments, that is those held primarily for financial return. However, to be compliant with the code, commercial investments will be referenced within our Treasury Management documentation.

2.12 The documents covered in this report have been updated to reflect the latest interest rate forecasts available, however, due to uncertainties with the economy, should interest rates increase quicker than forecast, this may create a budget pressure on the treasury management budget. In the event that this were to occur, approval would be sought to

accommodate the budget pressure by making a call on the Budget Contingency Reserve. This will continue to be monitored and reviewed in light of the changing economic environment, with updates provided to Councillors throughout 2022-2023 as part of the quarterly update reports.

2.13 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.

2.14 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

2.15 **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.

2.16 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.

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

Attached at Appendix 1 to the report is the recommended Treasury Management Strategy for 2022-2023. 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 2022-2023. 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.

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

The recommended Annual Investment Strategy for 2022-2023 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.

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

Attached at Appendix 3 to the report are the recommended prudential indicators for the Council for 2022-2023. 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. The new Codes created two further indicators: net income from commercial and service investments to net revenue stream and a new debt liability benchmark treasury indicator. The first of these has been included for approval, whereas, the liability benchmark will be implemented, and approval sought, during 2022-2023 due to timescales. Non-treasury management investment indicators required by the statutory guidance on local government investments are also now included in this Appendix as required by the new Codes.

2.20 **MRP Statement (Appendix 4)**

The recommended MRP statement for 2022-2023 is attached at Appendix 4 to the report. The formula for calculating MRP is unchanged from the annuity basis used in 2021-2022.

However, the Government are currently consulting on an amendment which removes 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.

If the change in the MRP calculation were to be implemented, this has an 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. It is therefore proposed that authority be delegated to the Portfolio Holder for Resources, in consultation with the Director of Finance, to amend the MRP statement should this be required following the outcome of the consultation.

The change outlined does not affect the level of MRP currently charged as no receipts have now been included in the calculation for 2021-2022 onwards. The forecast MRP charge would be £19.8 million for 2022-2023; increasing to £21.1 million in 2023-2024. This allowance has been incorporated into the Treasury Management budget and the Council's Section 151 Officer considers that this approach is prudent.

2.21 **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 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 2022-2023.

2.22 **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. As noted in the body of the report, where possible the changes to the Code have been implemented, however, due to timescales, some areas will be implemented, and approval sought, during 2022-2023.

2.23 **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 2021-2022 (the inferred net cash balance of each fund).

3.0 Evaluation of alternative options

3.1 The Treasury Management Strategy 2022-2023 outlined reflect the new 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. As noted in the body of the report, where possible the changes to the Codes have been implemented in the documents covered in this report, however due to timescales, some areas will be implemented, and approval sought, during 2022-2023.

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 decisions

4.1 To seek approval of the Treasury Management Strategy 2022-2023 in accordance with both government guidance and Codes of Practice.

5.0 Financial implications

5.1 These are detailed within the report.
[SH/15022022/N]

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

6.4 The aim of these reporting arrangements as detailed in paragraph 2.13 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/15022022/E]

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 Due to the Covid-19 pandemic, there has been re-phasing of the capital programme which reduces the borrowing need in year. This is to reflect new timescales for completing projects to take into account any social distancing measures which may be required or for any disruptions due to supply chains. 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 suite 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.

9.0 Schedule of background papers

9.1 Cabinet, 23 February 2022 – 2022-2023 Budget and Medium Term Financial Strategy 2022-2023 to 2025-2026

9.2 Cabinet, 23 February 2022 – Capital Programme 2021-2022 to 2025-2026 quarter three review and 2022-2023 to 2026-2027 Budget Strategy

10.0 Appendices

10.1 Appendix 1 - Treasury Management Strategy Statement 2022-2023

10.2 Appendix 2 – Annual Investment Strategy 2022-2023

10.3 Appendix 3 – Prudential and Treasury Management Indicators 2022-2023

10.4 Appendix 4 – Annual MRP Statement 2022-2023

10.5 Appendix 5 – Disclosure for Certainty Rate

10.6 Appendix 6 – Treasury Management Policy Statement and Treasury Management Practices February 2022