

## **WAVERLEY BOROUGH COUNCIL**

### **VALUE FOR MONEY OVERVIEW AND SCRUTINY - 26 MARCH 2018** **EXECUTIVE – 10 APRIL 2018**

---

#### **Title:**

**TREASURY MANAGEMENT FRAMEWORK 2018/19**

**[Portfolio Holder: Cllr Ged Hall]**

**[Wards Affected: All]**

---

#### **Summary and purpose:**

This report sets out the proposed Treasury Management Framework for 2018/19, comprising:

- revised Treasury Management Policy;
  - 2018/19 Treasury Management Strategy;
  - 2018/19 Treasury Management Investment Strategy; and
  - Prudential Indicators for 2018/19 to 2020/21
- 

#### **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 monetary investments and cash flows, its banking and money market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Treasury Management Framework for 2018/19 contains only minor changes to the existing framework.

2. For Waverley Borough Council this means collecting around £130m per annum and managing a similar amount of revenue expenditure together with an average investment of around £65m each day invested in financial markets and, with the introduction of HRA Self-financing in 2012/13, it now also includes borrowing of £192m and in future this could also include borrowing to support commercial investment.
3. The 2018 revised code now required a separate capital strategy that includes commercial investments held for financial return. This will be developed during 2018/2019 following the approval of the Property Investment Strategy and the Treasury Strategy. The Capital Strategy will include all of the new disclosure requirements and will take account of the external advice commissioned in March 2018 from Link Asset Services, a leading treasury advisor to local government.
4. The CIPFA 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, Investment strategies and their Prudential Indicators on an annual basis.
5. During 2017 CIPFA revised the Code through a series of consultations. The Government also published in March 2018 a revised Prudential Framework for Capital Finance, which includes the Local Authorities Investment Code and MRP Guidance. These revisions take effect from April 2019 and will be incorporated in Waverley's Capital Strategy.

### **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 over-riding 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. The key documents in line with the requirements of the Code are approved by Council annually as follows:
  - Treasury Management Policy Statement is included at Annexe 1 and sets out the headline objectives of the Treasury Management function.
  - Treasury Management Strategy 2018/19 is included at Annexe 2 and sets out the way in which Waverley's policy objectives for Treasury Management will be achieved and the high level approach to borrowing and treasury 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 2018/19 is included at Annexe 3 and sets out how Waverley's treasury investments will be managed, in accordance with the Treasury Management Strategy, and how this will help achieve Waverley's policy objectives. This Strategy is required by local government investment regulations.

### **Borrowing**

8. With the creation of the Investment Advisory Board and the Government's significant reduction in Waverley's New Homes Bonus funding, it is likely that Waverley will need to borrow in 2018/19 and subsequent years to develop and/or acquire property assets in order to develop the local economy and generate revenue for the General Fund budget.
9. In order to respond quickly to opportunities that arise and ensure flexibility in the capital financing arrangements, the decision to borrow to finance capital expenditure was delegated to the Executive by the Council, subject to the limits within this report and provided that the annual revenue cost of the borrowing is within the Executive's authorised spending limit for each transaction.

### **Prudential Indicators to 2020/21**

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. Waverley's Prudential Indicators are in line with the requirements of the Code and the current conditions which are included at Annexe 4 (to follow). The

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

### **Proposed Recommendation for Executive**

The Executive recommends to the Council that the proposed Treasury Management Framework for 2018/19 be approved.

### **Recommendation**

That the Value for Money Overview and Scrutiny Committee considers the Treasury Management Strategy and passes any comments and observations to the Executive.

---

### **Background Papers**

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

---

### **CONTACT OFFICER:**

**Name:** Peter Vickers

**Telephone:** 01483 523539

**E-mail:** [peter.vickers@waverley.gov.uk](mailto:peter.vickers@waverley.gov.uk)

### **STATEMENT OF TREASURY MANAGEMENT POLICY**

The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Sections 5 and 6 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 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 be 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, regular monitoring reports during the year 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 Strategic Director (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 Value for Money 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 treasury investments followed by the yield earned on investments remain important but are secondary considerations.

### **Treasury Management Strategy Statement 2018/19** **(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 treasury 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 Treasury Investment Strategy (Annexe 3), in response to market conditions.

