

AGENDA ITEM 11: APPENDIX F

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 4 FEBRUARY 2014

Title:

TREASURY MANAGEMENT 2014/15

[Portfolio Holder: Cllr Mike Band]

[Wards Affected: All]

Summary and purpose:

The purpose of this report is to approve the:

- revised Treasury Management Policy
- 2014/15 Treasury Management Strategy
- 2014/15 Investment Strategy
- and the Prudential Indicators for 2014/15 to 2016/17.

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.

Financial 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.

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 means managing a turnover of around £170m and investing up to £60m in financial markets at any one time and, with the introduction of HRA Self-financing in 2012/13, it now also includes borrowing of £193m.
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. These changes were incorporated in Waverley's Policy and approved in February 2012. Subsequently, a minor change has been made by CIPFA to 2 prudential indicators and this is reflected later in the report.
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. The most significant change is the consideration of options for widening the scope to invest surplus cash which are detailed in the report.

Purpose of the Code

6. 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.

Treasury Management Statements

7. In 2012, officers, supported by treasury advisors, revised the following key documents to bring them in line with the requirements of the new Code and these were approved by Council in February 2013:

- 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 2014/15 - 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 2014/15 - 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.

Impact of Housing Revenue Account Cashflow

8. As the Housing Revenue Account approaches the end of the second year under the self-financing framework, the financial transactions and future cashflows can be projected with greater certainty, particularly as the programmes of capital spend are developed. The most significant HRA cashflow transactions relate to capital spend on new homes and, whilst surpluses have accumulated in the first two years, it is anticipated that there will be major spend in the next few years. Officers are working on more sophisticated cashflow forecasting for these large cashflows which should enable longer term investment decisions to be taken without compromising liquidity.

9. In the light of the significantly higher cash balances being experienced in 2013/14, mainly due to the HRA business plan cashflows, it has become increasingly difficult to make day to day investment decisions which utilise surplus cash balances to the best effect. The thresholds set in the current Investment Strategy rightly limit the options for investment but widening the scope of the Strategy could enable an improved position to be achieved without introducing significant additional risk. Officers have examined a range of alternative investment options and these are set out in Annexe 4. Some of the options listed would not be acceptable given the Council's Strategy principles and priorities but some may be beneficial, subject to certain controls. Where officers consider that changes could be made to the Investment Strategy, these measures are highlighted in Annexe 4 and have been incorporated in the draft Strategy 2014/15 at Annexe 3.

Prudential Indicators 2014/15, 2015/16 and 2016/17

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 their 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 5. The prudential indicators are intended to support decision-making and are ways of targeting and measuring performance.

Recommendation

The Executive recommends that the Council approve:

- the 2014/15 Treasury Management Policy;
- the 2014/15 Treasury Management Strategy;
- the Annual Investment Strategy for 2014/15; and
- the Prudential Indicators for 2014/15 to 2016/17.

Background Papers

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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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 are 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 Director of Finance and Resources (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.

Treasury Management Strategy Statement 2014/15 (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 Director of Finance and Resources 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 cash 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.
- ***To consider other forms of investment, such as property acquisitions, on a case by case basis subject to a comprehensive business case being presented to Members including analysis of risk and viability.***

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 company to provide up to date information and analysis.

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 borrowed £189m in March 2012, £5m of which was borrowed internally, for the purposes of HRA self-financing implementation. The Council adopted a flexible approach to this borrowing in consultation with its treasury management advisers and in accordance with the approved HRA Financing Strategy approved by Council on 21st 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.

Minimum Revenue Provision (MRP) Annual Policy Statement - The scheme of Minimum Revenue Provision (MRP) requires Local Authorities to set aside some of their revenues as provision for debt each year of an amount considered to be 'prudent'. Prudent provision should ensure that debt is repaid over a period that is

reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, the period implicit in the grant determination.

Following the implementation of International Financial Reporting Standards, finance leases may also be subject to the requirements of MRP. However, borrowing to finance capital expenditure on housing assets is not subject to MRP.

Guidance on MRP has been issued by the Department of Communities and Local Government. The guidance sets out options for making a prudent provision for MRP. If the Council undertakes borrowing requiring an MRP provision, it will apply the most appropriate option having regard to the guidance. A more detailed statement on the MRP policy adopted will then be submitted to Council.

TREASURY MANAGEMENT PRACTICES (TMP)

TMP1 RISK MANAGEMENT

General Statement

The Director of Finance and Resources, (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 Director of Finance and Resources 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.

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 current approved capital programme or to finance future debt maturities. The statutory HRA debt transaction has already been undertaken.

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 cash 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 cash 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 Director of Finance and Resources 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 Director of Finance and Resources.

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*.

Should Waverley decide in future 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 Director of Finance and Resources 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 Director of Finance and Resources 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 Director of Finance and Resources in March 2010 as included in the Additional Guidance document.

The delegations to the Director of Finance and Resources in respect of treasury management have been agreed with the Portfolio Holder for Finance and the Director of Finance and Resources in March 2010 as included in the Additional Guidance document. The Director of Finance and Resources 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 Director of Finance and Resources 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 Director of Finance and Resources 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 Director of Finance and Resources, 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 Director of Finance and Resources 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 Director of Finance and Resources 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 Director of Finance and Resources will recommend and implement the necessary arrangements.

The Director of Finance and Resources 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 Director of Finance and Resources.

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 Director of Finance and Resources will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

ANNEXE 3

Annual Investment Strategy 2014-15

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 2014/15 Strategy is framed against this backdrop of continued uncertainty in the market. ***On a local level, the Strategy also recognises the significant levels of cash currently held by Waverley, mainly due to the accumulated HRA funds which will be spent on new affordable homes as schemes are delivered.***

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 2014/15:

- Cash 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 cash 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 an assessment of risk.
- ~~£7.5~~ **10**million is the maximum investment in any single specified organisation at any one time.
- ~~£40~~ **15**m is the total investment with any group - £7.5m remaining the maximum with any single member of that group
- Up to date information received by officers, together with specialist advice if appropriate, 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.
- ***If cashflow certainty can be demonstrated over a longer term, Waverley will consider investing in property provided that a business***

case is presented to Members including a risk and viability assessment.

- The Director of Finance and Resources 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 changed from those previously approved as highlighted in bold text. In practice, the continuing market conditions will mean that controls will be 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 **although it is recognised that the HRA cashflows are now significant and greater certainty exists so this will subject to separate analysis to inform longer term investment decisions**
- **In addition to the thresholds above, the maximum amount invested in any single specified organisation will generally be restricted to no more than 20% of the overall total external investments at that time**
- 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 taking into account appropriate treasury management information
- 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', officers will consider, and when necessary, seek advice on:

- Credit rating 'future outlook' assessment
- Published credit ratings for financial institutions
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- 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 within the limits set out in this Strategy 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.

However, in practice, it would be impossible to restrict the Council's own bank, HSBC, to the same £limits as other investment counterparties because there are many instances when cash in excess of ~~£7.5~~ **10m** is moving through the Council's HSBC bank accounts. Given also that it is likely that there will often be occasions when Waverley has more cash than the total of its approved counterparty limits, it is therefore necessary to specifically exclude HSBC's banking activities from the ~~£7.5~~ **10m** limit. It should be noted that existing HSBC bank accounts are all instant access.

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.