

APPENDIX C

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 6 NOVEMBER 2012

Title:

**TREASURY MANAGEMENT PERFORMANCE AND MID-YEAR REVIEW OF THE
2012/13 STRATEGY**

[Portfolio Holder for Finance: Cllr Mike Band]

[Wards Affected: N/A]

Note pursuant to Section 100B(5) of the Local Government Act 1972

The annexe to this report contains exempt information by virtue of which the public is likely to be excluded during the item to which the report relates, as specified in Paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972, viz:-

Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Summary and purpose:

The purpose of this report is to summarise Waverley's Treasury Management (TM) performance to date and undertake a mid-year review of the Treasury Management Strategy in accordance with best practice.

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:

As a result of the recent HRA financing reform Waverley is likely to have increasing cash resources available for temporary investment. Resource implications and financial areas are covered in the report.

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 periodically reviewing treasury management operations. 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. Waverley has also employed an external TM consultant, principally to assist with the HRA reform and consequent long-term borrowing but also to advise on day to day investment matters. Current policy also requires Treasury Management performance to be regularly reported to the Executive and this report covers the period 1 April 2012 to 30 September 2012.

TREASURY PERFORMANCE

Investment rate of return %

2. The average rate of return on the Council's external investments for the period 1st April 2012 to 1st October 2012 was 1.01%. Currently the typical rate offered for a 3 month term by most counterparties on Waverley's lending list varies from around 0.50% to 0.55%. At 1st April this range was 0.95% to 1.00%.
3. 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 and is generally Waverley's preferred investment term.
4. The Local Performance Indicator LI8, which relates to investment performance, is shown below and demonstrates how performance compares with the new target. However, it is important to note that whereas the market rate for 3 months has reduced quite sharply over the half-year the Sterling Interbank 3 month rate has reduced much more slowly. It is currently at 0.68% and averages 0.89% for the half year.

Description of PI	2011/12 Actual	2012/13 Target	2012/13 Q1 and Q2 Actual
Average rate of return on the Council's Investments compared with the target rate	0.22 % above the average 3 month Sterling Interbank rate	0.25% above the average 3 month Sterling Interbank rate	0.12% above the average 3 month Sterling Interbank rate

Yield

5. Waverley set a budget of £275,000 for investment income in 2012/13 in anticipation of low interest rates continuing over both the short and medium term. The budget monitoring process identifies that if the first half-year's performance can be maintained over the full year external investments could generate some £30,000 to £40,000 more than budget. In addition, arising from the HRA reform, an internal loan was made by the General Fund to the HRA in order to reduce external long-term borrowing. This will generate some £170,000 in interest for the General Fund at no additional cost to the HRA than PWLB rates. The improved General Fund position will be partially offset by a higher than budgeted transfer of interest to the HRA due to significantly higher HRA reserves.
6. The average daily external investment in 2012/2013 to 30th September is around £31,000,000.

MID YEAR REVIEW OF STRATEGY

Security of investment

7. Waverley's policy and practice has been to put security 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 remain: (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. 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. All Waverley's investments are in GBP sterling and have fixed terms for budget certainty and to reduce risk.
8. As at 30 September 2012, Waverley had 12 external investments all with counterparties with a formal Fitch credit rating of A or above on the date of transaction. By way of comparison, as at 30th June 2008 - just before the start of the credit crunch - Waverley had 23 external investments. This demonstrates Waverley's changing strategy in respect of counterparty risk.
9. On 30 September 2012 Waverley had £36,000,000 invested externally plus over £1m in various accounts with its own bank HSBC.

Risk

10. 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 2012. Those statements set out 8 identified risk categories and the means of managing those risks. Additionally, external advice is now taken in this respect. 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.

11. 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.
12. 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. Waverley's external consultants consider a number of other factors when recommending preferred investors.
13. Waverley operates investment activity only in GBP Sterling - as a matter of policy and only in fixed term deposits - as a matter of practice. In accordance with its policy Waverley has recently opened a Money Market Fund (MMF) with Federated Prime Rate although this fund had not been used at the date of writing this report. Waverley's 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.

Liquidity

14. Part of Waverley's risk mitigation strategy is to keep most investments on a short-term basis and thus keep liquidity high. Clearly this enables quick responses to issues that might arise. Waverley keeps, generally, some 33% of its investments on a call or instant access basis. In addition, its general practice is to keep all external investments at 3 months or below. At 30th September 2012 Waverley had one investment with a maturity date in February 2013 but all other investments are due to mature in 2012. At the last officer meeting with Arlingclose, they commented on Waverley's favourable WAM (Weighted Average Maturity) of 24 days, compared with comparable client authorities, and on the good rate of return achieved with such a short WAM. Waverley receives between 0.8% and 0.9% for its call account investments – which is in excess of similar MMF returns.

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 2012/13 the average daily balance in Waverley's general bank accounts at the close of business was less than £25,000. It is important to maintain a small positive balance to avoid overdraft charges which are very high relative to the investment rates Waverley is able to achieve.
17. The table below shows the total transactions during 2012/13 to 30th September, in respect of investments, with the balance outstanding:

	Balance at 1st April 2012	Total lent	Total repaid	Balance at 30 th September 2012
	£	£	£	£
External investments	23,500,000	52,000,000	39,500,000	36,000,000

Long term borrowing:

18. Shortly after Council approval in February 2011, Waverley borrowed £3.238m at 5.36% for a period of 29.5 years repayable on maturity. In March 2012, as necessary under the HRA reform, Waverley was required to 'buy' itself out of the Housing Subsidy Scheme which entailed borrowing some £189m – largely from the PWLB and rates between 1.4% and 3.4% were achieved across a range of repayment periods between 6 and 25 years. These borrowing and repayment costs are fully included in the HRA Business Plan.

External Advice

19. Details of the current arrangement with the Council's external treasury management advisers appointed in the light of the HRA refinancing reform are set out in the (Exempt) Annexe to this report.

Amendments to Treasury Management Strategy

20. Members will be aware that the annual Treasury Management Strategy provides for amendment to be made during the year if necessary and that amendments to the £limits were approved by the Executive in September 2012. Subject to the decision in relation to a second recommendation set out in the (Exempt) Annexe, no further amendments are proposed at this time.

Recommendation

It is recommended that

1. the Executive note the Treasury Management Performance for 2012/13 and endorse the approach to Treasury Management activity; and
2. the recommendation set out in the (Exempt) Annexe to this report be approved.

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