

## APPENDIX E

### WAVERLEY BOROUGH COUNCIL

### EXECUTIVE – 7 FEBRUARY 2012

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**Title:**

**TREASURY MANAGEMENT 2012/13**

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

**[Wards Affected: All]**

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**Summary and purpose:**

The purpose of this report is to approve the revised Treasury Management Policy, the 2012/13 Treasury Management Strategy and Investment Strategy and the Prudential Indicators for 2012/13 to 2014/15.

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

An effective treasury management function is critical to all Council services in that it ensures financial resources are available at the right time to deliver the Council's priorities and services. It supports the Council's Value for Money priority and is a key element in the management of Waverley's financial resources.

**Equality and Diversity Implications:**

Treasury management provides financial resources to support all services including those which promote equality and diversity.

**Resource/Value for Money implications:**

A sound treasury management policy which achieves an appropriate balance between risk and return is essential to support service provision.

**Legal Implications:**

The recently revised Code of Practice on Treasury Management (the Code) produced by CIPFA supports the provisions of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 and it is expected that local authorities will apply the Code to their individual circumstances.

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**Introduction**

1. Treasury management is the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
2. For Waverley Borough Council this has traditionally meant managing a cashflow of around £150m and investing up to £40m in financial markets at any one time and, with the introduction of HRA Self-financing, will also mean

borrowing around £193m. The final figure will not be announced until early February. If it is different from the provisional figure, the Executive will be notified at the February meeting and any adjustments to prudential indicators will need to be reflected in the recommendation to Council.

3. The latest revision to the code by CIPFA in November 2011 incorporates the implications of the new HRA Self-Financing framework and tightens up on the requirements for the management of risk.
4. The code requires local authorities to maintain their Treasury Management Policy in accordance with the code and any of its revisions and with legislation. It also requires local authorities to determine their Treasury Management strategies and Investment strategies on an annual basis and their Prudential Indicators on an annual basis.
5. Some minor updates have been included in the revised treasury documents but all key changes to the current Treasury Management arrangements are highlighted in bold italic text in this report.

### **Waverley's Treasury Advisors**

6. In July 2011 the Council agreed to employ Treasury Management advisors to provide upfront support for the implementation of HRA self-financing and ongoing advice for general treasury management matters. Following a competitive tender process, Arlingclose were appointed as Waverley's treasury advisors for an initial three year period. Arlingclose provide regular market updates and advice on investments and counterparties. Waverley has regard to Arlingclose's advice in its day to day treasury activity but is not bound by it.
7. The quality of the service is controlled through regular meetings with the Arlingclose team and by review at internal Treasury Management Panel meetings. Waverley has also become a member of CIPFA's Treasury Management Group and the newly formed Surrey Treasury Management Forum in the past year.

### **Purpose of the Code**

8. CIPFA has produced this Code and the accompanying guidance notes to help satisfy nine main purposes:
  - i. To assist public service organisations in the development and maintenance of firm foundations and clear objectives for their treasury management activities, and thereby to add to their credibility in the public eye.
  - ii. To emphasise the overriding importance of effective risk management, as the foundation for treasury management in all public service bodies.
  - iii. To provide transparency for treasury management decisions including the use of counterparties and financial instruments that***

***individual public service organisations intend to use for the prudent management of their financial affairs.***

- iv. To encourage the pursuit of value for money in treasury management, and to promote the reasoned use, development and appreciation of appropriate and practical measures of performance.
- v. To enable CIPFA members to fulfil their professional and contractual responsibilities to the organisations they serve and, in accordance with the members' charter, *"to maintain and develop the professional competence of both themselves and those they supervise"*.
- vi. To help facilitate a standardisation and codification of treasury management policies and practices in the public services.
- vii. To assist those involved in the regulation and review of treasury management in the public services, particularly those charged with the audit of the same,
- viii. To foster a continuing debate on the relevance and currency of the statutory and regulatory regimes under which treasury management in the various parts of the public services operates.
- ix. To further the understanding and confidence of, and to act as a reference work for, financial and other institutions whose businesses bring them into contact with the treasury management activities of public service organisations.

