

**CAA/20/2006**

**KENNET DISTRICT COUNCIL**

**RESOURCES EXECUTIVE COMMITTEE**  
**to be held on 30<sup>th</sup> June 2005**

Report by Janet Ditte, Chief Accountant & Auditor

**Treasury Management 2005/2006**

**1. Purpose of Report**

The purpose of this report is to update the Committee on the performance of the Council's Investments during 2005/2006.

**2. Financial, Staffing and Legal Implications**

The financial implications of this report have already been built into the budgets for 2005/06 and 2006/07. There are no staffing or legal implications.

**3. Risk Implications**

There is inevitably an element of risk associated with the investment of the Council's surplus capital and revenue reserves. However, the Treasury Management Code of Practice and Guidance on Local Authority Investments both ensure that this risk is minimised. The Council has adopted the Treasury Management Policy Statement and Annual Investment Strategy to ensure that the Council actively manages its risk in this area.

**4. Introduction**

Treasury Management is concerned with the proper financial administration of the Council's cash balances and outstanding loan debt. In order to ensure that the Council's Treasury Management functions are controlled by appropriate rules the Resources Executive Committee approves a Treasury Management Strategy each year, in line with the authority's Policy Statement. The Treasury Management Policy Statement requires that a report is made to the Resources Executive Committee each year to report on the activities that took place in that year and to compare these to the strategy approved for that year.

This report therefore details the activities carried out during 2005/06 and compares these to the strategy originally approved for 2005/06.

## **5. Treasury Management Performance 2005/2006**

### **5.1. Long Term Borrowing Strategy**

#### **STRATEGY**

- ◆ **To carry out no long-term borrowing**  
(The Council has been debt-free since 1/4/96 and has no long-term external debt.)
- ◆ **The limit set on the total amount of outstanding borrowing (incl. short term) will be an operational boundary of £1,500,000 and an authorised boundary of £2,000,000 i.e. no long term debt.**

#### **ACTIVITY.**

No long-term borrowing was carried out during 2005/06.

### **5.2. Short Term Borrowing Strategy**

#### **STRATEGY**

- ◆ **The Council will only borrow short-term (up to 364 days) for the purpose of maintaining sufficient cash flow.**
- ◆ **The limit set on the total amount of outstanding short-term borrowing at any time in 2005/06 will be an operational boundary of £1,500,000 and an authorised boundary of £2,000,000**

**(The Council is able to borrow short-term either from the financial markets or by overdraft from its own bank and still remain debt free for capital control purposes.)**

#### **ACTIVITY**

There was no requirement to borrow money market funds to cover cash flow shortages during 2005/2006. The authority did however use its overdraft facility with HSBC on four separate occasions for a total of 6 days.

### 5.3. Investment of Surplus Funds through External Fund Managers.

#### STRATEGY

- ◆ To continue the low risk investment policy of maximising the rate of return whilst minimising capital risk, consistent with the requirement to secure the liquidity and security of the investments.
- ◆ To invest surplus funds in specified and non-specified investments within the guidelines determined within the Treasury Management Policy Statement.
- ◆ To achieve a minimum rate of return equivalent to 50 basis points (0.5%) above the Local Authority 7 day rate for Invesco Asset Management and to exceed the LA 7 day rate by 10% for Tradition UK.

#### ACTIVITY

During 2005/06 the Council used the services of one fund manager, Invesco Asset Management and a cash manager, Tradition UK. The movement in the externally managed funds during 2005/2006 was as follows:

	<b>Fund Manager Invesco Asset Management</b>	<b>Cash Manager Tradition UK</b>
Opening Value of Funds	15,824,038	10,000,000
Interest Receipts	761,445	487,406**
Additions/Deductions to Funds	0	0
<b>Closing Value of Funds</b>	<b>16,561,934*</b>	<b>10,000,000</b>

(\*) Balances measured at lower of book cost and market value

(\*\*) Interest earned on the cash fund managed by Tradition UK is returned to KDC and not re-invested as part of the fund

The Fund Manager and the Cash Manager adhered to the requirements of the Investment Strategy and Treasury Management Policy Statement during 2005/2006. Invesco and Tradition UK have managed to outperform the Local Authority 7 day rate although neither manager achieved their target as outlined in the strategy. The actual returns for each year compared to the targets, made by the fund managers are shown in the table below.

Year	INVESCO		TRADITION	
	Interest Rate net of fees	7 day LA Rate (*)	Interest Rate net of fees	7 day LA Rate (*)
2005/06	4.81%	4.45%	4.87%	4.45%
2004/05	4.70%	4.48%	4.91%	4.48%
2003/04	3.67%	3.52%		
2002/03	4.53%	3.59%	-	-
2001/02	4.77%	4.33%	-	-
2000/01	6.80%	5.80%	-	-
1999/00	4.66%	5.15%	-	-
1998/99	8.05%	6.82%	-	-
1997/98	8.32%	6.69%	-	-
1996/97	6.22%	5.77%	-	-
1995/96	6.81%	6.28%	-	-

(\*) LA rate calculated internally and weighted for average outstanding balances

Interest rates started the year at 4.75%, with only movement during the year to 4.5% in August 2005. Since then interest rates have remained steady. Total interest receipts during 2005/06 arising from the fund and cash manager activities amounted to £1,248,851.

## 5.4. Investments Managed Internally

### STRATEGY

The Council's Treasury Management strategy for 2005/06 was as follows:-

- ◆ To invest surplus funds, in specified and non-specified investments, to achieve maximum liquidity, security and minimum risk.
- ◆ To invest the Council's surplus funds to achieve maximum returns whilst fulfilling short-term cash flow requirements
- ◆ To achieve a minimum return equivalent to the Local Authority 7 day notice rate.

### ACTIVITY

Internally managed funds exceeded the LA 7 day rate as shown in the table below, in spite of the limitations caused by having to provide for day to day cash flow.

Financial year 2005/06	Actual	L A 7 Day Rate
Interest Rate	4.48%	4.45%

Interest received during the year as a result of internally managed funds amounted to £241,621. As at the 31/3/2006 the internally managed investments held by the Council amounted to £1,315,895.

## **6. Conclusions**

Total interest receipts for 2005/06 were £1,490,471.

This report has shown that during 2005/06, the performance of the treasury management function in Kennet was in line with the policy statement and strategy.

## **7. Recommendations**

The Committee is recommended to:

Note the report of the performance relating to 2005/06 Treasury Management activities as a requirement of the Council's Treasury Management Policy Statement.