

## SOUTHEND-ON-SEA BOROUGH COUNCIL

### TREASURY MANAGEMENT POLICY STATEMENT 2011/12

#### **1 Background**

- 1.1 The purpose of this statement is to outline the Council's treasury management policy.
- 1.2 The CIPFA Code of Practice on Treasury Management recommends that Local Authorities:
  - Adopt the CIPFA code
  - Create and maintain both a Treasury Management Policy Statement and suitable Treasury Management practices
  - Appoint an officer to whom Treasury Management is delegated
  - Submit reports regularly
- 1.3 Cabinet approved adoption of the CIPFA code of Practice for Treasury Management at its meeting on 12<sup>th</sup> February 2002. CIPFA published the revised Code of Practice for Treasury Management on 27 November 2009, the implementation of which was the subject of a report to Audit Committee submitted to its meeting of 13 January 2010.
- 1.4 There is a requirement in the revised code that the treasury management policy should be scrutinised in detail by a specialist committee, before being accepted by the authority, and should be monitored regularly.
- 1.5 The treasury management policy is agreed in advance of the year to which it relates. The policy is then monitored regularly and is updated, as appropriate, to reflect changing circumstances and guidance.
- 1.6 The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management policy, before approval by full Council as part of the approval of the budget.
- 1.7 The Chief Finance Officer (Section 151 Officer under the Local Government Act 1972) is the person responsible for the treasury management function.
- 1.8 The revised code requires that, as a minimum, reporting should include an annual strategy in advance of the year, a mid-year review and an annual report after its close. The reporting and scrutiny of the strategy and policy are dealt with above. Reports on the activities of the treasury management function will be submitted to Cabinet quarterly. One such report will comprise an annual report for presentation before

31<sup>st</sup> July of the succeeding year. Another report will be a mid-year review reporting in November of each year.

## **2 Duration of the Policy Statement**

2.1 This Treasury Management Policy Statement covers the 2011/12 financial year.

## **3 Scope of the Treasury Management Function**

3.1 The Council defines its treasury management activities as:

- the management of the organisation's investments and cash flows, its banking, money market and capital market transactions;
- the effective control of the risks associated with those activities;
- the pursuit of optimum performance consistent with those risks.

3.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

3.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

3.4 The Council acknowledges that responsibility for the effective management and control of risk lies with the authority.

## **4 Use of a treasury management adviser**

4.1 The services of our treasury management adviser, Sector, will be used throughout 2011/12 to assist the Council to develop and enhance the performance of the treasury management function. (Our adviser was Butlers but in October 2010 their business was transferred to Sector Treasury Services Limited.)

4.2 The role of this adviser is to provide relevant and timely information and advice on all aspects of treasury management.

4.3 The Council recognises that responsibility for treasury management decisions remains with the authority at all times.

## **5 Funding requirements for the capital programme**

5.1 The following methods of funding have been identified as being available to the Council for use in 2011/12:

- Borrowing – both where supported by the Government via formula grant and unsupported borrowing
- Use of capital receipts - from the sale of surplus assets
- Use of Government Grants – e.g. Local Transport Plan, or the Major Repairs Allowance in the Housing Revenue Account
- Other external contributions – e.g. Section 106 agreements
- Revenue funding – transferred from the Revenue Account

5.2 No additional funding source will be used without the agreement of the Cabinet.

## **6 Limits on external borrowings**

6.1 The Council must set an operational boundary and authorised limit for external debt. The operational boundary is how much external debt the Council plans to take up, and reflects the decision on the amount of debt needed for the Capital Programme for the relevant year. The authorised limit is higher than the operational boundary as it allows sufficient headroom to take account of unusual cash movements.

6.2 The operational boundary and an authorised limit for borrowing will be submitted to Cabinet and Council for approval in February 2011. For 2011/12 they have been set at £258 million and £269 million respectively.

## **7 Policy on sources and types of long term borrowing**

7.1 The Council's long term borrowing (i.e. for more than one year) for 2011/12 will be via any type of loan from the Public Works Loan Board (which is a statutory body whose function is to lend money to local authorities and other prescribed bodies) or from banks or building societies.