**Updated Treasury Management Statements:**

9. Officers, supported by Waverley's treasury advisors Arlingclose, have revised the following key documents to bring them in line with the requirements of the new Code:
  - Treasury Management Policy Statement - this document is included at Annexe 1 and it sets out the headline objectives of the Treasury Management function.
  - Treasury Management Strategy 2012/13 - this document is included at Annexe 2 and it sets out the way in which Waverley's policy objectives for Treasury Management will be achieved and the high level approach to borrowing and investment. As required by the Code, the Strategy includes a statement of Waverley's Treasury Management Practices (TMPs) which set out specific areas of note and how they will be dealt with.
  - Annual Investment Strategy 2012/13 - this document is included at Annexe 3 and it sets out how Waverley's investments will be managed, in accordance with the Treasury Management Strategy, and how this will help achieve Waverley's TM policy objectives. This Strategy is required by local government investment regulations.

## **Prudential Indicators 2012/13, 2013/14 and 2014/15**

10. The Local Government Act 2003 requires local authorities to comply with CIPFA's Prudential Borrowing Code. This in turn requires local authorities to agree a specified set of prudential indicators relating to its investment and borrowing activities. Officers, have revised Waverley's Prudential Indicators in line with the requirements of the new Code and the current conditions which are included at Annexe 4. The prudential indicators are intended to support decision making and are ways of targeting and measuring performance.

### **Recommendation**

The Executive recommends that the Council approves:

- the Treasury Management Policy
- the 2012/13 Treasury Management Strategy (including the TMPs and the requirements of the latest CIPFA code of practice)
- the Annual Investment Strategy for 2012/13
- and the Prudential Indicators for 2012/13 to 2014/15.

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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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# ANNEXE 1

## STATEMENT OF TREASURY MANAGEMENT POLICY

### Overview

The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code. The full Code is available for Members on request and identifies 3 key principles which organisations should apply:

- 1) formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of treasury management activities should be put in place
- 2) effective management and control of risk are the prime objectives of Treasury Management and are the responsibility of the Council. Waverley's Treasury Management Strategy must make clear its appetite for risk, the use of which financial instruments is allowed for the prudent management of those risks and that priority is given first to security, then to liquidity and last to yield.
- 3) treasury management policies and practices should reflect that the pursuit of value for money is nevertheless important and performance measures are important and valid tools to be used in support of this.

Accordingly, the Council will create and maintain, as the cornerstones for effective Treasury Management:

- A treasury management policy stating the policies, objectives and approach to risk management of its treasury management activities.
- A treasury management strategy on at least an annual basis including approved treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve its policy objectives, and prescribing how it will manage and control those activities.

The content of the policy, strategy and TMPs will follow the recommendations contained in the Code, subject only to amendment where necessary to reflect the particular circumstances of this Council. Such amendments will not result in the organisation materially deviating from the Code's key principles.

The Council will receive reports on its treasury management policy and practices and the Executive will receive reports on treasury activities and performance, including as a minimum, the annual strategy in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

The Council delegates responsibility for the regular monitoring of its Treasury Management Policy and practices to the Executive, and for the execution and administration of day to day treasury management decisions to the Deputy Chief Executive (Section 151 Officer) who will act in accordance with the Waverley's Policy, Strategy and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

The Council nominates the Corporate Overview and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

#### **Overall policy:**

Waverley Borough Council defines its treasury management objectives as:

The effective management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks in order to ensure that financial resources are available at the right time to deliver the Council's service priorities.

#### **Risk:**

Waverley 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 organisation and any financial instruments entered into to manage these risks.***

#### **Value for money:**

Waverley acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives and is therefore committed to the principles of achieving value for money in treasury management and to employing suitable performance monitoring arrangements within the context of effective risk management.

#### **Borrowing:**

***The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should ensure the Council is transparent and has flexibility and control over its debt.***

#### **Investment:**

***Waverley's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.***

## ANNEXE 2

### Treasury Management Strategy Statement 2012/13 (incorporating Treasury Management Practice statements)

#### Overall policy:

The major objective of managing daily cash balances to meet cash flow commitments remains the priority.

