

WAVERLEY BOROUGH COUNCIL
EXECUTIVE 2ND DECEMBER 2014

Title:

TREASURY MANAGEMENT PERFORMANCE

[Portfolio Holder for Finance: Cllr Julia Potts]

[Wards Affected: N/A]

Summary and purpose:

The purpose of this report is to summarise Waverley's investment performance for the 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 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 from 1 April 2014 to date.

Investment rate of return %

4. 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.

5. 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 and continues to increase. 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 1/10/14
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	0.07% below the average 3 month Sterling LIBOR rate

6. The rate of return on the Council's external investments for 2014/2015 to 1/10/14 was 0.61%. The comparable average LIBOR rate (3 months) was 0.68%. Currently the typical market rate offered for a 3 month term by most counterparties on Waverley's lending list is 0.50% or less so Waverley's performance could equally be expressed as 0.11% above the market. The LIBOR rate, however, continues to increase, to 0.71% at 1/10/14, and to an average of 0.68% for the year. Fairly recently instant access/call account investment rates have reduced dramatically from 0.95% in some cases down to 0.25%. As Waverley carries a proportion of its investments in such accounts for security and risk reasons, this has a detrimental effect on the rate of return achieved. 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.
7. Because of the current economic conditions Waverley's existing target of LIBOR plus 0.25% is unlikely to be achievable in the market. Officers are therefore researching alternative ways of targeting performance in order to give Members more meaningful information in future, in this respect. It is the intention that the draft TM strategy for 2015/16 submitted to the Executive in February 2015 will include more appropriate targets for consideration.

Yield

8. Waverley set a budget of £500,000 for investment income in 2014/15 and current budget monitoring forecasts indicate this is likely to be achieved. 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 % share of the total interest yield will ultimately end up in the HRA. Currently it is anticipated that the HRA share will exceed budget by around £22,000. Officers are targeting a £22,000 increase in total interest receipts to ensure there is no shortfall in the GF.
9. The average daily external investment in 2013/2014 was around £48,600,000 compared with £36,400,000 in 2012/13. To date (24th October 2014) in 2014/15 the average is £55,900,000 demonstrating increasing cash surpluses.

Security of investment

10. 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) generally 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.
11. On 31 March 2014 Waverley had 13 external investments totaling £44,00,000 (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. All investments were A rated (or better) counterparties.
12. As at 30th October 2014, Waverley had 17 external investments totaling £51,500,000 all but 1 being specified investments. That non-specified investment is held with RBS - £2m for 2 years (as at deal date) averaging 1.6% return. 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 non-specified. This demonstrates the changing practice in respect of risk mitigation.

Risk

13. 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. 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.
14. Exposure to interest rate fluctuation risk is minimised by having a realistic but prudent approach to budgeting and by using only fixed term instruments – traditionally a 3 month term being considered the best balance of risk v return.
15. 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.
16. 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

17. Waverley's primary objective is to manage daily cash balances to meet cash flow commitments and to minimise investment risk. 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 and, given the low interest rates, lenders usually want long borrowing periods. Borrowing is, therefore, generally not economic for Waverley and is managed out by its Treasury Management practices.
18. 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 £10,000.
19. The table below shows the total transactions during 2014/15 to 30th October:

	Balance at 1 April 2014 £	Total lent £	Total repaid (maturities) £	Balance at 30 October 2014 £
Temporary investments	44,000,000	94,200,000	86,700,000	51,500,000

Long term borrowing:

20. Until 2011 Waverley had 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 £189m 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 30 years.
21. Interest repayments on these loans are 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.
22. In the future, cash balances are likely to increase which may necessitate amendments to the Treasury Management Strategy in order to take financial advantage of such balances while maintaining adequate levels of security. 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 £55.9m 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 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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