VALE OF WHITE HORSE DISTRICT COUNCIL

Report No. 52/08
Wards Affected: ALL

REPORT OF THE JOINT HEAD OF FINANCE, RIDGEWAY SSP
TO THE EXECUTIVE
1 AUGUST 2008

Treasury Management – Review of Activities in 2007/08

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 2007/08 and to raise any treasury management issues. Property investment return is included in the 2007-08 Annual Financial Out-turn monitoring report which is also on this agenda.

1.3 The Contact Officer for this report is Steve Lawrence, Principal Accountant (Technical), telephone 01235 540321. e-mail address: steve.lawrence@whitehorsedc.gov.uk

2.0 *Recommendations*

(a) to note the return on cash invested during 2007/08 and the balances of the funds at 31 March 2008; and

(b) to note the prospects for the return on cash investments in 2008/09

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 2007/08 cash managed in-house totalled £4.4m. During the year the maximum invested at any time was £16.07m and the total cash that passed through the account (turnover) was £182m. In-house investment income in the year amounted to £575,503 on an average balance of £9.7m - an average return of 5.93%. At the end of March 2008 the cash managed was a balance of £1.83m

5.2 It was necessary to borrow a small amount for 1 day during the financial year 2007/08 in order to cover a temporary deficit. This was £1m at 5.33% (annual equivalent). The operational borrowing limit set by the annual Treasury Management Strategy is £2m.

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).

In-house investment performance against benchmark.

Rate of return	2005/06	2006/07	2007/08
In-house investment team	4.83%	4.89%	5.93%
7 day LIBID	4.61%	4.97%	5.72%
LIBID exceeded /(short) by:	0.22%	(0.08%)	0.21%

The Council only holds funds to meet its daily cash-flow requirements and invests council tax and business rate receipts for a short while until they are paid over to precepting authorities or the government. By carefully assessing cash requirements and using advice from the brokers that we deal with, the in-house team has been able to make a good return on the funds held.

6.0 **<u>External Fund Managers</u>**

6.1 The performance in 2007/08 is set out below showing the fund manager's return before payment of fees.

Sum Managed at 1.4.2007 £	Sum Managed at 31.3.2008 £	Increase in value at 31.3.2008 (gross) £
16,379,557	*17,339,276*	*982,559*

The fund manager is allowed to hold a wider range of investments within the constraints that apply to local authorities and the requirement for security mentioned above. This includes certificates of deposit and government-issued stock (gilts) which may be held with the intention of making a return, not just from the yield, but from changes in value over a period. For this reason the return above may be unrealised at the year-end and the fund manager is allowed to retain this increase value within the fund until it is needed to be paid over to the council.

6.2 The result for *Investec* shown above equates to a gross rate of return (before fees) of 6.0% (5.86% after fees). All references to fees are to the actual charges made per quarter. As reported to the Executive on 7 December 2007, in November 2007 Members held a meeting with Investec to get an explanation for poor performance in 2006-07. At that meeting Paul Cammies of Investec acknowledged that they had under-performed and offered to refund the management fee for the last quarter of

2006-07. That refund was received in 2007-08. The fees are charged to a revenue cost centre.

Investec Performance over 3 years (net of fees)

Rate of return	2005/06	2006/07	2007/08
Investec Asset Management	4.50%	3.97%	5.86%
7 day LIBID	4.61%	4.97%	5.72%
LIBID exceeded /(short) by:	(0.11%)	(1.00%)	0.14%
Comparable L A funds average*	4.59%	4.29%	5.79%
Average exceeded/(short) by:	(0.09%)	(0.32%)	0.07%

6.3 The Council's investment advisers (*Butlers*) provide the comparative figures* and have reported on the state of the market and the performance of the fund manager (*Investec*). They commented that the current economic climate, marked by phases of extreme volatility and a lack of liquidity, has made things difficult for fund managers. Investec took a cautious approach which meant that they avoided the worst effects of this instability but also missed out on some favourable opportunities. Rising yields on certificates of deposit at the end of the year caused some capital depreciation which should be recouped in 2008-09 at the expense of 2007-08.

6.4 Please note that the figures in this report may not tie up exactly with the Statement of Accounts for 2007-08 because the 2007 SORP requires some investments held by the fund manager to be valued on a particular basis for the accounts. There are also some minor adjustments to the interest earned in-house to get to the sum credited to the Income and Expenditure Account.

7.0 **Investment Income Review**

7.1 The actual investment income achieved in 2007/08 exceeded the original budget forecast by £74,240 (£1.556m to £1.482m).

Out-turn compared with budget – investment income earned

	Fund manager	In-house team	total
Original budget 2007-08	£961,770	£520,530	£1,480,300
Actual out-turn 2007-08	£982,559	£573,982	£1,556,541
Out-turn exceeded budget by:	£ 20,789	£ 53,452	£ 76,241

This total over budget represents 5.0% of the budget and was due to three things: interest rates rose higher than expected and then fell more slowly; balances held were a little higher than expected; and, the economic uncertainty and "banking crisis" meant that the upward differential between market interest rates and bank rate was much greater than usual. It should be noted that the estimated return for the fund manager is calculated by the Principal Accountant based on information received and is not provided directly by the fund manager.

7.2 The investment income calculation for the 2008/09 budget was based on economic predictions in January 2008 which were that bank rate was expected to fall slowly through the year ending at 4.75%. In the event the base rate has held up and most forecasters are expecting a rise before the year-end with rates falling away throughout 2009. This and the continued market differential should mean that the in-house return will be a little better than expected but this is off-set by a delay in expected capital receipts. The Fund Manager is still expecting to make the forecast return used.

8.0 **Prudential code performance indicators**

8.1 The Prudential Code for Capital finance in Local Authorities published by CIPFA sets out a number of indicators that the Council should have regard to in setting its Treasury Management Strategy. Most don't apply to this authority. Some relate to interest rate exposure. This Council has no investments or borrowings at a variable rate and no investments or borrowings with a maturity greater than 1 year. The Treasury Management Strategy set an operational limit for borrowing in the year of £2m and a maximum limit of £5m. The operational limit was not exceeded. The Council complied with the CIPFA Code of Practice for Treasury Management in that it:

- had in place codified objectives, policies and practices,
- had clear separation of responsibilities for policy formulation and execution, and
- had proper reporting arrangements.

9.0 **Report Conclusion and Summary**

9.1 Higher than expected interest rates meant that the return on cash invested was higher than expected in 2007/08. Increasing volatility and uncertainty in the economy is making it harder than usual to forecast investment income returns.

9.2 The current Treasury Management Strategy is proving adequate and are no treasury management issues to raise at the moment.

STEPHEN LAWRENCE
PRINCIPAL ACCOUNTANT (TECHNICAL)

WILLIAM JACOBS
JOINT HEAD OF FINANCE, RIDGEWAY SSP

Background Papers:

Treasury Management Policy agreed by Council 19 December 2001
Treasury Management Strategy agreed by the Executive February 2008
Fund manager review published by Butlers 30 April 2008
Economic and Financial Outlook published by Butlers 27 June 2008