

Agenda Item

Executive Board

4 July 2007

DP



Treasury Management

Summary

The 6 June Executive Board noted the intention of the Portfolio Holder – Resources to hold a think tank to consider investment options following consideration of the return achieved by the Council's external fund manager, Investec, in 2006-07. This report comments on that meeting.

Recommendation

That the Council continues to place cash reserves with an external fund manager, presently Investec, and that the performance achieved be monitored.

a) Reasons for Recommendation

The return from invested cash is a significant source of income to the council. Historically performance of the external fund manager is better than that achieved by our own efforts due to their ability and expertise to predict the market and trade investment instruments. However historic performance is no guarantee of future returns accordingly it is importance to regularly monitor achievement.

b) Alternative Options

Alternative options of bringing cash reserves back in-house for management, or splitting the fund between two managers were considered but rejected.

c) Risk Considerations

The Council relies on the income generated to fund services. A reduction in the level achieved will therefore have an impact on its ability to maintain that expenditure.

d) Policy and Budgetary Considerations

There are no policy or budgetary issues considered.

e) Date for Review of Decision

The monthly budget monitoring report will highlight any variance in the return anticipated with more detailed comments on investment performance of the external fund manager reported half yearly (June and November).

1 Main Body of the Report

- 1.1 The Resources portfolio holder met with members of his think tank together with officers on 19 June to review the arrangements in place for the investment of the Council cash reserves. They were advised that the security of the Council's cash is of paramount importance when considering any investment decision and as a consequence the investment return will be commensurate with the containment of risk.

- 1.2 The majority of the Council's cash is placed with a fund manager, Investec, with the authority to 'trade' investments within defined parameters which cover maturity limits of both the overall fund and individual investments, parties with whom cash can be placed, permitted instruments and the maximum sum that may be lent to any one party.
- 1.3 The remaining sums available to the Council are invested by officers on a short term basis for fixed periods, normally no longer than 3-4 weeks, at a fixed rate of interest.
- 1.4 This passive approach to investment traditionally produces a return closely in line with the average 7 day notice rate benchmark routinely used by local authorities to measure performance. The in-house management of cash is relatively inexpensive in terms of transaction costs and staff time.
- 1.5 A managed fund, with investments traded, has the potential to deliver a higher return as evidenced by that achieved by the Council's portfolio manager. Since inception, in December 1988, the external fund has achieved a return net of fees 0.63% above the 7 day benchmark. Whilst this might seem an insignificant percentage it does equate to a figure in excess of £150k per year on a portfolio of £25m.
- 1.6 The argument for recalling the sum held by Investec, for in-house management, cannot be justified provided the return being achieved continues to out perform the benchmark. Equally members of the Resources think tank concluded there would be little merit in splitting the fund between two managers operating with the same restrictive mandate.
- 1.7 The conclusion reached was for a continuation of the present arrangement for the management of cash resources with the return achieved being regularly monitored by the Executive Board.

Legal Implications

There are no legal implications requiring concern.

Financial Implications

The Council relies on the income generated to fund revenue services accordingly it is imperative that the Council achieves a rate of return commensurate with the containment of risk.

Consultation on Reports to the Executive

The issue was discussed by the portfolio holder – Resources think tank on 19 June 2007.

Background Papers

- Working papers file

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