

APPENDIX F

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 3 FEBRUARY 2009

Title:

TREASURY MANAGEMENT POLICY 2009/2010

[Portfolio Holder for Finance: Cllr M H W Band]

[Wards Affected: N/A]

Summary and purpose:

This report is the annual update of Waverley's Treasury Management Policy which reviews the arrangements and approved limits for the coming year.

How this report relates to the Council's Corporate Priorities:

Effective treasury operation is a key element in the management of Waverley's financial resources. This supports the Value for Money Priority and ensures that sufficient cash is available to deliver services.

Equality and Diversity Implications:

There are no implications arising from this report.

Resource/Value for Money implications:

Effective treasury management ensures that sufficient cash is available to deliver services.

Legal Implications:

There are no legal implications arising from this report.

Background

1. Waverley has adopted the Chartered Institute of Public Finance and Accounting's (CIPFA's) Code of Practice on Treasury Management in the Public Services. The Policy provides for an annual review to be undertaken and reported to the Executive. Waverley had £31 million invested at 1st April 2008.
2. The Prudential Code for Capital Finance in Local Authorities requires that the annual investment strategy includes a set of specific prudential indicators.

Review of the Treasury Management Policy

3. The policy continues to be robust and comply with the latest good practice guidance. The Treasury Management Policy continues to give priority to

security and liquidity of investment, rather than yield, although officers will always seek the highest yield provided that the necessary safeguards are in place as required under the Annual Investment Strategy.

4. Waverley's approved policy is to restrict its investment activities largely to A rated (or above) banks and building societies or top 27 rated non-specified building societies (this will be revised to top 26 if the Skipton and Scarborough merge as planned). Appropriate limits per institution and per type of institution are also in place based on the asset size of the organisation. Recent mergers of a number of financial institutions make it more difficult to maintain investments within existing limits at all times and changing credit ratings also create issues of security. Officers will, therefore, research the current market in UK Government gilts, as Waverley's Treasury Management Policy allows. Options to invest direct with other local authorities and the Government's Debt Management Office have also been investigated but have not yet been taken up. Importantly, the broad strategy of spreading risk as much as possible, by short-term lending with as many reliable partners in as many sectors as possible, is proving successful at the moment.
5. The proposed boundaries set out in paragraph 8 below have not changed significantly from those previously approved. However in practice, recent market conditions have meant that controls have been tightened further, within the bounds of the approved policy, to create as much security as possible for Waverley's investment portfolio. These measures include:
 - The major objective of managing daily cash balances to meet cash flow commitments remains the priority;
 - Short term lending, generally targeted at 3 month rates, is judged to generate the best balance of return to risk and most of Waverley's investment will fall into this category;
 - Investments are also monitored on a sector basis and judgements made as to the appropriate level within each sector;
 - General Market information is also used to enable some targeting of investment partners and, despite the well documented problems with the credit ratings agencies, their objective views still have a value and are monitored more regularly.
 - Close monitoring of credit ratings at the point of transaction including consideration of the 'future outlook' assessment.
 - Increased frequency of updating the list of preferred organisations for investment with reduced working maximum limits for lower ranked non-rated building societies
6. Current Council policy allows for the employment of treasury advisors on a self-financing basis. However, Waverley continues to have a relatively consistent and predictable cash flow year-on-year and officers regularly monitor this and other factors including the credit ratings of investment organisations and the return on investments. Officers are satisfied that managing Waverley's short-term investments in-house is still appropriate but will keep the option of treasury advice open, particularly for any borrowing transactions necessary for the leisure capital investment.

Annual Investment Strategy

7. The Regulations require the Council to determine a number of limits and guidelines for its investment activity including 'specified' and 'non-specified' investments. Specified investments are held in sterling with a maturity of no more than a year and must be with the UK Government, UK local authorities or "high" credit rated institutions. Non-specified investments are any investments that do not meet the above criteria.
8. To meet the requirements of the Regulations it is proposed that the following policy and limits apply to all of Waverley's investment activity in 2009-10:
 - UK Local Authorities and the UK Government
 - "High" credit rated means AAA rating for sterling money market funds or A and above rating for any banks and building societies
 - The only non-specified investments that Waverley will invest in are non-rated top 27 building societies.
 - £3million is the maximum investment in any single non-specified organisation at any one time and, £5million for any single specified organisation at any one time.
 - Credit ratings should be monitored continuously using either Moody's, Standard and Poor's or Fitch ratings
 - All new investment institutions should be ratings checked at the outset and a list of potential investors prepared and approved by the S151 Officer before 1st April each year and updated throughout the year
 - The maximum total investment at any one time in non-specified investments is £28 million.
 - The maximum total investment at any one time that can prudently be committed for more than one year is £10 million.
 - The minimum total investment at any one time that can be held in short term (less than 365 days) investments is £10 million.
9. These policies and limits update those stated in the approved Treasury Management Policy. They are intended primarily to maximise the security and liquidity of Waverley's investments but they must also enable flexibility in investment options and allow for the practicalities of day-to-day investment dealing. Whilst maximising the interest earned on investments is of secondary importance behind security, it is nevertheless a high priority and the limits set must enable both security and high yield to be achieved.

Prudential Indicators

10. This section of the report should be considered in conjunction with the Prudential Code report also on this agenda. The following prudential indicators are required under the Prudential Code for Capital Finance in Local Authorities.
 - The upper limit on fixed rate investments for 2009/10, 2010/11 and 2011/12 to be 100% of net outstanding principal sums

- The upper limit on variable rate investments for 2009/10, 2010/11 and 2011/12 to be 40% of net outstanding principal sums
- The maturity structure of borrowing (as % of overall projected fixed rate borrowing) in 2009-10 is:
 - under 12 months - upper limit 100%, lower limit, 0%
 - between 1 and 25 years – upper limit 100%, lower limit 0%
- The upper limit of principal sums invested for periods of more than 365 days is £10 million.

Recommendation

It is recommended that the Executive:

1. approves the annual Investment Strategy, as set out in paragraph 8; and
2. approves the prudential indicators in paragraph 10.

Background Papers (DoR)

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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