CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	31st January 2013
Report of:	Chief Executive/Director of Finance and Business Services
Subject/Title:	Treasury Management Strategy and MRP Statement 2013/14
Portfolio Holder:	Councillor Peter Raynes (Finance)

1.0 Report Summary

1.1 To present the proposed 2013/14 Treasury Management Strategy Statement (TMSS), incorporating the Minimum Revenue Provision (MRP) Policy Statement, Investment Strategy and Prudential and Treasury Indicators 2013/16, required under Part 1 of the Local Government Act 2003.

1.2 Treasury Management is defined as:

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.

2.0 Recommendation

To note the Treasury Management Strategy and the MRP Statement for 2013/14 set out in Appendix A.

3.0 Reasons for Recommendation

3.1 The Treasury Management Strategy details the activities of the Treasury Management function in the forthcoming year 2013/14. The Strategy for 2013/14 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.

3.2 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.

4.0 Wards Affected

4.1 Not applicable

5.0 Local Ward Members

5.1 Not applicable

6.0 Policy Implications including – Carbon Reduction, Health

6.1 Not applicable.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

7.1 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.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 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.

9.0 Risk Management

9.1 The steps outlined in this report will significantly mitigate the main legal and financial risk to the council's financial management:

a. That council borrowing will comply with the Treasury Management Strategy

10.0 Background and Options

10.1 The Treasury Management Strategy set out in Appendix A is also reported to the Cabinet before being presented to Full Council for approval on 21st February 2013.

10.2 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.

10.3 A comprehensive review of the capital programme has been undertaken during 2012/13 with the intention of making substantial savings and focussing on initiatives with the highest priority. The key aim of the challenge to the existing programme has been to:

- Realign capital expenditure with corporate priorities;

- Cap the cost of financing the capital programme by reducing the need for future borrowing;
- Create financial & non-financial capacity to enable new schemes to come forward;
- Reassess business cases, particularly for investment projects.

10.4 In addition to the review of the capital programme, a balance sheet efficiency review has also been undertaken with the Council's treasury advisors, Arlingclose. This review aims to establish the most cost effective method of financing the capital programme and make adequate provision for the repayment of debt in future years. The review has considered the previous three financial years to form a view on the adequacy of the Council's reserves and working capital positions, as well as a projection of the expected position at the end of the following four financial years.

10.5 The methodology for applying capital receipts to finance capital expenditure has been considered as part of the review. An option available to the Council is to use capital receipts it currently holds in reserve and apply them to finance capital expenditure which has taken place in previous years and has been met from borrowing. This method is available to Council's wishing to use capital receipts to reduce debt repayment charges to revenue.

10.6 The application of the capital reserve will be undertaken in 2012-13 and will be used to repay £15m of borrowing for assets purchased after 2008 that are being written down over the various asset lives. The impact will be to reduce the level of revenue provision required for the repayment of debt in 2013-14 and future years by an estimated £2.4m.

10.7 In 2013/14 and future years, capital receipts in line with the Corporate Capital Receipts Policy will not be linked in any form to individual assets. Receipts will be fully applied to fund the capital programme in the year they are generated and the Council will not hold capital receipts in reserve on the balance sheet.

10.8 The savings in the short term on debt repayment charges will be off-set by increased debt repayment costs in future years as available capital receipts have been exhausted and future financing plans are realigned. New investment in the capital programme will need to be funded from borrowing to a greater extent in the future and therefore debt repayments may increase in the longer term.

10.9 The forecast for future capital receipts has remained at a prudent level for 2013/14 and therefore receipts of £10m will be made available to fund schemes within the 2013/14 programme.

10.10 The Council currently has external borrowing of £134m. The amount of interest paid on the Council's portfolio of long term loans is mainly at fixed rates of interest (circa 3.96%). This provides a degree of certainty to the capital financing budget. Currently long term interest rates are around 4.1%.

10.11 Within the Treasury Management Strategy, the Council will continue to minimise 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 low. Given the current low interest rate environment is expected to continue throughout 2013/14 and beyond, the interest rate risk associated with delayed borrowing is assessed to be low.

10.12 The budgeted provision for the repayment of debt in the year 2013/14 has been broadly calculated as 4% of the estimated outstanding debt at the end of the year 2012/13. This is based on the assumption that debt will generally be repaid over 25 years. Where assets are to be funded from prudential borrowing, debt repayments are profiled over the estimated life of the specific asset in question.

10.13 The Council has undertaken prudential borrowing to fund £14m of new starts in 2013/14. The Council is conscious of the impact of repayment costs on the revenue budget and has only considered schemes where capital investment is required to secure long term revenue savings and repayment costs are affordable.

10.14 The rate of interest to be earned on the Council's cash balances that are temporarily invested pending their being used (estimated at £66 million) is budgeted to be 0.5%.

Capital Financing Budget 2013/14

Capital Financing Budget	2012/13 Original £m	2012/13 Revised £m	2013/14 £m
Repayment of Outstanding Debt	9.5	9.2	6.9
Contribution re: Schools TLC Schemes	-0.8	-0.8	-0.9
Direct Revenue Funding	0.0	0.5	0.4
Interest on Long Term Loans	6.4	5.3	5.7
Total Debt Repayment	15.1	14.2	12.1
Less: Interest Receivable on Cash Balances	-0.3	-0.3	-0.2
Net Capital Financing Budget	14.8	13.9	11.9

10.15 Cheshire East inherited investments made by the former Cheshire County Council with Heritable Bank, which went into administration in October 2008. Any expected losses associated with this were accounted for by Cheshire County Council in their accounts in 2008/2009. As at 31st March 2012 the balance sheet included investments with Heritable Bank of £0.8m of which £0.3m has since been repaid to Cheshire East BC. The remainder is expected to be received in instalments ending in April 2013 although this may be delayed due to ongoing litigation. The accounts currently provide for recovery of 88% of the original investments.

10.16 The principal changes to the 2013/14 Treasury Strategy have been:

- The addition to the lending list of further Non-UK banks although these are kept under continual review and can be deleted or added to as credit conditions change. In addition to credit ratings, the Council will also assess other indicators, such as credit default swaps, share prices, the sovereign's economic fundamentals, corporate developments highlighted through news articles and market sentiment. If any of these indicators give rise to concern, the counterparty may be suspended from further use irrespective of the existing credit rating.

The revision to the credit criteria, once approved by Council for use in 2013/14, will also apply to the residual period of 2012/13.

- The addition to the lending list of Registered Providers. Typically these are Registered Social Landlords managing large quantities of housing stock.

- Following changes to CIPFA's guidance, the prudential indicator for net debt and capital financing requirement has been replaced with gross debt and the capital financing requirement. This has also resulted in the removal of the indicator 'Gross and Net Debt'.

11.0 *Access to Information*

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

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Appendices:

Appendix A – Treasury Management Strategy Statement & Investment Strategy 2013/14 – 2015/16