

Devon and Cornwall Police Authority Resources Committee  
26 April 2007

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Report of the Treasurer

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## Treasury Management

**Recommendation:**

- (i) That the performance of the fund managers and the functioning of the Treasury Management Strategy be noted
- (ii) That close monitoring of the Strategy continues in 2007/8 and that the Strategy be reviewed in autumn 2007.

### 1 Summary

- Interest receipts overall have exceeded the budget by £609,000 over the financial year. Within this figure income from short-term deposits has exceeded the budget by £597,000 but this is a result of an increase in the funds deposited rather than the rate of return exceeding the forecast percentage return.
- Long term borrowing costs for 2006/7 at £648,000 are £214,000 less than budgeted.

### 2. Performance of the Fund Managers

2.1 There has been an increase in the level of deposits over the year. The budgeted level for deposits for the year was £29.7m. Slippage in the capital programme and an increase in the Authority's specific reserves meant that it was possible to increase the level of deposits in February 2006 and an additional £7.5m was placed with Investec Ltd. In addition the profile of the revenue cashflow for the year provided positive cashflows for the first half of the year and deposits with Investec Ltd were increased by a further £7.5m in June 2006. By March 2007 the effect of negative revenue cashflows in the second half of the year meant that it was necessary to withdraw £6.0m and funds with Investec were reduced by this amount.

2.2 The effect of increased deposits was to increase returns. If the extra funds deposited had earned interest at the budgeted rate of 4.3% then additional interest of £631,000 would have been achieved. The actual performance of the fund managers was, however, such that the average percentage return was below the budgeted rate of 4.3% and the actual income exceeded the budget by only £597,000. Furthermore interest rates have moved up during the year and the budgeted rate has proved to be below the benchmark rate for the year.

- 2.3 There has been a fair amount of uncertainty during the year with regard to interest rates and neither of the fund managers achieved the benchmark rate of return. The performance of Investec Ltd was significantly below the benchmark, in the first quarter of the year they moved out of gilts at a loss and improvements in performance later in the year were not sufficient to lift their overall position significantly. Morley's performance has been steadier throughout the year and they have achieved better returns than Investec Ltd but their performance is also below the benchmark.
- 2.4 In the light of this relatively poor performance it is suggested that close monitoring continues during the first six months of 2007/8 with a view to reviewing the Treasury Management Strategy in autumn 2007.

### **3. Performance of Cash Managers**

- 3.1 The Authority had significant day to day cash balances particularly in the first nine months of the year. These cash balances are managed by Devon County Council and lent out on very short term deposits in accordance with the Treasury Management Strategy. The average return on overnight deposits was 4.76% which was better than the performance of the fund managers.

### **4.0 Borrowing**

- 4.1 The original capital programme contained proposed borrowing of £7.8m for the year to fund the capital programme this was to be drawn down with due regard to interest rates and progress on spending. The authority borrowed £2.0m in July from the Public Works Loans Board at a fixed interest rate of 4.4%. Interest rates for long term borrowing subsequently moved up during the year and this is thought to be a short term increase with rates expected to fall again in the medium term. In addition there was slippage on the capital programme. As a result no further borrowing was undertaken in 2006/7 and the total borrowing at the end of the year was £15.027m.
- 4.2 As borrowing was lower than forecast there has been a £214,000 saving on the budget for interest payment on long term borrowing.

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