

STATEMENT OF TREASURY MANAGEMENT POLICY

Overview

The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code. The full Code is available for Members on request and identifies 3 key principles which organisations should apply:

- 1) formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of treasury management activities should be 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, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

The Council delegates responsibility for the regular monitoring of its Treasury Management Policy and practices to the Executive, and for the execution and administration of day-to-day treasury management decisions to the Director of Finance and Resources (Section 151 Officer) who will act in accordance with the Waverley's Policy, Strategy and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

The Council nominates the Corporate Overview and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Overall policy:

Waverley Borough Council defines its treasury management objectives as:

The effective management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks in order to ensure that financial resources are available at the right time to deliver the Council's service priorities.

Risk:

Waverley regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered into to manage these risks.

Value for money:

Waverley acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives and is therefore committed to the principles of achieving value for money in treasury management and to employing suitable performance monitoring arrangements within the context of effective risk management.

Borrowing:

The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should ensure the Council is transparent and has flexibility and control over its debt.

Investment:

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

Treasury Management Strategy Statement 2016/17 **(incorporating Treasury Management Practice statements)**

Overall policy:

The major objective of managing daily cash balances to meet cash flow commitments remains the priority.

Investments:

Waverley's policy is to give security of investment a higher priority than rate of return/yield. Waverley's strategy and day-to-day practice, therefore, continue to be refined, within the boundaries agreed in the Annual Investment Strategy, in response to market conditions.

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 Investment Strategy. The cornerstones of current 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 the shorter-term or to cover precept dates or known expenditure commitments, except where the Director of Finance and Resources 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, such as property acquisitions, on a case by case basis subject to a comprehensive business case being presented to Members including analysis of risk and viability.

The Council is also committed to using 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 and in accordance with the approved HRA Financing Strategy approved by Council on 21st February 2012.

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

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risk
- Borrowing source

It may be advantageous in future, 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

Currently there is no planned long/medium term borrowing planned in respect of General Fund services. Temporary borrowing for the purposes of financing day-to-day expenditure commitments is allowed for short periods if economic on the day. All borrowing activity will be reported to the Executive.

Overall, borrowing will be managed within the Authorised Limit for External Debt (See Prudential Indicator 5) and the HRA debt will not exceed the specified statutory cap.

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

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

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

TREASURY MANAGEMENT PRACTICES (TMP)

TMP1 RISK MANAGEMENT

General Statement

The Director of Finance and Resources, (Section 151 Officer) will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*. In respect of each of the following risks, detailed arrangements, which seek to ensure compliance with these objectives, are set out in 'Additional Information' schedules.

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.

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, ANDN DEALING ARRANGEMENTS

Waverley Borough Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decision and the audit and review of the treasury management function.

If the Council has to depart from these principles, the Director of Finance and Resources will ensure that the reasons are properly reported in accordance with

TMP6 *Reporting requirements and management information arrangements* and the implications properly considered and evaluated.

The Director of Finance and Resources will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements have been agreed with the Portfolio Holder for Finance and the Director of Finance and Resources in March 2010 as included in the Additional Guidance document.

The delegations to the Director of Finance and Resources in respect of treasury management have been agreed with the Portfolio Holder for Finance and the Director of Finance and Resources in March 2010 as included in the Additional Guidance document. The Director of Finance and Resources will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and CIPFA's *Standard of Professional Practice on Treasury Management*.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Waverley Borough Council will ensure that regular reports are prepared and considered on:

- the implementation of its treasury management policies
- the effects of decisions taken and transactions executed in pursuit of those policies
- the implications of changes, particularly budgetary, resulting from regulatory economic, market or other factors affecting its treasury management activities
- the performance of the treasury management function.

As a minimum:

The Executive will receive:

- An annual report on the strategy to be pursued in the coming year;
- Quarterly monitoring reports on treasury management activities and risks;
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Corporate Overview and Scrutiny Committee will have responsibility for the scrutiny of treasury management policies and practices and will receive the annual strategy documents for comment and periodic performance reports.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Director of Finance and Resources will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at a minimum be those required by statute or

regulation, together with such information as will demonstrate compliance with *TMP1 Risk management*, *TMP2 Performance measurement* and *TMP6 Approved instruments, methods and techniques*. The Director of Finance and Resources will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with *TMP6 Reporting requirements and management information arrangements*.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Director of Finance and Resources, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis and the Director of Finance and Resources will ensure that these are adequate for the purposes of monitoring compliance with *TMP1[1] liquidity risk management*.

TMP9 MONEY LAUNDERING

Waverley Borough Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, the Council will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made have been agreed by the Audit Committee.

TMP10 TRAINING AND QUALIFICATIONS

Waverley Borough Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Finance and Resources will recommend and implement the necessary arrangements.

The Director of Finance and Resources will ensure that Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

Waverley Borough Council recognises that responsibility for treasury management decisions remains with the Council at all times. The Council recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons, which have been submitted to a full evaluation of the costs and benefits. The Council will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Director of Finance and Resources.

TMP12 CORPORATE GOVERNANCE

Waverley Borough Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This 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 Director of Finance and Resources will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

ANNEXE 3

Annual Investment Strategy 2016-17

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

The 2016/17 Strategy is framed against a backdrop of a long period of market stability. 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 capital finance regulations require the Council to determine a number of limits and guidelines for its investment activity including 'specified' and 'non-specified' investments. Specified investments are those held in sterling with a maturity of no more than a year and must be with the UK Government, UK local authorities or "high" credit rated institutions. Non-specified investments are any investments that do not meet the above criteria.

To meet the requirements of the Regulations it is proposed that the following policy and limits apply to all of Waverley's investment activity in 2016/17:

- 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.
- £15m is the total investment with any group - £7.5m remaining 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 Director of Finance and Resources can seek the approval of the Executive to change the above limits during the year if necessary, provided that it is in the best interests of the Council to do so.

The proposed boundaries set out above are unchanged from 2015/16. In practice, the continuing market conditions mean that 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
- Shorter term lending remains judged to generate the best balance of return to risk generally, and most of Waverley's investment will fall into this category, although any opportunities in the yield curve with longer term investments may be taken as above
- 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.

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)
- Share Prices

- Corporate developments, news, articles, markets sentiment and momentum

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.