

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Leader and Cabinet

14 September 2006

AUTHOR: Chief Executive/Chief Accountant/Principal Accountant

TREASURY MANAGEMENT 2005/06

Purpose

1. To report on the performance of the treasury management function.

Effect on Corporate Objectives

2.

Quality, Accessible Services	This report has no direct implications for any of the Corporate Objectives but any improvement in the performance of the treasury management function within the context of the Council's investment strategy would create additional resources which could be used to achieve those objectives.
Village Life	
Sustainability	
Partnership	

Background

3. The Investment Strategy approved by Council on 23 March 2006 requires an annual report to be presented to Cabinet after the end of the financial year.

Considerations

4. Investments at the year end were:

31 March 2005		31 March 2006
£		£
9,500,000	Clearing Banks	4,500,000
2,000,000	Banks, other	2,000,000
0	Money Market Funds	450,000
	Building Societies with assets:	
5,000,000	greater than £10,000 million	3,000,000
4,500,000	between £5,000 million and £10,000 million	3,000,000
8,500,000	between £1,500 million and £5,000 million	6,500,000
<u>8,000,000</u>	between £250 million and £1,500 million	<u>8,000,000</u>
<u>37,500,000</u>	Total	<u>27,450,000</u>
	Principal Investments analysed by maturity	
23,000,000	2005/06	0
5,000,000	2006/07	20,950,000
4,500,000	2007/08	3,500,000
4,000,000	2008/09	2,000,000
<u>1,000,000</u>	2009/10	<u>1,000,000</u>
<u>37,500,000</u>		<u>27,450,000</u>

5. The Council is a member of a benchmarking club on treasury management, which is organised by the Chartered Institute of Public Finance and Accountancy. The results of this benchmarking exercise for 2005/06 were issued at the end of July and the accumulated results over the last six years are shown in **Appendix A**.
6. The results for 2005/06 show that South Cambridgeshire achieved another creditable performance for the third year running with a return of 4.84% on combined investments (less than and more than 365 days) compared to 4.76% for its comparator group and 4.71 % for the overall group. South Cambridgeshire was second highest in the comparator group of 11 other organisations and ninth highest in the overall group of 134 other organisations.

Options

7. In view of the in-house performance, there seems little point in considering out-sourcing all or externally managing part of the funds available for investment. External managers usually require a minimum external investment of £10 million for a period of at least three years and with the current pressures on capital receipts and other reserves, it is difficult to predict confidently that these requirements can be met.

Financial Implications

8. The in-house treasury management function achieved an average rate of 4.84% on combined investments compared to an overall group average of 4.71%. The differential of 0.13% on the average amount invested of £41.0 million during the year amounts to additional interest of over £53,000.
9. The cost of the in-house investment function, covering dealing, cash flow forecasting and planning and control, is estimated at £40 per million invested compared to an overall group average per million invested of £450 for in-house costs plus £1,490 for external fund managers. The benchmarking cost calculations exclude staff who spend less than 25% of their time and, therefore, the results are skewed in favour of smaller local authorities. Accurate comparisons of costs on a true like for like basis can be complex and time-consuming and there may be some questions over the validity of benchmarking data on costs.

Legal Implications

10. None.

Staffing Implications

11. None.

Risk Management Implications

12. The principal risk is loss of principal and the action taken to minimise this risk is to restrict:
 - the range of counterparties to local authorities, United Kingdom and Irish banks, building societies and money market funds;
 - the type of investments to non negotiable where the amount repaid is always the same as the amount invested; and
 - dealing to investments denominated in £ sterling with payments and repayments only in £ sterling.

Consultations

12. None.

Conclusions/Summary

13. The in-house treasury management function has achieved a creditable performance in 2005/06 at a minimal cost.

Recommendations

14. It is recommended that Cabinet note the performance of the treasury management function.

Background Papers: the following background papers were used in the preparation of this report: Treasury Management Benchmarking Club Reports 2002, 2003, 2004, 2005 and 2006.

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