

REPORT OF THE STRATEGIC DIRECTOR
TO THE EXECUTIVE
1 SEPTEMBER 2006

Treasury Management – Review of Activities in 2005/06

1.0 Introduction and Report Summary

- 1.1 The Council's Treasury Management Policy requires a report to be made on Treasury Management performance in the previous financial year.
- 1.2 The purpose of this report is to detail the Council's cash investment performance in the financial year 2005/06 and to raise any treasury management issues.
- 1.3 The Contact Officer for this report is Steve Lawrence, Head of Asset Management, tel: 01235 540321

2.0 Recommendations

- (a) *To note the return on cash invested during 2005/06 and the balances of the funds at 31 March 2006; and,*
- (b) *To note the prospects for the return on cash investments in 2006/07*

3.0 Relationship with the Council's Vision, Strategies and Policies

- (a) Vision Statement objectives A and B.
- (b) The report relates to the Council's strategy for sound financial management.
- (c) The report complies with the Council's Treasury Management Policy, approved by Service Delivery Policy Overview Committee on 27 November 2001 and Council on 19 December 2001, and follows the procedures recommended in the revised CIPFA Treasury Management Code of Practice, 2002.

4.0 Background and Supporting Information

- 4.1 This report outlines the performance over the last financial year of those funds managed in-house and those managed by the Authority's appointed investment manager (*Investec Asset Management*). The review of the Fund Manager's performance is provided by the Council's investment adviser – *Butlers*. In addition it gives Members a general overview of the current situation in the investment market.

5.0 In-house Investment Performance

- 5.1 At the beginning of 2005/06 cash held in-house totalled £8.06m. During the year the maximum invested at any time was £19.69m and the total cash that passed through the account (turnover) was £195m. In-house investment income in the year amounted to £649,280, thus achieving an average return of 4.83%. At the end of March 2006 the net position was a balance of £5.78m
- 5.2 It was necessary to borrow small amounts for a total of 9 days during the financial year 2005/06 in order to cover temporary deficits. The maximum outstanding at any time was £2.7m and the average rate of interest paid was 4.54% (annual equivalent). The borrowing limit set by the strategy is £5m.

- 5.3 It is difficult to set targets for this sort of operation which aims to maximise returns within the constraints of security and flexibility. Some measure of achievement can be obtained by looking at the rates achieved compared to the average 7-day deposit rate provided by Butlers.

Return on cash investments	in-house team	7-day rate
Fin. year 2005/06	4.83%	4.61%
Previous years:		
Fin. year 2004/05	4.75%	4.58%
Fin. year 2003/04	3.55%	3.58%

The relatively good performance in 2005/06 was largely due to taking a 2 year investment at a good rate with a portion of the proceeds when the Tesco site was sold in 2004.

6.0 **External Fund Managers**

- 6.1 The performance in 2005/06 is set out below showing the fund manager's return before payment of fees.

Sum Managed at 1.4.2005 £	Sum Managed at 31.3.2006 £	Increase in value at 31.3.2006 (gross) £
15,077,085	15,754,585	705,440

- 6.2 The result for *Investec* shown above equates to a gross rate of return (before fees) of 4.68% (4.50% after fees).

Performance over 3 years (net of fees)

Rate of return	2003/04	2004/05	2005/06
Investec Asset Management	2.59%	4.71%	4.50%
7 day deposit rate	3.58%	4.58%	4.61%
7 day rate exceeded by:	(0.99%)	0.13%	(0.11%)
L A funds average	3.05%	4.68%	4.59%
Average exceeded by:	(0.46%)	0.03%	(0.09%)

- 6.3 The Council's investment advisers (*Butlers*) have reported on the state of the market and the performance of the fund manager (*Investec*). The consensus in December 2005/January 2006 was that a cut in interest rates was imminent. A combination of factors pushed gilt yields up and a number of fund managers moved money back into gilts in the hope of capital appreciation when yields fell again. Hopes of a rate cut evaporated with the publication of the Bank of England's Quarterly Inflation Report in February and gilt yields continued to rise. *Investec*, while optimistic, had been cautious, choosing gilts with short durations which limited the damage. However, what might have been a decent performance in 2005/06 was undermined by this last quarter.

- 6.4 The first quarter of 2006/07 continued to be difficult. *Investec* reduced its gilt holding which proved to be the correct decision and is hopeful of making up lost ground in the rest of the financial year.

7.0 **Investment Income Review**

- 7.1 The actual investment income achieved in 2005/06 fell short of the revised budget by £95,330 (£1,354,720 to £1,450,050). This shortfall represents 6.6% of the budget and was entirely due to the poor performance of the fund manager in the final quarter of 2005/06.
- 7.2 The investment income calculation for the 2006/07 budget was based on economic predictions in January 2006 which were that interest rates were expected to drop off a little in 2006 and then climb back as 2007 started. In the event the base rate was raised in August 2006 from 4.5% to 4.75% and the market is expecting another rise before the end of the year, although economic opinion is divided on this. The in-house return should be a little better than expected and the Fund Manager is optimistic about achieving 5% which was the rate used in the forecast. The final payment on the purchase of an investment property in Canterbury will be a little later than anticipated but this will have very little effect.

8.0 **Report Conclusion and Summary**

- 8.1 The return on cash invested was lower than expected in 2005/06. Rising interest rates mean that the return in 2006/07 should be better than expected providing that the Council's Fund Manager can recover from a poor start.
- 8.2 There are no treasury management issues to raise at the moment.

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Background Papers:

Treasury Management Policy agreed by Council 19 December 2001
Treasury Management Strategy agreed by the Executive March 2006
Fund manager review published by Butlers 28 April 2006