

## **Treasury Management Policy**

Waverley adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), which identifies three key principles which Local Authorities should apply:

- 1) formal and comprehensive strategies, objectives, policies, practices 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 Framework 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, Waverley 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 Statement on at least an annual basis, including approved treasury management practices (TMPs), setting out the manner in which Waverley will seek to achieve its policy objectives and prescribing how it will manage and control those activities.

The content of the policy, statement 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 framework in advance of the year.

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 Waverley's Policy, Statement 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 framework.

**Overall policy:**

Waverley defines its Treasury Management Policy objectives as:

The effective management of Waverley's banking and cash deposits 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 Waverley'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:**

Waverley'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 Waverley is transparent and has flexibility and control over its debt.

**Investment (Cash deposits):**

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

**Ethical Investment:**

Investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt security, liquidity and yield principles and ethical issues must play a subordinate role to those priorities.

**Treasury Management Strategy Statement 2020-2021**  
**(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 a higher priority than rate of return/yield. Waverley's strategy and day-to-day practice, therefore, continue to be refined, within the boundaries set out in the Treasury Strategy (Annexe 5), 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 Management Strategy. The cornerstones of current treasury management strategy are:

- to lend only to those institutions which fit Waverley'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 (S151 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 money market 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.

Waverley will also use available market intelligence as appropriate 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 returns and costs.

## **Borrowing Strategy:**

The HRA self-financing implementation required the HRA to pay the Government £189m in March 2012. Waverley borrowed £184m in March 2012 for this purpose with £5m being met by an internal loan. Waverley adopted a flexible approach to this borrowing in consultation with treasury management advisers.

### ***External Borrowing***

The following issues will be considered prior to undertaking any external borrowing:

- Affordability
- Maturity profile of existing debt
- To achieve interest rate and avoid 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 Property 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 future 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.

### ***Borrowing in Advance of Need***

Waverley will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that Waverley can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the year.

### ***Internal Borrowing***

Internal borrowing, the use of cash rather than external borrowing, may be considered if investment returns are low and counterparty risk is an issue. Borrowing rates will be monitored to assess whether it is prudent to use of cash instead of external borrowing.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded

with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure.

Overall, borrowing will be managed within the Authorised Limit for External Debt (See Prudential Indicator 8).

### **Minimum Revenue Provision (MRP) Policy Statement**

One of the underpinning principles of the Local Authority financial system is that all capital expenditure has to be financed either from capital receipts, capital grants (or other contributions) or eventually from revenue income. MRP is a statutory mechanism for allocating funds out of revenue income to repay unfinanced capital spend (from borrowing or credit arrangements).

The scheme of MRP requires Local Authorities to set aside some of their revenues as provision for unfinanced capital spend each year of an amount considered to be 'prudent' having regard to the recommendations in the Ministry of Housing and Local Government (MHCLG) guidance. Prudent provision should ensure there is a balance between matching MRP to a period over which the capital expenditure provides benefits.

In advance of each financial year a Local Authority should prepare a statement of its policy on making MRP in respect of that year and submit it to Council for approval.

### **Waverley's MRP**

- Will not be nil or a negative charge except where the Capital Financing Requirement (CFR) is nil or goes into the negative or to offset a previous overpayment of MRP.
- Where the CFR is nil or negative on the last day of the financial year, indicating the provision of debt is equal to or greater than the debt incurred, no MRP will be made in the following financial year.
- The implications of MRP will be assessed at the point of making a decision to incur capital expenditure.
- Waverley will reassess the MRP charge each year.

### **Options for Prudent Provision of MRP**

The methods available to calculate a prudent provision are:

1. Make a provision over the estimated life of the asset for which the borrowing is undertaken, either:
    - Equal instalment method – equal annual amounts over the estimated life of the asset.
    - Annuity method – link MRP to the flow of benefits from an asset where the benefits are expected to increase in later years.
- or
2. Match MRP to the depreciation charges that will be generated by the assets that have been acquired
    - MRP continues until the provision made is equal to the original amount of the debt and may then cease.

