

WAVERLEY BOROUGH COUNCIL

EXECUTIVE - 7 JULY 2015

Title:

**TREASURY MANAGEMENT ACTIVITY – 2014/15 OUTTURN AND 2015/16
YEAR-TO-DATE**

[Portfolio Holder: Cllr Wyatt Ramsdale]

[Wards Affected: N/A]

Summary and purpose:

The purpose of this report is to summarise Waverley's Treasury Management activities during 2014/2015 and to advise of the Treasury Management activities in 2015/16 to date.

How this report relates to the Council's Corporate Priorities:

The management of Waverley's cash is a key function that helps ensure sufficient funds are available to provide services and pay the Council's commitments.

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 Policy accords with the existing Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management in the Public Services.
2. For ease of reference this report is set out with all the 2014/15 Treasury Management activity shown in the first half of the report and the 2015/16 performance to date in the second half of the report.

Treasury Activity 2014/15

3. Officers have prepared four graphs that illustrate the current investment activity. The table below gives a brief description of each graph. The first graph is based on the total external investments held on 31 March 2015 of £51.5 million which compares closely with £53 million held at 31 March 2014 and £40 million on 31st March 2013.

Annexe Number	Description of graph	Comments
Annexe 1	Plots the total balance of external investments held at weekly intervals throughout the year compared to previous years	A broadly similar pattern to 2012/13 and 2013/14 is evident as major income and major expenditure continue in the same pattern at a higher level. However, the gap between 14/15 and 13/14 reduced as the year progressed as capital spend increased. Since the HRA reform, a larger proportion of invested surpluses are attributable to the HRA.
Annexe 2	Shows cumulative investment performance compared with bank base rate and market rate for 3 month terms obtained daily from the market	This graph shows 2014/15 performance starting at around 0.63% deteriorating to 0.59% but generally improving during the second half-year to an average around 0.65%. A change of instant access partners and targeting some particularly attractive longer term transactions resulted in improving rates. The 3 month market is where Waverley has traditionally pitched most of its investment activity. The average 3 month LIBOR rate during 2014/15 was around 0.55%. The target rate is 0.25% above LIBOR at 0.80% and performance is 0.65%.
Annexe 3	Shows the maturity profile of Waverley's investment holding.	The graph shows that 30% of total investments were on call on 31/03/15 giving good liquidity – which is important during February and March when income is low and expenditure often high. The graph also identifies a good spread over the longer term investments aiding performance. All investments are pre-determined fixed rates and fixed periods with the exception of “call’ money.
Annexe 4	Shows the approved ratings of Waverley's current investments. The letter indicates the latest credit rating and the “stable” or “negative” shows the future outlook rating judgment of Waverley's preferred rating agency.	This graph shows that current investments all fall within Waverley's policy of A rating. Local Authorities generally do not apply for credit ratings but are held to be AAA rated. Waverley deliberately seeks other Local Authorities where appropriate but being very secure the rates are often below other potential counterparts.

Investment Performance 2014/15

4. The Local Performance Indicator LI8, which relates to investment performance, is shown below.

Full Description of PI	2013/14 Actual	2014/15 Performance to 31/03/15
Average rate of return on the Council's Investments compared with the Sterling Interbank 3-month LIBOR rate	0.15% above the average Sterling Interbank 3-month rate	0.10% above LIBOR - 0.15% below target

Note: Despite the unchanging base rate, the LIBOR 3 month rate was above base rate consistently during the year and above the 3 month market rates. A more appropriate target and comparison mechanism has been prepared for future years which will compare Waverley's performance with a comparable portfolio of investments at market rates. Members should note however that the interest budget of £500,000 was achieved with out-turn at £544,000.

Treasury Activity 2015/16 to date

5. Officers have prepared four graphs that illustrate the current investment activity. The table below gives a brief description of each graph. The first graph is based on the total external investments held on 27 May 2015 of £53.5 million which compares with £49 million held on 27 May 2014 and £35 million on 27 May 2013.

Annexe Number	Description of graph	Comments
Annexe 5	Plots the total balance of external investments held at weekly intervals throughout the year compared to previous years	It is too early in the year to suggest a similar pattern to previous years is already evident but this is likely to be seen as major income and expenditure items continue in a similar pattern albeit at a higher level. Increasing capital spend, particularly in the Housing area, may affect that pattern. Since the HRA reform, a larger proportion of invested surpluses are attributable to the HRA.
Annexe 6	Shows cumulative investment performance compared with bank base rate and market rate for 3 month terms obtained daily from the market and the new target rate	The 3 month market rate and the base rate are both at 0.5% in the graph. The graph shows 2015/16 performance currently at around 0.75% - higher than the target rate of 0.59%. The target rate is calculated assuming a 'traditional' level of 3 month investments. However, opportunities have been taken to target some longer term investments, resulting in higher returns. Consequently Waverley currently has no 3-month investments but has increased levels of

		longer term investment generating higher returns.
Annexe 7	Shows the maturity profile of Waverley's investment holding.	The chart shows that 32% of total investments were on call on 29/05/15 giving good liquidity. The graph also identifies no 1 to 3 month investments but a good spread over the longer term investments aiding performance. All investments are pre-determined fixed rates and fixed periods with the exception of "call" money.
Annexe 8	Shows the approved ratings of Waverley's current investments. The letter indicates the latest credit rating and the "stable" or "negative" shows the future outlook rating judgment of Waverley's preferred rating agency.	This chart shows the latest ratings for current investments. Officers would point out that although all investments were within Waverley's policy of A rating when the investment was made, RBS, with whom WBC has one investment, has recently been downgraded by Fitch to BBB+. Members are advised that RBS is still A rated by all other ratings agencies and BBB+ is still an investment rated grade. Furthermore the recent downgrading to BBB+ is a result of a change in ratings methodology rather than a change in the financial or economic fundamentals of RBS. This change arises from the removal of implicit sovereign support in the calculation of ratings across the board. Members will be made aware if there becomes a prospect of any additional risk from this investment.

Investment Performance 2015/16 to date

6. The Local Performance Indicator LI8, which relates to investment performance, is shown below.

Full Description of PI	2015/16 Target (based on an average profile of investments within Waverley's risk appetite	2015/16 Performance to date 29/05/15
Average rate of return on the Council's Investments compared with new target rate	0.59%	0.75%

Note: The new target rate is based on an average daily investment of £55m profiled in accordance with Waverley's strategy and preference. Members are advised that this has traditionally included a significant proportion of 3 month lending. However, because of the nature of market rates currently it is possible to improve returns by slight changes of practice and officers have specifically targeted some higher rate longer term investments. As a result, interest income expected to over achieve the 2015/16 budget.

Recommendation

That the Executive notes the treasury management activity and investment performance in 2014/15 and notes and endorses treasury management activity and investment performance in 2015/16.

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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