

## SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

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| <b>REPORT TO:</b> | Finance and Staffing Portfolio Holder<br>Cabinet                 | 8 September 2009<br>10 September 2009 |
| <b>AUTHOR/S:</b>  | Executive Director (Corporate Services) /<br>Head of Accountancy |                                       |

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### 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.
3. It was first published in the June 2009 Forward Plan.

#### Background

4. 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

5. Investments at the end of the year were:

| 31 March<br>2008<br>£ |   | 31 March<br>2009<br>£ |
|-----------------------|---|-----------------------|
|                       | 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             |
| <hr/>                 |   | <hr/>                 |
| 29,345,000            | Total   | 23,365,000            |
|                       | <b>Principal Investments analysed by maturity</b> |                       |
| 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             |
| <hr/>                 |   | <hr/>                 |
| 29,345,000            |   | 23,365,000            |

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 2008/09 were issued in early August and the results over the last five years are shown in **Appendix A**.
7. 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.
8. 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**

9. 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**

10. 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.
11. 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.

|     |           |          |
|-----|-----------|----------|
| 12. | 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"> <li>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;</li> <li>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.</li> </ul> |
| Equal Opportunities | None  |

### Consultations

13. None

### Effect on Strategic Aims

14. 

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|--|
| <b>Commitment to being a listening council, providing first class services accessible to all.</b>  |
| <b>Commitment to ensuring that South Cambridgeshire continues to be a safe and healthy place for all.</b>  |
| <b>Commitment to making South Cambridgeshire a place in which residents can feel proud to live.</b>  |
| <b>Commitment to assisting provision for local jobs for all.</b>   |
| <b>Commitment to providing a voice for rural life.</b>   |
| 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

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

### Recommendations

16. 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:

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