

Chichester District Council

THE CABINET

6 February 2018

Draft Treasury Management Strategy 2018-2019

1. Contacts

Report Author:

Mark Catlow - Group Accountant

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

Cabinet Member:

Peter Wilding - Cabinet Member for Corporate Services

Telephone: 01428 707324 E-mail: pwilding@chichester.gov.uk

2. Recommendation

2.1. **The Cabinet is requested to consider and recommend the following for approval by the Council:**

(a) **The Treasury Management Policy and Treasury Management Strategy Statement for 2018-2019 as contained in appendix 2 of the report.**

(b) **The Investment Strategy 2018-2019 as detailed in the Treasury Management Strategy Statement.**

(c) **The Prudential Indicators and Limits for 2018-2019 included in appendix 2 of the report.**

3. Background

3.1. The draft Treasury Management Policy Statement introduced by this report was considered by Corporate Governance and Audit Committee on 25 January 2018. A verbal update on this and any comments or amendments requested will be provided to the Cabinet before it considers this report.

3.2. 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 2018.

3.3. CIPFA and the MHCLG consulted on proposals to update the Code and investment guidance late in 2017 and CIPFA has subsequently issued an updated Code early in 2018. 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 MHCLG Guidance.

- 3.4. If necessary, an updated Treasury and Capital Strategy that takes into account changes to Code and MHCLG Guidance will be presented for approval alongside the first half-yearly update report in 2018-2019.
- 3.5. The Strategy also addresses the changes to the accounting treatment of certain financial instruments arising from the implementation of IFRS9 for the 2018-2019 financial year. Under the current framework movements in the value of collective pooled investment schemes will, in future, be reflected in surpluses and deficits in the 'Provision of Services' line in CDC's accounts.

4. Outcomes to be Achieved

- 4.1. The Treasury Management and Investment Strategies for 2018-2019 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, CDC's treasury adviser. These changes are explained in appendix 1 to this report.
- 5.2. The Cabinet is 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 attention is drawn to the CDC's risk appetite statement (Appendix 2) and the accompanying TMP1 (Appendix 3).
- 5.4. The Treasury Management and Investment Strategies will be considered by the Council in March 2018.

6. Estimated Interest Rates

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

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 (LAPF)	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 CDC'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. The risk surrounding BREXIT is also the reason why LAPF returns have been reduced for 2019-2020.

7. Alternatives 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
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.

8. Resource and Legal Implications

- 8.1. 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
- 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 CDC'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 has been considered by the Corporate Governance and Audit Committee (CG&AC) at its meeting on 25 January 2018, before being considered by the Cabinet and then the Council for approval. The views of CG&AC will be reported orally to the Cabinet.

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. 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.

11. Other Implications

	Yes	No
Crime and Disorder		✓
Climate Change		✓
Human Rights and Equality Impact		✓
Safeguarding		✓
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 2017-2018 and 2018-2019
- 12.2. Appendix 2- Treasury Management Policy Statement, Treasury Management Strategy Statement, Treasury Prudential Indicators and Annual Investment Strategy for 2018-2019.
- 12.3. Appendix 3 – Treasury Management Practices (TMPs) Extract of TMP 1 Risk Management.
- 12.4. Appendix 4 – Treasury Management Glossary

13. Background Papers

- 13.1. None.