

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Cabinet	11 September 2008
AUTHOR/S:	Chief Executive / Head of Accountancy	

TREASURY MANAGEMENT 2007/08

Purpose

1. To report on the performance of the treasury management function and to approve additions to the list of counterparties.
2. This is not a key decision but specific Cabinet approval is required in the Investment Strategy to add organisations to the investment category of other banks and financial institutions.
3. It was first published in the July 2008 Forward Plan.

Background

4. The Investment Strategy approved by Cabinet on 13 March 2008 requires an annual report to be presented to Cabinet after the end of the financial year.

Considerations

5. Investments at the year end were:

31 March 2007		31 March 2008
£		£
9,500,000	Clearing Banks	3,000,000
2,500,000	Banks, other	3,500,000
270,000	Money Market Funds	345,000
	Building Societies with assets:	
0	greater than £10,000 million	5,000,000
4,000,000	Between £5,000 million and £10,000 million	4,000,000
9,000,000	Between £1,500 million and £5,000 million	11,500,000
6,000,000	Between £350 million and £1,500 million	2,000,000
<u>31,270,000</u>	Total	<u>29,345,000</u>
	Principal Investments analysed by maturity	
25,270,000	2007/08	0
2,000,000	2008/09	22,345,000
2,000,000	2009/10	3,000,000
1,000,000	2010/11	2,000,000
1,000,000	2011/12	1,000,000
0	2012/13	1,000,000
<u>31,270,000</u>		<u>29,345,000</u>

6. 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 2007/08 were issued in early August and the results over the last five years are shown in **Appendix A**.
7. The results for 2007/08 show that South Cambridgeshire achieved a return of 5.75% on combined investments (less than and more than 365 days) compared to 5.65% for its comparator group and 5.78% for the overall group. South Cambridgeshire was fifth highest in the comparator group of 12 other organisations and ninety-second highest in the overall group of 134 other organisations.
8. The performance target is a greater return than average over a five year rolling period. For 2007/08, a better than average return was achieved compared to the comparator group but not to the overall group. In the previous four years, a much better than average performance was achieved and, therefore, the target has been met.

Options

9. In view of the lower returns from externally managed investments shown in Appendix A, 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.
10. Of the groups of approved organisations in the Investment Strategy, the UK clearing banks are rarely in the market offering competitive rates and the Treasury and UK local and police authorities hardly ever offer competitive rates. In practical terms, the range of counterparties consists of two money market funds, four other banks and seventeen building societies. Several of the seventeen building societies are often at their maximum limit and so no further investments can be placed with them. The range of counterparties could be extended and this might result in obtaining better rates of interest. **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.**
11. Other local authorities, which use external treasury management consultants, have foreign banks on their list of approved counterparties but many of these foreign banks have a minimum limit of £5 million. Foreign banks which may offer competitive rates for amounts as low as £1 million include:

	Long term credit rating			Short term credit rating		
	Fitch	Standard and Poor's	Moody's	Fitch	Standard and Poor's	Moody's
¹ Banco Santander SA (including ¹ Abbey National Treasury Services)	AA	AA	Aa1	F1+	A-1+	P-1
	AA-	AA-	Aa3	F1+	A-1+	P-1
² Landsbanki Islands (including ² Heritable Bank Limited)	A	No rating	A2	F1	No rating	P-1
	A	No rating	No rating	F1	No rating	No rating
National Bank of Abu Dhabi	AA-	A+	Aa3	F1+	A-1	P-1
Qatar National Bank	A+	A+	Aa3	F1	A-1	P-1
Riyad Bank	A+	A+	A1	F1	A-1	P-1

^{1,2} These will be treated as one counterparty, e.g. if £2.5 million is invested with Banco Santander SA, then no investment can be made with Abbey National as the maximum limit in our Investment Strategy for an organisation in the category of other banks and financial institutions is £2.5 million.

12. The Investment Strategy requires any addition to the list of counterparties for the category of other banks and financial institutions to be specifically approved by Cabinet. The ranking of credit ratings is:

Rating Agency	Long term (more than one year)	Short term (up to one year)
Fitch	AAA (highest quality) to C	F1 (highest quality) to D
Standard and Poor's	AAA (highest quality) to D	A-1 (highest quality) to D
Moody's	Aaa (highest quality) to Baa3	P-1 (highest quality) to P-3

Implications

13. The in-house treasury management function achieved an average rate of 5.75% on combined investments compared to an overall group average of 5.78%. The differential of 0.03% on the average amount invested of £40.36 million during the year amounts to lower interest of around £12,000.
14. The cost of the in-house investment function, excluding cash flow forecasting and planning and control, is estimated at £100 per million invested compared to an overall group average per million invested of £400 for in-house costs plus £1,140 for external fund managers. On this basis, the lower interest of £12,000 is more than offset by

lower costs. 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.

15.

Financial	As above
Legal	None
Staffing	None
Risk Management	The principal 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; 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.
Equal Opportunities	None

Consultations

16. None.

Effect on Corporate Objectives and Service Priorities

17.	Work in partnership to manage growth to benefit everyone in South Cambridgeshire now and in the future
	Deliver high quality services that represent best value and are accessible to all our community
	Enhance quality of life and build a sustainable South Cambridgeshire where everyone is proud to live and work
	This report has no direct implications for any of the Annual Priorities and Corporate Objectives but any increase in interest received (commensurate with risk) may allow for virement to individual services to assist in the achievement of the Objectives.

Conclusions/Summary

18. The in-house treasury management function has achieved a reasonable performance in 2007/08 at a minimal cost.

Recommendations

19. It is recommended that Cabinet note the performance of the treasury management function and approve the addition of the organisations listed in paragraph 11 to the category of other banks and financial institutions with a maximum limit of £2.5 million.

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

Treasury Management Benchmarking Club Reports 2004 – 2008.

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