

CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting:	9 th February 2016
Report of:	Chief Operating Officer
Subject/Title:	Treasury Management Strategy and MRP Statement 2016/17
Portfolio Holder:	Councillor Peter Groves, Finance and Assets

1. 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 potential 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 reduced from the inherited position of the former County Council as loans have been repaid.
- 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 2016/17 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 2016/17 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 2016/17
- 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 was also reported to the Audit & Governance Committee on 10th December 2015 for scrutiny purposes.

2. Recommendation

2.1. Cabinet is requested to recommend to Council the approval of the:-

- Treasury Management Strategy and the MRP Statement for 2016/17 (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. Other Options Considered

3.1. None

4. Reasons for Recommendation

4.1. The report presents the 2016/17 Treasury Management Strategy Statement (TMSS), incorporating the Minimum Revenue Provision (MRP) Policy Statement, Investment Strategy and Prudential and Treasury Indicators 2016/19, required under Part 1 of the Local Government Act 2003.

4.2. The Treasury Management Strategy details the activities of the Treasury Management function in the forthcoming year 2016/17. The Strategy for 2016/17 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.

- 4.3. 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.

5. Background/Chronology

- 5.1. 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.
- 5.2. 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.
- 5.3. The capital programme for 2016/19 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.
- 5.4. 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.
- 5.5. The Council currently has external borrowing of £109m. 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 3.3%.
- 5.6. 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 2016/17

and beyond, the interest rate risk associated with delayed borrowing is assessed to be low.

- 5.7. 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 £0.4m.
- 5.8. The capital financing budget is at a very prudent level of £14m, 5.8% of the 2016/17 net revenue budget.

Capital Financing Budget 2016/17

Capital Financing Budget	2016/17 £m
Repayment of Outstanding Debt	10.8
Contribution re: Schools Transforming Learning Communities Schemes	-0.9
Direct Revenue Funding	0.4
Interest on Long Term Loans	4.1
Less: Interest Receivable on Cash Balances	-0.4
Net Capital Financing Budget	14.0

Source: Cheshire East Finance

- 5.9. The principal changes to the 2016/17 Treasury Strategy have been:
- Given the increasing risk and continued low returns from short-term unsecured bank investments, the Councils will continue to diversify into more secure and/or higher yielding asset classes during 2016/17; these include covered bonds and repurchase agreements. This diversification represents a continuation of the strategy as previously the majority of the Council's surplus cash was invested in short-term unsecured bank deposits, certificates of deposit and money market funds.
 - There are no plans to increase the investment in the CCLA property fund in this financial year.
 - The Local Capital Finance Company has been established by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lend the proceeds to local authorities. The Council currently has no plans to undertake any external borrowing in 2016/17 and any decision to borrow from the Agency in the future will be the subject of a separate report to Cabinet and Council.

6. Wards Affected and Local Ward Members

- 6.1. All

7. Implications of Recommendation

7.1. Policy Implications

- The impact of the Treasury Management Strategy 2016/17 feeds into the assumptions underpinning the 2016/19 medium term financial strategy.

7.2. Legal Implications

- 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.

7.3. Financial Implications

- 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.

7.4. Equality Implications

- Not applicable

7.5. Rural Community Implications

- Not applicable

7.6. Human Resources Implications

- Not applicable

7.7. Public Health Implications

- Not applicable

7.8. Other Implications (Please Specify)

- Not applicable

8. Risk Management

- 8.1. The Council operates its treasury management activity within the approved Treasury Management Code of Practice and associated guidance.
- 8.2. 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.
- 8.3. 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.
- 8.4. The arrangements for the identification, monitoring and controlling of risk will be reported on a regular basis in accordance with the Strategy.

9. Access to Information/Bibliography

- *CIPFA Capital Finance – The Prudential Code (2013 Edition)*
- *CIPFA Treasury Management in the Public Services – Code of Practice*

Guidance and information provided by Arlingclose can be accessed via the Treasury Management team, Corporate Finance.

10. Contact Information

Contact details for this report are as follows:-

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Appendices:

Appendix A – Treasury Management Strategy Statement & Investment Strategy 2016/17 – 2018/19