

APPENDIX C

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 1 JUNE 2011

Title:

TREASURY MANAGEMENT PERFORMANCE 2010/2011

[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 2010/2011 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 finances is a key function that helps ensure sufficient funds are available to provide services and pay the Council's commitments. The quarterly monitoring reports demonstrate that the Council's financial resources have been properly managed and used in support of the Council's key objective of providing good value for money.

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. The effectiveness of Waverley's strategy and policy is also 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. Waverley's Treasury Management Policy accords with the current CIPFA Code of Practice on Treasury Management in the Public Services. Subsequent to The Audit Commission report "Risk and Return", prompted by the Icelandic Banks' problems, the Corporate Overview and Scrutiny Committee has been charged with reviewing treasury management operations periodically.

- Current policy requires reports on Treasury Management performance and transactions to be submitted to the Executive on a quarterly basis. This report covers the period 1st April 2010 to 31st March 2011.

Investment rate of return %

- The rate of return on the Council's investments for the period 1st April 2010 to 31st March 2011 was 1.24%. At 31st March 2011 the typical rate offered for a 3 month term by most counterparties on Waverley's lending list varied from around 0.50% to 0.75%.
- Members have identified the 3-month Sterling Interbank rate, published by the Government's National Office of Statistics, as the appropriate target rate. A 3-month comparison is in line with Waverley's typical activity.
- 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.

Description of PI	2009/10 Actual	2010/11 Target	2010/11 Actual
Average rate of return on the Council's Investments compared with the target rate	0.92% above the average 3 month Sterling Interbank rate	0.5% above the average 3 month Sterling Interbank rate	0.59% above the average 3 month Sterling Interbank rate

Yield

- 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 2009/10 budget of £600,000 although Members may note that in 2008/09 in excess of £2m was achieved. Officers can confirm that the improvements identified in the budget monitoring forecasts have been achieved and that investment income of £394,000 was achieved in 2010/11.
- The average daily investment in 2010/2011 was around £31,800,000 less than in 2009/10 and considerably less than in 2008/09 when the average daily investment was just over £36,500,000.

Security of investment

- Waverley's policy and practice is to put security of investment at a higher priority than rate of return/yield. 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) to opt for short-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. These restrictions inevitably have a negative impact on the rate of return achievable but are necessary to maintain the approved level of 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.

9. As at 31st March 2011, Waverley had 12 external investments all with specified investors i.e. only counterparties with a formal credit rating of A or above. By way of comparison, as at 30th June 2008 (just before the start of the credit crunch) Waverley had 23 external investments 16 of which were with non-specified institutions. This demonstrates the changing practice in respect of preferred counterparties and mitigation of risk.
10. On 31st March 2011 Waverley had £27,200,000 invested externally and no investment had a maturity period exceeding 1 year.

Risk

11. 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 the 3 most commonly identified risks.
12. Exposure to interest rate fluctuation risk is minimised by having a realistic but prudent approach to budgeting and by using only fixed term instruments.
13. Counterparty and credit risk is managed by a number of processes including having a 'preferred investor' list consisting currently of only 'A' rated institutions, by constant monitoring of credit ratings and by having organisational investment limits which reflect a prudent approach to the market.
14. 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

15. Waverley's primary objective is to manage daily cash balances to meet cash flow commitments and to minimise investment risk. Current market conditions mean it is often more economic to borrow short-term, to meet expenditure commitments, than it is for Waverley to recall its own instant access investment. Occasionally, therefore, during 2010/11 Waverley has made short-term borrowings.

16. During 2010/11 Waverley's turnover on outgoing investments alone was around £135m and a similar figure for incoming investments. The average daily balance in Waverley's general bank accounts at the close of business was a deficit of less than £6,000. Members may recall from previous monitoring reports a bank failure which led to a maturing investment not reaching Waverley's bank account on the agreed date. This single transaction generated the average daily deficit position.
17. The table below shows the total transactions during 2010/11 in respect of investments with the balances outstanding:

	Balance at 1st April 2010 £	Total lent £	Total repaid £	Balance at 31st March 2011 £
Temporary investments	23,625,000	134,645,000	131,070,00	27,200,000

Long term borrowing:

18. Waverley has generally been debt free for some years. However, at the meeting of the Council in February 2011, a long term borrowing was approved. The borrowing was to re-finance externally some HRA internal borrowing. In accordance with Council approval, Waverley borrowed £3.238m at 5.36% for a period of 29.5 years repayable on maturity.

Recommendation

It is recommended that the Treasury Management Performance for 2010/11 be noted and the approach to Treasury Management 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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