

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 3 FEBRUARY 2015

Title:

TREASURY MANAGEMENT FRAMEWORK 2015/16

[Portfolio Holder: Cllr Julia Potts]

[Wards Affected: All]

Summary and purpose:

This report sets out the proposed Treasury Management Framework for 2015/16, comprising:

- revised Treasury Management Policy;
 - 2015/16 Treasury Management Strategy;
 - 2015/16 Investment Strategy; and,
 - Prudential Indicators for 2014/15 to 2017/18.
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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.

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 current 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 £175m and investing up to £70m 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. There are no material changes to any of the policies proposed in this report as they still comply with the requirements of the code and provide a sound operational framework.

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.
 - 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 2015/16 - 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 2015/16 - 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 2014/15, 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.

Prudential Indicators 2015/16, 2016/17 and 2017/18

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

Corporate Overview and Scrutiny Committee

11. The Corporate Overview and Scrutiny Committee considered this report at its meeting on 20 February and endorsed the Treasury Management Framework for 2015/16. The Committee did suggest that the Council could be more proactive in exploring investment opportunities to generate income streams by exploiting the current low interest rates.

Recommendation

It is recommended that the proposed Treasury Management Framework for 2015/16 be endorsed.

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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