

APPENDIX

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 7 SEPTEMBER 2010

Title:

**TREASURY MANAGEMENT –
PERFORMANCE MEASUREMENT 2010/2011**

[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 first quarter of 2010/2011.

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.

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. 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 which has recently been updated.
2. Current policy requires officers to report on investment performance and transactions to a meeting of the Executive on a quarterly basis. This report covers the period 1st April 2010 to 30th June 2010.
3. The Audit Commission report "Risk and Return", prompted by the problems experienced by the Icelandic Banks, 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 2010 to 30th June 2010 was 1.45%. At that time the rate offered for a 3 month term by counterparties on Waverley's lending list was around 0.650%. This level has been fairly constant during the quarter.
5. The 3 month Sterling Interbank rate published by the Government's National Office of Statistics is the recently approved target rate for comparative purposes. For the first quarter of 2010/11 that rate was 0.6%.
6. 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 deteriorate over the rest of the year as new investments are made in a challenging market place.

Full Description of PI	2009/10 Actual	2010/11 Target	2010/11 Actual Q1
Average rate of return on the Council's Investments compared with the Sterling Interbank 3-month rate	0.92% above the Sterling Interbank 3-month rate	0.50% above the Sterling Interbank 3-month rate	0.85% above the Sterling Interbank 3-month rate

Yield

7. Waverley set a budget of £270,000 for investment income in 2010/11 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 and the 2009/10 budget of £600,000. Officers now believe that it is likely that investment income is likely to exceed budget by around £40,000 in 2010/11. Officers will continue to try to maximise interest income while operating within the current strategy. If there are no further cuts in the base rate during the year it may be possible to exceed the figure above. An increase in base rate would generate further improvement opportunities.
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. Typically, during 2009/10 and 2010/11 Waverley has had significantly less invested than in previous years. The average daily investment for the year to date at 30th June 2010 was £30,590,000. During 2008/09, for example, the average daily investment was just over £36,500,000 and in 2009/10 was £32,900,000. The Council's Leisure Capital Programme will use further resources in the near future.

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, 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 (typically 3 to 6 months or less) or to cover precept dates for the remainder of the year
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 (DMO, part of the Government's Public Works Loans Board) where rates are significantly below market rates and generally less than base rate. It is estimated that, based on current rates by opting for market investments rather than investing with the DMO, the Council will more than double the amount of interest income for the Council

10. As at 30th June 2010, of the 18 external investments held by Waverley, 16 were 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.
11. As at 30th June 2010, one of Waverley's investments (Northern Rock Plc) had a rating below A with the Fitch ratings agency but had an A rating with Moodys ratings agency. This investment matured and was repaid on 6th August 2010 together with interest.
12. On 30th June 2010 Waverley had £30,590,000 invested externally. Of the 18 external investments on 30th June 2010 none had maturity periods exceeding 1 year and only 1 had a maturity period exceeding 6 months. This was a £3,000,000 investment with Santander due to mature on 10th March 2011 at 1.48%.

General cash management

13. Waverley's primary objective is to manage daily cash balances to meet cash flow commitments and to minimise investment risk.
14. During the first quarter of 2010/11 the average daily balance left in Waverley's general bank accounts at the close of business was less than £10,000.
15. Waverley has borrowed to meet expenditure commitments in this quarter on 3 occasions – the longest borrowing period being one week. It is unusual for Waverley to borrow for day to day cash management but on occasions when borrowing rates are so low (0.28%) it is economic to do so. Generally such borrowings are from other local authorities.

Recommendation

It is recommended that the quarter 1 Treasury Management Performance for 2010/11 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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