

<b>Title of meeting:</b>	Governance and Audit and Standards Committee Cabinet City Council
<b>Date of meeting:</b>	05 March 2021 (Governance and Audit and Standards Committee) 09 March 2021 (Cabinet) 16 March 2021 (City Council)
<b>Subject:</b>	Treasury Management Policy 2021/22
<b>Report by:</b>	Chris Ward, Director of Finance and Resources (Section 151 Officer)
<b>Wards affected:</b>	All
<b>Key decision:</b>	Yes
<b>Full Council decision:</b>	Yes

---

## **1. Executive Summary of the Treasury Management Policy Statement**

### **1.1. Treasury Management Policy**

The attached Treasury Management Policy sets out the Council's policies on borrowing and investing surplus cash for 2021/22.

The Prudential Code produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires the City Council to approve a Capital Strategy (reported elsewhere on the Cabinet Agenda for 9 March 2021) providing an overview of the Council's plans for capital expenditure, its borrowing and its investments.

The Treasury Management Policy also sets a number of treasury management indicators that will establish the boundaries within which treasury management activities will be undertaken. These are contained in paragraph 4.7 and appendix 5.1 of the Treasury Management Policy attached.

### **1.2. Annual Investment Strategy**

The Treasury Management Policy includes the strategy for the investment of surplus cash, known as the Annual Investment Strategy, which establishes the types of investment, investment counter parties and investment durations that the Council will operate within.

## **2. Purpose of report**

- 2.1 The purpose of this report is to obtain the Council's approval of the updated Treasury Management Policy Statement (attached) which includes the Annual Investment Strategy.

## **3. Recommendations**

- 3.1 That the upper limit for principal sums invested for longer than 365 days contained in paragraph 4.7 of the attached Treasury Management Policy Statement be approved;
- 3.2 That the upper and lower limits on the maturity structure of borrowing contained in appendix 5.1 of the attached Treasury Management Policy Statement be approved;
- 3.3 That the attached Treasury Management Policy Statement including the Treasury Management Strategy and Annual Investment Strategy for 2021/22 be approved;
- 3.4 That the following change compared to the previous Annual Investment Strategy be noted:
- (i) that a second loans pool be established in 2020/21 consisting of the three £20m loans that were taken from the Public Works Loans Board (PWLb) at the Housing Revenue Account (HRA) Certainly Rate, and that the borrowing costs on these loans be charged to the HRA in their entirety.
- 3.5 As set out in paragraph 1.4 of the Treasury Management Policy Statement, the Director of Finance and Resources (Section 151 Officer) and officers nominated by him have delegated authority to:
- (i) invest surplus funds in accordance with the approved Annual Investment Strategy;
  - (ii) borrow to finance short term cash deficits and capital payments from any reputable source within the authorised limit for external debt of £963m approved by the City Council on 9 February 2021;
  - (iii) reschedule debt in order to even the maturity profile or to achieve revenue savings;
  - (iv) to buy and sell foreign currency, and to purchase hedging instruments including forward purchases, forward options and foreign exchange rate swaps to mitigate the foreign exchange risks associated with some contracts that are either priced in foreign currencies or where the price is indexed against foreign currency exchange rates;
- 3.6 That the Director of Finance and Resources (Section 151 Officer) has the power to delegate treasury management operations to relevant staff;

- 3.7 That the Chief Executive, the Leader of the City Council and the Chair of the Governance and Audit and Standards Committee be informed of any variances from the Treasury Management Policy when they become apparent, and that the Leader of the City Council be consulted on remedial action (paragraph 1.2.2 of Treasury Management Policy Statement).

