

## SOUTHEND-ON-SEA BOROUGH COUNCIL

### TREASURY MANAGEMENT POLICY STATEMENT 2020/21

#### 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 a major revision to the 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. Since then there have been a number of more minor revisions, the latest being in December 2017.
- 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 In the latest version of the CIPFA Code of Practice on Treasury Management 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 Investment Policy which forms part of the Capital Investment Strategy.

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

- 2.1 This Treasury Management Policy Statement covers the 2020/21 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 will be used throughout 2020/21 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 investment programme**

5.1 The following methods of funding have been identified as being available to the Council for use in 2020/21:

- 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 Investment 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 2019/20 and 2020/21:

|                      | <b>2019/20<br/>Original<br/>£m</b> | <b>2019/20<br/>Revised<br/>£m</b> | <b>2020/21<br/>Original<br/>£m</b> |
|----------------------|------------------------------------|-----------------------------------|------------------------------------|
| Operational boundary | 290                                | 350                               | 375                                |
| Authorised limit     | 300                                | 360                               | 385                                |

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

6.3 When the 2019/20 limits on external borrowing were originally set it was anticipated that £20m of new borrowing would be undertaken in 2018/19 and a further £31m would be undertaken in 2019/20. However, due to the uncertainty around Brexit in the run up to the expected leaving date of 29 March 2019 the PWLB rates reached advantageously low levels and £40m was borrowed in March 2019.

With this borrowing activity there was little headroom to allow further borrowing in 2019/20 should the rates reach new exceptionally low levels, so the limits on external borrowings were revised at the July 2019 meeting of Council to allow the headroom to achieve this. The uncertainty continued and rates continued to be volatile and reached advantageously low levels again in June and August and so £50m has been borrowed in 2019/20 to capture those good rates.

The revised borrowing limits for 2019/20 allowed for this actual borrowing undertaken and a further £20m in case of further unusual rate fluctuations. However, as the cost of borrowing had fallen to record lows and local authorities had been increasing their use of the PWLB, HM Treasury took the decision to increase the margin that applies to new loans from the PWLB by 1% on top of the usual lending terms, with immediate effect from 9<sup>th</sup> October. Given this increase it is now less likely that the further £20m headroom will be required in 2019/20, so the 2020/21 limits reflect this and includes the planned new borrowing.

## **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 2020/21 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 for long term borrowing. The Council is eligible for HM Treasury's 'certainty rate' which is a discount of 0.2% on standard rates.
- 7.6 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 during 2020/21 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 investment 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 Treasury Management Investments**

- 10.1 See the Annual Treasury Management 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 investment 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 Executive Director (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 Treasury Management investment activities are limited to the instruments, methods and techniques referred to in the Annual Treasury Management Investment Strategy. The use of limits and a combined matrix of investment criteria using credit ratings reflect 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 bank 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 Treasury Management 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 The Council has entered into a Joint Venture with Porters Place Southend-on-Sea LLP and any funding will be mirrored by that of Swan Housing. The partnership risks are mitigated by the agreements drawn up as part of the signing of the contract. 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 Manager – 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 Manager – 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 Manager | Any other designated Accounting Technician/Finance Manager |

| <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 Manager – Capital/ Treasury Management   | Designated Accounting Technician/ Finance Manager                       |
| 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 Manager – 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 Manager – 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 Manager – Capital/ Treasury Management                          |
| Monitoring of actual against budget for debt charges, interest earnings and debt management expenses                   | Designated Accounting Technician/ Finance Manager  | Any other designated Accounting Technician/Finance Manager              |
| Monitoring of performance; average interest rates earned and paid etc.   | Designated Accounting Technician/Finance Manager   | Any other designated Accounting Technician/Finance Manager              |
| Monthly report to Section 151 officer detailing performance and any non-compliance with the Treasury Management Policy | Finance Manager – Capital/ Treasury Management   | Designated Accounting Technician/Finance Manager                        |