

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE

25 January 2018

Draft Treasury Management Strategy 2018-19

1. Contacts

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2. Recommendation

- 2.1. **The committee is requested to consider the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Investment Strategy and relevant Prudential Indicators for 2018-19 and to recommend these to Cabinet and Council for approval.**

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 (the Code) derives its legal status.
- 3.2. CIPFA and the Ministry of Housing, Communities & Local Government (MCLG) consulted on proposals to update the Code and investment guidance late in 2017 and CIPFA has subsequently issued an updated Code early in 2018.
- 3.3. As only the updated CIPFA Code has been issued to date, the draft Treasury Strategy presented as an Appendix to this report does not fully reflect any changes made to the Code, or any possible changes to MCLG Guidance.
- 3.4. If necessary, an updated Treasury and Capital Strategy that takes into account changes to Code and MCLG Guidance will be presented for approval alongside the first half-yearly update report in 2018-19.
- 3.5. The Strategy also addresses the changes to the accounting treatment of certain financial instruments arising from the implementation of IFRS9 for the 2018/19 financial year. This standard sees the removal of the "available-for-sale" classification in the Code of Practice on Local Authority Accounting. This currently allows movements in the value of certain pooled funds gains and losses to be held in reserves until the investments are sold. Instead they will now be categorised as "fair value through profit or loss" and gains and losses from changes in their value will be reflected in surpluses and deficits in the 'Provision of Services' line in the Council's accounts.
- 3.6. The relevant risks associated with treasury investments, updated for IFRS9, are included in Treasury Management Practice (TMP) 1 which is included with this report as Appendix 3.

- 3.7. Although every attempt has been made to reduce the technical content of this report, by its very nature the report is technical in parts and the glossary of terms in Appendix 4 to this report should aid members understanding of some terms used throughout.

4. Outcomes to be achieved

- 4.1. The Treasury Management and Investment Strategies for 2018-19 are approved in accordance with CIPFA's Treasury Management in the Public Services: Code of Practice, subject to a further update as necessary

5. Proposal

- 5.1. The draft Treasury Management Strategy is attached to this report and has been amended and updated for the forthcoming financial year with the suggested changes from Arlingclose, the Council's treasury adviser. These changes are explained Appendix 1 to this report.
- 5.2. The Committee are requested to comment on whether the strategy represents an appropriate balance between risk management and cost effectiveness.
- 5.3. In considering the draft Treasury Strategy Members' attention is drawn to the Council's risk appetite statement and the accompanying TMP1.

6. Estimated Interest rates

The financial strategy reflects the estimated rate of return for the current and future years:

Assumptions for 2018-19 Strategy

Assumed returns (%)	2017/18 Revised	2018/19	2019/20	2020/21	2021/22
Internal investments	0.52	0.65	0.75	0.75	0.75
Local Authority property fund	4.38	4.38	3.50	4.00	4.00
External Pooled funds	3.00	3.00	2.50	3.00	3.00

The view of the Council's treasury advisor is that the Bank Rate is likely to remain at 0.5%, with some risk that rates will fall early in 2019 linked to the date of exit from the European Union. This risk is also reason the possible return from the LAPF investment is reduced in 2019/20 in the table above.

7. Alternatives that have been considered

- 7.1. The impact of alternatives 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	Lower chance of losses from credit related defaults, but any such losses may be greater

Alternative	Impact on income and expenditure	Impact on risk management
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, but any such losses may be smaller
Do not invest in financial instruments that are classified as 'Fair value through Profit and Loss'	Interest or dividend income will be lower	Lower chance of General Fund losses from changes in fair value.

8. Resource and legal implications

- 8.1. The Council may be putting its financial standing at risk, as well as failing to meet the requirements of the Local Government Act 2003, if it failed to follow the revised Treasury Management Code and the associated guidance. Acceptance of the recommendations in this report would not only help avoid this risk, but would demonstrate that the Council's finances continue to be managed prudently
- 8.2. The Treasury Management Strategy and the Prudential Indicators reflect various assumptions of future interest rate movements and Government support for capital expenditure. These assumptions have been taken into account in the 5 year model underpinning the Council's Financial Strategy and resources statement.

9. Consultation

- 9.1. In adhering to the CIPFA Code, the forthcoming financial year's Treasury Management Strategy, Investment Strategy and TMP's will be also be considered by Cabinet before any recommendation to Full Council is made for approval.

10. Community impact and corporate risks

- 10.1. 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.

11. Other Implications

	Yes	No
Crime & Disorder:		✓
Climate Change:		✓
Human Rights and Equality Impact:		✓
Safeguarding and Early Help:		✓
Other (Please specify): 1. Compliance with the Local Government Act 2003 2. 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.	✓	

12. Appendices

- 12.1. Appendix 1 – Summary of amendments between 2017-18 and 2018-19

12.2. Appendix 2- Treasury Management Policy Statement, Treasury Management Strategy Statement, Treasury Prudential Indicators and Annual Investment Strategy for 2018-19.

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

12.4. Appendix 4 - Glossary

13. Background Papers

13.1. None.