

REPORT TO EXECUTIVE			
PORTFOLIO AREA: FINANCE AND RESOURCES			
Date of Meeting:	18 February 2002		
Public			
Key Decision:	No	Recorded in Forward Plan:	No
Inside Policy Framework			

Title: TREASURY MANAGEMENT REPORTING

Report of: The City Treasurer

Report reference: Financial Memo 2001/02 No 137

Summary:

To provide reports on Treasury Transactions, Treasury Management (2001/02 Interim Report) and the City of Carlisle Investment Fund (2000/01) as required under Financial Regulations.

Recommendations:

That this report be received.

Contact Officer: David Steele

Ext: 7288

CITY OF CARLISLE

To: The Executive Financial Memo

18 February 2002 2001/02 No 137

TREASURY MANAGEMENT REPORTING

1. INTRODUCTION

1. Members will recall that under the previous system of committees, regular reports on Treasury Management issues were normally resented to the F & GP Sub Committee. These arrangements were franked each year as part of the Annual Treasury Policy Statement that is agreed by Council.
2. The Treasury Policy Statement for 2002/03 is considered elsewhere on today's agenda. The purpose of this report is to provide reports on various Treasury Management issues since the new system of governance began on 12 September 2001.

2. TREASURY TRANSACTIONS

1. **Appendix A** to this report sets out the Treasury Transactions schedule for the period 11 August 2001 – 31 December 2001. Future reports will be presented to the Executive on a quarterly basis.

3. TREASURY MANAGEMENT – INTERIM AND FINAL REPORTS

1. **Appendix B** sets out an interim report on Treasury Management issues in 2001/02. A second and fuller report will be presented after the end of the financial year.

4. CITY OF CARLISLE INVESTMENT FUND

1. **Appendix C** sets out a summary of the City of Carlisle Investment Fund performance in 2000/01. This was the first year that the Fund was managed by Dresdner RCM Global Investors who took over the management from Phillips and Drew on 2 May 2000. As previously, a report will be presented after the end of the financial year on the Fund's activity and performance.

5. CONSULTATION

1. Consultation to Date.

None.

2. Consultation proposed.

None.

6. STAFFING/RESOURCES COMMENTS

Not Applicable

7. CITY TREASURER'S COMMENTS

Included within the report

8. LEGAL COMMENTS

Not Applicable

9. CORPORATE COMMENTS

Not Applicable

10. RISK MANAGEMENT ASSESSMENT

Not Applicable

11. EQUALITY ISSUES

Not Applicable

12. ENVIRONMENTAL IMPLICATIONS

Not Applicable

13. CRIME AND DISORDER IMPLICATIONS

Not Applicable

14. RECOMMENDATIONS

14.1 It is recommended that this report be received.

15. REASONS FOR RECOMMENDATIONS

As per the report.

D THOMAS

City Treasurer

Contact: David Steele Ext: 7288

City Treasury

Carlisle

11 February 2002

DKS/EL/f1370102

APPENDIX ATREASURY TRANSACTIONS11 AUGUST TO 31 DECEMBER 20011. LOANSRaised % Repaid % £ £P.W.L.B 4,250,000 $4\frac{1}{2}$ 4,325,000 $4\frac{1}{2}$ - $4\frac{5}{8}$ Local Bonds Nil 1,000 $5\frac{3}{4}$ - $6\frac{3}{4}$

Short Term Loans Nil Nil

 4,250,000 4,326,000

This provides a summary of loans that have been raised or repaid, analysed by type, since the previous report.

2. INVESTMENTSMade Repaid

£ % £ %

Short Term Investments 58,155,000 $2\frac{3}{4}$ - $4\frac{29}{32}$ 53,725,000 $2\frac{3}{4}$ - $6\frac{13}{32}$

Other - -

 58,155,000 53,725,000
3. BOND TRANSACTIONSPeriod: August 2001 to December 2001

Bonds Repaid: £1,000 Balance remaining: £105,400

This section details repayments of market bonds held by the City Council.

Repayments now refer only to the periodic repayments on bonds inherited from the former Border RDC. The last remaining money market bond (£850,000) was repaid on 1 May 2001.

