Agenda Item 7

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 23 January 2014

Treasury Management Strategy 2014-15

1. Contacts

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2. Recommendation

2.1. That the Committee considers and recommends to Cabinet the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Minimum Revenue Provision Policy Statement and the Investment Strategy for 2014-15.

3. Background

3.1. Local authorities' treasury management activities are prescribed by statute i.e. the Local Government Act 2003, and the regulations issued under that Act. This is where the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice derives its legal status.

3.2. In March 2012 the Council adopted CIPFA's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code), which requires the Council to approve a treasury management strategy before the start of each financial year.

3.3. In addition, the Department for Communities and Local Government (DCLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

3.4. This report will fulfil the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG guidance, when considered by Full Council in March 2014.

4. Outcomes to be achieved

4.1. The Committee is requested to comment on the proposed changes as set out in paragraph 5 for the Treasury Management Strategy, Investment Strategy and make their recommendations for Cabinet approval.

4.2. The proposed changes are to allow the opportunity to place investments for longer terms in order to reduce the exposure to interest rate risk, increase the diversity of potential counterparties and expand the different types of investments available for the medium to long term.

5. Proposal

5.1. The appendices attached to this report have been amended and updated for the forthcoming financial year. Appendix 1 sets out the Council's treasury management policy, treasury management strategy and investment strategy.

5.2. The draft prudential indicators are shown in Appendix 2 to enable members to have an understanding of the implications of the Council's spending plans and their impact on the treasury management activities as set out in the strategy and investment policy. These indicators will be updated as necessary with the spending plans of the Council as they are approved by Cabinet and Full Council as part of the budget cycle.

5.3. Estimated Interest rates

The financial strategy reflects a down grading on the estimated rate of return for the current and future years:

Assumptions for 2014-15 Strategy

Assumed Interest Rates	2013/14 Revised	2014/15	2015/16	2016/17	2017/18	2018/19
Investment Rates	1.20%	1.00%	1.00%	1.10%	1.15%	1.20%

The view of the treasury advisors is that bank base rate will remain at 0.50% until 2015. Previously an average rate of return of 1.20% was built into the 2013-14 Treasury Management Strategy and the financial years beyond. However, based on the view of the advisers lower rates have been reflected in the 2014-15 Treasury Management Strategy and the financial years beyond.

5.4. In comparison with past and current performance, as previously reported to the Committee and Cabinet, the 2012-13 annual rate of return was 1.15%, and in June 2013 the annualised rate was 1.22%. The performance in the second quarter was an annualised rate of 1.33%, which reduced to 1.18% in the third quarter. The rates will continued to be monitored up to budget setting and performance reported to members as stated in the Strategy.

5.5. Benchmarking undertaken for 2012-13 has again highlighted that for notice accounts and short term investments under 364 days the rate of return is well below the averages.

	CDC Return	Average (all)	Average (similar authorities)
Notice Accounts	0.54 %	0.82%	0.82%
Up to 364 days	0.50%	1.34%	1.31%
Over 1 year	5.23%	2.59%	2.71%
Callable & Structured	2.25%	2.16%	2.25%
DMAF (UK government)	0.25%	0.25%	0.25%
Combined (overall)	1.15%	1.10%	1.26%

The two business reward accounts opened with HSBC in 2012 have achieved a small improvement in the return experienced for notice accounts.

5.6. At the end of 2012-13 the Council still held long term investments of £10m of which £4m was due to be repaid in 2013-14. This included the investment with an interest rate of 6.22%. Generally these higher interest rates on the longer term bank deposits offset the low interest rates on the short term investments, mainly with other local authority, and so helped to improve the overall return on the Council's investment portfolio. Local authorities tend to operate very close to the current Debt Management Office (DMO) rate of 0.25%.

5.7. No Money Market Funds have been used in the current year, as the compliance process to set up a number of accounts are still to be concluded. These prime liquid funds are operated under strict guidelines and FSA rules. Whilst the fund returns have decreased they can still offer slightly better value for short term deposits especially if compared to the DMO of 0.25%.

