

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE

10 January 2019

Draft Treasury Management and Capital Strategies 2019-20

1. Contacts

Report Author:

Mark Catlow, Group Accountant

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

2. Recommendation

- 2.1. **That the Committee considers the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Investment Strategy and relevant Indicators for 2019-20.**
- 2.2. **That the Committee considers the Council's Capital Strategy for 2019-20 - 2022-23.**
- 2.3. **The Committee recommends 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 derives its legal status.
- 3.2. The Prudential Code covering Treasury Management and Capital Finance (the Code) was updated in November 2017, closely followed by updated MHCLG Investment regulations in January 2018 (the Regulations). Both revisions particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income.
- 3.3. The Code also now requires all local authorities to produce a Capital Strategy. The intention is that this document will give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 3.4. The development of a Capital Strategy and extended horizon for the Council's Treasury and Investment Strategies seeks to ensure that the overall strategy, governance procedures and risk appetite are fully understood by all elected members
- 3.5. There is no change to the requirement that the documents referred to above in the recommendations are adopted by Full Council prior to the start of the financial year.

- 3.6. The draft Treasury and Investment Strategies presented at an appendix 2 to this report, and the draft Capital Strategy (appendix 3) as designed to comply with the new regulatory framework as described above.
- 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 Annexe 5 to the Strategy should aid members understanding of some terms used in the report.

4. Outcomes to be achieved

- 4.1. The Treasury Management and Investment Strategies for 2019-20 and the Council's Capital Strategy for 2019-20 to 2022-23 are approved in accordance with CIPFA's Treasury Management in the Public Services: Code of Practice and the MHCLG's investment Regulations.

5. Proposal

- 5.1. The draft Treasury Management Strategy, Investment Strategy and Capital Strategy are attached to this report and has been amended and updated for the Regulatory changes imposed at the start of 2018. These changes are outlined and an explanation provided in Appendix 1 to this report.
- 5.2. In particular, the Committee is requested to comment on whether the strategy represents an appropriate balance between risk management and cost effectiveness.

6. Estimated Interest rates

- 6.1. Appendix 1 to the Treasury Strategy contains details of the interest rate assumptions that have been used in developing this strategy.

7. Alternatives that have been considered

- 7.1. The Treasury Strategy contains details of alternatives that have been considered. These are, briefly;

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 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 Investment Guidance. Acceptance

of the recommendations in this report would not only help avoid this risk, but would demonstrate that the Council's financial matters 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 under pinning 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 4.

11. Other Implications

	Yes	No
Crime & 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 2018-19 and 2019-20
- 12.2. Appendix 2- Treasury Management Policy Statement, Treasury Management Strategy Statement, Treasury Prudential Indicators and Annual Investment Strategy for 2019-20.
- 12.3. Appendix 3 – Capital Strategy 2019-20 to 2022-23
- 12.4. Appendix 4 - Treasury Management Practices (TMP's) Extract of TMP 1 Risk Management.
- 12.5. Appendix 5 - Glossary

13. Background Papers

13.1. None.