

WAVERLEY BOROUGH COUNCIL

EXECUTIVE

30 NOVEMBER 2021

Title:

Treasury Management

Portfolio Holder: Cllr Mark Merryweather, Portfolio Holder for Finance

Head of Service: Peter Vickers, Head of Finance and Property

Key decision: Yes

Access: Public

1. Purpose and summary

1.1 Executive are asked to approve the proposed increase in the treasury management annual investment strategy "Non Specified" limit to enable the movement of cash on short term deposit into longer fixed term deposits (investments) to access higher interest rates.

2. Recommendation

2.1 It is recommended that the Executive approve the increase in the Non specified limit from £30 million to £50 million.

3. Reason for the recommendation

3.1 The council's cashflow is managed by placing surplus cash on deposit to mature as required to cover daily expenditure, including a buffer for emergencies. Treasury management investment activity makes a significant financial contribution to the council's finances by way of interest earned on fixed term fixed rate deposits of surplus cashflows. Prior to the pandemic the council's annual rate of return on investments was around 1.12% whereas in 2021/22 the current rate is circa 0.5% and dropping. 1.12% represented some £906k in 2019/20 whereas 0.5% represents some £438k in 2021/22.

3.2 The council manages its treasury activities in compliance with the boundaries set out by the MHCLG's Guidance on Local Government Investments, CIPFA Treasury Management in Public Services Code of Practice and Waverley's own approved annual strategy. The policy adopted is to give security a higher priority than liquidity and rate of return/yield. However, it remains important to maximise interest yield where possible in line with the approved Treasury Management strategy and therefore it is necessary to revisit the boundaries set within the strategy in response to changing market conditions.

3.3 The statutory guidance requires the council to determine limits and guidelines for its treasury activity principally in 'Specified' and 'Non-Specified' investments. Waverley's approved strategy currently includes the following:

- **Specified investments** - are cash deposits held in sterling with a term 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 cash deposits that do not meet the above criteria. Waverley has agreed that its Non-Specified investments will be those which are Non-Specified **only** by virtue of the period being more than one year. Currently the limit of Non-Specified investments able to be held at any point in time is **£30million**. The majority of Non-Specified investments will be with other Local Authorities or Housing Associations for added security.

3.4 On 18th October 2021 Waverley had a total cash holding of £113m of which £29m are Specified investments generating an average interest rate of 0.36% and £25m are Non-Specified investments generating an average interest rate of 1.13%. The council has also committed to a further Non-Specified investment for £5m bringing Non-Specified investment to its approved Treasury Management limit of £30m. The remaining £59m of cash is earning **zero** interest.

3.5 The council is now at its current approved Treasury Management £30m limit for Non-Specified (more than one year) investments and the capacity to generate additional significant interest receipts is restricted until December 2022 at the earliest. Given the current interest rates any short-term (Specified) investment will only generate low returns such that it is arguable that the inherent risk in such an investment, albeit very low, outweighs the 'meagre' returns and the cost of transacting. The current interest rates available can be indicated by the rates currently on offer from Nationwide Building Society which is Waverley's normal comparison as follows:

3 months	6 months	9 months	12 months	2 years	3 years
0.05%	0.15%	0.25%	0.30%	1.0%	1.50%

3.6 Currently the council has a day-to-day cash surplus which it cannot take full advantage of within the confines of the current approved Non-Specified investment limit and an increase in short-term investments is judged unlikely to prove sufficiently advantageous.

3.7 Consequently, officers judge that it would be a prudent measure to increase the limit for Non-Specified investments from the current £30 million to £50 million. This will allow the council to take advantage of preferential rates of interest to improve and secure future years' budget positions. All other approved criteria for cash deposits will remain in place including the requirement to lend only to high credit quality organisations, a £10m limit on any individual organisation remains as will daily checks on credit ratings etc. Any future increase in interest rates will impact positively on long term rates and short-term rates and together with an increase in

the Non-Specified limit will open investment opportunities in both the long and short terms.

4. Relationship to the Corporate Strategy and Service Plan

4.1 This supports a 'financially sound Waverley' whilst ensuring income levels match or exceed budget targets.

5. Implications of decision

5.1 Resource (Finance, procurement, staffing, IT)

There are no direct resource requirements from this recommendation.

5.2 Risk management

Treasury management risk is managed within the Treasury Management Strategy and Policy, setting out the treasury management daily activity risk management requirements.

5.3 Legal

There are no direct legal implications arising from this report.

5.4 Equality, diversity, and inclusion

There are no direct equality, diversity, or inclusion implications in this report. Equality impact assessments are carried out, when necessary, across the council to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

5.5 Climate emergency declaration

The increase in the Non Specified limit does not affect the approved counter party criteria approved within the current Treasury Management Strategy. Climate emergency implications will be considered in the February 2022 strategy revision.

6. Consultation and engagement

6.1 Portfolio Holder for Finance has been consulted on this proposal.

7. Other options considered

7.1 Only alternative option to consider is maintain the non specified limit at £30m limiting the potential for interest income generation.

8. Governance journey

8.1 Approval of in year adjustments to Treasury Management limits is delegated to the Executive.

Annexes:

No annexes

Background Papers

There are background papers, as defined by Section 100D(5) of the Local Government Act 1972). The Treasury Management Strategy 2021/22 is supported by this proposal.

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Agreed and signed off by:

Legal Services: 27/10/2021

Head of Finance: 27/10/2021

Strategic Director: 12/11/2021

Portfolio Holder: 27/10/2021