#### Investments:

Waverley's policy is to give security of investment a higher priority than rate of return/yield. Waverley's strategy and day to day practice, therefore, continue to be refined, within the boundaries agreed in the Annual Investment Strategy, in response to market conditions.

***Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, Waverley does not intend to use derivatives. Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.***

#### Risk:

Waverley acknowledges that no treasury management activity is without risk. The major area of risk is identified as investment risk. Risks will be mitigated in a number of ways as set out in accordance with the specified Treasury Management Practices and Annual Investment Strategy. The cornerstones of current investment strategy 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 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 favourable, and within Waverley's criteria;
- to fix financial limits to each institution depending the quality of their financial ratings,
- ***to make all investments in GBP sterling in order to avoid exchange rate risk,***
- ***that Waverley's general preference is for fixed rate investments for budgetary certainty and the avoidance of yield risk.***

The Council is also committed to using the latest market intelligence to aid investment and borrowing decision making and, to this end employs, the services of Treasury Management advisers to provide ongoing and up to date advice for general treasury management matters.

### **Value for money:**

Waverley is committed to the pursuit of value for money in its Treasury Management function and to use performance methodology in support of that aim. This will be achieved through the formal reporting process set out in the Treasury Management Practices as well as the use of comparative performance indicators (including Prudential Indicators) for its investment returns and costs.

### **Borrowing:**

Waverley will be required to borrow around £192m in March 2012 for the purposes of HRA self-financing implementation. The Authority will adopt a flexible approach to this borrowing in consultation with its treasury management advisers and in accordance with the approved HRA Financing Strategy (to be considered by Council on 21<sup>st</sup> February 2012). The following issues will be considered prior to undertaking any external borrowing:

- Affordability;
- Maturity profile of existing debt;
- Interest rate and refinancing risk;
- Borrowing source

It may be advantageous in future with the HRA debt, as the Business Plan is developed to reschedule some of the debt. Waverley's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk, savings in interest costs and/or to meet changing cash demands. The rationale for undertaking any future HRA debt rescheduling would be one or more of the following:

- Interest rate savings and premiums
- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio

Currently there is no planned long/medium term borrowing planned in respect of General Fund services. Temporary borrowing for the purposes of financing day to day expenditure commitments is allowed for short periods if economic on the day. All borrowing activity will be reported to the Executive.

Overall, borrowing will be managed within the Authorised Limit for External Debt (See Prudential Indicator 5) and the HRA debt will not exceed the specified statutory cap.



## **TREASURY MANAGEMENT PRACTICES (TMP)**

### **TMP1 RISK MANAGEMENT**

#### **General Statement**

The Deputy Chief Executive, (Section 151 Officer) will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements*. In respect of each of the following risks, detailed arrangements, which seek to ensure compliance with these objectives, are set out in 'Additional Information' schedules that were agreed with the Portfolio Holder for Finance and the Deputy Chief Executive in March 2010.

#### **Credit and Counterparty Risk Management**

The key risk in Waverley Borough Council's treasury management activities is the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved instruments methods and techniques. It also recognises the need to have, and will therefore maintain, a formal counterparty schedule in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

#### **Liquidity Risk Management**

Waverley Borough Council will ensure it has adequate cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

Waverley Borough Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the statutory HRA self-financing debt, the current approved capital programme or to finance future debt maturities.

#### **Interest Rate Risk Management**

Waverley Borough Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements, as revised, in accordance with TMP6 *Reporting requirements and management information arrangements*. It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected,

potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications considered by the Executive as appropriate.

### **Exchange Rate Risk Management**

Waverley Borough Council's current approved policy allows investments solely in GBP sterling and, accordingly, does not have an exchange rate risk management strategy at this time. Should market conditions change such that foreign currency deals become appropriate, this Treasury Management Practice will be developed to cover this.

### **Refinancing Risk Management**

Waverley Borough Council will ensure that its borrowing is structured and documented, and the maturity profile of the debt is managed with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to Waverley as can reasonably be achieved in the light of market conditions prevailing at the time.

