

		AGENDA ITEM NO.	
Report Cover Sheet			
Name of Meeting:		Executive	
Date of Meeting:		23 rd July 2007	
Report Title:		Invesco WDC Investment Portfolio – Change in Limits	
Summary of report:		To request approval in change of proportion of portfolio which can be held in negotiable securities.	
For Further Information Please Contact (report author):		Roger Wyton	
Business Unit:		Finance	
Would the recommended decision be contrary to the Policy Framework:		No	
Would the recommended decision be contrary to the Budgetary framework:		No	
Wards of the District directly affected by this decision:		None	
Key Decision?		Yes	
Included within the Forward Plan?		Yes – Item no. 10	
Is the report Private & Confidential		No	
Date and name of meeting when issue was last considered and relevant minute number:		N/A	
Background Papers:			
Correspondence between Invesco, Sector and the Council held on Invesco file			
Consultation Undertaken			
Below is a table of the Council's regular consultees. However not all have to be consulted on every matter and if there was no obligation to consult with a specific consultee they will be marked as n/a.			
Consultees	Yes/ No	Who	
Other Committees	n/a		
Ward Councillors	n/a		
Portfolio Holders	Yes	Councillor Michael Coker	
Other Councillors	n/a		
Warwick District Council recognised Trades Unions	n/a		
Other Warwick District Council Service Areas	n/a		
Project partners	n/a		
Parish/Town Council	n/a		
Highways Authority	n/a		

Residents	n/a	
Citizens Panel	n/a	
Other consultees	n/a	
Officer Approval		
With regard to officer approval all reports must be approved by the report authors relevant director, Finance Services and Legal Services.		
Officer Approval	Date	Name
Relevant Director(s)	26/6/07	Mary Hawkins
Chief Executive		
CMT	28/6/07	
Section 151 Officer	26/6/07	Mary Hawkins
Legal	26/6/07	Simon Best
Finance		None – report from Finance
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1. RECOMMENDATION(S)

- 1.1 To increase the current limit of 50% of the nominal value of the Invesco WDC Investment Portfolio that can be invested in negotiable securities carrying rates of interest for periods of over one year from the date of the investment to 100%.

2. REASON(S) FOR THE RECOMMENDATION(S)

- 2.1 For some time the WDC Investment Portfolio managed by Invesco has been £10 million which is derived from the Reserves and Balances built up by the Council over the years. These, to a large extent, will be utilised in the coming years in providing Council services but presently are available for investment providing a significant amount of investment interest income to support the Council Tax . Following poor performance the Council has taken £5 million back in house and left Invesco to manage £5 million. In order to provide Invesco with a reasonable degree of flexibility to maximise the return from the remaining £5 million and achieve their benchmarks it is recommended to increase the limit on negotiable securities carrying rates of interest for periods of over one year from the date of the investment to 100%.

3. ALTERNATIVE OPTION(S) CONSIDERED

- 3.1 The current limit of 50% could be retained but this would place a constraint upon Invesco's performance unnecessarily.

4. BUDGETARY FRAMEWORK

- 4.1 The maximisation of the Council's investment income whilst maintaining capital security is an important part of the Council's finances and helps to underpin the Council Tax. A 0.25% reduction in the average interest rate earned on the Council's investments would cost the General Fund £75,000.

5. POLICY FRAMEWORK

- 5.1 This decision does not impact directly on any of the Councils policies and does not have any environmental impact.

6. BACKGROUND

- 6.1 For some time now, in the present climate of rising interest rates, Fund Managers in general have been struggling to achieve the returns on their clients investment portfolio stipulated in their mandates. This has been the case with Invesco and the £10 million fund that they manage on our behalf. When compared to the results obtained by other Councils employing external fund managers Invesco's performance has been better than the average over the last three years. However, over the three year period to 31st March 2007, the net (after fees) portfolio has produced a 4.56% rate of return against the stipulated benchmark (Financial Times average 7 day London Inter Bank Bid Rate (compounded)) plus 10% which equates to 5.21%. During 2006/2007, the In House Treasury Management team achieved a return of 4.92%.
- 6.2 Following a review of the portfolio's performance and discussions with Sector, our Treasury Management Advisors, who were of the opinion that there is still value to be obtained by employing external fund managers as part of a balanced approach to investment management it was decided to reduce the portfolio to £5m and take back £5m. This would be managed in house, utilising investment advice provided by Sector. However in order to maintain the portfolio's ability to maximise its return it is recommended to amend the parameters within which the Invesco portfolio operates with regard to the ability to invest in such instruments as UK Government Gilts and Supranational Bonds. The current parameter, which has been in force since the fund was established in December 1993, limits the use of these instruments to a maximum of 50% of the portfolio i.e £5m before the reduction in the portfolio, £2.5m afterwards. In actual fact because the portfolio's investments were spread over a variety of investment instruments, the amount of Gilts or Bonds held at any one time rarely approached the 50% limit .
- 6.3 It is now recommended that the 50% limit be increased to 100% so that in theory all £5m of our portfolio could be invested in Gilts or Bonds at any one time. By increasing this limit on a reduced size fund, the maximum exposure of the fund remains unchanged at £5m. Again this is not very likely as Invesco operate a balanced investment strategy utilising a variety of instruments such as Money Market deposits and Certificates of Deposits as well as Gilts and Bonds. However, it does at least allow Invesco the opportunity to make gains should they see an opportunity in the market without jeopardising the capital security of the portfolio to any significant degree. Sector are in agreement with this change and see no problems with the new limit. They will continue to monitor Invesco's performance on our behalf and will report to us on a quarterly basis on how Invesco have performed, as indeed so will Invesco themselves. We can then review what impact, if any, the increase to 100% has had.