

APPENDIX C

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 3 NOVEMBER 2009

Title:

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

Summary and purpose:

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

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.

Introduction and Background

1. Waverley's Treasury Management Policy accords with the existing Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management in the Public Services. A new code is expected to be issued in the autumn.
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 appropriate.

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 1st April 2009 to 30th September 2009.

Rate of return %

5. The rate of return on the Council's investments at the 30th September 2009 was 2.41%. At 30th September 2009 the rate offered for a 3 month term by counterparties on Waverley's lending list varied from around 0.54% to 1%. This range has been fairly constant during the quarter.
6. For comparative purposes Waverley has also traditionally used the London Inter-Bank Bid Rate (LIBID) seven-day rate as a benchmark. However, this is increasingly becoming less reliable as a market indicator and is less used and less often published. For the purposes of this report the more often quoted LIBOR has been used. This has been calculated at an average of 0.545% 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, the rate of return is likely to continue to deteriorate over the rest of the year as new investments tend to be at around 1% or less in line with our 3 month lending preference.

Full Description of PI	2008/2009 Target	2008/2009 Actual	2009/10 Target	2009/10 Actual Q2
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	0.125% above the LIBOR rate	1.865% above the LIBOR rate

Note: traditionally the LIBID rate has been held to be 0.125% below the LIBOR rates. The 2009/10 targets in the table above have been amended to reflect that.

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 or any need to restrict our counterparty list further. Currently the forecast for investment income for 2009/10 is £630,000.

9. The income budget is affected not only by the prevailing interest rates and the preferred counterparty 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 for the year to date at 30th September 2009 was just over £31,700,000. During 2008/09 the average daily investment was just over £36,500,000. 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. The Council's Leisure Capital Programme will use further resources remaining available for investment in the near future and may affect the forecast investment income of £630,000 above.

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 approved revisions to the policy in February 2009 to ensure continued security of investment. Waverley's day to day practice continues to be refined, within the boundaries of the approved policy, in response to challenging market conditions. 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) or to cover precept dates for the remainder of the year 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. Currently the lack of financial institutions which meet Waverley's counterparty criteria is the most significant factor in day to day Treasury Management. To date Waverley has not invested with the Debt Management Office where rates are significantly below market rates.
11. As at 30th September 2009, all of the 18 external investments held by Waverley were with specified investors. As at 30th June 2008 (just before the start of the credit crunch) of the 23 external investments held by Waverley, 16 were with non-specified institutions. This change demonstrates that security is now a higher priority. In essence, non-specified institutions are any of the top 25 building societies without a formal credit rating from the major agencies.
12. As at 30th September 2009, all Waverley's investments were with investors with A ratings or above.

13. On 30th September 2009 Waverley had £31,785,000 invested externally. Of the 18 external investments on 30th September 2009, 7 had maturity periods exceeding 3 months. 3 of those 7 had a maturity period exceeding 6 months. This slight lengthening of the maturity profile demonstrates the reduction in the preferred counterparty list, which now comprises a greater proportion of banks rather than building societies, and banks tend to require a longer term investment.

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 half year of 2009/10, excluding investments, some £94,000,000 of expenditure (£50,000,000 in quarter 2) and around £94,000,000 of income (£48,000, in quarter 2) has gone through Waverley's accounts.
15. During the first half year the average daily balance left in Waverley's bank accounts at the close of business was around £33,000 – an improvement over the first quarter as anticipated.

Recommendation

It is recommended that the first half year's Treasury Management Performance for 2009/10 be noted.

Background Papers

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

CONTACT OFFICER:

Name: Paul Wenham

Telephone: 01483 523238

E-mail: paul.wenham@waverley.gov.uk