

ITEM 8 – APPENDIX C

WAVERLEY BOROUGH COUNCIL EXECUTIVE – 5TH NOVEMBER 2013

Title:

**TREASURY MANAGEMENT PERFORMANCE and MID-YEAR REVIEW OF THE
2013/14 STRATEGY**
[Portfolio Holder for Finance: Cllr Mike Band]
[Wards Affected: N/A]

Summary and purpose:

The purpose of this report is to summarise Waverley's Treasury Management TM performance at the mid-year in accordance with Waverley's Treasury Management Policy and the Code of Practice on Treasury Management in Local Authorities and to review the performance of Waverley's current TM Strategy and make any necessary recommendations.

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 experiencing 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 was 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. Current policy also requires Treasury

Management performance to be regularly reported to the Executive and this report covers the first half-year period of 2013/14.

TREASURY PERFORMANCE

Investment rate of return %

3. The average rate of return on the Council's external investments for the period 1st April 2013 to 1st October 2013 was 0.67%. Currently the typical rate offered for a 3 month term by most counterparties on Waverley's lending list varies from around 0.38% to 0.46% and these market rates have been steadily reducing. In April 2012, for example, this range was 0.95% to 1.00%.
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 and has generally been Waverley's preferred investment term since the 'credit crunch'.
5. 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 can reduce quite quickly, the Sterling Interbank 3 month rate generally reduces much more slowly and has actually increased over the last 2 months. It is currently at 0.5175% and averages 0.51% for the half year.

Description of PI	2012/13 Actual	2013/14 Target	2013/14 Q1 and Q2 Actual
Average rate of return on the Council's Investments compared with the target rate	0.16 % above the average 3 month Sterling Interbank rate	0.25% above the average 3 month Sterling Interbank rate	0.16% above the average 3 month Sterling Interbank rate

Yield

6. Waverley set a budget of £475,000 for investment income in 2013/14 in anticipation of low interest rates continuing over both the short and medium term. The latest budget monitoring process identified a potential £30,000 shortfall based on current trends but that represents an improvement of £20,000 from the originally previously reported position which was a potential £50,000 shortfall. The budget of £475,000 includes an internal loan made by the General Fund to the HRA in order to reduce external long-term borrowing, arising from the HRA reform. This will generate some £170,000 in interest for the General Fund at no additional cost to the HRA than PWLB rates.

7. The average daily external investment in 2013/2014 to 3rd October is around £44,200,000. At the half-year stage in 2012/13 the comparable average figure was £31,000,000.

MID YEAR REVIEW OF STRATEGY

Security of investment

8. 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 generally 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. Recently it has been possible to achieve some longer term lending (up to 1 year) with higher rates of return while still maintaining appropriate levels of security. 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.
9. As at 3rd October 2013, Waverley had 17 external investments all with counterparties with a formal Fitch credit rating of A or above on the date of transaction.
10. On 3rd October 2013 Waverley had £52,000,000 (£36,000,000 at the half year point in 2012/13) invested externally plus over £5m in various accounts non-investment accounts with its own bank HSBC.

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 2013. 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 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. Waverley also has access to market information through its brokers and other contacts.

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. 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

15. Part of Waverley's risk mitigation strategy is to keep significant amounts on a short-term basis and thus keep liquidity high. Clearly this enables quick responses to issues that might arise. Waverley currently has some 50% of its investments on a call or instant access basis. This achieves high liquidity but has also, in the recent past, achieved higher interest rates than most of its counterparties offer for a 3 month period investment - although this situation will not continue much longer. General practice has been to keep most external investments at 3 months or below. At 3rd October 2013 Waverley had 3 investments with a maturity date in beyond 31/3/14 – a total of £8.5m. All other investments are due to mature in 2013/14.

General cash management

16. Waverley's primary objective is to manage daily cash balances to meet cash flow commitments and to minimise investment risk.
17. During 2013/14 the average daily balance in Waverley's general bank accounts at the close of business has been 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.
18. The table below shows the total transactions during 2013/14 to 3rd October, in respect of investments, with the balance outstanding:

	Balance at 1st April 2013	Total lent	Total repaid	Balance at 3 rd October 2013
	£	£	£	£
External investments	30,000,000	72,400,000	50,400,000	52,000,000

Long term borrowing:

19. 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.

Potential Amendments to Treasury Management Strategy

25. 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. The issues that generated those amendments remain a problem on a day-to-day basis. Those issues are that:
- cash balances are increasing
 - Waverley's approved counterparties are few (and generally reducing in number)
 - Waverley's cash limit for those counterparties is less than our available cash
 - the benefits from instant access/call accounts are reducing substantially.
26. Officers are looking into ways to improve the amounts of interest generated and the performance rate. Potential ways of achieving this are, for example:
- increasing the number of counterparties (this may involve changing our required credit criteria or the TM Strategy)
 - increasing the personal £ limits of counterparties
 - making use of Money Market Funds
 - different investment instruments
 - investing in, for example, property
27. However this improvement must be achieved without exposing Waverley to any greater risk. Officers will be considering the options available and the likely outcome of any changes and will report to a future meeting of the Executive.

Recommendation

That the Executive:

1. notes the Treasury Management Performance for 2013/14 and the approach to Treasury Management activity, as set out in the current Treasury Management Strategy be endorsed; and,
2. asks officers to submit a report advising of any changes to the existing strategy and the likely result of those changes to a future meeting of the Executive.

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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