

**TREASURY MANAGEMENT  
INVESTMENT PERFORMANCE  
(Report by the Head of Financial Services)**

**1. INTRODUCTION**

- 1.1. This report comments on the performance of the fund to the end of September 2007. At the beginning of the year the Fund Managers managed £53m of the Council's funds: £21.5m with Investec, and £31.5m with CDCM. After the return of Investec's portfolio in early September the funds were allocated £31.5m with CDCM and £20m managed in-house.
- 1.2. Cabinet will recall that the decision to ask for the return of the Investec fund was to reduce volatility and improve performance in a period where attractive fixed rates were available on time deposits.
- 1.3. Accordingly now that all the investments (in-house and CDCM) are time deposits the management and monitoring is now much simpler and the returns more easily forecast during the course of the year. This report therefore recommends that in future the Cabinet receives the Annual Report in May and a six-monthly update in December.

**2. PERFORMANCE SUMMARY**

- 2.1 Annex A shows investment returns over various periods.

**2.2 CDCM**

Over the quarter to 30 September 2007 CDCM did not achieve the benchmark or the industry average because the majority of their investments were locked in at rates below those prevailing in the quarter, although were higher than the rates current when they were taken out. Whether or not they made the correct judgement on any particular loan can only be assessed when it has matured and this will be monitored and discussed with CDCM.

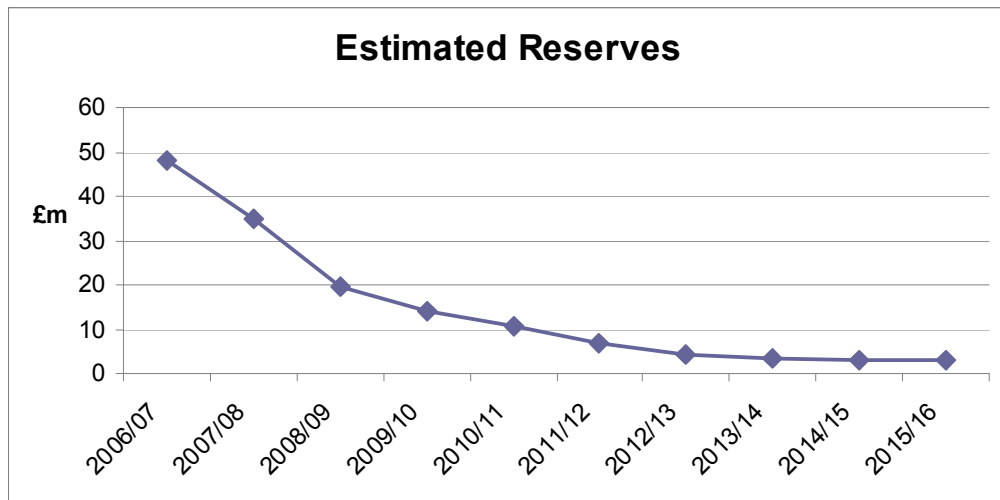
- 2.3 This approach was a reflection of their strategy and their judgement has proved to be correct over the longer term as shown in the final table in the annex.

**2.3 In-house funds**

The in-house portfolio has always comprised of temporary borrowing and short-term investments to manage cash flow but now includes the £20m returned by Investec which is invested in time deposits. These mature between March 2008 and February 2009 at an average rate of 6.26%. These will be compared with a benchmark of 3 month LIBID, which is the same as that used for CDCM funds. As an indication the annualised 3 month benchmark was 5.98% as at 30 September 2007.

### 3. FUTURE USE OF FUNDS

- 3.1 The draft MTP indicates that reserves will be used significantly to fund both revenue and capital expenditure over the next few years as shown in the graph below.



### 4. MARKET OUTLOOK

- 4.1 The bank base rate is 5.75% and has remained at that level since July 2007. Before the credit crisis in August 2007 economists were predicting another increase in the base rate. Now they expect that the rate has reached its peak and some, not all, take the view that the base rate will be 5% in a year's time

### 5. PERFORMANCE AGAINST BUDGET IN 2007/8

- 5.1 The latest forecast outturn is, as in September, that there will be additional interest of £120k on the budget of £2,587k.

### 6. RECOMMENDATIONS

- 6.1 It is recommended that Cabinet:
- Note this report.
  - Receive six-monthly reports in future.

### BACKGROUND PAPERS

Working papers in Financial Services

### CONTACT OFFICER

Steve Couper – Head of Financial Services Tel. 01480 388103

## ANNEX A

<b>PERFORMANCE FOR THE QUARTER JULY 2007 – SEPTEMBER 2007 #</b>					
	<b>Performance %</b>	<b>Benchmark %</b>	<b>Variation from benchmark</b>	<b>Industry average %</b>	<b>Variation from average %</b>
<b>Investec</b>	<b>1.32</b>	1.35*	<b>-0.03</b>	N/A	N/A
<b>CDCM</b>	<b>1.28</b>	1.57**	<b>-0.29</b>	1.55	<b>-0.27</b>

<b>PERFORMANCE FOR THE 6 MONTHS APRIL 2007 – SEPTEMBER 2007 #</b>					
	<b>Performance %</b>	<b>Benchmark %</b>	<b>Variation from benchmark</b>	<b>Industry average %</b>	<b>Variation from average %</b>
<b>Investec</b>	<b>2.24</b>	2.28*	<b>-0.04</b>	N/A	N/A
<b>CDCM</b>	<b>2.56</b>	2.99**	<b>-0.43</b>	2.73	<b>-0.17</b>

<b>CUMULATIVE PERFORMANCE SINCE JULY 2000</b>					
	<b>Performance %</b>	<b>Benchmark %</b>	<b>Variation from benchmark</b>	<b>Industry average %</b>	<b>Variation from average %</b>
<b>Investec</b>	<b>40.03</b>	39.71*	<b>0.32</b>	38.43\$	<b>1.6\$</b>
<b>CDCM</b>	<b>42.72</b>	39.38**	<b>3.34</b>	38.96	<b>3.76</b>

\* Composite of 60% Merrill Lynch 3 month LIBID (London Inter-Bank Bid Rate) and 40% ML 0-5yr Gilt Index.

\*\* 3 month LIBID

# The performance for Investec is to 3 September 2007

\$ Estimated