

AGENDA ITEM 8: APPENDIX C

WAVERLEY BOROUGH COUNCIL

EXECUTIVE - 2ND SEPTEMBER 2014

Title:

TREASURY MANAGEMENT PERFORMANCE

[Portfolio Holder: Cllr Julia Potts]

[Wards Affected: N/A]

Summary and purpose:

The purpose of this report is to summarise Waverley's investment performance for the year 2013/2014, and for the period 1st April 2014 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. Waverley's Treasury Management Strategy was subject to a fundamental review in February 2010 and further amended in the light of the revised CIPFA Treasury Management Code of Practice, issued in November 2011. Waverley's annual Treasury Management Policies are in accordance with the appropriate CIPFA Code of Practice on Treasury Management in the Public Services. The Corporate Overview and Scrutiny Committee is charged with reviewing Treasury Management operations periodically.
2. Members will recall that the refinancing of the HRA in March 2012 required Waverley to make payment to the Government of some £188m largely financed by PWLB borrowing.
3. This report covers the period 1 April 2013 to 31 March 2014 and also includes the period from 1 April 2014 to date.

Investment rate of return %

- Members have identified a target of achieving a rate of return % of 0.25% above the 3-month Sterling LIBOR rate, published by the Government's National Office of Statistics. A 3-month comparison has traditionally been in line with Waverley's typical activity.
- The Local Performance Indicator LI8, which relates to investment performance, is shown below. Despite the static base rate, the 3 month LIBOR rate has, for some time, been above the actual market rates for a 3 month term. Given Waverley's preference for 3 month investments, targets above 3 month LIBOR are challenging.

Average rate of return on external investments compared to target rate

2013/14 Target	2013/14 Actual	2014/15 Target	2014/15 Actual to date
0.25% above the average 3 month Sterling LIBOR rate	0.15% above the average 3 month Sterling LIBOR rate	0.25% above the average 3 month Sterling LIBOR rate	0.08% above the average 3 month Sterling LIBOR rate

- The rate of return on the Council's external investments for 2013/2014 was 0.67%. The average LIBOR rate for 2013/14 was 0.52%. At 31 March 2014 the typical rate offered for a 3 month term by most counterparties on Waverley's lending list was less than 0.44%. As at 15th July 2014 the rate of return being achieved was 0.59% and 3 month rates from approved counterparties were increasing marginally from 0.42% to 0.49%. The LIBOR rate, however, increased marginally to 0.53% and the target at 0.25% above that – 0.78% currently. Unfortunately over recent months instant access/call account investment rates have reduced dramatically from 0.95% in some cases down to 0.25%. As Waverley carries a relatively high proportion of its investments in such accounts for security and risk reasons, this may have a detrimental effect on yield in 2014/15. Increased cash surpluses, mainly from HRA activity, however, will help to offset reduced rates to some extent and there are some minor indications that rates may start to increase. It would not be wise to rely on anticipated increases in the short term.

Yield

- Waverley set a budget of £305,000 for external investment income in 2013/14 and achieved a yield of almost £323,000. The improvements identified in the late 13/14 budget monitoring forecasts have therefore been achieved although that was seen as a challenging target at this time last year. As cash surpluses generally increase as a result of the HRA reform, a greater proportion of investments made are made with HRA cash and, accordingly, a greater % proportion of the interest yield will ultimately end up in the HRA.
- The average daily external investment in 2013/2014 was around £48,600,000 compared with £36,400,000 in 2012/13. To date (15th July 2014) in 2014/15 the average is £54,300,000.

Security of investment

8. Waverley's policy and practice is to put security of investment at the highest priority followed by liquidity and finally rate of return/yield. The cornerstones of recent 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. 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.
9. On 31 March 2014 Waverley had £44,00,000 invested externally (compared with £30,000,000 on 31/3/13) and £18,500,000 of that was on instant access/call arrangements. Only 1 investment had a remaining maturity period exceeding 3 months – an investment with another Local Authority. The total investment of £44,000,000 represented 13 external investments all of which were A rated (or better) counterparties.
10. As at 15th July 2014, Waverley had 14 external investments totaling £56,800,000 all with specified investors i.e. only counterparties with a formal credit rating of A or above. This contrasts with the position as at 30 June 2008 (just before the start of the credit crunch) when Waverley had 23 external investments 16 of which were with non-specified institutions. This demonstrates the changing practice in respect of preferred counterparties and risk mitigation.

Risk

11. Waverley's approach to management of risk in respect of investments is set out most recently in the Treasury Management report to the Executive on 4th February 2014. Whereas that report is, strictly, the 2014/15 strategy, practice during 2013/14 was largely the same as the 2014/15 strategy sets out. That report sets 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 – generally on a short (3 month) term.
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 (both financial and time) 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. During 2013/14 Waverley made no short-term borrowings. No temporary borrowing has occurred in 2014/15 to date and whereas it is an attractive option for borrowers, given the low borrowing costs, it is equally unattractive for lenders.
16. In 2013/14 Waverley's turnover on outgoing investments was £123m and £109m for incoming investments. The average daily balance in Waverley's general bank accounts at the close of business was less than £19,000 in 2013/14. In 2014/15 the balance is currently less than £12,000.
17. The table below shows the total transactions during 2013/14:

	Balance at 1 April 2013 £	Total lent £	Total repaid £	Balance at 31 March 2014 £
Temporary investments	30,000,000	122,500,000	108,500,000	44,000,000

Long term borrowing:

18. Waverley has generally been debt free for some years. However, a long term borrowing of £3.2m was approved in February 2011 to re-finance externally some HRA internal borrowing. In addition, the HRA reform in March 2012 required Waverley to borrow some £188m largely from the PWLB although £5m was met by internal borrowing. This borrowing was profiled to match the repayment capacity within the HRA business plan over the next 30 years.
19. Interest repayments on these loans is due in March and September each year. Cash flow forecasting ensures that Waverley has the resources to meet these commitments and others as they arise.
20. In the future, further cash balances are likely to become available which may necessitate amendments to the Treasury Management Strategy in order to maintain security and take financial advantage of such balances. The current strategy allows for the Executive to agree changes to the investment limits during the year. If this proves to be necessary a further report will be submitted to the Executive for approval. Waverley's daily investment in 2014/15 has averaged £54.3m per day and is likely to continue to increase. This would, potentially, create the position where Waverley's cash surpluses exceed (in value) the total limits of its approved counterparties active in the market at any time.

Recommendation

It is recommended that the Executive:

1. notes the Treasury Management Performance for 2013/14 and 2014/15 to date; and

2. endorses the approach to Treasury Management activity.

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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