

# CHESHIRE EAST COUNCIL

## Council

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**Date of meeting:** 24<sup>th</sup> February 2009

**Report of:** Borough Treasurer & Head of Assets

**Title:** Treasury Management Strategy and MRP Statement 2009/10

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### **1.0 Purpose of Report**

- 1.1 To present the Treasury Management Strategy for 2009/10 to 2011/12 including the prudential indicators and limits required under Part 1 of the Local Government Act 2003 and the Annual Investment Strategy 2009/10 and Annual Policy Statement on Minimum Revenue Provision (MRP) for the redemption of debt 2009/10. The Strategy will be reported to Cabinet on 17<sup>th</sup> February 2009 for recommendation to Council on 24<sup>th</sup> February 2009.

### **2.0 Decision Required**

- 2.1 That Council approves the Treasury Management Strategy and the MRP Statement for 2009/2010. 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 (Appendix A).

### **3.0 Financial Implications for Transitional Costs**

- 3.1 None.

### **4.0 Financial Implications 2009/10 and Beyond**

- 4.1 Effective Treasury Management provides support towards the achievement of service priorities, it allows the Council to invest in capital projects without any limit as long as it can demonstrate that its capital expenditure plans are affordable, external borrowing is prudent and sustainable and treasury decisions are taken in accordance with good practice.

### **5.0 Treasury Management Strategy**

- 5.1 The Treasury Management Strategy for 2009/10 is the Council's first such Strategy and comes at a time of significant economic uncertainty. The Council is therefore mindful of the risk, both in terms of Market risk and Investment Income risk and this has been reflected in the 2009/10 Budget.
- 5.2 The Local Government and Public Involvement in Health Act 2007 places a requirement of all councils to approve a policy on how the amount provided in

respect of the repayment of debt is calculated prior to the start of the financial year concerned. The Policy for the year 2009/10 is contained in Appendix B. The budgeted provision for the repayment of debt in the year 2009/10 has been broadly calculated as 4% of the estimated outstanding debt at the end of the year 2008/09 with a small number of exceptions. These exceptions comprise capital expenditure on capital projects that has been funded through unsupported borrowing by the Legacy Authorities.

- 5.3 The amount charged in respect of the repayment of debt is currently just above the generally accepted prudent minimum. The amount provided is also below the amount of capital expenditure being funded from borrowing in each of the next few years. As a consequence the amount of debt outstanding is increasing each year. As the level of outstanding debt increases the amount that needs to be provided for the repayment of debt in future years also increases. The aim from year two of the Medium Term Financial Strategy will be to reverse this trend.

#### 5.4 Capital Financing Budget 2009-10

	£m
Provision for debt repayment	6.22
Direct revenue funding	3.05
Interest on long term loans	7.84
Other interest payable	0.21
Revenue contribution from Services	<u>(4.10)</u>
Total Debt Repayment	13.22
<u>Less</u> Interest receivable on cash balances	<u>(0.90)</u>
<b>Net Capital Financing Budget</b>	<b>12.32</b>

- 5.5 The amount of interest paid on the Council's portfolio of long term loans is mainly at fixed rates of interest (circa 4.9%). This provides a degree of certainty to the capital financing budget. The rate of interest payable on the £25 million of new long term loans that it is planned to raise during the year 2009/10 is budgeted to be 4.5%. Currently long term interest rates are around 4.65%. However, within the Treasury Management Strategy, the Council will use internal balances where possible to reduce the costs in the short term of external borrowing.
- 5.6 The rate of interest to be earned on the Council's cash balances that are temporarily invested pending their being used (estimated at £140 million) is budgeted to be 0.65%, depending on external cashflows and levels of inherited reserves. This compares with an original assumption in the Financial Scenario of £6.3m before interest rates started to plummet.
- 5.7 Currently the conditions in the world's money and capital markets are very uncertain. This uncertainty has prevailed for a number of months now and is likely to prevail for a long while yet. A high degree of caution therefore needs to

be exercised in respect of the estimated rates of interest mentioned above. The Borough Treasurer and Head of Assets will be monitoring this position and its impact on the budget carefully throughout the year.

## **6.0 Legal Implications**

- 6.1 It is a requirement of the CIPFA Code of Practice for Treasury Management in The Public Sector, 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.

## **7.0 Risk Assessment**

- 7.1 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management function will be measured. The main risks are identified along with procedures to manage and control the risks are detailed in Appendix A, Section 5. The analysis and reporting of treasury management activities will focus on their risk implications for the Council.

## **8.0 Conclusion and Reasons for Recommendation**

- 8.1 The Treasury Management Strategy details the activities of the Treasury Management function in the forthcoming year 2009/10. The Strategy for 2009/10 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.
- 8.2 The CIPFA Code of Practice on Treasury Management, when adopted by a local authority, gives it the status of 'a code of practice made or approved by or under enactment' and hence proper practices under the provision of the Local Government and Housing Act 1989.
- 8.3 The Treasury Management Strategy 2009/10 will be reported to Cabinet on 17<sup>th</sup> February 2009. Any changes made to the Strategy as part of this process will be amended in the final report made available to Members ahead of the Council meeting on 24<sup>th</sup> February 2009.

## ***Appendices:***

*Appendix A – Treasury Management Strategy 2009/10*

*Appendix B – MRP Policy Statement 2009/10*

***For further information:***

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***Background Documents:***

*Arlingclose forecasts*

*Documents are available for inspection at:*

*Cheshire East Democratic Services  
Westfields  
Middlewich Road  
Sandbach  
CW11 1HZ*