7.2 The PWLB is usually the most economic source available to the Council, however, following the Comprehensive Spending Review in October 2010, interest on PWLB loans has increased to 1 per cent above UK government gilts.

7.3 Financing arrangements other than borrowing will be in the form of leases. These will be taken out to finance the purchase or use of assets such as equipment or vehicles.

## **8 Timing of new borrowing**

- 8.1 New borrowing will be undertaken as and when required to finance capital. The Council's Section 151 Officer is authorised to make application for loans (supported and unsupported) during 2011/12 that are deemed appropriate for the long term financing of capital. The amount and timing of these loans will have regard to the Council's cash flow, the PWLB interest rates and the future requirements of the capital programme.

## **9 Debt restructuring policy**

- 9.1 Some of the Council's borrowings are at a higher interest rate than the current rate of borrowing. To redeem these loans before their maturity date (i.e. to redeem them early) the Council would be required to pay a premium (this is like paying to redeem a mortgage early except the amount of the penalty depends on the prevailing rate of interest). New loans could then be taken out at the current rate. The savings to be made by paying interest at a lower rate need to be offset by the premiums payable before a decision is made as to whether this would be economically advantageous.
- 9.2 Similarly, some of the Council's borrowings are at a lower interest rate than the current rate of borrowing. To redeem these loans early the Council would receive a discount (this is the opposite of a premium). New loans could then be taken out at the current rate. The discount receivable would need to be offset by the higher rate of interest paid before a decision is made as to whether this would be economically advantageous.
- 9.3 The Council will undertake debt restructuring as and when appropriate opportunities arise. The main objective of a restructure will be to produce reductions in financing costs as part of an overall budget strategy. The advice of our treasury management advisers would be sought. Members would be notified via the quarterly reporting to Cabinet on treasury management activities.

## **10 Investments**

- 10.1 See the Annual Investment Strategy.

**11 The approved activities of the Treasury Management operation are as follows:**

- Risk management
- Cash flow management (daily balance and longer term forecasting)
- Investing surplus funds in approved investments
- Use of brokers for placing investments
- Investing surplus funds with our external fund managers
- Long term borrowing to fund the capital programme
- Short term borrowing from other Local Authorities and our bankers where appropriate
- Management of debt (including repayment and rescheduling)
- Capital receipts management
- Leasing arrangements for the Council (including schools)
- Banking activities
- Training for members and officers
- Prevention of money laundering
- LATS trading (LATS is the Landfill Allowances Trading Scheme for allowances to dispose of waste).

**12 Responsibility for the treasury management function**

- 12.1 Under the constitution the Council's Section 151 officer who is the Chief Finance Officer (currently the Head of Finance and Resources), must take all steps that are considered appropriate for the administration of the financial affairs of the Council. This includes responsibility for the treasury management function.
- 12.2 The table in Annex 1 shows the treasury management activities and the sub-delegated responsibilities from the Chief Finance Officer to others.
- 12.3 Officers are required to explicitly follow policies and procedures.
- 12.4 The training needs of staff and members with treasury management responsibilities are assessed on a regular basis and training is arranged as necessary.

## **13 Risks**

- 13.1 The overriding principle is that it is more important to balance risks than to maximise returns.

### **Credit and Counterparty risk**

- 13.2 This is the risk that the organisation with which we have invested money becomes insolvent and cannot pay us back our investment. A prime objective of treasury management activities is the security of the principal sums invested and this is placed ahead of the investment return.
- 13.3 Accordingly investment activities are limited to the instruments, methods and techniques referred to in the Annual Investment Strategy. The use of limits and a combined matrix of investment criteria using credit ratings reflects a prudent attitude towards organisations with whom funds may be deposited. Investment activities will be limited to those who meet the criteria in this matrix when the investment is placed, with the exception of 7 major UK banks and the largest building society that have confirmed their participation in the Government-supported recapitalisation scheme, and then limited by other relevant market information.
- 13.4 The policy in respect of those organisations from which the council may borrow, or with whom it may enter into other financing arrangements is set out in this Treasury Management Policy Statement and in the Annual Investment Strategy.

### **Liquidity risk**

- 13.5 This is the risk that there will be insufficient cash available to make payments as they fall due. The Chief Finance Officer will ensure that cash resources are adequate, though not excessive, and that borrowing arrangements are available at all times to enable the Council to achieve its business objectives.

