

## SOUTHEND-ON-SEA BOROUGH COUNCIL

### TREASURY MANAGEMENT POLICY STATEMENT 2018/19

#### **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 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 July of the succeeding year. Another report will be a mid-year review reporting in November of each year.

1.9 The CIPFA Code of Practice on Treasury Management has again been revised and the latest version is the 2017 Edition published within the last week of December. The key changes are:

- The term “investments” now covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment in property portfolios. This may therefore include investments which are not managed as part of normal treasury management and are therefore covered by the Capital Strategy instead.
- The guidance on risk management has been amended to include ensuring that robust due diligence procedures cover all external investment (this has been included in paragraph 13.2 of this document);
- A new risk management consideration has been introduced covering inflation risk management (this has been included in paragraph 13.12 of this document);
- That the Council has reviewed its classification with financial institutions under MiFID II and has set out those organisations with which it is registered as a professional client (this has been included in section 7 of Appendix 3);

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

2.1 This Treasury Management Policy Statement covers the 2018/19 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 a treasury management adviser, Link Asset Services (formerly Capita Asset Services), will be used throughout 2018/19 to assist the Council to develop and enhance the performance of the treasury management function.

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 2018/19:

- Borrowing;
- Use of capital receipts - from the sale of surplus assets;
- Use of Government Grants – e.g. Local Growth Fund, or grants from the Department for Education;
- Other external contributions – e.g. Section 106 agreements;
- Revenue funding – e.g. 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 table below shows the operational boundary and authorised limits for borrowing for 2017/18 and 2018/19:

	<b>2017/18 Original £m</b>	<b>2017/18 Revised £m</b>	<b>2018/19 Original £m</b>
Operational boundary	285	260	285
Authorised limit	295	270	295

In accordance with the Prudential Code these limits exclude outstanding debt relating to services transferred from Essex County Council (ECC) on 1 April 1998.

## **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 2018/19 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, building societies or other financial institutions as appropriate.
- 7.2 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can issue bonds to raise funds, either in this council's name or collaboratively with other Local Authorities or via the Local Government Association (LGA), and either as a private or public placement.
- 7.3 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can borrow from other Local Authorities.
- 7.4 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can borrow for the purposes of financing regeneration and other infrastructure related projects.
- 7.5 The PWLB is usually the most economic source available to the Council. Following the Spending Review in October 2010, interest on PWLB loans were increased to 1 per cent above UK government gilts. However, on 1 November 2012 HM Treasury implemented a 'certainty rate' at a discount on that level of 0.2% on loans for those local authorities providing improved information and transparency on their locally-determined long-term borrowing and associated capital spending plans. This Council provided the necessary information and is therefore eligible for this 'certainty rate'.
- 7.6 The Autumn Statement in 2012 announced that the Government would make available a new concessionary public works loan rate to support strategic local capital investment projects. The PWLB project rate at 0.4% below the standard rate (across all loan types and maturities) became available from 1 November 2013. The Government is asking

each Local Enterprise Partnership to work with Local Authorities in their area to agree which projects should benefit from the cheaper borrowing rate. HM Treasury has approved Southend's application to borrow at the project rate for specified projects only.

- 7.7 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.
- 7.8 In May 2016 HM Treasury launched a consultation proposing the abolition of the PWLB and the transfer of its functions to another body with the suggestion that this should be the Commissioners of the Treasury. The outcome is that the PWLB is still the statutory body operating within the United Kingdom Debt Management Office which is an Executive Agency of HM Treasury. Therefore all references to PWLB have been kept in the Treasury Management Strategy.

## **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 during 2018/19 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 can be 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 external fund managers;
- Long term borrowing to fund the capital programme;
- Short term borrowing for cash flow purposes;
- 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.

## **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 Director 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. Accordingly, the Council will ensure that robust due diligence procedures cover all external investment.
- 13.3 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 the UK part-nationalised banks and the Council's bank, 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. 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.

### **Currency risk**

- 13.11 The Council does not have any foreign currency risk as all investments are in pounds sterling.

### **Inflation risk**

- 13.12 The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

<b>Treasury Management Activity</b>	<b>Delegated to:</b>	<b>In their absence, delegated to:</b>
Production of a Treasury Policy each year for approval by the Council prior to the start of the financial year	Group Manager (Financial Planning & Control)	Finance Team Leader – Capital/ Treasury Management
Staffing and organisation of the Treasury Management function	Group Manager (Financial Planning & Control)	Chief Finance Officer
Ensuring that all staff engaged in Treasury Management receive appropriate training	Group Manager (Financial Planning & Control)	Finance Team Leader – Capital/ Treasury Management
Ensuring that all members with Treasury Management responsibilities receive appropriate training	Chief Finance Officer	Group Manager (Financial Planning & Control)
Advising the Council’s Monitoring Officer when necessary	Chief Finance Officer	Deputy Section 151 Officer
Decisions on long term borrowing	Chief Finance Officer	Deputy Section 151 Officer
Decisions on the restructuring of the Council’s debt	Chief Finance Officer	Deputy Section 151 Officer
Taking out new loans/repayment of loans with the PWLB	Group Manager (Financial Planning & Control)	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/Finance Team Leader	Any other designated Accounting Technician/Finance Team Leader

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