SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

---

| | | |
|---|---|---|
| **REPORT TO:** | Corporate Governance Committee | 30 September 2011 |
| **AUTHOR/S:** | Executive Director (Corporate Services) | |

---

## TREASURY MANAGEMENT BENCHMARKING 2010/11

### Purpose

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

2. This is not a key decision but reporting to Corporate Governance Committee on performance is a requirement of the Investment Strategy.

### Recommendations

3. It is recommended that the Corporate Governance Committee note the creditable performance of the treasury management function.

### Reasons for Recommendations

4. The performance of the treasury management function should be reviewed to ensure reasonable returns are achieved commensurate with risk. This is achieved by being a member of a benchmarking group and the Council compares favourably with the members of that group.

### Background

5. The Investment Strategy approved by Council on 24 February 2011 requires an annual report to be presented to Corporate Governance Committee after the end of the financial year.

### Considerations

6. Investments at the end of the year were:

| **31 March 2010 £** | **Investments analysed by counterparty** | **31 March 2011 £** |
|---:|---|---:|
| 0 | Local Authorities | 0 |
| 6,000,000 | Clearing Banks | 1,550,690 |
| 1,500,000 | Banks,other | 2,000,000 |
| | Building Societies with assets: | |
| 6,500,000 | greater than £10,000 million | 5,000,000 |
| 0 | between £5,000 million and £10,000 million | 0 |
| 5,000,000 | between £1,500 million and £5,000 million | 1,000,000 |
| 0 | between £350 million and £1,500 million | 0 |
| 19,000,000 | Sub-total | 9,550,690 |
| 185,000 | Money Market Funds | 0 |
| 19,185,000 | Total | 9,550,690 |

| 31 March 2010 £ | Investments analysed by maturity | 31 March 2011 £ |
|---|---|---|
| 12,185,000 | 2010/11 | 0 |
| 1,000,000 | 2011/12 | 3,550,690 |
| 2,000,000 | 2012/13 | 2,000,000 |
| 2,000,000 | 2013/14 | 2,000,000 |
| 2,000,000 | 2014/15 | 2,000,000 |
| 19,185,000 | | 9,550,690 |

7. 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 2010/11 were issued in late June and the results over the last five years are shown in **Appendix A**.

8. The results for 2010/11 show that South Cambridgeshire achieved a return of 2.21% on combined investments (less than and more than 365 days) compared to 1.55% for its comparator group and 1.19% for the overall group. South Cambridgeshire was third highest in the comparator group of 13 other organisations and fifth highest in the overall group of 95 other organisations.

9. The performance target is a greater return than average over a five-year rolling period. For 2010/11, 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.

10. The Council's Investment Strategy states that the effective management and control of risk are the prime objectives of its treasury management activities. The specific risks in treasury management are:

(a) **credit and counterparty risk**
The risk of failure by a counterparty to meet its contractual obligations to pay interest and repay principal: the Council's range of counterparties is restricted to UK banks, financial institutions approved by the Council and large building societies (all of which must have a satisfactory credit rating) and to public sector bodies.

(b) **liquidity risk**
The risk that cash will not be available when it is needed: the Council has cash flow forecasts which are updated weekly, an overdraft facility with its bank and, as a last resort, can borrow on the open market or from the Public Works Loan Board.

(c) **interest rate risk**
The risk of loss through adverse movements in interest rates: the Council mainly invests in fixed interest rate deposits so it accepts the risk of an opportunity cost that money is invested at fixed rates and market rates subsequently rise.

(d) **exchange rate risk**
The risk of loss through adverse movements in exchange rates: the Council's Investment strategy restricts all treasury management transactions to £ sterling.

(e) **refinancing risk**
The risk that maturing investments cannot be reinvested at favourable rates: the Council's investments for less than a year are made to match liabilities and for more than one year have a spread of maturity dates.

(f) **legal and regulatory risk**
The risk of loss due to the Council or its counterparties failing to act in accordance with their legal powers and regulatory requirements: the Council only deals in simple investments and only deals with well recognised and perceived to be reliable counterparties.

(g) **fraud, error and corruption**
The risk of loss through fraud, error and corruption; the Council has internal controls including segregation of duties, an internal audit function to evaluate those internal controls and fidelity guarantee insurance.

(h) **market risk**
The risk of adverse fluctuations in the value of investments: the Council only invests in non-negotiable investments which are held to maturity and realised at face value.

**Options**

11. Options for the investment of surplus funds will be limited in the future as it may be more beneficial to use such funds to reduce marginally and temporarily the £205 million debt arising from Housing Revenue Account Reform. Other options for any surplus funds 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. The Finance and Staffing Portfolio Holder has asked officers to look at investing with smaller building societies and, if accepted, this will be incorporated in the Investment and Debt Management Strategy to be reported for approval by Council in November; and

(c) External treasury management consultants are used by many local authorities but there is no budget for this.

**Implications**

12. The in-house treasury management function achieved an average rate of 2.21% on combined investments compared to an overall group average of 1.19%. The differential of 1.02% on the average amount invested of £25.5 million during the year amounts to higher interest of around £260,000.

13. The cost of the in-house investment function, excluding cash flow forecasting and planning and control, is estimated at £750 per million invested compared to an overall

group average per million invested of £720 for in-house costs plus £1,510 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.

14.

| | | |
|---|---|---|
| Financial | As above | |
| Legal | None | |
| Staffing | None | |
| Risk Management | As above | |
| Equality and Diversity | None | |
| Equality Impact Assessment completed | No | |
| | Not applicable | |
| Climate Change | None | |

**Consultations**

15. None.

**Consultation with Children and Young People**

16. None.

**Effect on Strategic Aims**

17. This report has no direct implications for any of the Strategic Aims but any increase in interest received (commensurate with risk) may reduce the need for cuts in individual services and assist in the achievement of actions to support those aims.

**Conclusions / Summary**

18. The in-house treasury management has achieved a good performance in 2010/11 at a minimal cost.

**Background Papers:** the following background papers were used in the preparation of this report:

CIPFA Treasury Management Benchmarking Club 2011 reports

**Contact Officer:** Adrian Burns - Head of Accountancy
Telephone: (01954) 713702
adrian.burns@scambs.gov.uk
Sally Smart - Principal Accountant
Telephone: (01954) 713706
sally.smart@scambs.gov.uk