

APPENDIX D

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 2 NOVEMBER 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 second 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 September 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 1 April 2010 to 30 September 2010 was 1.26%. At that time the rate offered for a 3 month term by counterparties on Waverley's lending list varied from 0.50% to 0.72%. This range has been fairly constant during the half-year.
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. At 30th September 2010 that rate was 0.70% an increase from 0.66% on 30th June which is at the high end of what most of the counterparties on Waverley's list were offering.
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&Q2
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	0.56% 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 reasonable to forecast an improvement on that figure of around £50,000 in 2010/11 based on current investments. 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 due to the increased use of its funds to fund capital expenditure and the reduction of new capital receipts. The average daily investment for the year to date at 30th September 2010 was around £30,600,000. During 2008/09, for example, the average daily investment was just over £36,500,000 and in 2009/10 was £32,900,000.

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.
10. 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
11. As at 30 September 2010, of the 17 external investments held by Waverley, all were with specified investors i.e. only counterparties with a formal credit rating of A or above. As at 30 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.
12. On 30 September 2010 Waverley had £29,400,000 invested externally. Of the 17 external investments held only 1 had a maturity period exceeding 6 months.

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 half of 2010/11 the average daily balance in Waverley's general bank accounts at the close of business was an overdraft of around £20,000. This is an unusual position and was caused because a Bank of Scotland investment was repaid into Waverley's Bank of Scotland call account rather than direct into its own HSBC general account. This single instance has resulted in the overall average position moving from around £14,000 in hand on average each day to the £20,000 overdrawn position reported.

15. Waverley has not borrowed to meet expenditure commitments in the second quarter of 2010/11. 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 2 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.

CONTACT OFFICER:

Name: Paul Wenham

Telephone: 01483 523238

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