Cheshire East Council

Cabinet

Date of Meeting:	6th February 2018
Report of:	Jan Willis, Interim Executive Director of Corporate Services
Subject/Title:	Treasury Management Strategy and MRP Statement 2018/19
Portfolio Holder:	Councillor Paul Bates, Finance and Communication

1. Report Summary

1.1. 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.

1.2. The key elements of the strategy for 2018/19 are for the Council to:

- Reflect the forthcoming changes in the CIPFA Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities.
- Reflect the reduced capital financing costs in the short term arising from the change in the calculation of MRP (Minimum Revenue Provision) made in 2017/18
- Take an appropriate approach to risk for short term loans as 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

1.3. The Treasury Management Strategy set out in Appendix A was also reported to the Audit & Governance Committee on 7th December 2017 for scrutiny purposes.

2. Recommendation

2.1. Cabinet is requested:

2.1.1 To recommend to Council the approval of the Treasury Management Strategy Statement including the MRP Statement for 2018/19 to 2020/21 (Appendix A).

2.1.2 To establish an Investment Strategy Board as set out in paragraph 5.13 to develop an enhanced Capital Strategy and Investment Strategy for approval by Cabinet and Council as required by the CIPFA Prudential Code 2017 and statutory guidance on local authority investments.

3. Reasons for Recommendation

3.1. The report presents the 2018/19 Treasury Management Strategy Statement (TMSS), incorporating the Minimum Revenue Provision (MRP) Policy Statement and Prudential and Treasury Indicators 2018/21, 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 2018/19. The Strategy 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.

3.3. The CIPFA Code of Practice on Treasury Management requires all local authorities to agree a Treasury Management Strategy Statement 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.

3.4. Revised statutory guidance on local authority investments effective from 1st April 2018 requires local authorities to prepare an annual investment strategy for approval by full Council. The proposal to establish an Investment Strategy Board to oversee the development of the investment strategy will provide the basis for fulfilling this requirement.

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 on a quarterly basis.

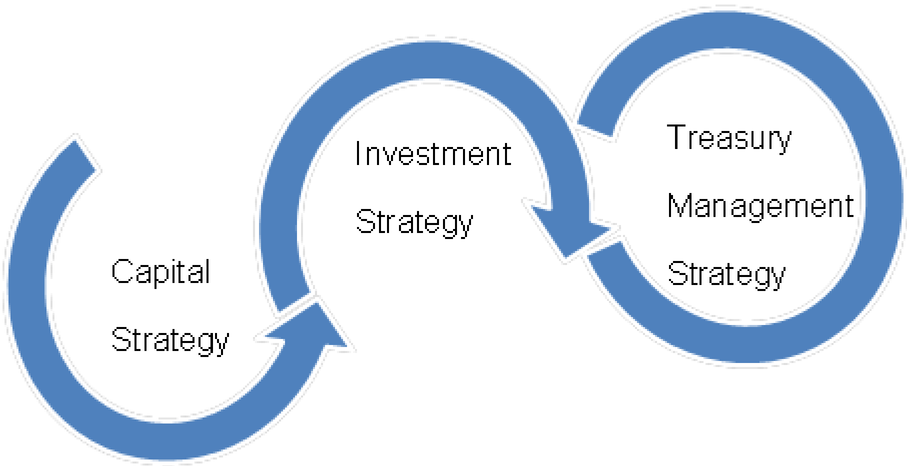
5.2. The Treasury Management Strategy takes into account future borrowing requirements, based on the Council's three year capital spending plans, projected cash flow requirements and money market opportunities. The aim is to maintain control over borrowing activities, with particular regard to longer term affordability; but also to allow sufficient flexibility to respond to changes in the capital and money markets as they arise.

5.3. CIPFA published revised editions of Treasury Management in the Public Services: Code of Practice and the Prudential Code for Capital Finance in Local Authorities in December 2017.

5.4. The main changes arising from the revised Codes include:

- an extension of the scope of the Treasury Management Code of Practice to include all investments, including non-financial assets held primarily for financial returns such as investment property portfolios;
- a requirement for an enhanced Capital Strategy; a summary document covering capital expenditure and financing, treasury management and non-treasury investments approved by full Council.

5.5. The Capital Strategy is contained within Appendix C, Annex 10 of the Medium Term Financial Strategy report included elsewhere on this agenda. This sets out the Council's programme of capital investment for 2018-21. The Strategy will need to be updated during 2018/19 to reflect the additional requirements of the revised CIPFA Prudential Code.



5.6. Capital expenditure and financing is intrinsically linked to the Treasury Management and Investment Strategies and these will continue to be developed in accordance with the revised guidance and reported to Cabinet and Council for approval during 2018/19, including:

- A detailed investment strategy
- Amendments to the Capital Strategy, Treasury Management Strategy, Prudential Indicators and Treasury Management Practices in accordance with the new regulatory framework.