### **Interest Rate risk**

- 13.6 Interest rates will be reviewed as part of the ongoing monitoring arrangements to ensure that, as far as possible, investments are made so as to maintain the return to the Council, whilst retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.
- 13.7 Regard will be given to the limits imposed by the treasury management policy, particularly the importance of maintaining the security of the monies invested.

### **Partnership risk**

- 13.8 There are currently no major partnerships involving private borrowing. However, if the Council was successful in its waste PFI (with Essex County Council) this issue will be considered under the relevant HM Treasury rules. Some of the Council's costs are met by 'match funding' where other organisations match the funding that the Council contributes. Where this is the case there may be liquidity risk (see 13.5) if the other organisations do not make their contributions when agreed. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes.

### **Market risk**

- 13.9 Our long term borrowing is mainly through fixed rate maturity loans, whilst our investments are at both fixed and variable rates. To mitigate the risk as far as possible the Council seeks to find the appropriate balance of investments between short and long term and between variable and fixed rate.

### **Refinancing risk**

- 13.10 Our borrowing arrangements are negotiated, structured and documented, and the maturity profile of these monies are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable as can reasonably be achieved in the light of market conditions prevailing at the time.

<b>Treasury Management Activity</b>	<b>Delegated to:</b>	<b>In their absence, delegated to:</b>
Production of a Treasury Policy Statement each year for approval by the Cabinet prior to the start of the financial year	Group Manager (Financial Planning)	Group Accountant (Financial Planning)
Staffing and organisation of the Treasury Management function	Group Manager (Financial Planning)	Chief Finance Officer
Ensuring that all staff engaged in Treasury Management receive appropriate training	Group Manager (Financial Planning)	Group Accountant (Financial Planning)
Ensuring that all members with Treasury Management responsibilities receive appropriate training	Chief Finance Officer	Group Manager (Financial Planning)
Advising the Council’s Monitoring Officer when necessary	Chief Finance Officer	Deputy Section 151 Officer
Decisions on long term borrowing	Chief Finance Officer	Group Manager (Financial Planning)
Decisions on the restructuring of the Council’s debt	Chief Finance Officer	Group Manager (Financial Planning)
Taking out new loans/repayment of loans with the PWLB	Group Manager (Financial Planning)	Chief Finance Officer/ Deputy Section 151 Officer
Maintaining adequate and effective cash flow forecasting records to support the decision to lend or borrow	Designated Accounting Technician/Financial Accountant	Any other designated Accounting Technician/Financial Accountant



<b>Treasury Management Activity</b>	<b>Delegated to:</b>	<b>In their absence, delegated to:</b>
Decisions on placing overnight monies with the Council's bank or in short/long term investments	Group Accountant (Financial Planning)	Designated Accounting Technician/Financial Accountant
Approval of short/long term investments	Director of Support Services/Chief Finance Officer/ Deputy Section 151 Officer	Group Manager (Financial Planning)
Placing money in investments once approval has been obtained – other than with the Council's bank	Group Accountant/designated Financial Accountant	Group Manager (Financial Planning)
Contact for correspondence with external fund managers	Group Accountant (Financial Planning)	Designated Accounting Technician/Financial Accountant
Placing with or recalling monies from external fund managers	Chief Finance Officer/ Deputy Section 151 Officer	Group Manager (Financial Planning)
Entering into lease agreements	Group Manager (Financial Planning)	Chief Finance Officer/ Deputy Section 151 Officer
Key contact with the Council's treasury management advisers	Group Accountant (Financial Planning)	Designated Accounting Technician/Financial Accountant
Monitoring of actual against budget for debt charges, interest earnings and debt management expenses	Designated Accounting Technician/Financial Accountant	Any other designated Accounting Technician/Financial Accountant
Monitoring of performance; average interest rates earned and paid etc.	Designated Accounting Technician/Financial Accountant	Any other designated Accounting Technician/Financial Accountant
Monthly report to section 151 officer detailing performance and any non-compliance with the Treasury Management Policy	Group Accountant (Financial Planning)	Designated Accounting Technician/Financial Accountant