

# CHESHIRE EAST COUNCIL

## Cabinet

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| <b>Date of Meeting:</b>  | 11 <sup>th</sup> February 2015                            |
| <b>Report of:</b>        | Chief Operating Officer                                   |
| <b>Subject/Title:</b>    | Treasury Management Strategy and MRP Statement<br>2015/16 |
| <b>Portfolio Holder:</b> | Councillor Peter Raynes (Finance)                         |

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### 1.0 Report Summary

- 1.1 Cheshire East Council is a large unitary local authority, providing services to over 370,000 residents and almost 18,000 businesses. The budget for delivering services can be as much as £1bn in a single year. The Council puts residents first and takes a responsible approach to managing and controlling the finances that meets the ambitions around service delivery and infrastructure development whilst also managing risks associated with investing and borrowing on a large scale.
- 1.2 The Treasury Management strategy is an important element in the overall financial health and resilience of Cheshire East Council. The strategy focuses on 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 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 The Council remains committed to delivering appropriate levels of capital investment to support service improvement and local economic growth, which increases the importance of sound Treasury Management Strategy in the medium term. The current strategy is to ensure that investment in capital schemes 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.
- 1.5 In 2015/16 the Council will 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 is supported by maximisation of alternative funding sources such as grants, developer contributions and capital receipts, as well as careful management of capital cash flows to ensure that any short term borrowing requirements can be met from internal resources.

- 1.6 The key elements of the strategy for 2015/16 are for the Council to:
- Retain capital financing costs within an affordable limit of c.£14m
  - Not enter into any overall additional external borrowing in 2015/16
  - Take an appropriate approach to risk if short term loans are required, by only borrowing from lenders identified in the strategy
  - Maintain security of investments by only using counterparties detailed in the strategy
  - Support a flexible approach to treasury management that can react to opportunities and market conditions to maximise effectiveness, whilst protecting the public funds managed within the strategy
- 1.7 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 26<sup>th</sup> February 2015.

## **2.0 Recommendations**

Cabinet is requested to recommend to Council the approval of the Treasury Management Strategy and the MRP Statement for 2015/16 (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 Recommendations**

- 3.1 The report presents the 2015/16 Treasury Management Strategy Statement (TMSS), incorporating the Minimum Revenue Provision (MRP) Policy Statement, Investment Strategy and Prudential and Treasury Indicators 2015/18, required under Part 1 of the Local Government Act 2003.
- 3.2 The Treasury Management Strategy details the activities of the Treasury Management function in the forthcoming year 2015/16. The Strategy for 2015/16 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.
- 3.3 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 Implications for Rural Communities**

7.1 Not applicable

#### **8.0 Financial Implications**

8.1 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.

#### **9.0 Legal Implications**

9.1 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.

#### **10.0 Risk Management**

10.1 The Council operates its treasury management activity within the approved Treasury Management Code of Practice and associated guidance.

10.2 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.

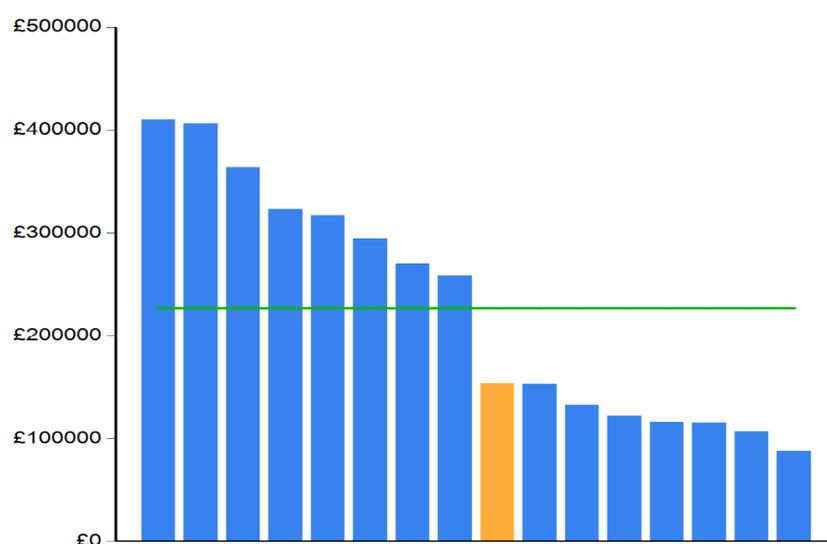
- 10.3 To reduce the risk that the Council will suffer a loss as a result of its treasury management activities down to an acceptable level a number of risk management procedures have been put in place. The procedures cover liquidity risk, credit and counterparty risk, re-financing risk, legal and regulatory 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.
- 10.4 The arrangements for the identification, monitoring and controlling of risk will be reported on a regular basis in accordance with the Strategy.