5.7. Revised guidance on local authority investments issued under section 15 1(a) of the Local Government Act 2003 and effective from 1st April 2018 requires local authorities to prepare an annual investment strategy. The Strategy must allow for members and the public to assess a council's total risk exposure as a result of investment decisions and, where investment is funded through additional borrowing, the additional debt servicing costs incurred and the risks and opportunities associated with the investment. In this context investments includes both financial and non-financial investments.

5.8. The strategy must set out procedures for determining which categories of investment may prudently be used, identify which categories have been defined as suitable for use and state the maximum both individually and collectively that may be invested in each defined category and in aggregate.

5.9. The strategy must also state liquidity requirements and the council's approach to assessing and managing risk of loss, including the use of external advisors and credit ratings.

5.10. Where a local authority is or plans to become dependent on yield bearing investment activity to achieve a balanced revenue budget the strategy must detail the extent to which funding expenditure to meet core functions is dependent on achieving the net yield and contingency plans should the yield not be met.

5.11. The Strategy should disclose the steps taken to ensure that Councillors and statutory officers have appropriate capacity, skills and information to enable them to take informed decisions and that those negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

5.12. Finally, the Strategy should comment on the corporate governance arrangements that have been put in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the local authority's corporate values.

5.13. A member Investment Strategy Board will be established to develop a detailed investment strategy satisfying these requirements for approval by Cabinet and full Council during 2018/19. The Board will be chaired by the Portfolio Holder for Finance and Communication and will be supported by Officers including the Acting Director of Legal Services (Monitoring Officer), Interim Executive Director of Corporate Services, Executive Director of Place and Head of Asset Management and Regeneration.

Headlines for 2018/19

5.14. The major external influence on the Council's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the referendum, but there are indications that uncertainty over the future is now weighing on growth which is therefore forecast to remain sluggish throughout 2018/19.

5.15. Interest rates are forecast to remain at 0.5% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

5.16. The need for temporary borrowing arose during 2017/18 due to the decision to pay past service pension deficit contributions for the next three years in one advance payment of £45m in April 2017. The discount available from early payment more than offsets the costs of borrowing. The longer term borrowing requirements for 2018/19 and future years will be discussed with Arlingclose during the quarterly advisory meetings and will be reported via the quarterly updates to Cabinet.

5.17. The Council currently has external borrowing of £145m of which £44m 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 3.1%). Currently long term interest rates are around 2.6%.

5.18. The Council has maintained the £7.5m investment in the CCLA managed property fund. The current value of the units in the fund if sold is £7.6m which is slightly higher than the original invested amount. The fund continues to generate income of 4.69%. Most other investments currently held are short term for liquidity purposes.

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

5.20. 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.

5.21. The Council amended its approach to calculating the Minimum Revenue Provision (MRP) during 2017/18, the use of the annuity method resulted in the ability to take a MRP holiday and reduce the budget by £6m in 2017/18 and £4m in 2018/19. This approach reduces current costs, although the overall total cost of capital financing, over the life of capital assets, will still be consistent.

5.22. The capital financing budget has therefore reduced to £10m, 3.9% of the 2018/19 net revenue budget.

Capital Financing Budget 2018/19

Capital Financing Budget	2018/19 £m
Repayment of Outstanding Debt	10.0
Contribution re: Schools Transforming Learning Communities Schemes	-0.9
Transfer from revenue reserve	-2.6
Interest on Loans	3.8
Less: Interest Receivable on Cash Balances	-0.3
Net Capital Financing Budget	**10.0**

Source: Cheshire East Finance

6. Wards Affected and Local Ward Members

6.1 All.

7. Implications of Recommendation

1.1 Policy Implications

1.1.1 The impact of the Treasury Management Strategy 2018/19 feeds into the assumptions underpinning the 2018/21 medium term financial strategy.

1.2 Legal Implications

1.2.1 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.

1.2.2 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.

1.3 Financial Implications

1.3.1 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.

1.4 **Equality Implications**

1.4.1 Not applicable.

1.5 **Rural Community Implications**

1.5.1 Not applicable.

1.6 **Human Resources Implications**

1.6.1 Not applicable.

1.7 **Public Health Implications**

1.7.1 Not applicable.

1.8 **Implications for Children and Young People**

1.8.1 Not applicable.

1.9 **Other Implications (Please Specify)**

1.9.1 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

9.1 CIPFA The Prudential Code for Capital Finance in Local Authorities

CIPFA Treasury Management in the Public Services – Code of Practice and Cross-sectoral Guidance Notes

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 – Treasury Management Strategy Statement & Investment Strategy 2018/19 – 2020/21