

REPORT OF THE STRATEGIC DIRECTOR
TO THE EXECUTIVE
13 JULY 2007

Treasury Management – Review of Activities in 2006/07

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. It is also required by the CIPFA Treasury Management Code of Practice as embodying sound financial management.
- 1.2 The purpose of this report is to detail the Council's cash investment performance in the financial year 2006/07 and to raise any treasury management issues.
- 1.3 The Contact Officer for this report is Steve Lawrence, Head of Asset Management, telephone 01235 540321. email address: steve.lawrence@whitehorsedc.gov.uk

2.0 Recommendations

- (a) *to note the return on cash invested during 2006/07 and the balances of the funds at 31 March 2007; and,*
- (b) *to note the prospects for the return on cash investments in 2007/08*

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

This report relates to the Council's Vision Statement objectives A and B and 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 2006/07 cash held in-house totalled £5.78m. During the year the maximum invested at any time was £19.27m and the total cash that passed through the account (turnover) was £164.5m. In-house investment income in the year amounted to £576,492 on an average balance of £11.77m thus achieving an average return of 4.9%. At the end of March 2006 the net position was a balance of £4.4m

- 5.2 It was necessary to borrow small amounts for a total of 26 days during the financial year 2006/07 in order to cover temporary deficits. The maximum outstanding at any time was £2.7m and the average rate of interest paid was 5.12% (annual equivalent). The borrowing limit set by the annual Treasury Management 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 a benchmark. *Butlers* use the widely published 7-day LIBID rate (London Interbank bid rate – the rate at which a bank is willing to borrow from other banks).

Return on cash investments	in-house team	LIBID rate
Fin. year 2006/07	4.89%	4.97%
Previous years:		
Fin. year 2005/06	4.83%	4.61%
Fin. year 2004/05	4.75%	4.58%

6.0 **External Fund Managers**

- 6.1 The performance in 2006/07 is set out below showing the fund manager's return before payment of fees.

Sum Managed at 1.4.2006 £	Sum Managed at 31.3.2007 £	Increase in value at 31.3.2007 (gross) £
15,754,585	16,379,557	653,986

- 6.2 The result for *Investec* shown above equates to a gross rate of return (before fees) of 4.15% (3.97% after fees).

Performance over 3 years (net of fees)

Rate of return	2004/05	2005/06	2006/07
Investec Asset Management	4.71%	4.50%	3.97%
7 day LIBID	4.58%	4.61%	4.97%
LIBID exceeded/(short) by:	0.13%	(0.11%)	(1.00%)
L A funds average	4.68%	4.59%	4.29%
Average exceeded/(short) by:	0.03%	(0.09%)	(0.32%)

- 6.3 The Council's investment advisers (*Butlers*) have reported on the state of the market and the performance of the fund manager (*Investec*). They comment that there has been no let up in the difficult market conditions that have plagued fund managers for the last two financial years and that all managers have struggled to raise their performances during the latter part of 2006/07.

6.4 Rising interest rates have put downward pressure on bond and CD (certificates of deposit) values and the economic uncertainties have led to fund managers keeping a low profile. *Investec* are better placed for a satisfactory performance this year but it will require more stability in interest rates. It will then be up to the fund manager to take the right decisions.

7.0 **Investment Income Review**

7.1 The actual investment income achieved in 2006/07 fell short of the revised budget forecast by £63,822 (£1.23m to £1.294m). This shortfall represents 4.9% of the budget and was largely due to an over-optimistic view of the returns that would be made both in house and by the fund manager in the final quarter of the year.

7.2 The investment income calculation for the 2007/08 budget was based on economic predictions in January 2007 which were that interest rates were expected to peak at 5.25% or possibly 5.5% in the first half of 2007 and then fall back slowly. In the event the base rate has risen to 5.5% and the market is expecting further rises to 6% before the end of the year with a possibility of 6.25%. The in-house return should be a little better than expected but the Fund Manager has not yet revised the forecast return used.

8.0 **Report Conclusion and Summary**

8.1 The return on cash invested was lower than expected in 2006/07. Rising interest rates mean that the return in 2007/08 should be better than expected providing that the Council's Fund Manager does not have another poor year.

8.2 There are no treasury management issues to raise at the moment.

STEPHEN LAWRENCE
HEAD OF ASSET MANAGEMENT

STEVEN BISHOP
STRATEGIC DIRECTOR (& CHIEF FINANCE OFFICER)

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 26 April 2007
Economic and Financial Outlook published by Butlers 28 June 2007