

Finance Sub-Committee

Date of Meeting:	5 th January 2022
Report Title:	Draft Treasury Management Strategy 2022/23
Report of:	Alex Thompson, Director of Finance and Customer Services (Section 151 Officer)
Report Reference No:	FSC/11/21-22
Ward(s) Affected:	Not Applicable

1. Executive Summary

- 1.1. The purpose of this report is to review the draft Treasury Management Strategy 2022/23, as part of the performance management framework, during the Consultation Period of the Medium Term Financial Strategy.
- 1.2. The CIPFA Treasury Management Code of Practice requires all local authorities to make arrangements for the scrutiny of treasury management. At Cheshire East Council this role is the responsibility of the Finance Sub-Committee.
- 1.3. 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 Corporate Policy Committee on 10th February 2022 and then on to Full Council for approval on 24th February 2022. Full Council are required to approve the Strategy. The Finance Procedure Rules provide the Chief Finance Officer with the delegated authority to manage the Council's treasury activity within the parameters of the approved strategy.
- 1.4. Despite significant disruption to financial markets and the Council's cashflows, during the last 18 months, due to the pandemic, there is no material amendment required to the Treasury Management Strategy.
- 1.5. The key themes of the Strategy are:

- 1.5.1. Borrowing to continue from internal resources such as reserves and working capital, where available.
- 1.5.2. Borrowing to remain short term to take advantage of the on-going low interest rate environment and keep financing costs low
- 1.5.3. Investments remain low risk to prioritise security and liquidity of cash, based on credit assessment of the Treasury Management advisors.
- 1.5.4. Investments only made with counterparties that qualify under the strict criteria of credit quality stated within the Strategy.
- 1.5.5. Investment returns from treasury activity are bolstered by higher returns from strategic fund investments and will continue to mitigate the impact of the Capital Financing Budget as part of the Council's MTFS.

2. Recommendations

That Finance Sub Committee:

- 2.1. Note and comment on the draft Treasury Management Strategy for 2022/23 set out in Appendix 1.

3. Reasons for Recommendations

- 3.1. The report presents the 2022/23 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 2022/23. 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. The advice from Arlingclose, based on current economic forecasts and Council spending plans, does not require material amendments to the strategy.

4. Other Options Considered

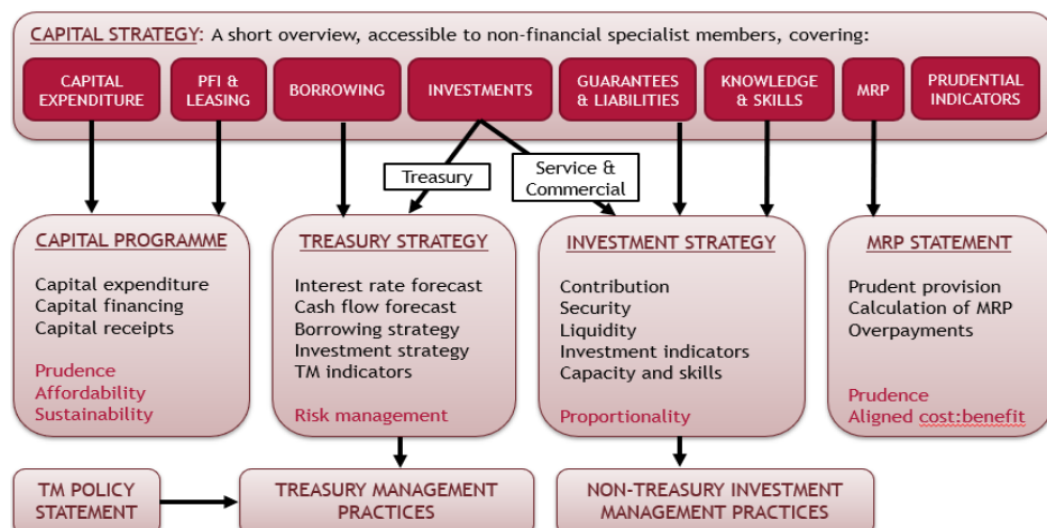
- 4.1. The Council could review debt and investment levels and consider restructuring. This is not recommended as the financial consequences of penalties or increasing interest rates from long term borrowing is not financially beneficial.
- 4.2. Counterparty lists and parameters could be extended to further increase or decrease levels of risk. The strategy reflects a balance of risk and return based on market advisors which is deemed an appropriate way to manage the counterparty list.

- 4.3. Returns on investments could be separated from the Capital Financing Budget as part of the MTFS. This is not recommended as capital spending and balance sheet management is intrinsically linked to investment returns. As such the risk of year-on-year variations in investment returns should not have a direct impact on service levels, but rather be managed as part of the wider impact of the Capital Strategy over a rolling four year period.

5. Background

- 5.1. 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.
- 5.2. The Treasury Management Strategy forms part of the overall financial strategy of the Council, effectively supporting the Capital Strategy in management of short and long term cashflow. This approach aligns with guidance from CIPFA. Diagram 1 (below) shows the links between the various strategies within the overall MTFS.

Diagram 1: Financial Strategies link together to ensure financial impacts are transparent and properly accounted for:



- 5.3. 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.
- 5.4. The Treasury Management Strategy takes into account future borrowing requirements, based on the Council's four 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.
- 5.5. 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.

6. Consultation and Engagement

- 6.1. The Council will engage in the consultation processes undertaken by CIPFA with regard to the Code of Practice for Treasury Management and related strategies.

7. Implications

7.1. Legal

- 7.1.1. As noted in paragraph 4.51 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 4.52 – 4.55 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 Finance Sub Committee under rule 4.54.

7.2. Finance

- 7.2.1. Contained within the report.

7.3. Policy

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

7.4. Equality

- 7.4.1. None.

7.5. Human Resources

7.5.1. None.

7.6. Risk Management

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

7.6.2. 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.

7.6.3. 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.

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

7.7. Rural Communities

7.7.1. There are no direct implications for rural communities.

7.8. Children & Young People/Cared for Children

7.8.1. There are no direct implications for children and young people.

7.9. Public Health

7.9.1. There are no direct implications on public health.

7.10. Climate Change

7.10.1. There are no direct implications on climate change.

Access to Information

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Appendices:	Appendix 1: Draft Treasury Management Strategy 2022-23
Background Papers:	Medium Term Financial Strategy 2021-25 2021/22 In-Year Review of Finance