

REPORT OF THE HEAD OF ASSET MANAGEMENT
TO THE EXECUTIVE
7 OCTOBER 2004

Treasury Management – Review of Activities in 2004/05

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 2004/05 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 2004/05 and the balances of the funds at 31 March 2005; and,*
- (b) *To note the re-appointment of the external Fund Manager.*

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). In addition it provides Members with a general overview of the current situation in the investment market.
- 4.2 After receiving last year's report on the Fund Manager's performance, and because their contract was up for renewal, the Executive reconsidered the principal of using a Fund Manager. After a presentation from Chris Anthony, of the Council's independent investment adviser (Butlers, part of Garban Securities Ltd) it was decided that the use of a Fund Manager gave the best chance of achieving the maximum return on the Council's cash investments. The officers were charged with considering the performance of suitable candidates and making an appointment.
- 4.3 A questionnaire was issued to a number of Fund Managers chosen as being suitable to the Council's scale and style of investment. Following an analysis of the replies by Chris Anthony, four Fund Managers were interviewed by him and the officers who, taking into account past

performance and proposed strategy, could see no reason to change from the existing Fund Manager. Investec Asset Management has been re-appointed for 3 years.

5.0 **In-house Investment Performance**

- 5.1 At the beginning of 2004/05 the in-house net position was temporarily overdrawn by £1.65m. During the year the maximum invested at any time was £24.09m and the total cash that passed through the account (turnover) was £216m. In-house investment income in the year amounted to £741,580, thus achieving an average (annualised) return of 4.75%. At the end of March 2005 the net position was a balance of £7.31m.
- 5.2 It was necessary to borrow small amounts for a total of 19 days during the financial year 2004/05 in order to cover temporary deficits. The maximum outstanding at any time was £1.5m and the average rate of interest paid was 4.65% (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 Local Authority (LA) 7-day rate as published in Local Government Chronicle.

Return on cash investments	in-house team	LA 7-day rate
Fin. year 2004/05	4.75%	4.58%

6.0 **External Fund Managers**

- 6.1 The performance in 2004/05 is set out below showing the fund manager's return before payment of fees.

Sum Managed at 1.4.2004 £	Sum Managed at 31.3.2005* £	Increase in value at 31.3.2005 (gross) £
15,834,500	15,077,085	742,585

During the year the Council took back accumulated interest of £1.5m

- 6.2 The result for Investec Asset Management shown above equates to a gross rate of return (before fees) of 4.91% (4.72% after fees). This was a much better performance than the previous year beating the benchmark and the industry average (4.68% after fees). In fact with interest rates at or close to the top of their current cycle and period rates very flat there was very little difference between fund returns and Investec was one of the top performers.

Performance over 3 years (net of fees)

Rate of return	2002/03	2003/04	2004/05
Investec Asset Management	5.74%	2.79%	4.72%
7 day deposit rate	3.71%	3.52%	4.58%
7 day rate exceeded by:	2.03%	(0.73%)	0.13%
L A funds average	4.72%	3.05%	4.68%

Average exceeded by:	1.02%	(0.26%)	0.04%
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6.3 The Council's investment advisers (Butlers) have reported on the state of the market and the performance of the fund managers (Investec). Generally, Butlers acknowledge that the current economic situation is still making it very difficult to get good returns on local authority investment funds. Poor returns on bonds and the very flat yield curve on interest rates is making the generation of profits hard work.

7.0 **Investment Income Review**

7.1 The actual investment income achieved in 2004/05 fell short of the revised budget by £49,225 (£1,513,205 to £1,562,430). This represents just over 3% of the budget. It doesn't appear to be due to anything specific but just represents the difficulty of trying to predict the large number of variables involved in forecasting the investment income.

7.2 The investment income calculation for the 2005/06 budget was based on interest rates staying level through 2005 and then falling back a little. In the event the base rate was cut in August 2005 and the market is expecting another cut before the end of the year. Both in-house and Fund Manager returns are expected to be a little lower than expected. The purchase of an investment property in Canterbury was 2 months later than anticipated but this will be cancelled out by the purchase of another property in early October which was not included in the forecast.

8.0 **Report Conclusion and Summary**

8.1 The return on cash investments was satisfactory in 2004/05. Economic circumstances mean that interest rates have peaked and started to fall a little earlier than expected. This may mean that investment income will be a little lower than was estimated in the medium term plan.

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

STEPHEN LAWRENCE
HEAD OF ASSET MANAGEMENT

STEVE BISHOP
STRATEGIC DIRECTOR

Background Papers:

- Treasury Management Policy agreed by Council 19 December 2001
- Treasury Management Strategy agreed by the Executive March 2005
- Fund manager review published by Butlers 13 May 2005