

# Chichester District Council

**CORPORATE GOVERNANCE & AUDIT COMMITTEE**

**26 January 2017**

## **Draft Treasury Management Strategy 2017-18**

### **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 Investment Strategy and relevant Prudential Indicators and Minimum Revenue Provision statement for 2017-18.**
- 2.2. 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. 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 2017.
- 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 2017-18 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 are outlined and an explanation provided in Appendix 1 to this report.
- 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 2017-18.

## 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 Council's 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.

- 6.1. The Treasury Management and Investment Strategies will be considered by Cabinet in February and Council in March 2017.

## 7. Alternatives that have been 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 Committee are 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
<b>Crime &amp; Disorder:</b>		✓
<b>Climate Change:</b>		✓
<b>Human Rights and Equality Impact:</b>		✓
<b>Safeguarding:</b>		✓
<b>Other (Please specify):</b> 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 2016-17 and 2017-18
- 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.