

Chichester District Council

THE CABINET

7 February 2017

Draft Treasury Management Strategy 2017-2018

1. Contacts

Report Author:

Mark Catlow - Group Accountant

Tel: 01243 521076 E-mail: mcatlow@chichester.gov.uk

Cabinet Member:

Philippa Hardwick - Cabinet Member for Finance and Governance Services

Tel: 01428 661866 E-mail: phardwick@chichester.gov.uk

2. Recommendation

2.1. That the Cabinet considers and recommends the following for approval by the Council:

(a) The Treasury Management Policy and Treasury Management Strategy Statement for 2017-2018 as contained in appendix 2 of the report.

(b) The Investment Strategy 2017-2018 as detailed in the Treasury Management Strategy Statement.

(c) The Prudential Indicators and Limits for 2017-2018 included in the report at appendices 2 and 4.

(d) The Minimum Revenue Provision statement for 2017-2018 included at appendix 4.

3. Background

3.1. The draft Treasury Management Policy Statement introduced by this report was considered by Corporate Governance and Audit Committee on 27 January 2017. A verbal update on this, and any comments or amendments requested, will be provided to the Cabinet before they consider this report.

3.2. 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.

3.3. 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.

3.4. 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.

- 3.5. 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 Council in March 2017.
- 3.6. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the effect of changing interest rates. The Council's Treasury management Strategy supports the successful identification, monitoring and control of these risks.

4. Outcomes to be Achieved

- 4.1. The Treasury Management and Investment Strategies for 2017-18 and supporting prudential indicators are approved in accordance with the CIPFA's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code).

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 the Council's treasury adviser. These changes have been tracked and an explanation provided in Appendix 1 to this report to aid consideration by Members.
- 5.2. Appendix 2 sets out the Council's treasury management policy, treasury management strategy, investment strategy and prudential indicators relevant to treasury management for the forthcoming financial year.
- 5.3. Appendix 4 sets out draft prudential indicators relevant to Capital expenditure and financing, together with a draft Minimum Revenue Provision statement for 2017-2018.

6. Estimated Interest Rates

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

Assumptions for 2017-18 Strategy

Assumed Interest Rates	2016/17 Revised	2017/18	2018/19	2019/20	2020/21
Investment Rates	0.82%	0.55%	0.55%	0.55%	0.55%

The view of the treasury advisor is that the likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.

7. Alternatives Considered

- 7.1. The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance and Governance, has consulted with the Leader and the Cabinet Member for Finance and Governance on the strategy now to be considered by the Corporate Governance and Audit Committee. The Cabinet is requested to comment on whether the strategy represents an appropriate balance between risk management and cost effectiveness.
- 7.2. 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

8. Resource and Legal Implications

- 8.1. The estimated rate of return for the forthcoming financial year and future financial years has been taken into account in the 5 year model 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 are required to be considered by those members charged with governance, before being considered by Cabinet and then Full Council 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.
- 10.2. Risk management is covered within the Treasury Management Strategy and specifically within TMP 1, an extract of which is shown in appendix 3.

11. Other Implications

	Yes	No
Crime and 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.		
--	--	--

12. Appendices

- 12.1. Appendix 1 – Summary of amendments between 2016-2017 and 2017-2018
- 12.2. Appendix 2- Treasury Management Policy Statement, Treasury Management Strategy Statement, Treasury Prudential Indicators and Annual Investment Strategy for 2017-18.
- 12.3. Appendix 3 – Treasury Management Practices (TMP's) Extract of TMP 1 Risk Management.
- 12.4. Appendix 4 – Capital Prudential Indicators and MRP Statement 2017-18

13. Background Papers

- 13.1. None.