

# CHESHIRE EAST COUNCIL

## Cabinet

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<b>Date of Meeting:</b>	4th February 2014
<b>Report of:</b>	Chief Operating Officer
<b>Subject/Title:</b>	Treasury Management Strategy and MRP Statement 2014/15
<b>Portfolio Holder:</b>	Councillor Peter Raynes (Finance)

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### 1.0 Report Summary

1.1 To present the 2014/15 Treasury Management Strategy Statement (TMSS), incorporating the Minimum Revenue Provision (MRP) Policy Statement, Investment Strategy and Prudential and Treasury Indicators 2014/17, required under Part 1 of the Local Government Act 2003.

1.2 Treasury Management is defined as:-

The management of the Council's investment 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.

1.3 Treasury Management is a key element in the overall financial health and resilience of Cheshire East Council. Strong financial management has strengthened the balance sheet, enabling the Council to continue its policy of utilising investment balances instead of taking out new external borrowing in order to finance capital expenditure. This has meant that the loans portfolio has not increased from the inherited position of the former County Council.

1.4 This along with a number of key decisions taken since 2009, including debt restructuring; repayment of prior year's debt using available reserves; rigorous daily investment decisions and the monitoring of available cash flows has enabled the Council's cash resources to be used to optimum benefit. The treasury management team work closely with the Council's advisors Arlingclose to gain the maximum benefit from their expertise and guidance, including benchmarking performance against other local authorities on a quarterly basis.

1.5 The Council remains committed to delivering appropriate levels of capital investment to support service improvement and local economic growth. The current strategy is to ensure that this is sustainable by controlling the consequential impact on the revenue account and council tax levels, ensuring good value for money to local businesses and residents.

- 1.6 The Council will therefore continue to minimise the net cost of borrowing by ensuring that the capital programme can be funded without the need for additional external borrowing. This requires maximisation of alternative funding sources (i.e., grants, developer contributions and capital receipts) and careful management of capital cash flows to ensure that any short term borrowing requirements can be met from internal resources.

## 2.0 Recommendation

Cabinet is requested to recommend to Council the approval of the:

- Treasury Management Strategy and the MRP Statement for 2014/15 (Appendix A)

The Strategy includes the Department for Communities and Local Government (DCLG) reporting requirements in accordance with the Local Government Investments Guidance under Section 15(1) (a) of the Local Government Act 2003.

## 3.0 Reasons for Recommendation

- 3.1 The Treasury Management Strategy details the activities of the Treasury Management function in the forthcoming year 2014/15. The Strategy for 2014/15 reflects the views on interest rates of leading market forecasts provided by Arlingclose, the Council's advisor on treasury matters. It also includes the Prudential Indicators relating to Treasury Management.
- 3.2 The CIPFA Code of Practice on Treasury Management requires all local authorities to agree a Treasury Management Strategy Statement including an Investment Strategy annually in advance of the financial year. The strategy should incorporate the setting of the Council's prudential indicators for the three forthcoming financial years.

## 4 Wards Affected

- 4.1 Not applicable

## 5.0 Local Ward Members

- 5.1 Not applicable

## 6.0 Policy Implications

- 6.1 Not applicable.

## **7.0 Financial Implications**

- 7.1 Effective Treasury Management provides support towards the achievement of service priorities, it ensures that the Council's capital investment programme delivers value for money by demonstrating that capital expenditure plans are affordable, external borrowing is prudent and sustainable and treasury decisions are taken in accordance with good practice.

## **8.0 Legal Implications**

- 8.1 It is a requirement of the CIPFA's Treasury Management in the Public Services: Code of Practice, that Council receives an Annual Report on its Treasury Strategy, that Council sets Prudential Indicators for the next three years and approves an Annual Investment Strategy and an Annual MRP Policy Statement. There are stringent legislative requirements in place which dictate the way that a local authority deals with financial administration.