### **Legal and Regulatory Risk Management**

Waverley Borough Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its TMP1[1] *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with Waverley, particularly with regard to duty of care and fees charged.

Waverley Borough Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Council.

### **Fraud, Error and Corruption, and Contingency Management**

Waverley Borough Council will ensure that it has identified the circumstances, which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

### **Market Risk Management**

Waverley Borough Council will ensure that its stated treasury management policies and objectives do not expose the Council to the risk of adverse market fluctuations in the value of the principal sums it invests and will accordingly protect itself from the effects of such fluctuations.

## **TMP2 PERFORMANCE MEASUREMENT**

Waverley Borough Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. The performance of the treasury management function will be measured using the criteria agreed in March 2010 with the Portfolio Holder for Finance and the Deputy Chief Executive as included in the Additional Guidance document. This includes the budget monitoring process, periodic reports to the Executive and Corporate O&S Committee and the regular TM review panels chaired by the Deputy Chief Executive.

## **TMP3 DECISION-MAKING AND ANALYSIS**

Waverley Borough Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

## **TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

Waverley Borough Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Strategy and Annual Investment Strategy, and within the limits and parameters defined in TMP1 *Risk management*.

***If Waverley intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The organisation will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products***

## **TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

Waverley Borough Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decision, and the audit and review of the treasury management function.

If the Council has to depart from these principles, the Deputy Chief Executive will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements* and the implications properly considered and evaluated.

The Deputy Chief Executive will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements have been agreed with the Portfolio Holder for Finance and the Deputy Chief Executive in March 2010 as included in the Additional Guidance document.

The delegations to the Deputy Chief Executive in respect of treasury management have been agreed with the Portfolio Holder for Finance and the Deputy Chief Executive in March 2010 as included in the Additional Guidance document. The Deputy Chief Executive will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and CIPFA's *Standard of Professional Practice on Treasury Management*.

#### **TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

Waverley Borough Council will ensure that regular reports are prepared and considered on:

- the implementation of its treasury management policies
- the effects of decisions taken and transactions executed in pursuit of those policies
- the implications of changes, particularly budgetary, resulting from regulatory economic, market or other factors affecting its treasury management activities
- the performance of the treasury management function.

As a minimum:

The Executive will receive:

- An annual report on the strategy to be pursued in the coming year;
- Quarterly monitoring reports on treasury management activities and risks;
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Corporate Overview and Scrutiny Committee will have responsibility for the scrutiny of treasury management policies and practices and will receive the annual strategy documents for comment and periodic performance reports.

#### **TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

The Deputy Chief Executive will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the

treasury management function, together with associated income. The matters to be included in the budget will at a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement* and TMP6 *Approved instruments, methods and techniques*. The Deputy Chief Executive will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

### **TMP8 CASH AND CASH FLOW MANAGEMENT**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Deputy Chief Executive, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis and the Deputy Chief Executive will ensure that these are adequate for the purposes of monitoring compliance with TMP1[1] liquidity risk management. The present arrangements for preparing cash flow projections, and their form have been agreed with the Portfolio Holder for Finance and the Deputy Chief Executive in March 2010 as included in the Additional Guidance document.

### **TMP9 MONEY LAUNDERING**

Waverley Borough Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, the Council will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made have been agreed by the Audit Committee.

### **TMP10 TRAINING AND QUALIFICATIONS**

Waverley Borough Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Deputy Chief Executive will recommend and implement the necessary arrangements.

The Deputy Chief Executive will ensure that Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

## **TMP11 USE OF EXTERNAL SERVICE PROVIDERS**

Waverley Borough Council recognises that responsibility for treasury management decisions remains with the Council at all times. The Council recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which have been submitted to a full evaluation of the costs and benefits. The Council will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Deputy Chief Executive.

## **TMP12 CORPORATE GOVERNANCE**

Waverley Borough Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed for review as mentioned in this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Deputy Chief Executive will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

## ANNEXE 3

### Annual Investment Strategy 2012-13

The Annual Investment Strategy is required under the Treasury Management code of Practice and statutory Investment Guidance issued by the Department of Communities and Local Government. Waverley's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Authority's investments and the yields earned on investments are important but are secondary considerations.

