

# APPENDIX C

## WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 1 NOVEMBER 2011

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**Title:**

### **TREASURY MANAGEMENT PERFORMANCE 2011/2012**

**[Portfolio Holder: Cllr Mike Band]**

**[Wards Affected: N/A]**

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**Summary and purpose:**

The purpose of this report is to summarise Waverley's Treasury Management performance for the year to 30 September in accordance with Waverley's Treasury Management Policy and the Code of Practice on Treasury Management in Local Authorities.

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**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.

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**Introduction and Background**

1. The latest CIPFA Treasury Management Code of Practice is incorporated into Waverley's treasury management operations and Waverley's Treasury Management Policy accords with the current code. Subsequent to the Icelandic Banks' problems, the Corporate Overview and Scrutiny Committee has been charged with reviewing treasury management operations periodically. 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.

2. Current policy requires Treasury Management performance to be reported to the Executive on a quarterly basis. This report covers the period 1 April 2011 to 30 September 2011.

**Investment rate of return %**

3. The rate of return on the Council's investments for the period 1 April 2011 to 30 September 2011 was 1.35%. At that date the typical rate offered for a 3 month term by most counterparties on Waverley's lending list varied from around 0.75% to 0.90%.
4. Members have identified the Sterling Interbank rate, published by the Government's National Office of Statistics, as the appropriate target rate for Waverley's investment activity. A 3-month comparison is currently appropriate.
5. The Local Performance Indicator LI8, which relates to investment performance, is shown below and indicates that performance compared closely with the new target. However, the Sterling Interbank 3 month rate has increased every quarter since quarter 4 of 2009. At 30 September 2011 the quarter average was 0.905% and further increases will make it increasingly difficult to achieve the current target while maintaining capital preservation as the prime risk to be avoided. This difficulty will be further increased as Waverley reviews its counterparties and financial instruments in use – as set out in more detail in paragraph 19.

Description of PI	2010/11 Actual	2011/12 Target	2011/12 Q1 and 2 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	0.49% above the average 3 month 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 of around £40,000 have been identified in the budget monitoring forecasts but further improvements will prove difficult to achieve.
7. The average daily investment in 2011/2012 to 30 September is around £34,000,000.

## **Security of investment**

8. Waverley's policy and practice has been to put security and liquidity of investment at a higher priority than rate of return/yield and capital preservation has become the 'watchword' generally in Treasury Management circles. 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 standing. 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. Waverley has recently acquired external Treasury Management advice in the face of continuing market difficulties and as preparation for the HRA re-financing reform. This action will lead to further 'de-risking' of Waverley's investment activity, at a cost, and this is commented on further in paragraph 19.
9. As at 30 September 2011, Waverley had 14 external investments all taken with specified investors i.e. only counterparties with a formal Fitch credit rating of A or above on the date of transaction. Despite very recent ratings downgrades by Moodys, all Waverley's investments as at 11 October remain within the Fitch A rating band. Clydesdale Bank's Fitch rating has reduced since the date of investment but remains within limits at A+ stable. (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 Waverley's changing strategy in respect of counterparty risk.)
10. On 30 September 2011 Waverley had £34,000,000 invested externally. One investment has a maturity date in July 2012 and all others mature before 31<sup>st</sup> March 2012. In accordance with our recent decision to further de-risk our investments, a number of current investment counterparties will be removed from the preferred counterparty list when existing investments mature. Generally these institutions are building societies.

## **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. Additionally, external advice is now taken in this respect as set out in paragraph 19. 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 or instant access 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.
16. During 2011/12 the average daily balance in Waverley's general bank accounts at the close of business was around £7,000.
17. The table below shows the total transactions during 2011/12 to 30<sup>th</sup> September, in respect of investments, with the balance outstanding:

	Balance at 1 April 2011  £	Total lent  £	Total repaid  £	Balance at 20 September 2011  £
Temporary investments	27,200,000	66,250,000	59,450,000	34,000,000

### **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 externally re-finance 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.

### **External Advice**

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 procurement has now been achieved and Arlingclose Ltd have been appointed. Arlingclose have been advising officers in respect of changes by the ratings agencies and in the prevailing market conditions. Accordingly, Waverley officers are revising the preferred counterparty list and reviewing the types of investment instruments used in the light of this advice. Counterparty risk has clearly increased recently as economic policy continues to fail to stimulate the economy and in order to avoid this increased risk

Waverley will certainly have to prepare for a reduced level of investment interest receipts generated and this will be reflected in next year's budget forecast.

20. A report on the HRA Financing Strategy was considered by the Executive at its October meeting which included further details of Arlingclose's work programme on this issue.

### **Recommendation**

It is recommended that the Treasury Management Performance for 2011/12 be noted and the approach to Treasury Management activity be endorsed.

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### **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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