- On disposal of the asset the charge will continue but capital receipts or other funding sources can be applied at any time to repay all or part of the outstanding debt.
- If only part of the expenditure on the asset is financed by debt, the depreciation provision is proportionately reduced.

The MHCLG guidance allows for limited flexibility in the calculation of MRP. Waverley will assess the appropriate option to adopt in advance of the commencement of MRP. However, if Waverley departs significantly from the guidance, or if it is a large, complex, novel scheme, legal and external audit will be consulted with the proposed approach as appropriate.

### **Commencement of MRP**

- MRP will commence in the financial year following the one in which the unfinanced capital expenditure is incurred. In the case of a new asset MRP would begin in the financial year following the one in which the asset becomes operational.
- MRP will not be provided for Assets under Construction. MRP on debt will commence, proportionally, as each stage of the project transfers to Assets in Use.

### **Estimated Useful life of assets for calculating MRP**

The useful life will not normally exceed a maximum of 50 years. Waverley may only exceed this maximum in two scenarios:

- Where Waverley has an opinion from an appropriately qualified professional advisor that the asset will deliver service functionality for more than 50 years. The life suggested by the professional advisor may then be used.
- For a lease, where the length of the lease exceeds 50 years, the length of the lease may be used.

<b>Unfinanced capital expenditure on:</b>	<b>Estimated useful life for MRP</b>
Investment Properties	50 years
Land and Heritage assets	50 years
Buildings	40 years (unless valuer indicates otherwise)
Vehicles and Equipment	7-15 years
IT Equipment	3-10 years
Car Parks	25 years

### **Leases**

For finance leases, or where a right-of-use asset is on the balance sheet, the MRP requirement is met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability.

### **Housing Assets**

The duty to make MRP does not extend to cover borrowing or credit arrangements used to finance capital expenditure of the Housing Revenue Account.

## **Treasury Management Practices (TMPs)**

### **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'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 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 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 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'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 from Council.

### **Inflation Risk Management**

Waverley 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 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 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 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 Waverley.

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

Waverley 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 will ensure that its stated treasury management policies and objectives do not expose Waverley 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 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 Waverley'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 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 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 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 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 Waverley has to depart from these principles, the Strategic Director (S151 Officer) 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 (S151 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.

### **TMP6 Reporting Requirements and Management Information Arrangements**

Waverley 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.

The Executive will receive:

- An annual report on the strategy to be pursued in the coming year;
- Monitoring reports during the year on treasury management activities and risks as appropriate;
- 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 and periodic performance reports for comment.

### **TMP7 Budgeting, Accounting and Audit Arrangements**

The Strategic Director (S151 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 (S151 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*.

Waverley 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 Waverley will be under the control of the Strategic Director (S151 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 (S151 Officer) will ensure that these are adequate for the purposes of monitoring compliance with TMP1[1] liquidity risk management.

### **TMP9 Money Laundering**

Waverley 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, Waverley 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**

CIPFA's Code of Practice requires the *responsible officer* (for Waverley that is the Strategic Director (S151 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 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 (S151 Officer) will recommend and implement the necessary arrangements.

The Strategic Director (S151 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 recognises that responsibility for treasury management decisions remains with Waverley at all times. Waverley 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. 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 (S151 Officer).

## **TMP12 Corporate Governance**

Waverley 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.

Waverley has adopted and has implemented the key principles of the Code. This action, together with the other arrangements detailed in this document, is considered vital to the achievement of proper corporate governance in treasury management, and the Strategic Director (S151 Officer) will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

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**Treasury Management Strategy 2020-2021**

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

The 2020-2021 Strategy is framed against the backdrop of current market conditions. Despite a generally depressed market since 2008, current market conditions are much more stable. The results of the Bank of England's 2018 UK bank stress tests was that "the UK banking system is resilient to deep simultaneous recessions in the UK and global economies...". Other factors include the potential impact of Brexit on interest rates and the increased activity in Local Government peer-to-peer transactions which afford more security in the market. 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 over the medium term.

