

Audit & Governance Committee

Date of Meeting: 06 December 2018

Report Title: Draft Treasury Management Strategy and Minimum Revenue Provision Statement 2019/20

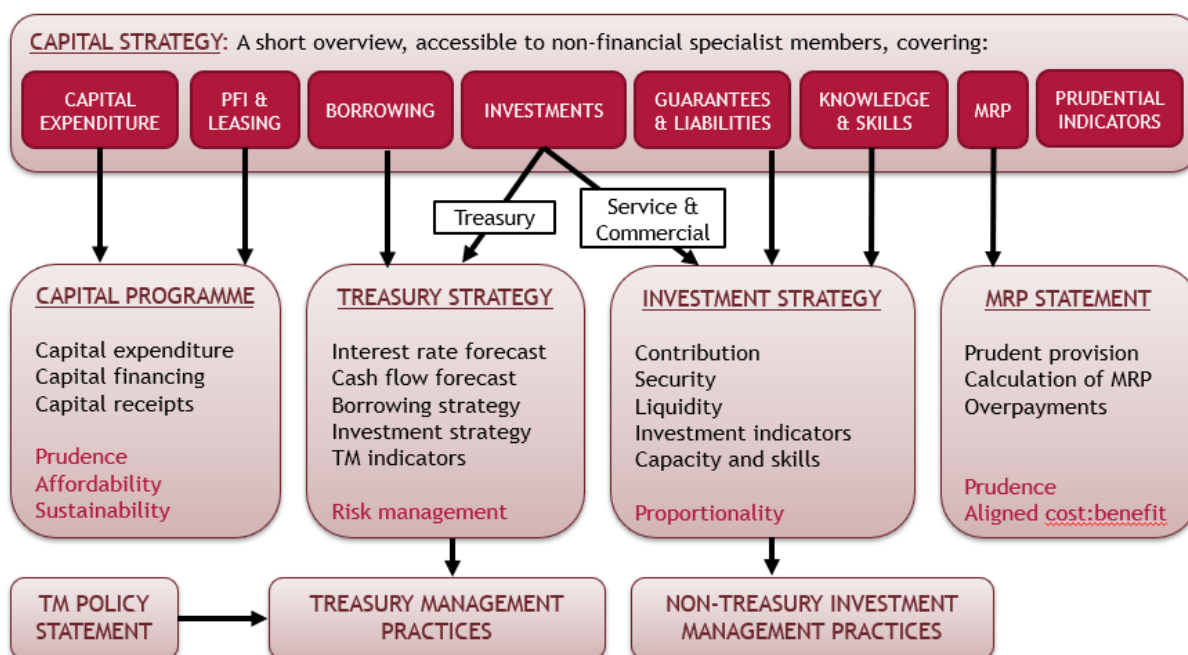
Portfolio Holder: Councillor Paul Bates

Senior Officer: Alex Thompson, Head of Finance & Performance (Section 151 Officer)

1. Report Summary

- 1.1. The purpose of this report is to update Members on the contents of the Council's draft Treasury Management Strategy and the Minimum Revenue Provision (MRP) Statement.
- 1.2. The CIPFA Treasury Management Code of Practice requires all local authorities to make arrangements for the scrutiny of treasury management. This responsibility has been nominated to the Audit & Governance Committee.
- 1.3. 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. Treasury risk management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

- 1.4. The balance sheet forecast and liability benchmark in Section 3 will be updated when the capital programme is agreed, therefore the Strategy is currently in a draft stage.
- 1.5. The Treasury Management Strategy forms part of a range of financial strategies which will be reported as part of the Medium Term Financial Strategy to Cabinet on 5th February 2019 and then on to Full Council for approval on 21st February 2019.



Source: Arlingclose Strategy Report Templates for 2019/20

2. Recommendation/s

- 2.1. To receive and comment on the draft Treasury Management Strategy and the MRP Statement for 2019/20 set out in Appendix A.

3. Reasons for Recommendation/s

- 3.1. The report presents the 2019/20 draft Treasury Management Strategy Statement (TMSS), 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 2019/20. The Strategy reflects the views on interest rates of leading market forecasts by Arlingclose, the Council's advisor on treasury matters. It also includes the Prudential Indicators relating to Treasury Management.

4. Other Options Considered

- 4.1. None.

5. Background

- 5.1. 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.
- 5.2. The Treasury Management Strategy takes into account future borrowing requirements, based on the Council's three year 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 UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20. The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity.
- 5.4. Following the increase in Bank Rate to 0.75% in August 2018, the forecast is for more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon.
- 5.5. The requirement for temporary borrowing is expected to continue in 2019/20 following the decision in April 2017 to pay the pension past service deficit contributions in one advance payment of £45m. The discount available from early repayment more than offsets the cost of borrowing.
- 5.6. The Council currently has external borrowing of £123m of which £28m is temporary borrowing with other local authorities. The amount of interest paid on the Council's portfolio of loans is mainly at fixed rates of interest (circa. 4.20%). Currently long term interest rates (25-30 years) are around 2.69%. Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Although reduced from previous years, the

Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £10m and £45m. Levels of around £20m are expected to be maintained in the forthcoming year.

- 5.7. 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. Further information will be provided in the Capital Strategy report.
- 5.8. The capital financing budget for 2019/20 is £12m. 4.3% of the 2019/20 net revenue budget.

6. Implications of the Recommendations

6.1. Legal Implications

- 6.1.1. As noted in paragraph 4.54 of the Finance Procedure Rules in the Council's Constitution, the Council has adopted CIPFA's *Code of Practice for Treasury Management in Local Authorities* as this is recognised as the accepted standard for this area. Paragraphs 4.55 – 4.61 provide further information relating to treasury management practice, and the Code itself will have been developed and based upon relevant legislation and best practice. This report will be presented to Cabinet under rule 4.60.

6.2. Finance Implications

- 6.2.1. Contained within the report.

6.3. Policy Implications

- 6.3.1. The treasury management strategy has been prepared in accordance with the Treasury Management Policy Statement and Treasury Management Practices (TMPs).

6.4. Equality Implications

- 6.4.1. None.

6.5. Human Resources Implications

- 6.5.1. None.

6.6. Risk Management Implications

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

6.6.2. 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.

6.6.3. 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.

6.6.4. The arrangements for the identification, monitoring and controlling of risk will be reported on a regular basis in accordance with the Strategy.

6.7. Rural Communities Implications

6.7.1. None.

6.8. Implications for Children & Young People

6.8.1. None.

6.9. Public Health Implications

6.9.1. None.

7. Ward Members Affected

7.1. Not applicable.

8. Access to Information

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

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9. Contact Information

9.1. Any questions relating to this report should be directed to the following officer:

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