

APPENDIX C

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 6 SEPTEMBER 2011

Title:

TREASURY MANAGEMENT PERFORMANCE 2011/2012

[Portfolio Holder for Finance: Cllr Mike Band]

[Wards Affected: All]

Summary and purpose:

The purpose of this report is to summarise Waverley's investment performance for the year to date 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. Regular 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 latest CIPFA Treasury Management Code of Practice is 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 Icelandic Banks' problems, the Corporate Overview and Scrutiny Committee has been charged with reviewing treasury management operations periodically.

2. 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 1 April 2011 to 30 June 2011, or the year to date where more appropriate.

Investment rate of return %

3. The rate of return on the Council’s investments for the period 1 April 2011 to 30 June 2011 was 1.33%. At that date 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%. As at 11 August 2011 (the date of writing this report) performance has continued to improve slightly to 1.36%.
4. 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.
5. The Local Performance Indicator LI8, which relates to investment performance, is shown below and indicates that performance compared favorably with the new target. However, the Sterling Interbank 3 month rate has increased every quarter since quarter 4 of 2009 and at 30 June 2011 was 0.82% and further increases will make it increasingly difficult to achieve the current target while maintaining capital preservation as the prime risk to be avoided.

Description of PI	2010/11 Actual	2011/12 Target	2011/12 Q1 Actual
Average rate of return on the Council’s Investments compared with the target rate	0.59% above the average 3 month Sterling Interbank rate	0.50% above the average 3 month Sterling Interbank rate	0.51% above the average 3 month Sterling Interbank rate

Note: 30 June 2011 is the latest month’s published Sterling interbank rate.

Yield

6. Waverley set a budget of £350,000 for investment income in 2011/12 (some £80,000 above 2010/11) in anticipation of low interest rates continuing over both the short and medium term. Officers can confirm that improvements have currently been identified in the budget monitoring forecasts.
7. The average daily investment in 2011/2012 to date is around £34,300,000.

Security of investment

8. 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 to cover expenditure commitments 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 11 August 2011, Waverley had 14 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 30 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 Waverley's changing strategy in respect of counterparty risk.
10. On 11 August 2011 Waverley had £33,800,000 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 currently 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. On 26 May Waverley

borrowed £500,000 from Coventry Building Society. This was repaid on 1 June 2011 together with the interest charge of £49.32.

16. During 2011/12 the average daily balance in Waverley's general bank accounts at the close of business was less than £6,000.
17. The table below shows the total transactions during 2011/12 to 11 August in respect of investments with the balances outstanding:

	Balance at 1st April 2011 £	Total lent £	Total repaid £	Balance at 11 th August 2011 £
Temporary investments	27,200,000	50,500,000	43,900,000	33,800,000

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.

HRA refinancing reform:

19. In July 2011 the Council approved the procurement of external treasury management advisers in the light of the proposed HRA refinancing reform. Officers advise that this has now been achieved and Arlingclose Ltd have been appointed, subject to contract. Three consultancies were invited to tender and submitted proposals. All presented to a team of officers and the Finance Portfolio holder and were scored based on price and quality. The clear winner was Arlingclose who scored highly in every aspect. In future Arlingclose will advise officers in respect of debt management and investment strategy and it is possible that Waverley's counterparty list will change in the future as our investment strategy is refined and improved. A report on the HRA Financing Strategy will be considered by the Executive at its October meeting which will include further details of Arlingclose's work programme.

Recommendation

It is recommended that the Treasury Management Performance for 2011/12 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.

CONTACT OFFICER:

Name: Paul Wenham

Telephone: 01483 523238

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

G:\Bureau\Comms\Executive\2011-12\04 6 Sept 2011\006 Treasury Monitoring Sept 2011.Doc