Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 24 November 2015

Draft Treasury Management Strategy 2016-17

1. Contacts

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2. Recommendation

2.1. That the committee considers the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Minimum Revenue Provision Policy Statement and the Investment Strategy for 2016-17 and 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. 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.

3.3. 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.

3.4. 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 2016.

3.5. 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 successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

4. Outcomes to be achieved

4.1. The Treasury Management and Investment Strategies for 2016-17 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 to aid members. Appendix 1 sets out the Council's treasury management policy, treasury management strategy and investment strategy for the forthcoming financial year.

5.2. In managing the risks associated with the treasury management function, the Council considers the available uncommitted resources to cover any potential investment losses when setting the different investment limits. In the 2015-16 strategy an investment limit of £2.5m per counterparty was set, to take account of the true available resources to cover any losses, which were at a level of 9.3m. These reserves are now considered to be £15.2m, due to the £5m minimum level of reserves, the £1.3m held to give revenue budget support (if necessary) and the current uncommitted resources of £8.9.m as indicated by the Financial Strategy to be reported to Cabinet in December.

5.3. Whilst the maximum investment amount to each of the approved counterparties is not being amended; it is recommended that the maximum period to the secure investment vehicles is increased as set out in table 4 of the strategy. This is to reflect that the estimated balances maintained within the 5 year financial strategy will remain at approximately £30m at the end of each financial year.

5.4. Other changes in the strategy reflect the updated economic outlook, investment interest rate forecasts and taking into account the current assumptions on the Council's spending plans. The indicators declared in the treasury management strategy will be updated as necessary when reported to Cabinet in February 2016 along with the budget.

5.5. Estimated Interest rates

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

Assumptions for 2016-17 Strategy

Assumed Interest Rates	2015/16 Revised	2016/17	2017/18	2018/19	2019/20	2020/21
Investment Rates	0.80%	0.75%	1.00%	1.15%	1.20%	1.25%

The view of the treasury advisor is that bank base rate will remain at 0.50% until the third quarter of 2016, rising by 0.50% a year thereafter, finally settling between 2% and 3% in several years' time. An average rate of return of 0.80% was built into the 2015-16 Treasury Management Strategy and the revenue budget. Whilst the first quarter's performance for 2015-16 indicated that an annualised rate of 0.69% was being achieved. Some new long term investments have been placed recently which were better than the short term rates available.

5.6. The Treasury Management and Investment Strategies will be considered by Cabinet in February and Council in March 2016.

6. Alternatives that have been considered

6.1. 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 Committee are requested to comment on whether the strategy represents an appropriate balance between risk management and cost effectiveness.

6.2. 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

7. Resource and legal implications

7.1. The estimated rate of return for the forthcoming financial year and future financial years has been taken into account in the 5 year model under pinning the Council'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 are required to be considered by those members charged with governance, before being considered by Cabinet and then Full Council for approval.

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. Risk management is covered within the Treasury Management Strategy and specifically within TMP 1, an extract of which is shown in appendix 2.

10. Other Implications

	Yes	No
Crime & 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.		

11. Appendices

11.1. Appendix 1- Treasury Management Policy Statement, Treasury Management Strategy Statement, and Annual Investment Strategy for 2015-16 and schedule A.

11.2. Appendix 2 – Treasury Management Practices (TMP's) Extract of TMP 1 Risk Management.

12. Background Papers

12.1. None.