4. CAPITAL BORROWING STATEMENT

£

Loans Fund overdrawn 1 April 2001 (647,000)

Deduct:

New Borrowing Approvals 2001/02 (1,119,000)

Repaid Debt to 31 December 2001 (5,305,000)

(6,424,000)

Add:

Repayments by borrowing accounts 639,000

2001/02

New Loans taken up to 31 December 2001 4,250,000

Loans Fund overdrawn 31 December 2001 £2,182,000

The Capital Borrowing Statement gives an indication of the extent to which the City Council is under or over borrowed in relation to its capital debt. It is Council policy for all capital debt to be funded by external long-term loans. At 31 December 2001 the City Council was under-funded by just under £2.2m.

5. LOANS DUE FOR REPAYMENT

PWLB Local Bonds Total

£ £ £

January 2002 50,000 Nil 50,000

February 2002 Nil Nil Nil

March 2002 Nil Nil Nil

April 2002 75,000 Nil 75,000

May-December 2002 4,325,000 2,000 4,327,000

4,450,000 2,000 4,452,000

Short Term Debt at 31 December 2001 24,400£4,476,400

Shown here is a calendar of future loan repayments which can be a useful aid to cash flow management.

6. REVENUES COLLECTEDTo: 31 December Collected % of AmountCollectable

£ %

2001/02 Council Tax 23,326,245 84.3

NNDR 23,981,919 86.2TOTAL 47,308,164 85.3

2000/01 Council Tax 21,989,789 84.0

NNDR 20,154,919 84.0TOTAL 42,144,708 84.0

1999/2000 Council Tax 20,499,124 83.4

NNDR 17,248,466 84.0

TOTAL 37,747,590 83.7

7. INTEREST RATES

Date PWLB Maturity (Higher quota Rates)

1 Year 10 Years 25 Years

16 August 2001 $5\frac{1}{8}$ $5\frac{3}{8}$ $5\frac{1}{8}$

29 August 2001 $5\frac{1}{8}$ $5\frac{1}{4}$ $5\frac{1}{8}$

11 September 2001 $5\frac{3}{8}$ $5\frac{1}{4}$

25 September 2001 $4\frac{5}{8}$ $5\frac{3}{8}$ $5\frac{3}{8}$

09 October 2001 $4\frac{5}{8}$ $5\frac{1}{8}$ $5\frac{1}{8}$

23 October 2001 $4\frac{1}{2}$ $5\frac{1}{4}$ $5\frac{1}{8}$

05 November 2001 $4\frac{1}{8}$ $4\frac{7}{8}$ $4\frac{3}{4}$

20 November 2001 $4\frac{1}{4}$ $5\frac{1}{8}$ 5

04 December 2001 $4\frac{1}{4}$ 5 5

18 December 2001 $4\frac{5}{8}$ $5\frac{1}{4}$ $5\frac{1}{8}$

The regular changes in PWLB rates are shown here. Since the last report in August 2001, rates have gradually eased, particularly in the one year period following on from the reductions in base rate.

8. BANK BALANCE

At 31 December 2001 £78,101 overdrawn.

This simply records the Council's bank balance at the end of the last day covered by the report. One aim of cash management is to keep the daily bank balance as close to zero as possible though there are days when this is not always very practical. Interest on any overdraft is charged at Base Rate plus 1%. At present no allowance is given when the account is in credit.

City Treasury

Carlisle

11 February 2002

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APPENDIX A1INVESTMENT TRANSACTIONS 11 AUGUST 2001 TO 31 DECEMBER 2001INVESTMENTS MADE £ INVESTMENTS REPAID £

