

# **APPENDIX D**

## **WAVERLEY BOROUGH COUNCIL**

**EXECUTIVE – 10TH JUNE 2008**

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**Title:**

**TREASURY MANAGEMENT – INVESTMENT TRANSACTIONS  
AND PERFORMANCE MEASUREMENT 2007/2008 AND POLICY UPDATE  
2008/09**

[Portfolio Holder for Finance: Cllr M H W Band]

[Wards Affected: N/A]

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**Summary and purpose:**

The purpose of this report is to summarise Waverley's investment performance for the year 2007-2008 in accordance with Waverley's Treasury Management Policy and the Code of Practice on Treasury Management in Local Authorities, and to update the Treasury Management Policy in the light of current market conditions.

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**Environmental Implications:**

There are no direct environmental implications arising from this report.

**Social/community Implications:**

There are no direct social/community implications arising from this report.

**E-Government Implications:**

There are no e-government implications.

**Resource and legal Implications:**

There are no direct resource implications and the financial areas are covered in the report.

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**Introduction and Background**

1. Waverley's Treasury Management Policy accords with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management in the Public Services.
2. The Policy requires officers to report on investment performance and transactions to a meeting of the Executive twice a year. This report covers the cumulative performance for the year ended 31<sup>st</sup> March 2008.

### **Investments – Performance Measurement**

3. The rate of return on the Council's investments for the half-year ended 30th September 2007 was 5.67%, as previously reported, and rose to 5.86% for the full year. For comparative purposes Waverley has traditionally used the London Inter-Bank Bid Rate (LIBID) seven-day rate as a benchmark. This has been calculated at 5.67% for the first half-year and 5.71% for the year as a whole.

### **Market Conditions**

4. Recent liquidity problems in the market, which started in late August 2007, are still affecting the rates achievable and also affecting the number and status of institutions borrowing on a daily basis. There were 5 different Bank of England base rates effective during the financial year and the rate has changed again since 1st April 2008.
5. The volatility of the market is demonstrated in the graph at Annexe 1, and the rate of return achieved by the Council (averaging 5.86%) during 2007/08 is shown in comparison with the 7 day market rates, 3 month rates and the base rate.
6. For information, the Local Performance Indicator LOBT3, which relates to investment performance, is shown below and indicates that performance in 2007-2008 compares well with the 2006/07 rate, considering the unusual market conditions experienced in 2007/08.

Full Description of PI	2006/2007 Actual	2007/2008 Target	2007/2008 Actual	2008/2009 Target
Average rate of return on the Council's investments compared with the average seven-day LIBID rate (London Inter-Bank Bid Rate)	0.02 % above the LIBID rate	0.25% above the LIBID rate	0.15% above the LIBID rate	0.05% above the LIBID rate

### **Investment Transactions**

7. The analysis below shows the total transactions during the period 1st April 2007 to 31<sup>st</sup> March 2008 in respect of all external investments undertaken by the Council, together with balances outstanding as at 31<sup>st</sup> March 2008.

#### **Investments**

	Balance at 1st April 2007 £	Total Lent £	Total Repaid £	Balance at 31st March 2008 £
Temporary Investments	31,200,000	123,400,000	124,050,000	30,550,000

8. The temporary investments (i.e. investments repayable to the Council within one year) outstanding as at 31st March 2008, comprise £20,000,000 invested with specified institutions and £10,550,000 with non-specified institutions in accordance with the Council's current approved Investment Policy.

### **Treasury Management Policy**

9. Officers confirm that the principal objectives of managing daily cash balances to meet cash flow commitments and minimising investment risk by prudent placement of investments continue to have the highest priority. With these priorities it was not always possible difficult to take full financial advantage of the rapidly changing market conditions during 2007/08. However, investment interest income for 2007/08 was some £375,000 in excess of budget. Waverley has again avoided the need to borrow to meet cash flow commitments during 2007/08, avoided any significant balance in its current accounts and has achieved a 5.86% return during 2007/08. Members are also advised that, by adopting a relatively short-term lending strategy during the credit crisis, Officers believe that investment risk during that period was minimised.

### **Investment Policy**

10. In February the Council agreed its annual Investment Strategy which includes proposed limits and thresholds that apply to Waverley's investment activity in the coming year. The policy allowed for the following investments:-
  - UK Local Authorities and the UK Government
  - "High" credit rated means AAA rating for sterling money market funds or A and above rating for any banks and building societies
  - The only non-specified investments that Waverley will invest in are non-rated top 30 building societies.
  - £3million is the maximum investment in any single non-specified organisation at any one time and, £5million for any single specified organisation at any one time.
  - Credit ratings should be monitored continuously using either Moodys, Standard and Poor's or Fitch ratings
  - All new investment institutions should be ratings checked at the outset and a list of potential investors prepared and approved by the S151 Officer before the 1<sup>st</sup> April each year and monitored throughout the year
  - The maximum total investment at any one time in non-specified investments is £22 million
  - The maximum total investment at any one time that can prudently be committed for more than one year is £10 million
  - The minimum total investment at any one time that can be held in short term (less than 365 days) investments is £10 million.
11. This policy and limits have served the Council well, and have not been changed since 2005. However, with current market conditions, whereby the number of major banks and larger institutions that are currently available has

diminished, and the increase in the level of temporary cash available over the last few years, a modification to the policy would give officers more flexibility when making temporary investments. The proposed change would be to increase the maximum total investment at any one time in non-specified investments from £22 million to £28 million.

12. This modification would not affect the Council's over-riding primary aim of maximising the security and liquidity of Waverley's investments, but would allow flexibility in investment options and allow for the practicalities of day-to-day investment dealing. Whilst maximising the interest earned on investments is of secondary importance behind security, it is nevertheless a high priority and the limits set must enable both security and high yield to be achieved.
13. If Council agrees to the modification, the decision will only affect non-specified investments with top 30 UK building societies. Whilst these institutions may not decide to acquire a credit rating with one of the leading agencies, e.g. Moodys, Fitch or Standard and Poors, they are robust organisations with a strong asset base and are therefore generally considered to be relatively low-risk investments.
14. This limit on non-specified investments will be reviewed in February 2009 as part of the annual review of the Investment Strategy.

### **Recommendation**

It is recommended that

1. the treasury management performance for 2007-2008 be noted; and
2. the Council be recommended that the Investment Policy limit for the maximum amount of non-specified investments be increased from £22million to £28million for the remainder of 2008/09, noting that it will be reviewed in February 2009.

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### **Background Papers (DCEx)**

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

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