

# APPENDIX C

## WAVERLEY BOROUGH COUNCIL

EXECUTIVE 1 SEPTEMBER 2009

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**Title:**

**TREASURY MANAGEMENT –  
PERFORMANCE MEASUREMENT 2009/2010  
[Portfolio Holder for Finance: Cllr Mike Band]  
[Wards Affected: N/A]**

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**Summary and purpose:**

The purpose of this report is to advise Members of Waverley's investment performance for the first quarter of 2009-2010.

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

The management of Waverley's investments is a key function that helps ensure sufficient funds are available to provide services and pay the Council's commitments. The Audit Commission Report "Risk and Return" identifies that the regular engagement of elected members in the monitoring of the Treasury Management function is good practice.

**Equality and Diversity Implications:**

There are no implications arising from this report.

**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, however, in the light of the volatility in the financial markets quarterly reports are now required.
3. The Audit Commission report "Risk and Return" identifies that regular engagement of elected members in the Treasury Management function

is good practice. That report was prompted by the problems experienced by the Icelandic Banks.

4. This report covers the period 1<sup>st</sup> April 2009 to 30<sup>th</sup> June 2009.

#### **Rate of return %**

5. The rate of return on the Council's investments for the quarter ended 30<sup>th</sup> June 2009 was 2.85%. At 30<sup>th</sup> June 2009 the rate offered for a 3 month term by counterparties on Waverley's lending list was around 1.1%. The average for the quarter was approx 1.5%.
6. For comparative purposes Waverley has also traditionally used the London Inter-Bank Bid Rate (LIBID) seven-day rate as a benchmark. This has been calculated at an average of 0.42% for the quarter.
7. The Local Performance Indicator LI8, which relates to investment performance, is shown below and indicates that performance continues to compare favourably compared to the agreed target. However, this performance is likely to deteriorate over the rest of the year as the higher rate investments, secured when rates were higher, mature and are replaced by investments at current lower rates.

Full Description of PI	2008/2009 Target	2008/2009 Actual	2009/10 Target	2009/10 Actual Q1
Average rate of return on the Council's Investments compared with the average seven-day LIBID rate (London Inter-Bank Bid Rate)	0.05% above the LIBID rate	0.96% above the LIBID rate	0.25% above the LIBID rate	2.43% above the LIBID rate

#### **Yield**

8. Waverley has set a realistic budget for investment income in 2009/10 in anticipation of low interest rates continuing over both the short and medium term. The 2009/10 budget is £600,000. This compares with the 2008/9 budget of £1,700,000. Officers believe that the 2009/10 budget of £600,000 can be achieved if there are no further cuts in the base rate during the year and currently the forecast for investment income is £630,000.
9. The income budget is affected not only by the prevailing interest rates but also by the amount Waverley is able to invest. Typically, over recent months Waverley has had significantly less invested than in previous years. The average daily investment at 30<sup>th</sup> June 2009 was just below £32,000,000. At the same time in 2008 the average daily

investment was £37,300,000. This reduction is largely because of the significant drop in capital receipts from the sale of council houses and the increased Housing Capital Programme in 2008/09 and 2009/10.

### **Security of investment**

10. Waverley's policy and practice is to put security of investment at a higher priority than rate of return/yield. The Executive Committee approved revisions to the policy in February 2009 to ensure continued security of investment. Waverley's day to day practice has also been refined, within the boundaries of the approved policy, in response to challenging market conditions over the last year or two. The cornerstones of current policy/practice are: 1) to restrict lending to only those institutions which fit the Council's policy in terms of financial standing, credit ratings etc; 2) generally to restrict lending to the short-term (3 months or less) and, 3) to fix financial limits to each institution depending the quality of their financial ratings. The tightening restrictions operated by Waverley do inevitably have a negative impact on the rates of return achievable but are necessary to maintain sufficient security on investment.
11. As at 30<sup>th</sup> June 2009, of the 18 external investments held by Waverley, only one investment was with a non-specified investor. That investment matured on 3<sup>rd</sup> July 2009. As at 30<sup>th</sup> June 2008 (just before the start of the credit crunch) of the 23 external investments held by Waverley, 16 were with non-specified institutions. In essence, non-specified institutions are any of the top 25 building societies without formal credit ratings carried out by the major agencies.
12. As at 30<sup>th</sup> June 2009, Waverley had 2 investments with investors with BBB credit ratings. Both these investments were made when the institutions had appropriate A ratings. Since that time, however, both counterparties' ratings have reduced. Both investments matured on 7<sup>th</sup> August 2009.
13. On 30<sup>th</sup> June 2009 Waverley had £32,050,000 invested externally. On 30<sup>th</sup> June 2008 Waverley had £35,820,000 invested externally. Of the 18 external investments on 30<sup>th</sup> June 2009, 5 had maturity periods exceeding 3 months and only 1 of those 5 had a maturity period exceeding 6 months.

### **General cash management**

14. Waverley's primary objective is to manage daily cash balances to meet cash flow commitments and to minimise any investment risk. During the first quarter of 2009/10, excluding investments, some £44,000,000 of expenditure and around £48,000,000 of income has gone through Waverley's accounts.

15. During June the average daily balance left in Waverley's bank accounts at the close of business was £35,700. The first quarter is more unpredictable in terms of cash flow because of the volume of 'unplanned' receipts. Officers can report that, as expected, the average daily bank balance since June has reduced and in July was less than £19,000.

### **Recommendation**

It is recommended that the first quarter's Treasury Management Performance for 2009/10 be received.

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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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