

# **WAVERLEY BOROUGH COUNCIL**

## **EXECUTIVE – 1 DECEMBER 2015**

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### **Title:**

**TREASURY MANAGEMENT ACTIVITY – YEAR-TO-DATE 2015/2016**

[Portfolio Holder for Finance: Cllr Wyatt Ramsdale]

[Wards Affected: All]

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### **Summary and purpose:**

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

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### **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.

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### **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.

### **Treasury Activity 2015/16**

2. Officers have prepared a number graphs that illustrate the current investment activity. The table below gives a brief description of four of the graphs. The first graph is based on the total external investments held on 4th November 2015 of £64.75 million which compares with £60.4 million held at 4th November 2015 and £56.9 million and £44.5 million in the previous 2 years. The graph excludes balances on Waverley's HSBC savings account, which holds relatively small balances and/or balances held for very short periods, as these are not strictly regarded as investments.

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	The shape of the graph for 15/16 and 14/15 is very similar and together with savings balances (which are not included in the graph) the shape is almost identical. Major peaks and troughs remain broadly similar year on year as major income receipts and major expenditure commitments continue in the same pattern. However, since the middle of 14/15 the rate of increase in cash surpluses (the amount available for investment) has been less than in previous periods as capital spend has 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	The base rate and the typical 3 month market rate are currently both the same at 0.5%. The graph shows 2015/16 performance starting at around 0.73% but improving marginally to around 0.76% and continuing at that level. The target rate of 0.59% is based on Waverley's traditional portfolio of investments- largely in the 3 month market. However, recent practice has been to target some longer term investment where rates are higher and to meet short term commitments from call accounts/savings. This explains why actual performance is better than target currently. The recent relative stability of the market has been a factor in the decision to adopt this practice.
Annexe 3	Shows the maturity profile of Waverley's investment holding.	The graph shows that 31% (by value) of total investments was on call on 5/11/15 giving the liquidity to meet some imminent large commitments. The graph shows an increased spread over the longer term aiding performance. Members may note, e.g. that in May 2014 some 88% (by value) of investments was within a 3 month maturity period whereas currently the figure is 54% - demonstrating the movement to longer terms generally over the period. 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 "pos" shows the future outlook rating judgment of Waverley's preferred rating agency. "Pos" indicates the likelihood of an improved rating being imminent.	This graph shows investments and their ratings at 5/11/15. Unusually a £3 million investment now has a BBB+ rating as reported previously. The investment was taken out in July when the rating was A or better as policy dictates but has subsequently deteriorated to BBB+. However, Members are reminded that this change is a result of an agency-wide change in the rating methodology rather than any change in the creditworthiness or economic fundamentals of this organisation. The changes arise from removing implicit sovereign support from the calculation. Officers constantly monitor the situation generally (and this investment particularly) and will report back to Members as necessary.
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### **Overall Reserves**

3. Officers have included an additional graph on this occasion at Annexe 5, indicating the planned use of reserves over this year and the next 2 years. The graph indicates a significant use of reserves during 15/16 and a more substantial use of reserves in 16/17 to 17/18. The officer Treasury Management Panel meets monthly and has recently discussed the possibility of longer term investments in the near future. There were a number of other current issues discussed which impact on Waverley's ability and willingness to invest longer term:
- a) the practical limits on the amount of investment allowable for a term more than 1 year
  - b) the availability of counterparties suitable and willing to take longer terms (for example, Lloyds, BoS, RBS, Barclays and Santander are not currently offering)
  - c) the possibility of rate increases during those longer terms
  - d) the increased risk over the longer period
  - e) the additional margins achievable on longer terms ( for example, 1 year investments can be achieved at 1% but 2 years only generates 1.2%)
  - f) the planned use of significant amounts of reserves over the next 2 years.

Officers concluded that investments over a 2 year term would be inadvisable currently but the situation will be monitored to take advantage of the markets wherever appropriate.

### **Investment Performance 2015/16**

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

Full Description of PI	2014/15 Actual	2015/16 Performance to 5/11/15
Average rate of return on the Council's Investments	0.65% (being 0.10% above LIBOR but 0.15% below target)	0.76% (being 0.17% above the new target)

Note: Members are reminded that the target rate has changed from a LIBOR based rate in 2014/15 to a rate based on what was a typical Waverley portfolio of investments at the time at market rates current at that time – for 2015/16. This resulted in the target rate of 0.59% for 2015/16. However, recognising the increasing stability in the markets officers have changed investment practice to move from a 3 month term preference to 6 months to 1 year. This change, though still within current policy, has helped actual performance increase to 0.76%. Officers are confident that the 15/16 interest receipt budget of £500k will be exceeded and currently it is forecast that actual receipts will be around £580k.

### **Recommendation**

It is recommended that the Executive

1. notes the Treasury Management Performance for 2015/16 to date; and
2. endorses the approach to Treasury Management activity.

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### **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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