

# Agenda Item

**Executive Board**

**4 November 2009**

**CR**



## **Treasury Management Performance 2009/10 – 1 April 2009 to 30 September 2009**

### **Summary**

This report details the overall performance of the Council's investment portfolio during the first six months of 2009/10. Details are also given to remind members of our existing external and internal investment strategy in order to gain support for its continuance.

### **Recommendation**

**The Executive Board is requested to note the investment return for the first six months of 2008/09.**

**To continue to support the existing external and internal investment strategy.**

#### a) Reasons for Recommendation

The Investec Report to 30 September 2009 (included as Appendix A), substantiates the performance of our externally-managed funds. Almost all of the interest earned by the Council in 2009/10 will come from this source.

#### b) Alternative Options

Not relevant.

#### c) Risk Considerations

Any depositing of surplus funds exposes the council to a certain degree of risk relating to the security of deposits and investment return. However, through the council's treasury management strategy and the external fund investment mandate the level of risk is proactively managed to an acceptable level.

#### d) Policy and Budgetary Considerations

For 2009/10, the Council has budgeted to generate a net return of £1,195,030 from its investment activities. However, it was anticipated at 2008/09 outturn that the level of return would not meet this figure and the surplus of £673,000 from the 2008/09 investment returns was ring fenced to offset against any deficit.

#### e) Date for Review of Decision

Treasury management performance is reviewed at six-monthly intervals. A review of the performance for the whole of 2009/10 will be made to the Executive Board in May/June 2010.

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## 1.0 Introduction

- 1.1 This report is submitted in accordance with the CIPFA "Code for Treasury Management in Public Services". It covers the period 1 April 2009 to 30 September 2009.
- 1.2 The annualised average 7-day rate for this period is the London Interbank Bid (LIBID) rate. This rate was 0.42% for the period and is used as a benchmark for comparison purposes.

## 2.0 Overview

- 2.1 The budget set for 2009/10 estimated a net return on all investment activities of £1,195,030. The actual return for the first half of 2009/10 is £270,586. The table below shows that in detail:

	<b>Budget for 2009/10</b>	<b>Budget up to 30 Sep '09</b>	<b>Actual to 30 Sep '09</b>	<b>Difference 30 Sep '09</b>
	<b>£K</b>	<b>£K</b>	<b>£K</b>	<b>£K</b>
External Investment Fund	1,200	600	279	(321)
In House Investment	100	60	4	(56)
Temporary Borrowing	(50)	(19)	(3)	16
Transfer to Housing Revenue A/c	(55)	(28)	(10)	18
	<b>1,195</b>	<b>613</b>	<b>270</b>	<b>(343)</b>

As you can see from our half yearly results above, we are showing a shortfall against budget of £343,000. Looking forward to the end of 2009/10, this deficit is likely to more than double to over £700,000. To offset this the council holds in its reserves £673,000, set aside for this purpose.

## External Investment

### 3.0 External Fund (Investec Fund Management)

- 3.1 Up to the 30 September 2009, the fund has increased in value by £278,649 from £32,510,647 to £32,789,297. The annualised investment return for Investec, after management fees, equates to 1.72%.

A copy of Investec's valuation report as at 30 September 2009 is attached as Appendix A.

## 4.0 Comments on Results

- 4.1 The annual investment return made by Investec is 1.3% higher than the annualised 7 day rate for the first half of 2009/10. Such a good return in the current market has been achievable because our brokers invested in a number of long term deals before the market fell last October/November.

However the last of these deals are coming up to maturity and as a result of the current market conditions we can expect income to fall further as the brokers have to invest in securities with lower returns.

## **5.0 External Investment Strategy**

5.1 The fund manager, as per the mandate, continues to operate as follows:

- There will be no limit on investment in obligations of the UK Government.
  - Investments in the securities of other borrowers, as permitted under the Approved Investment Rules up to a maximum nominal investment of 20% per name subject to a long term credit rating of AA or better.
  - At the current fund valuation this potentially exposes the Council to a maximum individual principal investment loss of £6.5m (i.e. 20% of £32.4m)
- 5.2 This strategy undoubtedly minimises potential interest returns, but continues to place principal protection at the heart of its investment decision making process. In order to inform members an up to date lending list, which the fund adheres to, is attached as appendix B. This list hopefully, reassures members of the institutions that our External Fund can place deposits with and also shows that the Council has not been exposed to any repayment risk associated with deposits made to Icelandic banks.
- 5.3 We have yet to receive a prediction from Investec with regards to our portfolio performance next year. However every indication is that interest rates to remain low well into the next year if not longer. Therefore interest rate receipts are unlikely to return to levels seen in the last few years of over £1 million. In fact receipts of around £400,000-500,000 will be more likely.

## **Internal Investment**

### **6.0 “In-house” Managed Funds**

- 6.1 During the first half of 2009/10, a total of 52 investments were made, ranging from £0.1m to £5.15m. On 1<sup>st</sup> July a sum of £5.15m was placed for 2 days in our Bank of Scotland deposit account. This was formally agreed with the Portfolio Holder – Resources, as the amount breached the existing agreed limit of £2M. These investments generated interest totalling £4,308. The total for the first half of 2008/09 was £72,932
- 6.2 The repayment terms varied from call (instantly repayable), to fixed periods of up to 26 days. The interest rate on these investments averaged 0.67% compared with 5.19% over the same period in the previous year. This reflects the dramatic fall in interest rates from 5% to 0.5% between October 2008 & March 2009

### **7.0 Comments on Results**

- 7.1 The average return of in-house investments was 0.67%, some 0.25% higher than the annualised 7 day rate for the first half of 2009/10.

### **8.0 Internal Investment Strategy**

8.1 Again to confirm our existing strategy is as follows:

- Internal deposits will only be made up to a maximum of £2m with any one financial institution.
- Deposits can only be placed with UK Banks, their subsidiaries, the top 20 building societies (with an asset base in excess of £1 billion) and other Local Authorities, the Police and Fire Services.

## 9.0 "In-house" Borrowing

9.1 In addition to the use of bank overdraft facilities, the Council borrowed on 8 occasions during the first half of 2009/10 (4 in 2008/09). Total interest paid on these loans amounted to £3,494 compared with £16,429 for 2008/09. The average interest rate paid was 0.38% compared with 5.07% in 2008/09, reflecting the lower base rates prevailing in the current year.

## 10.0 Borrowing to support Capital Expenditure in 2009/10

10.1 In principle the council has agreed that for certain capital schemes, borrowing facilities can be utilised.

- New Social Housing	£1,200,000
- Recycling & Refuse	£ 262,000
- Home safeguard	£ 65,000

Currently the use of borrowing will be assessed against the use of reserves to determine the most appropriate means of funding. However, it is anticipated that the housing schemes will require external borrowing.

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### Legal Implications

No legal implications

### Financial Implications

These are contained in report

### Consultation on Reports to the Executive

None required.

### Background Papers

- Investec Asset Management valuations during 2009/10
- Accountancy working papers

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Executive Board  
4 November 2009