

# Agenda Item

**Executive Board**

**14 December 2005**

**RWH**



## Treasury Fund Management 2005/06

### Summary

This report details the overall performance of the Council's investment portfolio for the first seven months of 2005/06

### Recommendation

**The Executive Board is requested to approve the investment return for 2005/06 to October 2005.**

a) Reasons for Recommendation

The Investec Report to 31 October 2005, 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 2005/06 to date has come from this source.

b) Alternative Options

To re-activate the process for changing fund managers.

c) Risk Considerations

Investec's performance may not be as good as that which could have been achieved by an alternative fund manager, therefore reducing the investment income gain to the Council.

d) Policy and Budgetary Considerations

In 2005/06, the Council has budgeted to generate a net return of £950,000 from its investment activities. It is estimated that this will now be about £1,175,000, thus generating a surplus of £225,000.

e) Date for Review of Decision

Treasury management performance is reviewed at six-monthly intervals. A review of the performance for the year 2005/06 will be made to the Executive Board in June 2006.

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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 to 31 October 2005.

1.2 The annualised average 7-day rate for local authority loans for the period (the L.G.C. rate) was 4.54%. This rate is used as a benchmark for comparison purposes.

## 2.0 Overview

- 2.1 The budget for the 2005/06 for the net return on all our investment activities is £950,000. To the end of October 2005, £775,604 had been generated. The current projection for the year is £1,175,000. The table below shows the detail projection for the year:

	Budget	Estimate at 1 Dec	Difference
	£K	£K	£K
External Investment Fund	1,244	1,250	6
In House Investment	11	51	40
Temporary Borrowing	(250)	(46)	204
Transfer to Housing Revenue Account	(55)	(80)	(25)
	<b>950</b>	<b>1,175</b>	<b>225</b>

## 3.0 External Fund (Investec Fund Management)

- 3.1 The fund increased in value by £764,933 from £26,241,426 to £27,006,359. The annualised investment return for Investec, after deducting management fees, equated to 4.99%. A copy of Investec's valuation report as at 31 October 2005 is attached as Appendix A.

## 4.0 Comment on Results

- 4.1 Investec's fund management over the seven months to October continued the improvement shown in the last six months of 2004/05. Their anticipation that interest rates would be sustained at about their then current levels has been justified. Now that interest rates have eased back, an adjustment may be necessary to ensure the good results achieved recently are continued.

## 5.0 Outlook

- 5.1 Current expectations are affected by a number of factors:- a continued slowing in consumer spending, an increase in inflation because of rising energy costs, and a slowing in growth in the economy. However, spare capacity in the labour market remains limited.

Investec are taking the view that base rates will fall only slightly before the first quarter of 2006, and will remain comfortably above the yields achieved from 5-year gilt investments, currently maturing at about 4.07%. They are adjusting the Council's investment profile accordingly, continuing to build up a long-term strategic holding in short-dated gilts stock in anticipation of slower global growth in 2006. If they are correct, the budgeted investment income for 2005/06 of £1,250,000 looks an achievable estimate.

- 5.2 Investec have provided forecasts of potential return on our investment for 2005/06 as follows:

	%
Worst Case	4.85
Central Case	5.00 to 5.25
Best Case	5.50 to 5.75

The budget was set against the then 'worst case' forecast of 4.75%. In recent years, the 'central case' forecast has been used, but in the last two years, Investec have failed to meet it. To October, a rate of 4.99% was achieved.

## **6.0 “In-house” Managed Funds**

- 6.1 During the seven months to October, a total of 38 investments were made, ranging from £0.2m to £2.0m. These investments generated interest totalling £33,763. The total for 2004/05 was £61,959. The current projection for 2005/06 is £50,500 compared with a budget of £11,000.
- 6.2 The repayment terms varied from call (instantly repayable), to fixed periods of up to 13 days. The interest rate on these investments averaged about 4.70% to early September. Subsequently, this has fallen by about 0.25% because of the fall in the Bank of England base rate.

## **7.0 Comments on Results**

- 7.1 The weighted average return, at 4.58% was marginally above the L.G.C. rate of 4.54%. However, it is anticipated that investments made during the remainder of the year will show a lower rate of return.

## **8.0 Borrowing**

- 8.1 In addition to the use of bank overdraft facilities, the Council borrowed on 24 occasions during the period to October, covering 111 days of borrowing. Total interest paid on these loans amounted to £23,092 compared with £67,405 for the whole of 2004/05. The average interest rate paid was 4.70%. There will be a need for further borrowing between January and March because, as normal at this time of year, receipts from council tax and non-domestic rate sources will significantly reduce.
- 8.2 The projection for the year is currently £46,000 compared with a budget of £250,000. The budget, which now looks over-pessimistic, was prepared at a time when there was the prospect of the need for considerable borrowing to sustain Council activities. Since then, measures taken to control expenditure have resulted in a greatly reduced borrowing requirement.

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**Legal Implications**

No legal implications

**Financial Implications**

Contained in report

**Consultation on Reports to the Executive**

None required.

**Background Papers**

- Information supplied by Investec
- Accountancy working papers

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Executive Board  
14 December 2005