

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Leader and Cabinet 10 September 2009
AUTHOR/S: Executive Director (Corporate Services) /
Head of Accountancy

TREASURY MANAGEMENT 2008/09

Purpose

1. To report on the performance of the treasury management function
2. This is not a key decision but reporting to Cabinet on performance is a requirement of the Investment Strategy and it was first published in the June 2009 Forward Plan.

Background

3. The Investment Strategy approved by Cabinet on 12 March 2009 requires an annual report to be presented to Cabinet after the end of the financial year.

Considerations

4. Investments at the end of the year were:

31 March 2008 £		31 March 2009 £
	Local Authorities	
3,000,000	Clearing Banks	4,000,000
3,500,000	Banks, other	1,500,000
345,000	Money Market Funds	865,000
	Building Societies with assets:	
5,000,000	greater than £10,000 million	4,000,000
4,000,000	between £5,000 million and £10,000 million	1,000,000
11,500,000	between £1,500 million and £5,000 million	11,000,000
2,000,000	between £350 million and £1,500 million	1,000,000
29,345,000	Total	23,365,000
	Principal Investments analysed by maturity	
0	2007/08	0
22,345,000	2008/09	0
3,000,000	2009/10	18,365,000
2,000,000	2010/11	1,000,000
1,000,000	2011/12	1,000,000
1,000,000	2012/13	1,000,000
0	2013/14	2,000,000
29,345,000		23,365,000

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 2008/09 were issued in early August and the results over the last five years are shown in **Appendix A**.

6. The results for 2008/09 show that South Cambridgeshire achieved a return of 5.61% on combined investments (less than and more than 365 days) compared to 5.36% for its comparator group and 5.26% for the overall group. South Cambridgeshire was third highest in the comparator group of 13 other organisations and nineteenth highest in the overall group of 128 other organisations.
7. The performance target is a greater return than average over a five-year rolling period. For 2008/09, a better than average return was achieved compared to the comparator group and to the overall group. Over the five-year period the target has been met.

Options

8. Options include:
 - (a) Out-sourcing; however, external managers usually require a minimum of £10 million for a period of at least three years and, with the reduction in capital receipts and other reserves, these requirements cannot be met;
 - (b) The Investment Strategy restricts the range of counterparties and weekly monitoring of credit ratings and bank financial strength ratings restricts this range even further. The range of counterparties could be extended but any additions would need to be subject to an assessment of risk as the successful identification, monitoring and control of risk is the Council's prime criteria for measuring the effectiveness of treasury management; and
 - (c) External treasury management consultants are used by many local authorities but a bid for this was not recommended in November so there is no budget for this.

Implications

9. The in-house treasury management function achieved an average rate of 5.61% on combined investments compared to an overall group average of 5.26%. The differential of 0.35% on the average amount invested of £31.90 million during the year amounts to higher interest of around £112,000.
10. The cost of the in-house investment function, excluding cash flow forecasting and planning and control, is estimated at £150 per million invested compared to an overall group average per million invested of £460 for in-house costs plus £1,450 for external fund managers. 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.

11.	Financial	As above
	Legal	None
	Staffing	None

Risk Management	The main risk is loss of principal and the action taken to minimise this risk is to restrict: <ul style="list-style-type: none"> the range of counterparties to local authorities, United Kingdom and other banks specifically approved by Cabinet, building societies and money market funds with weekly monitoring of credit ratings and bank financial strength ratings; the type of investments to non negotiable where the amount repaid is always the same as the amount invested; and dealing only in investments denominated in £ sterling with payments and repayments only in £ sterling.
Equal Opportunities	None

Consultations

12. None

Effect on Strategic Aims

13.

Commitment to being a listening council, providing first class services accessible to all.
Commitment to ensuring that South Cambridgeshire continues to be a safe and healthy place for all.
Commitment to making South Cambridgeshire a place in which residents can feel proud to live.
Commitment to assisting provision for local jobs for all.
Commitment to providing a voice for rural life.
This report has no direct implications for any of the Strategic Aims but any increase in interest received (commensurate with risk) may allow for virement to individual services to assist in the achievement of actions to support those aims.

Conclusions/Summary

14. The in-house treasury management has achieved a good performance in 2008/09 at a minimal cost.

Recommendation

15. 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:

Contact Officer: Adrian Burns, Head of Accountancy, Telephone: (01954) 713072
Sally Smart, Principal Accountant, Telephone: (01954) 713076