HSBC 2,370,000 HSBC 2,370,000

Yorkshire B Soc 1,000,000 Yorkshire B Soc 1,000,000

Northern Rock 1,000,000 Hinckley & Rugby B Soc 1,000,000

Universal B Soc 500,000 Tipton & Coseley B Soc 500,000

National Counties B Soc 1,000,000 Universal B Soc 500,000

Skipton B Soc 1,000,000 Newcastle B Soc 1,000,000

Coventry B Soc 1,000,000 Stroud & Swindon B Soc 1,000,000

Northern Rock 1,000,000 Northern Rock B Soc 1,000,000

Leeds & Holbeck B Soc 1,000,000 Lambeth B Soc 1,000,000

West Bromwich B Soc 1,000,000 Cumberland B Soc 500,000

Britannia B Soc 1,000,000 Scarborough B Soc 1,000,000

West Bromwich B Soc 1,000,000 Yorkshire B Soc 1,000,000

Derbyshire B Soc 1,000,000 Northern Rock 1,000,000

HSBC 1,850,000 HSBC 1,850,000

Cumberland B Soc 500,000 Hinckley & Rugby 1,000,000

Northern Rock 1,000,000 Loughborough B Soc 500,000

Scarborough B Soc 500,000 Universal B Soc 500,000

Chelsea B Soc 1,500,000 Darlington B Soc 1,000,000

Suffolk County Council 1,100,000 Leek United B Soc 1,000,000

Scarborough B Soc 1,000,000 Progressive B Soc 500,000

Loughborough B Soc 500,000 Universal B Soc 500,000

Universal B Soc 500,000 Darlington B Soc 500,000

Progressive B Soc 500,000 Stroud & Swindon B Soc 1,000,000

Lambeth B Soc 1,000,000 Newbury B Soc 800,000

Britannia B Soc 1,000,000 Skipton B Soc 750,000

Britannia B Soc 1,000,000 West Bromwich B Soc 1,000,000

Britannia B Soc 1,000,000 Leek United B Soc 740,000

Universal B Soc 500,000 Derbyshire B Soc 1,500,000

Newcastle B Soc 500,000 Coventry B Soc 1,200,000

Ulster Bank 1,000,000 Universal B Soc 500,000

National Counties B Soc 1,500,000 National Counties B Soc 1,000,000

Staffordshire B Soc 1,000,000 Skipton B Soc 1,000,000

Skipton B Soc 1,250,000 Coventry B Soc 1,000,000

Northern Rock 1,000,000 Leeds & Holbeck B Soc 1,000,000

HSBC 250,000 Britannia B Soc 1,000,000

Coventry B Soc 1,000,000 West Bromwich B Soc 1,000,000

Universal B Soc 500,000 Derbyshire B Soc 1,000,000

Ipswich B Soc 750,000 Cumberland B Soc 500,000
Lambeth B Soc 500,000 Northern Rock 1,000,000
Kent Reliance B Soc 1,000,000 Chelsea B Soc 1,500,000
Darlington B Soc 500,000 Suffolk County Council 1,100,000
Nottingham B Soc 1,000,000 Scarborough B Soc 1,000,000
Manchester B Soc 500,000 Lambeth B Soc 1,000,000
Vernon B Soc 1,000,000 Britannia B Soc 1,000,000
Hinckley & Rugby B Soc 1,000,000 Britannia B Soc 1,000,000
Coventry B Soc 1,000,000 Britannia B Soc 1,000,000
Leek United B Soc 1,000,000 Ulster Bank 1,000,000
Darlington B Soc 1,000,000 Skipton B Soc 1,250,000
HSBC 1,085,000 HSBC 250,000
Derbyshire B Soc 1,000,000 Coventry B Soc 1,000,000
Nationwide B Soc 1,000,000 Coventry B Soc 1,000,000
Coventry B Soc 1,000,000 Coventry B Soc 1,000,000
Skipton B Soc 1,000,000 Coventry B Soc 1,000,000
Kent Reliance B Soc 1,000,000 Coventry B Soc 1,000,000
Coventry B Soc 1,000,000 HSBC 1,085,000
Coventry B Soc 750,000 HSBC 1,330,000
Newbury B Soc 1,000,000
HSBC 1,330,000
Market Harborough B Soc 500,000
Cumberland B Soc 500,000
Coventry B Soc 1,000,000
Stroud & Swindon B Soc 500,000

