CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	8 December 2016
Report of:	Chief Operating Officer
Subject/Title:	Draft Treasury Management Strategy and MRP Statement 2017/18
Portfolio Holder:	Councillor Peter Groves

1. Report Summary

1.1. The purpose of this report is to update Members on the contents of the Council's Treasury Management Strategy for 2017/18.

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.

1.4. The key elements of the strategy for 2017/18 are for the Council to:

- Retain capital financing costs within an affordable limit of c.£14m
- Not enter into any external long term borrowing in 2017/18
- 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

1.5 The Treasury Management Strategy will be updated with the final capital programme before being reported to Cabinet on 7th February 2017 and then on to Full Council for approval on 23rd February 2017.

2. Recommendation

2.1 To receive and comment on the proposed Treasury Management Strategy and the MRP Statement for 2017/18 set out in Appendix A.

3. Other Options Considered

3.1. None

4. Reasons for Recommendation

4.1. The report presents the 2017/18 Treasury Management Strategy Statement (TMSS), incorporating the Minimum Revenue Provision (MRP) Policy Statement, Investment Strategy and Prudential and Treasury Indicators 2017/20, 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 2017/18. The Strategy for 2017/18 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. 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.

5.2. 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.

5.3. A major influence on the money markets during 2016/17 has been the result of Brexit and the decision by the Bank of England to reduce the base rate to a new all time low of 0.25%. Brexit has created uncertainty and the subsequent reduction in base rates will affect future returns. However, all other factors remain the same and investments will continue to be made in line with current strategies. This will, of course, be kept under review but until more is known about the arrangements post Brexit, there is unlikely to be any significant change.

5.4. Over the past year, the Council has reduced the credit risk of its investments by utilising higher rated counterparties, secured bonds and UK Public sector investments (e.g other Local Authorities). Through selective use, the overall level of return on our investments has been maintained. This process will continue in 2017/18 with interest returns expected to be better than, or equivalent to, the alternative liquid investments such as money market funds where returns are gradually diminishing.

5.5. 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.

5.6. The Council has continued its policy of utilising existing cash balances instead of taking out new long term loans in order to fund capital expenditure. This has meant that the loans portfolio has reduced as loans have been repaid.

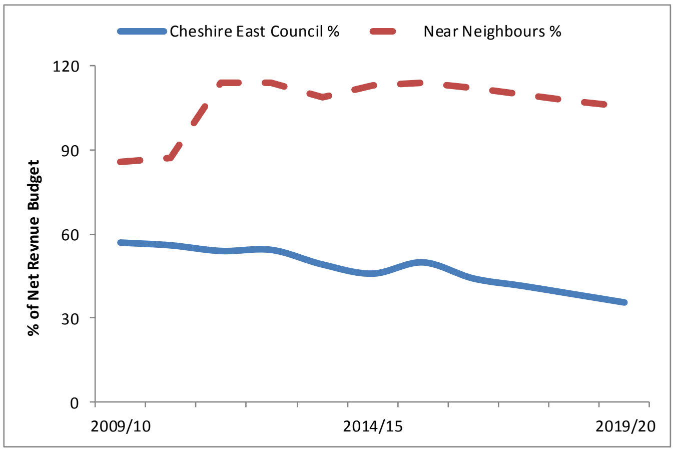
5.7. At 31 March 2016 the Council had an underlying need to borrow of £225m. By having just £110m of long-term loans outstanding at that time the Council was using £115m of cash balances represented by its reserves, balances and the excess of creditors over debtors to temporarily fund capital expenditure payments. This position (i.e., where the amounts of loans outstanding is less that than the underlying need to borrow) is referred to as internal borrowing.

5.8. It is the usual practice to have high levels of internal borrowing at a time when short term interest rates are below long term interest rates. This strategy helps reduce the net cost of interest payable to the Council as it avoids having to pay interest on new loans between 2-3% whilst only earning on average 0.75% on any cash balances held.

5.9. The Council currently has external borrowing of £106m. The amount of interest paid on the Council's portfolio of long term loans is mainly at fixed rates of interest (circa 3.9%). Currently long term interest rates are around 3.1%.

5.10. Since 1 April 2009 the level of external debt has reduced by £31m from £137m. As a percentage of the net revenue budget this is lower than the Council's nearest neighbours.

Chart 1 - Long term borrowing as a percentage of net revenue budget continues to reduce due to ongoing repayments



5.11. The rate of interest to be earned on the Council's cash balances that are temporarily invested is budgeted to be £0.3m.

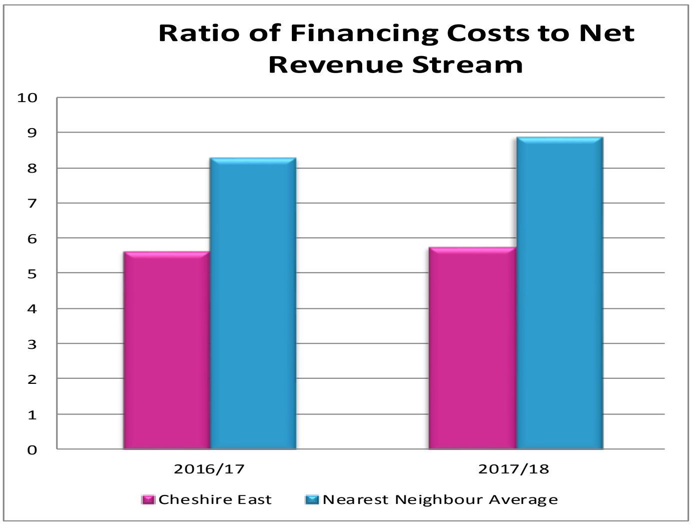
5.12. The capital financing budget is at a very prudent level of £14m, 5.8% of the 2017/18 net revenue budget. This compares favourably when compared to the Councils nearest neighbours.

Capital Financing Budget 2017/18

Capital Financing Budget	2017/18 £m
Repayment of Outstanding Debt	11.2
Contribution re: Schools Transforming Learning Communities Schemes	-0.9
Interest on Long Term Loans	4.0
Less: Interest Receivable on Cash Balances	-0.3
Net Capital Financing Budget	**14.0**

Source: Cheshire East Finance

Chart 2 – The revenue cost of the capital programme is lower than the nearest neighbour 'average'.



6. Wards Affected and Local Ward Members

6.1. All.

7. Implications of Recommendation

7.1. Policy Implications

7.1.1. 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

7.2.1. 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.

7.3. Financial Implications

7.3.1. 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.

7.4. Equality Implications

7.4.1. Not applicable.

7.5. Rural Community Implications

7.5.1. Not applicable.

7.6. Human Resources Implications

7.6.1. Not applicable.

7.7. Public Health Implications

7.7.1. Not applicable.

7.8. Implications for Children and Young People

7.8.1. Not applicable.

7.9. **Other Implications (Please Specify)**

7.9.1. 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

9.1 *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, Financial Strategy & Reporting.

10. Contact Information

Contact details for this report are as follows:

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Appendices:
Appendix A – Draft Treasury Management Strategy Statement & Investment Strategy 2017/18 – 2019/20