The statutory guidance requires Waverley to determine a number of limits and guidelines for its treasury 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. Given the market conditions described above the limit of 'non-specified investments' held at any point in time will be £30million as below. Officers would expect that the majority of non specified investments would be with other Local Authorities for added security. Non specified investments will be non specified only by virtue of being for one year or more.

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 2020-2021:

- Cash deposits only (subject to the exception of CCLA (Churches, Charities and Local Authorities) investments) with UK Local Authorities and the UK Government, Housing Associations 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. Such an investment will only be with an 'approved counterparty' and will be subject to an assessment of risk. Generally, longer-term investments over one year will be with other Local Authorities in order to reduce counterparty risk.
- £10million is the maximum deposit in any single specified organisation at any one time.
- £20m is the total deposit 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.
- The maximum total investment at any one time that can prudently be committed for more than one year is £30 million.
- If cashflow certainty can be demonstrated over the 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 (S151 Officer) can seek the Executive approval to change the above limits during the year if necessary, provided that it is in the best interests of Waverley to do so.

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. In relation to the Annual Treasury Management Strategy, investments have ongoing ratings checks, beyond just the day of investment, and ratings are continually monitored internally and changes reported.

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 now 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 recent environment has been 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 Waverley'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. Waverley 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 Waverley'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 Waverley'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.

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**Prudential Indicators**

The Capital Strategy provides a framework by which capital expenditure decisions are made as required by the Prudential Code for Capital Finance in Local Authorities. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview, confirm capital expenditure plans and provide information to support decision making on borrowing, affordability, prudence and sustainability.

The Code is not prescriptive on the indicators, as they designed to support and record local decision making, but they must cover four areas:

- prudential indicators for capital expenditure
- prudential indicators for affordability
- prudential indicators for external debt
- prudential indicators for treasury management.

**Indicator 1 - Estimate of total capital expenditure to be incurred**

The estimates of capital expenditure Waverley plans to incur during the forthcoming financial years are:

	2018-19 Actual £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m
General Fund	2	4	7	2	2
Housing Revenue Account	6	16	13	17	15
Commercial activities/non-treasury investments *	0	0	100	0	0
<b>Total</b>	<b>8</b>	<b>20</b>	<b>120</b>	<b>19</b>	<b>17</b>

\* Commercial activities/non-treasury investments relate to areas such as capital spend on investment properties

The table below summaries the above capital expenditure plans and how these will be financed by capital or revenue resources. Any shortfall in resources results in a funding borrowing need.

	2018-19 Actual £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m
Capital Receipts	2	7	10	9	9
Capital Grants	1	1	2	1	1
Capital Reserves	0	1	0	0	0
Revenue	5	11	8	9	7
Borrowing	0	0	100	0	0
<b>Total</b>	<b>8</b>	<b>20</b>	<b>120</b>	<b>19</b>	<b>17</b>

## Indicator 2 - Financing Costs

Financing costs are made up of interest paid, interest and investment income and amounts required for the statutory provision of debt (including repayments of principal, interest and minimum revenue provision).

	2018-19 Actual £'000	2019-20 Estimate £'000	2020-21 Estimate £'000	2021-22 Estimate £'000	2022-23 Estimate £'000
General Fund	-602	-750	-536	1,464	1,464
Housing Revenue Account	9,238	9,684	9,790	10,418	13,276

## Indicator 3 - Net Revenue Stream

The net revenue stream is the amount to be met from local council 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.

