

APPENDIX G

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 29 JUNE 2010

Title:

TREASURY MANAGEMENT PERFORMANCE 2009/2010

**[Portfolio Holder for Finance: Cllr Mike Band]
[Wards Affected: N/A]**

Summary and purpose:

The purpose of this report is to summarise Waverley's investment performance for the year 2009/2010 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:

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 monitoring reports support the Council's key objective of providing good value for money by demonstrating that the Council's resources have been properly used.

Equality and Diversity Implications:

There are no implications arising from this report.

Resource and legal Implications:

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

Introduction and Background

1. A comprehensive review of Waverley's treasury management strategy was undertaken in February 2010 and the effectiveness of Waverley's strategy and policy is continuously reviewed by the Deputy Chief Executive supported by the Treasury Management Panel – an officer group. The updated CIPFA Treasury Management Code of Practice, issued in November 2009, has been incorporated into Waverley's treasury management operations. The final detail of the treasury management practice statements and guidance notes have been completed and endorsed recently, by the Portfolio Holder for Finance, as recommended by the Executive in February 2010. Waverley's Treasury Management Policy accords with the new CIPFA Code of Practice on Treasury Management in the Public Services.

2. Current policy requires reports on investment performance and transactions to be submitted to the Executive on a quarterly basis. This report covers the period 1st April 2009 to 31st March 2010.
3. The Audit Commission report "Risk and Return", prompted by the Icelandic Banks' problems, identified that regular engagement of elected members in the Treasury Management function is good practice. The Corporate Overview and Scrutiny Committee has been charged with reviewing treasury management operations periodically.

Rate of return %

4. The rate of return on the Council's investments for the period 1st April 2009 to 31st March 2010 was 2.00%. At 31st March 2010 the typical rate offered for a 3 month term by most counterparties on Waverley's lending list varied from around 0.55% to 0.60%. This range has been fairly constant during the last quarter.
5. For comparative purposes Waverley has traditionally used the 7 day LIBOR rates. However, both this rate is generally out of line with Waverley's actual investment activity and rates of return have been at considerable variance such that the comparison could be considered not particularly helpful. This rate has also become increasingly difficult to obtain from a consistent and reliable source. Members have commented on this in the past and, as a result, officers have identified the 3-month Sterling Interbank rate, published by the Government's National Office of Statistics, as the suggested new target rate. A 3-month comparison is much more in line with Waverley's typical activity.
6. The Local Performance Indicator LI8, which relates to investment performance, is shown below and indicates that performance compared favorably with the suggested new target last year. However, the rate of return is likely to continue to deteriorate as existing investments mature and are replaced with loans at the current, less profitable, rates.

Description of PI	2008/2009 Actual	2009/10 Target	2009/10 Actual	2010/11 Target
Average rate of return on the Council's Investments compared with the target rate	0.96% above the LIBOR 7 day rate	0.25% above the LIBOR 7 day rate	1.38% above the LIBOR 7 day rate	
			0.92% above the average 3 month Sterling Interbank rate	0.25% above the average 3 month Sterling Interbank rate

Yield

7. Waverley set a budget of £600,000 for investment income in 2009/10 in anticipation of low interest rates continuing over both the short and medium term. This compares with the 2008/9 budget of £1,700,000. Officers can now confirm budget monitoring forecasts that investment income of £663,000 was achieved in 2009/10 - some 10% in excess of budget.
8. 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. During the first half of 2009/10 Waverley had significantly less invested than in 2008/09. During the latter half of the year investment matched 2008/09 levels. However, The average daily investment in 2009/2010 was £32,900,000 whereas in 2008/09 the average daily investment was just over £36,500,000. The Council's Leisure Capital Programme will use further resources in the near future which otherwise may have been available for investment.

Security of investment

9. Waverley's policy and practice is to put security of investment at a higher priority than rate of return/yield. Waverley's day-to-day practice continues to be refined where necessary, within the boundaries of the approved policy, in response to 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 opt for shorter-term investments or lend to cover precept dates and (3) to fix financial limits to each institution depending the quality of their financial ratings. All Waverley's investments are in GBP sterling and have fixed terms for budget certainty and to reduce risk. The restrictions operated by Waverley do inevitably have a negative impact on the rate of return achievable but are necessary to maintain appropriate security on investment. The relatively small number of financial institutions that meet Waverley's counterparty criteria is still the most significant factor in day-to-day Treasury Management. Waverley has not yet invested with the Debt Management Office where rates are significantly below market rates.
10. As at 31st March 2010, Waverley had 13 external investments all with specified investors i.e. only counterparties with a formal credit rating of A or above. 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 demonstrates the changing practice in respect of preferred counterparties and mitigation of risk.
11. On 31st March 2010 Waverley had £23,625,000 invested externally and no investment had a maturity period exceeding 1 year. The interest rates achieved varied from 6.76% to 0.54% demonstrating the change in market conditions and the varying terms available.

Risk

12. Waverley's approach to management of risk in respect of investments is set out in the Treasury Management Practice statements and additional guidance referred to in the report to Council in February 2010. Those statements set out 8 identified risk categories and the means of managing those risks. The mitigation of risk is touched on a number of times in this report but the following brief comments relate to 3 of the most commonly identified risks.
13. Exposure to interest rate fluctuation risk is minimised by not borrowing, by having a realistic but prudent approach to budgeting for investment income and by using only fixed term investments.
14. Counterparty and credit risk is managed by a number of processes including having a 'preferred investor' list consisting currently of only of A rated institutions, by constant monitoring of credit ratings and by having organisational investment limits which reflect a prudent approach to the market.
15. Waverley operates investment activity only in GBP sterling - as a matter of policy and only in fixed term deposits - as a matter of practice. Its policies deliberately avoid the more speculative and complex types of financial instruments which are often associated with exchange rate risk specifically and increased risk generally.

General cash management

16. Waverley's primary objective is to manage daily cash balances to meet cash flow commitments and to minimise investment risk. Waverley has not had to borrow to meet expenditure commitments in 2009/10.
17. During 2009/10 the average daily balance left in Waverley's general bank accounts at the close of business was around £30,000 – a reduction over the first 2 quarters, as anticipated.
18. The table below shows the total transactions during 2009/10 in respect of investments with the balances outstanding:

	Balance at 1st April 2009 £	Total lent £	Total repaid £	Balance at 31st March 2010 £
Temporary investments	25,315,000	127,090,000	128,780,000	23,625,000

Recommendation

It is recommended that the Treasury Management Performance for 2009/10 be noted and the approach to managing investment activity be endorsed.

Background Papers

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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