## **11.0 Background and Options**

- 11.1 A number of important 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.
- 11.2 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. 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.
- 11.3 The capital programme for 2015/18 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 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.
- 11.4 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.

- 11.5 The Council currently has external borrowing of £117m. The amount of interest paid on the Council's portfolio of long term loans is mainly at fixed rates of interest (circa 3.8%). Currently long term interest rates are around 3.4%.
- 11.6 Compared to our nearest neighbours' levels of external borrowing are significantly below average. Data is available for the 2012/13 position and is highlighted in the graph below. In the year before this graph had been produced Cheshire East borrowing, including PFI arrangements, remained level compared to an average increase of £55m by near neighbours.

**Cheshire East Council compared to similar areas:  
Statistical nearest neighbours, 2012/13**



- 11.7 The Council has further reduced borrowing by £17m since this comparison above was provided. Over the financial period covered by this strategy, a further £14m of PWLB loans are also due to be repaid (see table 1 – Balance Sheet Summary and Forecast).
- 11.8 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 2015/16 and beyond, the interest rate risk associated with delayed borrowing is assessed to be low.
- 11.9 The rate of interest to be earned on the Council's cash balances that are temporarily invested pending their being used is budgeted to be £0.2m.
- 11.10 The capital financing budget is at a very prudent level of £14m, 5.7% of the 2015/16 net revenue budget.

## Capital Financing Budget 2015/16

| Capital Financing Budget                      | 2014/15<br>Original<br>£m | 2014/15<br>Revised<br>£m | 2015/16<br>£m |
|---|---------------------------|--------------------------|---------------|
| Repayment of Outstanding Debt                 | 8.0                       | 7.8                      | 10.0          |
| Contribution re: Schools TLC Schemes          | -0.9                      | -0.9                     | -0.9          |
| Direct Revenue Funding                        | 0.4                       | 0.4                      | 0.8           |
| Interest on Long Term Loans                   | 5.2                       | 4.9                      | 4.3           |
| Total Debt Repayment                          | 12.7                      | 12.2                     | 14.2          |
| Less: Interest Receivable on Cash<br>Balances | -0.2                      | -0.2                     | -0.2          |
| Net Capital Financing Budget                  | 12.5                      | 12.0                     | 14.0          |

11.11 The principal changes to the 2015/16 Treasury Strategy have been:

**3.0** Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes during 2015/16; these include covered bonds, repurchase agreements and investments in pooled property funds. This diversification will represent a substantial change in strategy over the coming year as the majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds.

**4.0** The Local Capital Finance Company has recently been established by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. The Council currently has no plans to undertake any external borrowing in 2015/16 and any decision to borrow from the Agency in the future will be the subject of a separate report to Cabinet and Council.

### Contract for merchant card services and treasury advice

11.12 Following a retendering exercise for the contract for merchant card services, this will now be provided by Lloyds banking group for a four year period commencing in 2015/16.

11.13 The contract for treasury advice services expired in December 2014, following a tender exercise Arlingclose have been re-appointed for a further 3 years.

### 12.0 **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