

## WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 25 JANUARY 2011

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**Title:**

**ANNUAL INVESTMENT STRATEGY 2011/2012**

**[Portfolio Holder for Finance: Cllr Mike Band]**

**[Wards Affected: N/A]**

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**Summary and purpose:**

This report reviews the arrangements and approved limits for the coming year for the operation of Waverley's Treasury Management Policy.

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**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.

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**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 £24 million invested at 31st March 2010.
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 Operation of the Treasury Management Policy**

3. Waverley's policy and practice is to put security of investment at a higher priority than rate of return/yield. The Executive approved revisions to the policy in February 2010 to ensure continued security of investment. Waverley's day to day practice continues to be refined, within the boundaries

of the approved policy, in response to challenging market conditions. The cornerstones of current policy/practice are:

- to restrict lending to only those institutions which fit the Council's policy in terms of financial standing, credit ratings etc;
- generally to restrict lending to the short-term (typically 3 to 6 months or less) or to cover precept dates for the remainder of the year, except where the Deputy Chief Executive or Head of Finance agree to an investment over a longer period if interest rates are favorable, and within Waverley's criteria,
- to fix financial limits to each institution depending the quality of their financial ratings.

4. The tightening restrictions operated by Waverley do inevitably have a negative impact on the rates of return achievable, but are necessary to maintain sufficient security on investment. Currently the lack of financial institutions which meet Waverley's counterparty criteria is the most significant factor in day to day Treasury Management. To date Waverley has not invested with the Debt Management Office (DMO, part of the Government's Public Works Loans Board) where rates are significantly below market rates and generally less than base rate. It estimated that based on current rates by opting for market investments rather than investing with the DMO, the Council will double the amount of interest income for the Council.

5. The proposed boundaries set out in paragraph 8 below have not changed from those previously approved. In practice, the continuing 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 to 6 month rates, is judged to generate the best balance of return to risk and most of Waverley's investment will fall into this category; although any opportunities in the yield curve with longer term investments may be taken (see 3 above).
- Investments are also monitored on a sector basis and judgments made as to the appropriate level within each sector;
- General Market information is also used to enable some targeting of investment partners and the objective views of the credit agencies 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. The Investment Strategy is linked to decisions on borrowing and, when the need arises to borrow to fund the leisure strategy capital spend in 2011, the Deputy Chief Executive will consider a range of factors including the current investment levels and returns, available reserves, appropriate borrowing periods and the most beneficial repayment method.

7. 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. Waverley has become a member of CIPFA's Treasury Management Group and the newly formed Surrey Treasury Management Forum in the past year.

### **Annual Investment Strategy**

8. The capital finance 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, generally, 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.
9. 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 2011-12:
  - 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
  - Waverley will not make any non-specified investments
  - £5million is the maximum investment in any single specified organisation at any one time.
  - Credit ratings will be monitored continuously using either Moody's, Standard and Poor's or Fitch ratings
  - Every investment will have a ratings check on the day of the investment and a list of potential counterparties 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 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.
  - The Deputy Chief Executive can seek the approval of the Executive to change the above limits during the year if necessary, provided that it is in the best interests of the Council to do so.
10. 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**

11. 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 2011/12, 2012/13 and 2013/14 to be 100% of net outstanding principal sums
- The upper limit on variable rate investments for 2011/12, 2012/13 and 2013/14 to be 40% of net outstanding principal sums
- The maturity structure of borrowing (as % of overall projected fixed rate borrowing) in 2011-12 is:
  - under 12months - 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 recommends to the Council that:

1. the annual Investment Strategy, as set out in paragraph 9; be approved and
2. the prudential indicators in paragraph 11 be approved.

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## **Background Papers (DCEx)**

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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## **CONTACT OFFICER:**

**Name:** Paul Wenham

**Telephone:** 01483 523238

**E-mail:** paul.wenham@waverley.gov.uk