	2018-19 Actual £'000	2019-20 Estimate £'000	2020-21 Estimate £'000	2021-22 Estimate £'000	2022-23 Estimate £'000
General Fund - Taxation and non specific grant income	14,869	13,211	12,941	11,750	11,350
Housing Revenue Account – Rent income	29,973	30,036	30,011	30,974	31,909

## Indicator 4 - Financing Costs to Net Revenue Stream

	2018-19 Actual	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate
General Fund	-4.0%	-5.7%	-4.1%	12.5%	12.9%
Housing Revenue Account	30.8%	32.2%	32.6%	33.6%	41.6%

## Indicator 5 - Capital Financing Requirement (CFR)

The CFR is the amount of capital spending that has not yet been financed by revenue, capital receipts or usable reserves. It measures the underlying need to borrow for capital purposes.

The borrowing may not necessarily take place externally if the Council judges it prudent to make use of cash that it has invested to adopt an efficient and effective treasury management strategy. This is known as 'internal borrowing'.

The Housing Revenue Account self-financing debt is deemed to be capital expenditure under the regulations and forms part of the calculation of the CFR.

	2018-19 Actual £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £'000	2022-23 Estimate £'000
General Fund	6	5	106	103	101
Housing Revenue Account	185	181	176	171	163
Total	191	186	282	274	264

### Indicator 6 - Gross debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, external debt should not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m
Gross debt	271	266	258
Capital Financing Requirement (Indicator 5)	282	274	264

### Treasury Indicators

#### Indicator 7 - External Debt

The prudential indicator for the authorised level of external debt is the focus of corporate decision making and managerial control as it is the immediate means by which Waverley complies with the legislative requirement to keep under review the amount it can afford to borrow.

The actual external debt is taken from Waverley's Balance Sheet.

Actual External Debt as at 31/03/2020	£m
Borrowing	176
Other Long-term Liabilities	0
Total	176

#### Indicator 8 - Authorised limit for external debt

The Authorised Limit sets the maximum level of external borrowing, excluding investments, for Waverley and represents a limit beyond which Waverley cannot borrow until the indicator is reviewed or amended. It establishes the upper boundary of borrowing based on a realistic assessment of the risks and reflects a level of borrowing which, while not desirable, could be affordable but may not be sustainable.

It must also encompass borrowing for temporary purposes. While cash flows are currently managed using the investment portfolio it is possible that short-term borrowing may be necessary but is not currently expected.

This Prudential Indicator separately identifies borrowing from other long term liabilities.

In approving this limit, the Council is approving the limit as required under section 3(1) of the Local Government Act 2003.

	2018-19 Actual £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m
General Fund	50	50	110	110	110
Housing Revenue Account	188	188	188	188	188
Total	238	238	298	298	298

### Indicator 9 - Operational Boundary

This indicator is a means by which external debt is managed to ensure it remains within the self-imposed limit. It is the focus of day-to-day treasury management activity.

It is lower than the authorised limit in order to allow for cash flow variations that may lead to the occasional breach of the operational boundary. A breach is highly unlikely but any breach would then alert the Council to the imminent breach of the authorised limit and corrective action can then be taken.

	2018-19 Actual £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m
General Fund	40	40	100	100	100
Housing Revenue Account	188	188	188	188	188
Total	228	228	288	288	288

### Indicator 10 - Maturity Structure of Borrowing

The following table shows the amount of borrowing that is maturing in each period expressed as a percentage of total borrowing from 2020-21.

	Upper Limit	Lower Limit
0 to 5 years	24%	24%
5 to 10 years	35%	35%
Over 10 years	41%	41%

### Indicator 11 - Total principal sums invested for periods longer than a year

Were Waverley to invest, or plan to invest, for periods longer than a year, it has set the following limits for each forward financial year for the maturing of such investments. This allows Waverley to contain its exposure to the possibility of loss that might arise as a result of having to borrow short term at higher interest rates or see early repayment or redemption of principal sums invested. This indicator also demonstrates that Waverley is not borrowing more money than it needs, or in advance of need, purely to profit through investment from the extra borrowing.

	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m
The upper limit of principal sums invested for periods of more than 365 days	30	30	30	30