Chichester District Council

CABINET **26 January 2016**

Treasury Management Strategy 2016-17

1. Contacts

Report Author:
Helen Belenger, Accountancy Services Manager
Tel: 01243 521045 E-mail: hbelenger@chichester.gov.uk

Cabinet Member:
Cllr Philippa Hardwick, Cabinet Member for Finance
Tel: 01428 642464 E-mail: phardwick@chichester.gov.uk

2. Recommendation

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

(a) The Treasury Management Policy and Treasury Management Strategy Statement for 2016-17 as contained in appendix 1 of the report.

(b) The Investment Strategy 2016-17 as detailed in the Treasury Management Strategy Statement (appendix 1).

(c) The Prudential Indicators and Limits for 2016-17 to 2020-2021 as detailed in appendix 2 of the report.

(d) The Minimum Revenue Provision (MRP) Statement contained within appendix 2, which sets out the Council's policy on MRP.

(e) That the 2015-16 Treasury Management Strategy and Investment Strategy is amended as set out in Appendix 5.

2.2. That Cabinet notes the investment performance for the second and third quarters of 2015-16 (appendices 3 and 4).

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 on 26 January 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).

4.2. The Treasury Management and Investment Strategies for 2015-16 are amended to permit the use of the local authority property fund prior to 31 March 2016 and for the longer permitted time periods for investing with counterparties.

4.3. The performance in the current year for quarters 2 and 3 is noted.

5. Proposal

5.1. The Treasury Management Strategy, attached to this report, 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. The prudential indicators are shown in Appendix 2 to enable members to have an understanding of the implications of the Council's spending plans and their impact on the treasury management activities as set out in the strategy and investment policy. These indicators reflect the spending plans of the Council which are due to be considered by Full Council on 1 March 2016, for the council tax setting.

5.3. 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 the true available resources to cover any losses was at a level of £9.3m. And whilst these reserves are now considered to have increased to £14.6m, 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 £8.3.m, it is considered prudent that the counterparty investment limits remain unchanged to those operated during the current financial year, as detailed in table 4 of the 2016-17 strategy.

5.4. The main change being recommended is 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.

5.5. Another change recommended is the ability to use the local authority property fund as an approved counterparty up to a maximum investment limit of £10m.

5.6. 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 if necessary in the budget report to Cabinet in February 2016.

5.7. 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 current performance to date for 2015-16 indicates that an annualised rate of 0.65% is being achieved, the income generated is higher due to higher balances maintained throughout the year. Some new long term investments have been placed recently which were better than the short term rates available.

5.8. Investment Strategy

In considering the investment strategy, the CLG Investment Guidance requires the Council to the note the following three matters each year as part of the investment strategy:

(a) The use of Treasury Management Advisers: The Council currently have a contract with Arlingclose Limited.

(b) Investment Training: How the training needs of the officers involved on treasury management are identified and addressed, plus the provision of training for those members who scrutinise and approve the treasury management strategy. Member training was delivered by the Council's treasury adviser prior to approval of the forthcoming year's Treasury Management Strategy.

(c) Investment of money borrowed in advance of need: As the Council does not anticipate the need to borrow in the foreseeable future, it is therefore not expecting to borrow in advance of need, and so it is not necessary to set out any operational criteria for this situation in the Treasury Management Strategy for 2016-17.

5.9. The Treasury Management and Investment Strategies will be considered by Council on 26 January 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. In adhering to the CIPFA Code, the forthcoming financial year's Treasury Management Strategy Statement and Investment Strategy are required to be considered by those members charged with governance, before being referred to Full Council for approval.

6.2. The Corporate Governance and Audit Committee were requested to comment on whether the strategy represents an appropriate balance between risk management and cost effectiveness, when it considered the Treasury Management Strategy Statement and Investment Strategy for 2016-17 at its meeting on 24 November 2015. The Committee supported the changes as detailed in the appendix 1.

6.3. 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. Investment Performance Quarters 2 & 3 (Appendices 2 & 3)

7.1. The revised Treasury Management Strategy for 2015-16 was approved by full Council on 10 March 2015.

7.2. The investment returns achieved in the second and third quarters of the year were:

Investment Interest – 2015-16	Interest Achieved £	Annualised Average Rate %
Quarter 2 – July – September	100,104	0.61
Quarter 3 – October – December	114,569	0.72

7.3. The returns achieved exceed the internally set investment performance indicators of the Local Authority 7 Day Deposit index, the 3 Month London Inter-Bank Offer Rate (LIBOR) and 3 Month London Inter- Bank Bid Rate (LIBID).

7.4. The annualised investment performance, including the Council's property investments, was 1.13% and 1.26% for quarter 2 and 3 respectively.

7.5. The original budget anticipated investment interest would amount to £264,300 at a rate of 0.80%. Whilst the average rate of interest achieved during the year is lower than this target, the amount of investment interest for year is expected to be higher due to the higher balances to invest during the year, and so it is now anticipated that the investment interest received will now amount to £325,600 in 2015-16.

7.6. Outlook for Q4 2015-16

The global economy is facing a period of slower growth, as China reorients slowly towards domestic demand. The lower demand for raw materials will depress growth in mainly developing countries. However countries with stronger domestic demand such as the UK and US may be able to weather a temporary global slowdown helped by lower commodity prices. Inflation is expected to remain low over the next 12 months and domestic demand is key for UK growth.

7.7. On the back of strong consumption, business investment has strengthened, which should drive some productivity growth. However, the outlook for business investment may be tempered by the looming EU referendum and increasing uncertainties surrounding global growth and recent financial market results.

7.8. The Council's adviser, Arlingclose, projects a slow rise in Bank Rate from September 2016. The pace of interest rate rises will be gradual and the extent of rises limited with the normalised level of Bank Rate post-crisis likely to range between 2% and 3%. Market expectations are now also for increases in interest rates in the latter half of the year and muted increases in gilt yields in the medium term, with short term volatility due to uncertainties surrounding UK and US monetary policy and global growth weakness.

7.9. Amendments to the 2015-16 Treasury Management Strategy

Appendix 5 sets out the changes to be incorporated into the current year's approved treasury management strategy to enable officers to seek to use the local authority property fund as an approved counterparty prior to 1 April 2016, and the changes to table 4 to reflect the maximum period for investments to approved counterparties.

7.10. The effect of these amendments to the various approved limits within the approved 2015-16 Treasury Management Strategy is also set out in appendix 5.

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 under pinning the Council's Financial Strategy and resources statement.

9. Consultation

9.1. The Corporate Governance and Audit Committee considered the Treasury Management Strategy Statement and Investment Strategy at its meeting on 24

November 2016. The Committee supported the changes proposed in relation to the use of the property fund, and extending the time limits for investments taking into account the credit ratings of the counterparties as set out in table 4 of appendix 1.

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 6.

11. Other Implications

	Yes	No
Crime & Disorder:		✓
Climate Change:		✓
Human Rights and Equality Impact:		✓
Safeguarding and Early Help:		✓
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- Treasury Management Policy Statement, Treasury Management Strategy Statement, and Annual Investment Strategy for 2016-17

12.2. Appendix 2 – Prudential Indicators and MRP Statement 2016-17
12.3. Appendix 3 – Treasury Management Activities 2nd Quarter 2015-16
12.4. Appendix 4 – Treasury Management Activities 3rd Quarter 2015-16
12.5. Appendix 5 – Changes to the 2015-16 Treasury Management Strategy
12.6. Appendix 6 – Treasury Management Practices (TMP's) Extract of TMP 1 – Risk Management

13. Background Papers

13.1. None.