Chichester District Council

THE CABINET 5 February 2019

Draft Treasury Management Strategy 2019-2020

1. Contacts

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2. Recommendation

2.1. **The Cabinet recommends the following for approval by the Council:**

(a) The Treasury Management Policy Statement, the Treasury Management Strategy Statement and Investment Strategy for 2019-2020, incorporating the temporary limits established in appendix 6 to the agenda report.

(b) Chichester District Council's capital strategy for 2019-2020 to 2023-2024.

(c) The prudential indicators and limits for 2019-2020 included in appendix 2 of the report.

(d) That officers investigate whether to set an indicator to measure the proportionality of commercial income generated by Chichester District Council and, if so, to recommend a suitable indicator for inclusion in Chichester District Council's 2020-2021 treasury strategy.

3. Background

3.1. This report will fulfil Chichester District Council's (CDC) legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and the Ministry of Housing, Communities and Local Government (MHCLG) guidance, when considered by the Council in March 2019.

3.2. Following the Members workshop on this topic in December 2018, Members of the Cabinet will be aware of the updates to the CIPFA Prudential Code and Treasury Management Code and MHCLG Investment Regulations that are incorporated into the documents considered here.

3.3. In summary, the changes expand the purview of the Council's treasury and investment strategies to cover a broader range of non-treasury Investments (largely commercial and service based investments and loans). They also exhort a greater emphasis on risk management and Governance arrangements for these wider non-Treasury investments.

3.4. The Prudential Code also introduced a requirement to produce an annual Capital Strategy report. This summarises the detail contained in many other reports including the capital and project programme and 5 year financial strategy which are considered separately by Cabinet. The intention is that this document provides the full Council with a concise, accessible view of the authority's approach to capital investment and treasury management, with a focus on risk management.

3.5. The documents under consideration here reflect the adoption of IFRS 9 into Local Authority Accounts from 1 April 2019. The main changes affect the accounting for investments including shares and service loans, with more instruments being "marked to market" annually through the General Fund, and a provision for doubtful debts being put aside for all loans whether made for treasury management or service reasons. Cabinet members will be aware that the MHCLG has recently announced a statutory override which will protect the Council's general fund from movements in market values of investments until 1 April 2023, giving some breathing room for investments to mature should the Council wish to make further long term investments in pooled funds during 2019-20.

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

Assumed returns (%)	2018/19 Revised	2019/20	2020/21	2021/22	2022/23
Internal investments	0.83	1.00	1.25	1.25	1.25
External Pooled funds (Income return)	4.05	3.50	4.00	4.00	4.00

The view of the CDC's treasury advisor is that the Bank Rate could rise twice during 2019/20 to 1.25% but there are increasing downside risks to this forecast linked to possible arrangements for the UK's exit from the European Union.

3.7. Given the breadth of changes required this year a summary of the key amendments made to the documents considered here has been provided at appendix 1.

3.8. Cabinet will wish to be aware of the matter outlined in Appendix 6 to this report which arose after the date of the Corporate Governance and Audit Committee and have a potentially significant impact on the Council's day to day cash management arrangements.

3.9. Officers have made one further minor change to the Treasury Strategy following the Corporate Governance and Audit Committee. The overall limit of investment in money market funds has been reduced to 0.5% of fund size to be in line with Arlingclose's recommendations. This will have no operational impact on the Council's ability to invest at the prospposed levels in existing money market funds, although it will restrict the amount the Council can invest in the CCLA public sector deposit fund referred to in Appendix 6 to around £2m.

4. Outcomes to be Achieved

4.1. The Treasury Management and Investment Strategies for 2019-2020 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 Cabinet is requested to comment on whether the policies and strategies presented here for 2019-20 represent an appropriate balance between risk management and cost effectiveness.

5.2. In considering the draft Treasury Strategy attention is drawn to the CDC's risk appetite statement (appendix 2) and the accompanying Treasury Management Practice (TMP) 1 (appendix 4).

5.3. The Treasury Management and Investment Strategies (appendix 2) and the Council's Capital Strategy (appendix 3) will be considered by the Council in March 2019.

6. Alternatives Considered

6.1. 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
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 or gains from changes in fair value.

7. Resource and Legal Implications

7.1. CDC might 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 CDC's finances continue to be managed prudently

7.2. 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 CDC'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 has been considered by the Corporate Governance and Audit Committee (CG&AC) at its meeting on 10 January 2019.

8.2. One matter that received specific attention related to the requirement contained in the commentary accompanying the MHCLG's guidance on investments that every local authority should set a limit that cannot be exceeded for commercial income as a percentage of net service expenditure.

8.3. Officers at present have chosen not to recommend setting such a limit as it is felt there is already sufficient information about the contribution the Council's investments make towards funding local services in the current Strategy and setting a formal upper limit could prevent the Council from charging market rents or charging commercial interest rates in order to not exceed the limit set. This accords with the view of the Council's Treasury advisor, Arlingclose who have also recommended Councils do not set this limit.

8.4. Following discussion, the strategy was recommended subject to minor amendments agreed by the Committee and the addition of a new recommendation (recommendation d, above) that officers investigate what further proportionality indicator would be desirable and to report back to Committee at a future date.

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. The relevant risks associated with treasury investments are included in Treasury Management Practice (TMP) 1 which is included with this report as appendix 4.

10. Other Implications

	Yes	No
Crime and Disorder		X
Climate Change and Biodiversity		X
Human Rights and Equality Impact This process and any associated changes have been and will continue to be undertaken in accordance with Human Rights, Equality and employment law legislation. The equalities impact by gender and pay band was analysed internally, and then externally by Unison, the recognised trade union on behalf of the staff side.		X
Safeguarding and Early Help		X
General Data Protection Regulations (GDPR)		X
Health and Wellbeing		X
Other **1.** Compliance with the Local Government Act 2003 **2.** Non- compliance or loss of an investment due to default by a	X	

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

a. Appendix 1 – Summary of amendments between 2018-2019 and 2019-2020

b. Appendix 2- Treasury Management Policy Statement, Treasury Management Strategy Statement, Treasury Prudential Indicators and Annual Investment Strategy for 2019-2020

c. Appendix 3 – Draft capital Strategy 2019-2020 to 2023-2024

d. Appendix 4 – Treasury Management Practices (TMPs) Extract of TMP 1 Risk Management

e. Appendix 5 – Treasury Management Glossary

f. Appendix 6 – Impact of the European Union (Withdrawal) Act 2018

12. Background Papers

None.