

## SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

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<b>REPORT TO:</b>	Finance and Staffing Portfolio Holder Corporate Governance Committee	14 September 2010 24 September 2010
<b>AUTHOR/S:</b>	Executive Director (Corporate Services)	

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### TREASURY MANAGEMENT 2009/10

#### 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.
3. It was first published in the June 2010 Forward Plan.

#### Background

4. The Investment Strategy approved by Council on 25 March 2010 requires an annual report to be presented to Corporate Governance Committee after the end of the financial year.

#### Recommendations and Reasons

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

#### Considerations

6. Investments at the end of the year were:

31 March 2009 £		31 March 2010 £
<b>Investments analysed by counterparty</b>		
0	Local Authorities	0
4,000,000	Clearing Banks	6,000,000
1,500,000	Banks, other	1,500,000
865,000	Money Market Funds	185,000
Building Societies with assets:		
4,000,000	greater than £10,000 million	6,500,000
1,000,000	between £5,000 million and £10,000 million	0
11,000,000	between £1,500 million and £5,000 million	5,000,000
1,000,000	between £350 million and £1,500 million	0
<u>23,365,000</u>	<b>Total</b>	<u>19,185,000</u>

<b>31M arch 2009 £</b>		<b>31 March 2010 £</b>
<b>Investments analysed by maturity</b>		
18,365,000	2009/10	0
1,000,000	2010/11	12,185,000
1,000,000	2011/12	1,000,000
1,000,000	2012/13	2,000,000
2,000,000	2013/14	2,000,000
0	2014/15	2,000,000
<b>23,365,000</b>		<b>19,185,000</b>

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 2009/10 were issued in early August and the results over the last five years are shown in **Appendix A**.
8. The results for 2009/10 show that South Cambridgeshire achieved a return of 2.68% on combined investments (less than and more than 365 days) compared to 2.21% for its comparator group and 1.87% for the overall group. South Cambridgeshire was fifth highest in the comparator group of 14 other organisations and twenty third highest in the overall group of 137 other organisations.
9. The performance target is a greater return than average over a five-year rolling period. For 2009/10, 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 reputable 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 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 there is no budget for this.

### **Implications**

- 12. The in-house treasury management function achieved an average rate of 2.68% on combined investments compared to an overall group average of 1.87%. The differential of 0.81% on the average amount invested of £32.7 million during the year amounts to higher interest of around £265,000.
- 13. The cost of the in-house investment function, excluding cash flow forecasting and planning and control, is estimated at £640 per million invested compared to an overall group average per million invested of £840 for in-house costs plus £1,430 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
	Equal Opportunities	None
	Climate Change	None

### **Consultations**

15. None

### **Effect on Strategic Aims**

16. 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**

17. The in-house treasury management has achieved a good performance in 2009/10 at a minimal cost.

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

CIPFA Treasury Management Benchmarking Club 2010 reports

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