The 2012/13 Strategy is framed against this backdrop of uncertainty in the market as credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets.

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 those 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.

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 2012/13:

- Investments only with UK Local Authorities and the UK Government and institutions assessed as having a '**high credit quality**'
- '**High credit quality**' means **having AAA rating for sterling money market funds or a minimum rating of A- for any banks and building societies, and being considered to have high credit credentials after taking account of the factors listed below #**
- Waverley will not make any non-specified investments, **other than when the investment is non-specified by virtue of it being for a period of more than one year, subject to it being an approved counterparty and a assessment of risk.**
- £5million is the maximum investment in any single specified organisation at any one time.
- **£7.5m is the total investment with any group - £5m remaining the maximum with any single member of that group**
- Up to date advice by Waverley's external adviser, together with information received by officers, will be used to ensure compliance with the strategy
- Every investment will have a ratings check on the day of the investment and a list of potential counterparties will be 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 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.

The proposed boundaries set out above have not changed from those previously approved with the exception of the additional item highlighted in bold text. 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.
- Investments are also monitored on a sector basis and judgments made as to the appropriate level within each sector in conjunction with the advice of the Council's treasury advisers;
- 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 rated counterparties.

# In order to continually review the Council's counterparty list and to make a judgement about whether a counterparty has a 'high credit quality', Waverley's advisers will report on:

- Credit rating 'future outlook' assessment
- Published credit ratings for financial institutions
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum

A major problem in the current environment is acknowledged as finding an investment counterparty providing acceptable levels of counterparty risk. In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

**Banking** - Waverley banks with HSBC. At the current time, HSBC meets the minimum credit criteria of A long term. The Council continues to monitor the credit rating of HSBC and would report to Members if any major concerns emerged. If the



credit rating falls below the Authority's minimum criteria HSBC would have to be used in the short term for business continuity and liquidity requirements.

**Training** - CIPFA's Code of Practice requires the *responsible officer* to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Waverley's approach to training is set out in the schedule supporting Treasury Management Practice (TMP) 10.

## ANNEXE 4

### Prudential Indicators

To fulfil the requirements of the Prudential Code, the Council must produce and maintain a specified set of 'Prudential Indicators'. In setting and revising these indicators, and more importantly in any decision on borrowing, the Council must take into account affordability, e.g. implications for Council Tax and housing rents and prudence and sustainability, e.g. implications for external borrowing. All of the required Prudential Indicators are included below. Explanatory text is included where necessary.

The prudential indicators are there to support decision-making and are not designed to be comparative performance indicators with other councils. The indicators which require future forecasts are rolling scenarios, not fixed for the 3 year period. They can be reviewed at any time by the S151 Officer, subject to Council approval. The S151 Officer must monitor performance against each indicator during the year.

There are other major decisions for the Council in the next few years that may have a significant impact on capital financing decisions, such as the development of the HRA Business Plan, the East Street development and further appraisal of options for affordable housing in the borough. As these details become available, the indicators will be reviewed and, if necessary, reconsidered by Members.

### Indicator 1 - Estimates of capital expenditure

	<b>2010-11</b> <b>£000</b> <b>Actual</b>	<b>2011-12</b> <b>£000</b> <b>Estimate</b>	<b>2012-13</b> <b>£000</b> <b>Estimate</b>	<b>2013-14</b> <b>£000</b> <b>Estimate</b>	<b>2014-15</b> <b>£000</b> <b>Estimate</b>
General Fund	4,505	5,744	4,934	3,167	1,012
HRA	4,265	5,328	9,714	8,978	9,226
<b>Total</b>	<b>8,770</b>	<b>11,072</b>	<b>14,648</b>	<b>12,145</b>	<b>10,238</b>

These estimates are as included in the capital programme report and, in the case of the previous year's actuals, as shown in the Statement of Accounts.