## **4 Background**

- 4.1 The Council's treasury management operations cover the following:

- Cash flow forecasting (both daily balances and longer term forecasting)
- Investing surplus funds in approved investments
- Borrowing to finance short term cash deficits and capital payments
- Management of debt (including rescheduling and ensuring an even maturity profile)
- Interest rate exposure management
- Hedging foreign exchange rate risks

- 4.2 The key risks associated with the Council's treasury management operations are:

- Credit risk - i.e. that the Council is not repaid, with due interest in full, on the day repayment is due;
- Liquidity risk - i.e. that cash will not be available when it is needed, or that the ineffective management of liquidity creates additional, unbudgeted costs;
- Interest rate risk - that the Council fails to get good value for its cash dealings (both when borrowing and investing) and the risk that interest costs incurred are in excess of those for which the Council has budgeted;
- Exchange rate risk - the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately;
- Inflation risk, i.e. the chance that cash flows from an investment won't be worth as much in future because of changes in purchasing power due to inflation;
- Maturity (or refinancing risk) - this relates to the Council's borrowing or capital financing activities, and is the risk that the Council is unable to repay or replace its maturing funding arrangements on appropriate terms;

- Procedures (or systems) risk - i.e. that a treasury process, human or otherwise, will fail and planned actions are not carried out through fraud, error or corruption.

- 4.3 The total borrowings of the Council at 1 April 2021 are estimated to be £778m. The Council's investments at 1 April 2021 are estimated to be £387m. The cost of the Council's borrowings and the income derived from the Council's short-term treasury investments (i.e. excluding commercial property investments) are included within the Council's treasury management budget of £32.5m per annum. The Council's treasury management activities account for a significant proportion of the Council's overall budget. As a consequence the Council's Treasury Management Policy aims to manage risk while optimising costs and returns. The Council will monitor and measure its treasury management position against the indicators contained in the Treasury Management Policy.
- 4.4 The City Council has adopted CIPFA's Treasury Management in the Public Services Code of Practice. The Code of Practice requires the City Council to approve a Treasury Management Strategy before the start of the financial year.
- 4.5 In addition the Government has issued statutory guidance that requires the Council to approve an Annual Investment Strategy before the start of the financial year.
- 4.6 The Treasury Management Strategy, and the Annual Investment Strategy are all contained within the attached Treasury Management Policy Statement.

## **5. Reasons for recommendations**

- 5.1 The recommendations provide assurance that the Council's attached Treasury Management Policy Statement reflects CIPFA's Treasury Management Code of Practice and have regard to statutory guidance issued by the Government. These are designed to:
- Enable the Council to borrow funds as part of managing its cash flow or to fund capital expenditure in a way that minimises risk and costs;
  - Provide for the repayment of borrowing;
  - Ensure that the Council's investments are secure;
  - Ensure that the Council maintains sufficient liquidity;
  - Maximise the yield on investments in a way that is commensurate with maintaining the security and liquidity of the investment portfolio;

- Allow the Housing Revenue Account (HRA) to have the full benefit of borrowing from the Public Works Loans Board (PWLB) at the lower HRA Certainty Rate.

- 5.2 Until 2019/20, the Council operated a single loans pool with a share of borrowing costs being charged to the HRA.
- 5.3 Between 11 March 2020 and 25 March 2020 the PWLB introduced an HRA Certainty Rate that was 1% below the General Fund Certainty rate. In the first quarter of 2020/21 the Council borrowed £60m from the PWLB at the HRA Certainty Rate to finance the HRA capital programme. In order to allow the HRA to have the whole benefit of this lower rate, it is recommended that these loans are placed in a second loans pool and charged to the HRA in their entirety. The cost of the Council's other borrowing will continue to be apportioned between the General Fund and the HRA.
- 5.4 There are no other changes to the Treasury Management Policy.

## **6. Integrated impact assessment**

- 6.1 The contents of this report does not significantly impact Portsmouth's communities (other than through the finances of the City Council), or equality and diversity.

## **7. Legal implications**

- 7.1 The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

## **8. Director of Finance's comments**

- 8.1 All financial considerations are contained within the body of the report and the attached appendices.

.....  
Signed by:

**Appendices:** Treasury Management Policy Statement 2021/22

**Background list of documents:** Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

<b>Location:</b>	<b>Location</b>
Information pertaining to the Treasury Management Strategy	Financial Services