

## Agenda Item 9

**Executive Board**

**6 June 2007**

**AJ**



### Treasury Management Performance 2006/07

#### Summary

This report details the overall performance of the Council's investment portfolio during 2006/07.

#### Recommendation

**The Executive Board is requested to note the investment return for 2006/07.**

a) Reasons for Recommendation

The Investec Report to 31 March 2007, the summary from which is attached as Appendix A, substantiates the performance of our externally-managed funds. Almost all of the interest earned by the Council in 2006/07 has come from this source.

b) Alternative Options

Not relevant.

c) Risk Considerations

The use of alternative fund management companies or even managing the capital sum "in-house" may generate greater investment returns than those obtained by Investec Asset Management over the last 3 years.

d) Policy and Budgetary Considerations

In 2006/07, the Council budgeted to generate a net return of £1,060,000 from its investment activities. It actually achieved £1,130,419.

e) Date for Review of Decision

Treasury management performance is reviewed at six-monthly intervals. A review of the performance for the first part of 2007/08 will be made to the Executive Board in November 2007.

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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 2006 to 31 March 2007.

1.2 The annualised average 7-day rate for local authority loans for the period (the L.G.C. rate) was 4.82%. This rate is used as a benchmark for comparison purposes.

## 2.0 Overview

- 2.1 The budget set for 2006/07 estimated a net return on all investment activities of £1,060,000. The actual return for the year was £1,130,419. The table below shows that in detail:

	<b>Budget for 2006/07</b>	<b>Actual to 31 Mar '07</b>	<b>Difference</b>
	<b>£K</b>	<b>£K</b>	<b>£K</b>
External Investment Fund	1,125	1,156	31
In House Investment	62	102	40
Temporary Borrowing	(55)	(62)	(7)
Transfer to Housing Revenue Account	(72)	(75)	(3)
Miscellaneous interest receipts	0	9	9
	<b>1,060</b>	<b>1,130</b>	<b>70</b>

## 3.0 External Fund (Investec Fund Management)

- 3.1 Over the year, the fund increased in value by £1,156,337 from £27,449,137 to 28,605,474. The annualised investment return for Investec, after management fees, equated to 4.21%. A copy of Investec's valuation report as at 31 March 2007 is attached as Appendix A.

## 4.0 Comment on Results

- 4.1 The annual investment return made by Investec was 0.61% below the annualised 7 day rate during 2006/07. In the main this poor performance was due to a prediction made early in the year that interest rates would remain static for some time which resulted in a lengthening of the portfolio. However, strong recoveries in Europe and Japan resulted in a rising market which adversely effected the fund's valuation. This issue was remedied later in the year, evidenced by the fact that most certificates of deposit held by the fund were returning in excess of 5.25%. This fact should mean that the fund will still strong returns early in 2007/08.

## 5.0 Outlook

- 5.1 It is estimated that the recent increase in the interest rate to 5.50% will be followed by another one or two 0.25% rises in the summer months. It is felt this should be enough to control inflationary pressures and at this point the Fund Manager will start looking to lengthen the duration of the fund. The current prediction is that interest rates will begin to fall from mid 2007, which should hopefully suit our fund's style of management.

- 5.2 Investec have provided forecasts of potential return on our investment for 2007/08 as follows:

	%
Worst Case	5.15
Central Case	5.40
Best Case	5.70

The budget was set against the 'worst case' forecast of 5.15%.

## **6.0 “In-house” Managed Funds**

- 6.1 During 2006/07, a total of 88 investments were made, ranging from £0.1m to £5.0m. On the 2 January 2007 a sum of £5.0m was placed for two 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 £2.0m. No other investments were made in excess of the agreed £2.0m limit. These investments generated interest totalling £101,709. The total for 2005/06 was £72,139.
- 6.2 The repayment terms varied from call (instantly repayable), to fixed periods of up to 49 days. The interest rate on these investments averaged 4.785% compared with 4.511% over the previous year, reflecting the rise in base rates during 2006/07.

## **7.0 Comments on Results**

- 7.1 The weighted average return of in-house investments was 4.785%, some 0.035% below the L.G.C. rate of 4.82%. In the main this can be explained by the fact that most of the in-house lending is carried out in the first nine months of the year, when interest rates were not at their highest level.

## **8.0 Borrowing**

- 8.1 In addition to the use of bank overdraft facilities, the Council borrowed on 30 occasions during 2006/07 (40 in 2005/06). Total interest paid on these loans amounted to £62,353 compared with £52,968 for 2005/06. The average interest rate paid was 4.808% compared with 4.600% in 2005/06, reflecting the higher base rates prevailing at the end of the year.

## **9.0 Borrowing in 2007/08**

- 9.1 As Members will recall, it has been budgeted for the Council to borrow £1.150m in the current year to fund equipment associated with the new refuse and recycling contract. This will result in the Council being no longer debt free, but this will not affect the Council's investment policy or disadvantage the Council's ability to invest.

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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 2006/07
- Accountancy working papers

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Executive Board  
6 June 2007