### Indicator 2 - Estimates of the ratio of financing costs to net revenue stream

	<b>2010-11</b> <b>£000</b> <b>Actual</b>	<b>2011-12</b> <b>£000</b> <b>Estimate</b>	<b>2012-13</b> <b>£000</b> <b>Estimate</b>	<b>2013-14</b> <b>£000</b> <b>Estimate</b>	<b>2014-15</b> <b>£000</b> <b>Estimate</b>
General Fund	-2.57%	-2.75%	-2.00%	-1.78%	-1.78%
HRA	0.22%	0.27%	34.27%	34.27%	34.27%

The net revenue stream is the total net expenditure to be met from Government grant and local taxpayers or, in the case of the HRA, the net amount to be met from rent income. Financing costs are the net of any interest on borrowing, interest earned on investments and any amounts made as revenue provision to repay debt.

The estimates of financing costs include current commitments and the proposals in the budget report. At 31st March 2011, investments totalling £27million were held, much of which represent balances and reserves, with the balance being held for cash flow purposes. The projected reduction in the General Fund ratio reflects estimates of the overall draw on capital receipts and other internal resources to fund the capital programme. The HRA figures are determined by Regulations and reflect the external borrowing rate on the self-financing debt.

### **Indicator 3 -Capital financing requirement**

	<b>2010-11 £000 Actual</b>	<b>2011-12 £000 Estimate</b>	<b>2012-13 £000 Estimate</b>	<b>2013-14 £000 Estimate</b>	<b>2014-15 £000 Estimate</b>
General Fund	-4,423	-4,423	-4,423	-4,423	-4,423
HRA	3,513	193,013	193,013	193,013	193,013
<b>Total</b>	<b>-910</b>	<b>188,590</b>	<b>188,590</b>	<b>188,590</b>	<b>188,590</b>

This indicator is a measure of the underlying need to borrow for capital purposes, it is not the level of actual borrowing held or required or of the actual level of other capital resources held. The requirement increases as capital expenditure is incurred or planned, and reduces when financing from capital receipts, grants or revenue is applied. The HRA self-financing debt is deemed to be capital expenditure under the regulations. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Waverley intends to finance most of its General Fund routine capital programme from existing resources in the medium term, so the General Fund indicator is not likely to change. However, the programme will be reviewed as part of each year's General Fund budget setting process to match planned expenditure to the level of resources available.

### **Indicator 4 - Actual External Debt**

<b>Actual External Debt as at 31/03/2011</b>	<b>£m</b>
Borrowing	3.2
Other Long-term Liabilities	0.7
<b>Total</b>	<b>3.9</b>

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

### **Indicator 5 - Authorised limit for external debt**

	<b>2011-12 Estimate</b>	<b>2012-13* Estimate</b>	<b>2013-14* Estimate</b>	<b>2014-15* Estimate</b>
General Fund	£5m	£5m	£5m	£5m
HRA	£193m	£193m	£193m	£193m
<b>Total</b>	<b>£198m</b>	<b>£198m</b>	<b>£198m</b>	<b>£198m</b>

\* Following the introduction of HRA self-financing

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases.

Whilst cash flows are currently managed using the investment portfolio, it is possible that short-term borrowing may be necessary. As the indicators in this report show, other than the £193m self-financing debt on the HRA, a significant amount of borrowing for capital purposes is not currently expected to be necessary in the short term. However, it is sensible to have in place an authorised borrowing limit at a prudent level to enable treasury activity if necessary. In approving this limit, the Council is approving the limit as required under section 3(1) of the Local Government Act 2003.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

#### **Indicator 6 - Operational boundary for external debt**

	<b>2011-12 Estimate</b>	<b>2012-13* Estimate</b>	<b>2013-14* Estimate</b>	<b>2014-15* Estimate</b>
General Fund	£5m	£5m	£5m	£5m
HRA	£193m	£193m	£193m	£193m
<b>Total</b>	<b>£198m</b>	<b>£198m</b>	<b>£198m</b>	<b>£198m</b>

\* Following the introduction of HRA self-financing

The operational boundary for external debt is the most likely, prudent but not worst-case scenario, without the additional headroom allowed for in the authorised limit to allow for unusual cash movements. As the authorised limit for external debt is currently intended to cover mainly cash flow movements and the £193m HRA self-financing borrowing, it is not necessary to set the operational boundary at a lower level. If a greater degree of borrowing for capital purposes is required in the future, both indicators will be reviewed.