#### **Risk:**

Waverley acknowledges that no treasury management activity is without risk. The major area of risk is identified as investment risk. Investment risk will be mitigated in a number of ways as set out in accordance with the specified Treasury Management Practices and Annual Treasury Investment Strategy. The cornerstones of current treasury investment strategy are:

- to lend only to those institutions which fit the Council's policy in terms of financial standing, credit ratings etc;
- generally to restrict lending to terms of one year or less or to cover precept dates or known expenditure commitments, except where the Strategic Director (S.151 Officer) or Head of Finance agree to an investment within Waverley's criteria over a longer period if interest rates are favourable;
- to identify financial limits for each counterparty institution depending on the quality of its financial ratings;
- to make all cash investments in GBP sterling thus avoiding exchange rate risk;
- that Waverley's general preference is for fixed rate investments for budgetary certainty and the avoidance of yield risk and
- to consider other forms of investment that are not part of treasury management activity, 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. This is set out in a separate Property Investment Strategy.

The Council is also committed to using available market intelligence to aid investment and borrowing decision making.

#### **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 £192m 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 treasury management advisers.

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, as the HRA Business Plan is developed, to reschedule some of the HRA debt. Waverley's debt portfolio can, potentially, be restructured in order 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:

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

With the creation of the Investment Advisory Board and the Government's significant reduction in Waverley's New Homes Bonus funding, it is likely that Waverley will need to borrow in 2018/19 and subsequent years to develop and/or acquire property assets in order to develop the local economy and generate revenue for the General Fund budget.

In addition, temporary borrowing for the purposes of financing day-to-day expenditure commitments is allowed for short periods if economic on the day.

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.

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.

Revised Guidance on MRP has been issued by the Government. The guidance is fairly prescriptive but 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. It is intended that Waverley will use the Annuity method of calculating MRP as it links MRP to the flow of benefits.



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

### **TMP1 RISK MANAGEMENT**

#### **General Statement**

The Strategic Director, (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.

#### **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.

#### **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 because other currency deals expose Waverley to an additional level of risk. Accordingly, Waverley 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 and approval for such a policy change will be sought.

## **Inflation Risk Management**

Waverley Borough Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

## **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 is included in the budget monitoring process, and periodic reports to the Executive and Corporate O&S Committee.

## **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 management 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 Strategic Director (S.151 Officer) 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 Strategic Director (S.151 Officer) in March 2010 as included in the Additional Guidance document.

The delegations to the Strategic Director (S.151 Officer) in respect of treasury management have been agreed with the Portfolio Holder for Finance and the Strategic Director (S.151 Officer) 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;
- Regular monitoring reports during the year 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 Value for Money 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 Strategic Director (S.151 Officer) 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 Strategic Director (S.151 Officer) 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 Strategic Director (S.151 Officer) 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 Strategic Director (S.151 Officer) will ensure that these are adequate for the purposes of monitoring compliance with TMP1[1] liquidity risk management.

#### **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 Strategic Director (S.151 Officer) will recommend and implement the necessary arrangements.

The Strategic Director (S.151 Officer) 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 Strategic Director (S.151 Officer).

## **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 action, together with the other arrangements detailed in this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Strategic Director (S.151 Officer) will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

### **Annual Treasury Management Investment Strategy 2017/18**

The Annual Treasury 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 secondary considerations.

The 2018/19 Strategy is framed against the backdrop of current market conditions. On a local level, the Strategy also recognises the significant levels of cash accumulated by Waverley, mainly due to the accumulated HRA funds which will be spent on delivering the HRA capital programmes.

The statutory guidance requires 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 2018/19:

- 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.
- £10million is the maximum investment in any single specified organisation at any one time.
- £20m is the total investment with any group - £10m the maximum with any single member of that group.
- Up to date information gathered 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 Strategic Director (S.151 Officer) 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.

In practice, day-to-day controls are actually tighter, but still within the bounds of the approved policy, in order 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, to some extent, some stability has been evident so longer term investment decisions are potentially possible subject to consideration of capital spending plans.
- 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.
- 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.

A major problem in the current environment is acknowledged as finding a sufficient number of investment counterparties 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. Introductions to new counterparties (within the allowed criteria) will be sought where appropriate.

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 gather and consider information such as:

- Credit rating 'future outlook' assessments
- Published credit ratings for financial institutions
- Economic fundamentals (for example Net Debt as a percentage of GDP)

**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 £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 £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