

## EXETER CITY COUNCIL

### SCRUTINY COMMITTEE – RESOURCES

20 JUNE 2007

EXECUTIVE

3 JULY 2007

### TREASURY MANAGEMENT

#### 1. PURPOSE OF REPORT

- 1.1 To report the overall performance for the 2006-2007 financial year and the position regarding investments and borrowings at 31 March 2007.

#### 2. FINAL NET INTEREST POSITION

- 2.1 The General Fund shows a small net reduction in interest receivable compared to the estimate, the position is:

	Estimate	Actual	Variation
	£	£	£
<b>Interest paid</b>	0	(9,597)	(9,597)
<b>Interest earned</b>			
Interest from portfolio	1,593,000	1,323,889	(269,111)
Temporary investment interest	200,000	438,434	238,434
Other interest earned	6,000	5,359	(641)
Less			
Interest to HRA	(337,000)	(327,860)	9,140
Interest to s106 agreements	(75,000)	(68,043)	6,957
Interest to Trust Funds	(17,000)	(14,478)	2,522
GF interest received	1,370,000	1,357,301	(12,699)
Net interest	<u>1,370,000</u>	<u>1,347,704</u>	<u>(22,296)</u>

- 2.2 The other interest earned relates principally to car loan repayments and the repayment of interest by Exeter Business Centre.

- 2.3 The reduction has been caused by Investec, the Council's fund managers, having a very poor year, with performance 0.61% below their benchmark. This has been off-set by the Council withdrawing £8 million and placing the money itself which has provided a guaranteed income at a much higher rate of interest.

### **3. INVESTMENT INTEREST**

- 3.1 The managed cash funds have reduced during the year from £33.2 million to £26 million as at 31 March 2007. However the Council has also invested £8 million for a year itself meaning our total investment stands at £34 million.
- 3.2 The investment manager has made a poor return during the past financial year as interest rates have risen. At the start of the year Investec were still in the Gilt market and had to sell at a substantial loss which they were not able to rectify during the year. This has resulted in overall performance being lower than anticipated.
- 3.3 Interest of £1,323,889 was earned by the fund and this equates to an overall rate of return of 4.21%. This performance represents a 0.61% reduction over the 7-day benchmark of 4.82%.
- 3.4 The performance over the previous five years has fluctuated depending on the fund manager's particular view as to how the market will perform but performance has not added value over the last four years:

	Performance	Benchmark	Variation
2002-2003	5.33%	3.71%	+1.62%
2003-2004	2.73%	3.52%	-0.79%
2004-2005	4.72%	4.48%	+0.24%
2005-2006	4.57%	4.48%	+0.09%
2006-2007	4.21%	4.82%	-0.61%

- 3.5 Investec's performance over the longer term has been solid however the past few years results are of major concern and it is therefore advised that whilst Investec are retained as principal fund managers for the forthcoming year, the Head of Treasury Services should be delegated authority to consider splitting the Fund and investigating alternative fund managers to manage part of the Fund.
- 3.6 Investec have assured us that they have made changes to their strategy which will ensure that larger losses such as occurred last year will not happen in the future. It remains to be seen if this produces the level of performance that we would expect from them.

### **4. BORROWINGS**

- 4.1 The Council has had to borrow temporarily for cashflow purposes and incurred interest of £9,597 during the year. At the 31 March the Council had £4,000,000 of borrowing which was repaid on the 2 April 2007. The Council continues to have no long term debt.

## **5. FUTURE POSITION**

- 5.1 The fund manager is now of the view that interest rates will rise once more in 2007 to 5.75%. This means that they are currently holding certificates of deposit, which means that their performance will be solid but not spectacular. They intend to return to the Gilt market once the Bank of England stops raising rates, but as mentioned previously have introduced a limit to ensure large losses are not made. The fund managers' central expectation for returns is now 5.90% for 2007-08, which is higher than the Council's budget.
- 5.2 The Council continues to set a large capital programme and as this money is spent, it will be necessary to withdraw funds from the managers. This will impact upon interest returns, which will drop when more of our capital receipts are spent than are generated during the year. The timing of the capital expenditure will impact also on the temporary investment returns of the Council. When the money is spent later in the year, this means there is an opportunity to invest greater amounts in our day-to-day cashflow management which will lead to greater short-term returns than were anticipated.
- 5.3 It remains imperative that the fund manager performs above the benchmark to maximise the return for the Council. To this end, monthly monitoring of the performance will continue to take place and as stated above alternative managers will be investigated for part of the Fund.
- 5.4 As in previous years a note of caution is needed, because as the fund invests public money, the Council adopts an approach, which places a higher priority on asset safety than return. Therefore, investment returns excessively higher than 'normal' interest rates will not be made because of the increased risks involved.

## **6. RECOMMENDATION**

- 6.1 That the Treasury Management report for the 2006-2007 financial year be noted.

### HEAD OF TREASURY SERVICES

#### CORPORATE SERVICES DIRECTORATE

#### **Local Government (Access to Information ) Act 1985 (as amended)**

#### **Background papers used in compiling the report:**

None