

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 3 NOVEMBER 2008

Title:

**TREASURY MANAGEMENT – BORROWING AND INVESTMENT
TRANSACTIONS AND PERFORMANCE MEASUREMENT**

[Portfolio Holder: Cllr Mike Band]

[Wards Affected: N/A]

Summary and purpose:

The purpose of this report is to summarise Waverley's investment performance for the first half year of 2008-2009 in accordance with Waverley's Treasury Management Policy and the Code of Practice on Treasury Management in Local Authorities.

How this report relates to the Council's Corporate Priorities:

Effective treasury operation is a key element in the management of Waverley's financial resources. This supports the Value for Money Priority and ensures that sufficient cash is available to deliver services.

Equality and Diversity Implications:

There are no implications arising from this report.

Resource/Value for Money implications:

Effective treasury management ensures that sufficient cash is available to deliver services.

Legal Implications:

There are no legal implications arising from this report.

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. That Policy requires officers to report to a meeting of the Executive on investment performance and transactions on a half-yearly basis. This report covers the half-year ended 30th September 2008.

Investments – Performance Measurement

3. The rate of return on the Council's investments for the half-year ended 30th September 2008 was 5.93%. Waverley's criteria for comparative purposes is the London Inter-Bank Bid Rate (LIBID) seven-day rate. This has been calculated at 5.17%. This comparison has traditionally been used by Waverley as it gave a good indication of the average rates achieved in the investment market most relevant to Waverley's investment activity. However, in the face of current market conditions this comparison is less meaningful at the moment. The return of 5.93% for the first half-year of 2008/09 has been achieved in the face of unusual market conditions.
4. Members will be aware of problems in the market during the past 14 or 15 months. During this period, it has proved extremely difficult to invest with confidence with Waverley's usual partners and interest rates on offer have been subject to violent fluctuations. Whereas, it is not generally possible to react to changes in the market immediately, officers have been successfully securing rates which exceed the target returns during that period and Members will be interested to know that despite the difficult conditions Waverley's rate of return has risen consistently during that period and continues to rise to date while still maintaining the balance in favour of security of investment.
5. The unusual market conditions are reflected in the graph at Annexe 1 where the 3 month rate remains significantly above the base rate. Although rates have remained relatively stable they remain largely out of line with the base rate and, indeed, with the LIBID rate. The rate of return achieved by the Council (averaging 5.93%) during that period is shown in comparison with the pre-determined rates and continues to rise significantly above base rates.
6. For information, the Local Performance Indicator (LOBT3) which relates to investment performance is shown below and indicates that performance in 2008-2009 to date compares well with the 2007/08 rate and the target LIBID rate, despite the difficult market conditions.

Full Description of PI	2006/2007 Actual	2007/2008 Actual	2008/2009 Target	2008/2009 To date
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	0.15% above the LIBID rate	0.05% above the LIBID rate	0.76% above the LIBID rate

7. During the first half-year Waverley has managed its cash flow avoiding the need to hold any significant balances in its current accounts and has avoided the need to borrow to meet cash flow commitments. A 5.93% rate of return has been achieved and interest income is currently predicted to be significantly in excess of budget – some £400,000 for the whole year. Waverley has managed to avoid some of the problems which some other investors have encountered and regards its investment portfolio as reasonably secure. However, the volatility of market conditions does not guarantee that.

Security of Investments

8. Security of Waverley's investments has always been the principal objective in Waverley's investment policy. That objective remains but, in recent market conditions, has been more difficult to achieve. Waverley's approved policy is to restrict its investment activities largely to A rated (or above) banks and building societies or top 30 rated non-specified building societies (this will be revised to top 28 when the Cheshire and Derbyshire merge with the Nationwide BS). Appropriate limits per institution and per type of institution are also in place. This policy was revised on 10th June 2008, in response to market conditions, to increase the overall limit of investment with Building Societies.
9. Recent market conditions have meant that additional practices have been developed, within the bounds of the approved policy, to create as much security as possible for Waverley's investment portfolio:
 - The major objective of managing daily cash balances to meet cash flow commitments, rather than rate-based speculative investment, remains the priority;
 - Short term lending, generally targeted at 3 month rates, is judged to generate the best balance of return to risk and most of Waverley's investment will fall into this category;
 - Investments are also monitored on a sector basis and judgements made as to the appropriate level within each sector are made. This approach served Waverley well in reducing our exposure to the Icelandic sector to nil – for example;
 - General Market information is also used to enable some targeting of investment partners and despite the well documented problems with the credit ratings agencies their objective views still have a value and are monitored more regularly.
10. General market sentiment is that building societies with a mutual status have recently been a more secure partner than those with a share value to protect and occasionally it has also been possible to target those societies with better financial ratios. Recent mergers of a number of financial institutions, however, make it more difficult to maintain investments within existing limits at all times and changing credit ratings also create issues of security. Officers are, therefore, researching the current market in UK Government gilts, both conventional and index linked, as Waverley's Treasury Management Policy allows. Options to invest direct with other Local Authorities and the Government's Debt Management Office have also been investigated but have not yet been taken up. However, the broad strategy of spreading risk as much as possible by short-term lending with as many reliable partners in as many sectors as possible is proving successful at the moment.

Investment Transactions

11. The analysis below shows the total transactions during the period 1st April 2008 to 30th September 2008 in respect of all external investments undertaken by the Council, together with balances outstanding as at 30th September 2008.

Investments

	Balance at 1st April 2008 £	Total Lent £	Total Repaid £	Balance at 30th September 2008 £
Investments	30,550,000	74,500,000	69,400,000	35,650,000

12. The temporary investments (i.e. investments repayable to the Council within one year) outstanding as at 30th September 2008, comprise £15,650,000 invested with specified banks and £18,000,000 with non-specified Building Societies which is in accordance with the Council's approved Investment Policy. Waverley has only one £2,000,000 investment which has a repayment term in excess of one year - with a non-specified Building Society.

Recommendation

It is recommended that the Executive notes the first half-year performance and endorses the approach to maintaining the security of Waverley's investments as described in paragraph 9.

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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CUMULATIVE INVESTMENT PERFORMANCE year 2008/2009 to date



