

Treasury Management

Recommendation:

- (i) That the performance of the Fund Manager and the Devon and Cornwall Investment Fund along with the overall functioning of the Treasury Management Strategy be noted

1 Overall Performance and Budgetary Impact 2007/8

The forecast budget position is a net benefit of £830,000 when compared to the savings of £230,000 reported earlier in the year. The latest forecast represents a significant increase from the previously reported figure of £444,000. A number of factors that were difficult to forecast have affected the level of the return, these are:

- The Devon and Cornwall Investment Fund was introduced in October 2007 – it was difficult to fully quantify the impact of this change in management of the cash holdings
- Market conditions in the final months of 2007 were unusual and the high returns achieved in November and December were not predicted
- A number of items where timing of expenditure was uncertain have had a significant impact on the cash flow model that could not have been foreseen these include; later than expected payment of pay awards, later payment of police staff handbook costs, project slippage, some delay in the PC replacement programme.

The impact of these factors is quantified in the table below.

	£000
Implementation of the Devon Investment Fund and better management of cash holdings to achieve higher investment returns	94
Credit crunch impact – higher returns on daily cash holdings	39
Reduced cost of long term borrowing	5
Cash flow variations	248
Total	386

2. Performance of the Fund Manager

The tables below give the performance for Investec the Authority's cash fund manager. It should be noted that the actual rate of return to 31 December exceeds the benchmark by a small margin. The budget has been set on the basis of a return from short-term deposits of 5.4% and the annual return significantly exceeds the budgeted level.

Period 1 April 2007 to 31 December 2007 % return on investment after fees			
	Benchmark %	Actual %	Difference %
Investec	4.41	4.48	0.07

Annual Forecast 2007/8	
Investec – "central case"	5.93 %

3. Devon and Cornwall Investment Fund

The tables below give the performance for the Devon and Cornwall Investment Fund. The fund has out performed the benchmark over the period 31 December 2007. The performance for the final quarter is forecast to exceed the benchmark by a wider margin as the benchmark rate is expected to decline significantly in the period January to March 2008 but the majority of deposits in the fund were fixed whilst rates were higher. The budget was set on the basis of a return from short-term deposits of 5.4% and the annual return exceeds budgeted level by a significant margin and will lead to budget savings.

Period 3 October 2007 to 31 December 2007 % return on investment after fees			
	Benchmark %	Actual %	Difference %
Devon and Cornwall Investment Fund	1.41	1.48	0.07

Annual Forecast 2007/8	
Devon and Cornwall Investment Fund	5.96 %

The investment decisions for the fund and the current deposits are set out in Annex 1 and Annex 2. The main features of the recent investment strategy are:

- additional short term deposits (approximate length 2 months) were arranged in December to take advantage of the high rates available in the short term money market
- the economic outlook suggests that rates will decline in the medium term, for this reason the fund has been temporarily increased by £5.0m so that new long term deposits (length 25 months) could be arranged. This advance lending anticipates the repayment of deposits held until 3 October 2008.

4. Total Short Term Deposits

The fund valuations as at 31 December 2007 are as follows:

	£000
Investec	19,718
Devon and Cornwall Investment Fund	<u>19,500</u>
Total	39,218

Short term investments held by the Authority's cash managers as at 31 December 2008 totalled £3.1m. In addition to the sterling deposits a holding of 2 million euros is deposited with Investec. This investment is doing extremely well as exchange rate movements have increased its value.

5. Performance of Cash Managers

The average rate of interest earned by Devon County Council on daily cash balances is on target.

6. Borrowing

The original capital programme contained proposed borrowing of £8.284m. On 18 January borrowing of £4.750m was arranged to fund the capital programme. The borrowing was less than programmed because of reduced capital expenditure. Borrowing was timed to take advantage of the remarkably low rate of 4.43%.

7. Conclusion

The revised Treasury Management Strategy is working extremely well. The Treasury Management Strategy is producing useful budget savings that offset spending pressures elsewhere in the budget. However the complexity of world financial markets mean that interest rates have been very volatile over recent months. The investment strategy for the new Devon and Cornwall Investment Fund is based on an interpretation of the economic indicators that suggests a slow down in growth in the domestic and world economies and a fall in interest rates. Close monitoring of market rates and underlying economic data will take place with the aim of maximising the returns over both the short and medium term horizons.

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Devon and Cornwall Police Authority Investment Fund - Investment Decisions

Date	Decision
5 December 2007	High interest rates arising from market conditions. Deposits increased by £3.0m for 2 months to take advantage of rates available
18 December	£2.0m with Newcastle Building Society due to mature 4 January 2008. Market rates forecast to fall 1 January 2008. £2.0m loaned in advance of repayment by Newcastle Building Society leading to temporary increase in Fund of £2.0m
21 January 2008	Concern over rates available when deposits mature on 3 October 2008. Deposits of £4.0m arranged in advance for 25 months to fix rate at 5.15%. In addition £1.0m deposit arranged West Bromwich Building Society to start 1 February 2008 at rate of 5.1%.

Devon Investment Fund Holdings as at 21 January 2008

	Start Date	Maturity Date	Length	Rate (%)	Change in Fund Holdings					Forecast	Forecast
					05-Nov-07	05-Dec-07	18-Dec-07	04-Jan-08	21-Jan-08	01-Feb-08	03-Mar-08
					£000	£000	£000	£000	£000	£000	£000
DEPFA	03/10/2007	05/11/2007	1 mth	6.05%	0	0	0	0	0	0	0
Newcastle Building Society	03/10/2007	04/01/2008	3 mths	6.24%	2000	2000	2000	0	0	0	0
Alliance & Leicester	03/10/2007	03/10/2008	1 year	6.06%	3000	3000	3000	3000	3000	3000	3000
Yorkshire Building Society	03/10/2007	03/10/2008	1 year	6.08%	3000	3000	3000	3000	3000	3000	3000
Bradford & Bingley	03/10/2007	03/10/2008	1 year	6.05%	2000	2000	2000	2000	2000	2000	2000
Coventry Building Society	22/10/2007	01/10/2009	2 years	6.12%	2500	2500	2500	2500	2500	2500	2500
Skipton Building Society	05/11/2007	03/11/2008	1 year	6.12%	2000	2000	2000	2000	2000	2000	2000
West Bromwich Building Soc	05/12/2007	01/02/2008	2 mths	6.70%		3000	3000	3000	3000	0	0
Chelsea Building Society	18/12/2007	03/03/2008	2.5 mths	6.41%			2000	2000	2000	2000	0
Principality Building Society	21/01/2008	01/03/2010	25 mths	5.15%					3000	3000	3000
Chelsea Building Society	21/01/2008	01/03/2010	25 mths	5.15%					1000	1000	1000
West Bromwich Building Soc	01/02/2008	01/03/2010	25 mths	5.10%						1000	1000
Total					14500	17500	19500	17500	21500	19500	17500