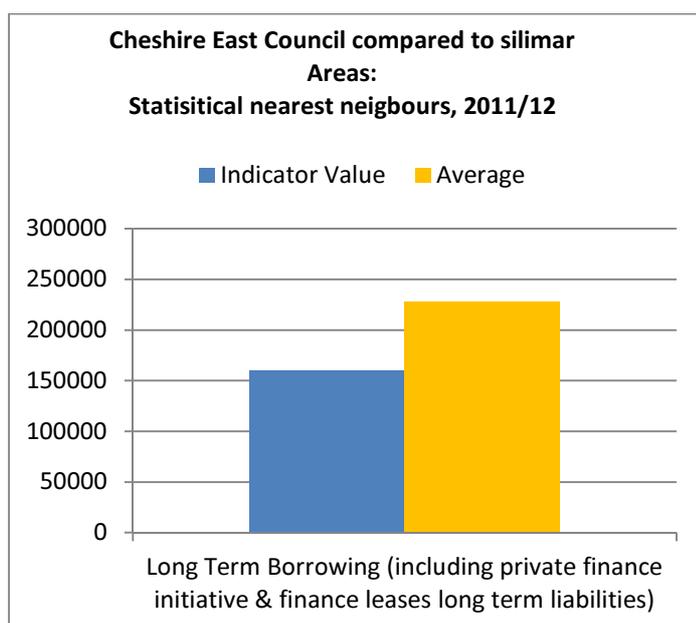
## **9.0 Risk Management**

- 9.1 The Council operates its treasury management activity within the approved Treasury Management Code of Practice and associated guidance.
- 9.2 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy as no treasury management activity is without risk. The aim is to operate in an environment where risk is clearly identified and managed.
- 9.3 To reduce the risk that the Council will suffer a loss as a result of its treasury management activities down to an acceptable level a number of risk management procedures have been put in place. The procedures cover liquidity risk, credit and counterparty risk, re-financing risk, legal and regulatory risk, and fraud, error and corruption risk. These are referred to within the borrowing and investment strategies, prudential indicators and the Treasury Management Practices Principles and Schedules.
- 9.4 The arrangements for the identification, monitoring and controlling of risk will be reported on a regular basis in accordance with the Strategy.

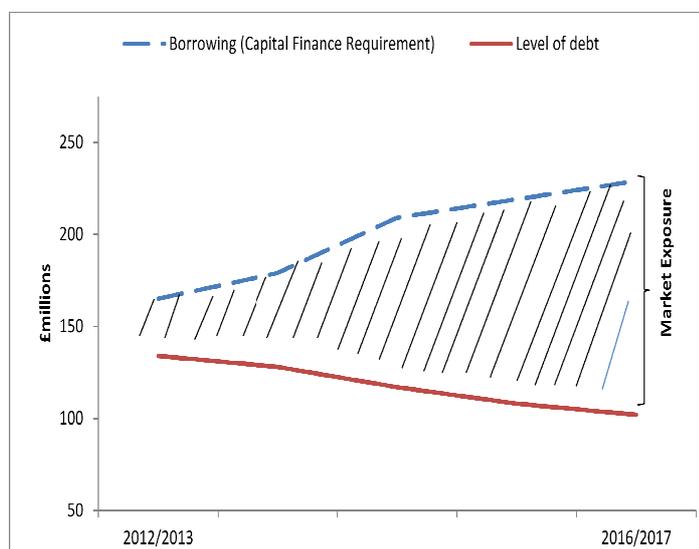
## **10.0 Background and Options**

- 10.1 The Treasury Management Strategy set out in Appendix A is also reported to the Audit & Governance Committee for scrutiny before being presented to Full Council for approval on 27<sup>th</sup> February 2014.

- 10.2 The Treasury Management Strategy takes into account future borrowing requirements, based on the Council's three year capital spending plans, projected cash flow requirements and money market opportunities. The aim is to maintain control over borrowing activities, with particular regard for longer term affordability; but also to allow sufficient flexibility to respond to changes in the capital and money markets as they arise.
- 10.3 The capital programme for 2014/17 is intentionally aspirational, reflecting the Council's ambition to pursue additional external funding, private sector investment and capital receipts. Future capital receipts arising from the rationalisation of the asset base and the Engine of the North development programme will be utilised to fund new proposals, including infrastructure to generate local economic growth; investment in new service delivery models and improvements in the Council's asset base.
- 10.4 The priority is to ensure that expenditure plans are affordable over the medium term. The programme is designed to allow flexibility so that cash flows i.e., the timing of capital receipts and payments, can be monitored and managed to minimise the risks to the Council of forward funding capital expenditure in advance of realising grant income, developer contributions and proceeds of planned asset sales and disposals. Where temporary borrowing is required this will be funded from internal resources and repaid as soon as receipts allow.
- 10.5 The Council currently has external borrowing of £128m. The amount of interest paid on the Council's portfolio of long term loans is mainly at fixed rates of interest (circa 4.04%). Currently long term interest rates are around 4.3%.
- 10.6 Compared to our nearest neighbours, as demonstrated in the following graph the Council's levels of external borrowing is significantly below average.