5.8. In considering the investment strategy, the CLG Investment Guidance requires the Council to the note the following 3 matters each year as part of the investment strategy:

(a) The use of Treasury Management Advisers: The Council currently have a contract with Arlingclose Limited.

(b) Investment Training: How the training needs of the officers involved on treasury management are identified and addressed, plus the provision of training for those members who scrutinise and approve the treasury management strategy. Member training is currently delivered by Arlingclose annually prior to approval of the forth coming year's Strategy Statement.

(c) Investment of money borrowed in advance of need: As the Council does not anticipate the need to borrow in the foreseeable future, it is therefore not expecting to borrow in advance of need, and so it is not necessary to set out any operational criteria for this situation in the Treasury Management Strategy Statement for 2014-15.

5.9. The credit rating criteria used for selecting investment counterparties is set out in table 4 in appendix 1, paragraph 12. This highlights the minor amendments being recommended in relation to the maximum timescales for investment for the lower credit rated building societies, a reduction in the maximum amount that could be placed in banks and other organisations, and money market funds.

5.10. The main issue to consider is how best to manage the interest rate risk as the Council continues to hold 65% of its investments for periods under a year. This inflates the amount of investment held in the short term, but assists with the objective of security for the Council's investment portfolio, as the potential risk of credit worthiness due to increased uncertainty over time is minimised. The effect is lower rate of return.

5.11. It is also proposed to lift the 5 year limit for investing with other Local Authorities for a period up to 10 years. Other long term investment options included in the Strategy if deemed viable are, covered bonds, lending to Registered Providers of

Social Housing, and local authority property funds, subject to further investigation and external advice.

5.12. The strategy's target average credit rating score for the investment portfolio will remain at A+, and so continues the agreed credit risk that the Council is willing to accept with the investment counterparties. Greater counterparty diversity was achieved with the changes incorporated in the 2013-14 Strategy, and so no further changes other than those suggested in paragraph 5.10 and 5.11 are being proposed.

5.13. The Treasury Management and Investment Strategies will be considered by Cabinet in February and Full Council in March.

6. Alternatives that have been considered

6.1. Neither the CLG Investment Guidance nor the CIPFA Code of Practice prescribes any particular treasury management strategy for local authorities to adopt. The Strategy is considered by the Corporate Governance and Audit Committee to comment on whether there is an appropriate balance between risk management and cost effectiveness on the rate of return on investments.

6.2. The impact of alternative strategies, with their financial and risk management implications are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults

7. Resource and legal implications

7.1. The estimated rate of return for the forthcoming financial year and future financial years has been taken into account in the 5 year model under pinning the Council's Financial Strategy and resources statement.

8. Consultation

8.1. In adhering to the CIPFA Code, the forthcoming financial year's Treasury Management Strategy, Investment Strategy and TMP's are required to be considered by those members charged with governance, before being considered by Cabinet and then Full Council for approval.

9. Community impact and corporate risks

9.1. The statutory and regulatory framework under which the treasury management function operates is very stringent, and each authority has to decide its own appetite for risk and the rate of return it could achieve.

9.2. Risk management is covered within the Treasury Management Strategy and specifically within TMP 1, an extract of which is shown in appendix 3.

10. Other Implications

	Yes	No
Crime & Disorder:		✓
Climate Change:		✓
Human Rights and Equality Impact:		✓
Safeguarding:		✓
Other (Please specify): Non- compliance or loss of an investment due to default by a counterparty could affect the financial wellbeing of the council dependent on the size of the loss and the ability to fund losses from its unallocated reserves.	✓	

11. Appendices

11.1. Appendix 1- Treasury Management Policy Statement, Treasury Management Strategy Statement, and Annual Investment Strategy for 2014-15.

11.2. Appendix 2 – Prudential Indicators and MRP Statement 2014-15.

11.3. Appendix 3 – Treasury Management Practices (TMP's) Extract of TMP 1 Risk Management.

12. Background Papers

12.1. Financial Strategy Resources position 2014-15 updated.