#### **Indicator 7 - Incremental impact of current capital investment decisions on the council tax**

	<b>2012-13 £000 Estimate</b>	<b>2013-14 £000 Estimate</b>	<b>2014-15 £000 Estimate</b>
For Band D Council Tax	Nil	Nil	Nil
For average weekly housing rents	Nil	Nil	Nil

This indicator shows the impact of the capital investment decisions on the Council Tax and rent levels. It allows the totality of the Council's plans to be considered at budget setting time. Whilst this is an indicator that Members must consider when taking decisions on borrowing, it doesn't necessarily follow that council tax or rent has actually been increased by the amount shown in the indicator.

In reality, due to the pressures on Waverley's budget, any net cost of borrowing will have to be offset by savings in other budgets, therefore the impact on the council taxpayer in cash terms would be zero. This is currently the intention with any future borrowing for General Fund capital schemes. The self-financing debt on the HRA will not impact on housing rents as the HRA 30-year business plan is modelled to meet interest and principal repayments from the cessation of negative housing subsidy payments. If this position changes in the future, this indicator will be revised and reported to Members for approval.

### **Indicator 8 – Limits on Investments**

	<b>2012-13 Estimate</b>	<b>2013-14 Estimate</b>	<b>2014-15 Estimate</b>
The upper limit on fixed rate investments as a % of net outstanding principal sums	100%	100%	100%
The upper limit on variable rate investments as a % of net outstanding principal sums*	10%	10%	10%

\*Excludes money held in call or instant access deposit accounts

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The Council calculates these limits on net principal outstanding sums. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate reductions which could adversely impact on the revenue budget.

### **Indicator 9 – Maturity Structure of Borrowing**

The maturity structure of borrowing (as % of overall projected fixed rate borrowing)	<b>2012-13 Estimate</b>		<b>2013-14 Estimate</b>		<b>2014-15 Estimate</b>	
	Upper	Lower	Upper	Lower	Upper	Lower
-under 12months	100%	0%	100%	0%	100%	0%
-between 1 and 30 years	100%	0%	100%	0%	100%	0%

This indicator highlights the existence of any large concentrations of fixed rate debt and is intended to help protect against excessive exposures to interest rate changes in any one period. Once Waverley's initial HRA self-financing debt structure has been agreed, this indicator will be reviewed.

### **Indicator 10 – Upper Limits on Investments >365 days**

	<b>2011-12 Estimate</b>	<b>2012-13 Estimate</b>	<b>2013-14 Estimate</b>	<b>2014-15 Estimate</b>
The upper limit of principal sums invested for periods of more than 364 days	£10m	£10m	£10m	£10m

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

### **Indicator 11 - Gross and Net Debt**

Gross and Net Debt	2011/12 Estimated £m	2012/13 Authorised £m	2013/14 Authorised £m	2014/15 Authorised £m
Outstanding Borrowing	£3.2m	£193.0m	£193.0m	£193.0m
Other Long-term Liabilities	£0.7m	£0.7m	£0.7m	£0.7m
Gross Debt	£3.9m	£193.7m	£193.7m	£193.7m
Less: Investments	-£27.0m	-£24.0m	-£26.0m	-£30.0m
Net Debt	<b>-£23.1m</b>	<b>£169.7m</b>	<b>£167.7m</b>	<b>£163.7m</b>

CIPFA's intended purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of a cash requirement. Waverley is able to borrow funds in excess of the current level of its CFR up to the projected level in 2014/15. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

This is a new indicator for 2012/13 and CIPFA have identified that it does not work as intended and may need revision, particularly for those authorities with HRA self-financing debt. CIPFA are consulting on this currently but, in the meantime, Waverley is required to prepare the indicator on the original basis specified in the Code.

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