10.7 Over the financial period covered by this strategy, a further £26m of PWLB loans are due to be repaid (see table 1 – Balance Sheet Summary and Forecast). This means the gap between the Capital Financing Requirement and actual borrowing is increasing, as demonstrated in the following graph.



10.8 This exposes the Council to interest rate risk in the future if cash balances were to fall and borrowing had to be taken at prevailing rates at the time. Therefore, to reduce exposure to interest rate risk and prevent excessive use of internal resources existing loans will be replaced as they mature, subject to market conditions.

10.9 Within the Treasury Management Strategy, the Council will continue to minimise additional borrowing by making use of internal balances. This not only minimises costs, but also reduces the credit risk associated with investments, as the amount being invested is reduced. Given the current low interest rate environment is expected to continue throughout 2014/15 and beyond, the interest rate risk associated with delayed borrowing is assessed to be low.

10.10 The rate of interest to be earned on the Council's cash balances that are temporarily invested pending their being used (estimated at £36 million) is budgeted to be 0.5%.

10.11 The capital financing budget remains at the very prudent level of £12.5m, 4.9% of the 2014/15 net revenue budget.

## Capital Financing Budget 2014-15

Capital Financing Budget	2013/14 Original £m	2013/14 Revised £m	2014/15 £m
Repayment of Outstanding Debt	6.9	6.8	8.0
Contribution re: Schools TLC Schemes	-0.9	-0.9	-0.9
Direct Revenue Funding	0.4	0.4	0.4
Interest on Long Term Loans	5.7	5.3	5.2
Total Debt Repayment	12.1	11.6	12.7
Less: Interest Receivable on Cash Balances	-0.2	-0.3	-0.2
Net Capital Financing Budget	11.9	11.3	12.5

10.12 Cheshire East inherited investments of £4.6m made by the former Cheshire County Council with Heritable Bank, which went into administration in October 2008. The expectation was for around 88% of this to be recovered. In 2013/14 further amounts were repaid bringing the total amount recovered to 94%. There is expected to be one final receipt, the amount of which is dependent on current litigation. The additional receipt over and above the original estimated recovery rate of 88% will benefit the Councils revenue account in 2013/14 by £300,000.

10.13 The principal changes to the 2014/15 Treasury Strategy have been:

- In readiness for regulatory reform of banks and building societies leading to reduced Governmental support, the general maximum amounts to be invested with any one counterparty have been reduced from £15m to £10m. A consequence of this is that more counterparties are now actively being considered including foreign banks, unrated building societies and other sources of investment
- Removal of requirement for Money market funds to be AAA rated. This is due to changes in regulation of Money Market Funds which will lead to removal of, or changes to, ratings. The Council will however monitor the underlying ratings of the assets of each fund to determine suitability for investment purposes

The revision to the credit criteria, once approved by Council for use in 2014/15, will also apply to the residual period of 2013/14.

### Contract for banking services

10.14 Following a retendering exercise for the contract for banking and merchant card services, banking services will now be provided by Barclays Bank for a five year period commencing in 2014/15. The contract for merchant card services has been extended with Global Payments Ltd for 12 months after an unsuccessful tender outcome. A

procurement exercise for merchant cards will now be undertaken in 2014/15 under a framework agreement.

#### **11.0 Access to Information**

The background papers relating to this report can be inspected by contacting the report writer:

Name: Joanne Wilcox  
Designation: Corporate Finance Manager  
Tel No: 01270 685869  
Email: [joannewilcox@cheshireeast.gov.uk](mailto:joannewilcox@cheshireeast.gov.uk)

#### **Appendices:**

*Appendix A – Treasury Management Strategy Statement & Investment Strategy  
2014/15 – 2016/17*