HSBC 920,000 _____

58,155,000 53,725,000

City Treasury

Carlisle

11 February 2002

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OUTSTANDING INVESTMENTS AS AT 31ST DECEMBER 2001

DATE	BORROWER	AMOUNT	TERMS	RA
ONGOING	DRESDNER GLOBAL INVESTMENTS	£14,350,000	NO FIXED TERM	4.0000
ONGOING	NAT. SAVINGS INCOME BOND	£200,000	NO FIXED TERM	4.3500
ONGOING	CUMBRIA COUNTY COUNCIL	£187,000	NO FIXED TERM	4.0000
07/06/01	DUNFERMLINE B.SOC	£1,000,000	TO 7 MARCH 2002	5.2300
12/06/01	NORWICH & PETERBOROUGH B.SOC	£1,000,000	TO 11 JUNE 2002	5.4375
15/06/01	LAMBETH B.SOC	£500,000	TO 14 JUNE 2002	5.5100
21/06/01	PROGRESSIVE B.SOC	£500,000	TO 22 APRIL 2002	5.5000
03/07/01	PROGRESSIVE B.SOC	£1,000,000	TO 27 FEBRUARY 2002	5.4500
05/07/01	LOUGHBOROUGH B.SOC	£500,000	TO 4 JANUARY 2002	5.3600
05/07/01	MONMOUTHSHIRE B.SOC	£500,000	TO 4 JANUARY 2002	5.3500
05/07/01	NATIONWIDE B.SOC	£1,000,000	TO 21 MAY 2002	5.4700
27/07/01	MONMOUTHSHIRE B.SOC	£500,000	TO 25 JANUARY 2002	5.2200
30/07/01	TIPTON & COSELEY B.SOC	£400,000	TO 28 JANUARY 2002	5.2200
02/08/01	UNIVERSAL B.SOC	£500,000	TO 4 FEBRUARY 2002	5.1875
06/08/01	MERCANTILE B.SOC	£500,000	TO 6 FEBRUARY 2002	4.96875
04/09/01	NORTHERN ROCK	£1,000,000	TO 14 JANUARY 2002	4.8400
06/09/01	WEST BROMWICH B.SOC	£1,000,000	TO 4 MARCH 2002	4.8750
28/09/01	SCARBOROUGH B.SOC	£500,000	TO 3 JANUARY 2002	4.40625
04/10/01	LOUGHBOROUGH B.SOC	£500,000	TO 4 APRIL 2002	4.4500

05/10/01	UNIVERSAL B.SOC	£500,000	TO 7 JANUARY 2002	4.4000
08/10/01	PROGRESSIVE B.SOC	£500,000	TO 8 APRIL 2002	4.3750
19/10/01	UNIVERSAL B.SOC	£500,000	TO 19 FEBRUARY 2002	4.34375
26/10/01	NEWCASTLE B.SOC	£500,000	TO 25 JANUARY 2002	4.3438
29/10/01	NATIONAL COUNTIES B.SOC	£1,500,000	TO 25 JANUARY 2002	4.2300
31/10/01	STAFFORDSHIRE B.SOC	£1,000,000	TO 3 JANUARY 2002	4.1400
01/11/01	NORTHERN ROCK	£1,000,000	TO 4 FEBRUARY 2002	4.1100
02/11/01	UNIVERSAL B.SOC	£500,000	TO 22 MARCH 2002	4.0625
07/11/01	IPSWICH B.SOC	£750,000	TO 7 MAY 2002	3.9900
12/11/01	LAMBETH B.SOC	£500,000	TO 11 MARCH 2002	3.8125
15/11/01	KENT RELIANCE B.SOC	£1,000,000	TO 15 MAY 2002	3.9200
20/11/01	DARLINGTON B.SOC	£500,000	TO 20 MARCH 2002	3.8800
21/11/01	NOTTINGHAM B.SOC	£1,000,000	TO 21 JUNE 2002	3.9000
22/11/01	MANCHESTER B.SOC	£500,000	TO 22 FEBRUARY 2002	3.8900
26/11/01	VERNON B.SOC	£1,000,000	TO 30 JANUARY 2002	3.8700
27/11/01	HINCKLEY & RUGBY B.SOC	£1,000,000	TO 22 MARCH 2002	3.90625
03/12/01	LEEK UNITED B.SOC	£1,000,000	TO 5 JUNE 2002	4.0000
03/12/01	DARLINGTON B.SOC	£1,000,000	TO 3 JULY 2002	3.96875
04/12/01	DERBYSHIRE B.SOC	£1,000,000	TO 4 MARCH 2002	3.9375
05/12/01	NATIONWIDE B.SOC	£1,000,000	TO 7 JANUARY 2002	3.8800
10/12/01	SKIPTON B.SOC	£1,000,000	TO 18 JANUARY 2002	3.9500
10/12/01	KENT RELIANCE B.SOC	£1,000,000	TO 10 JUNE 2002	4.03125
14/12/01	NEWBURY B.SOC	£1,000,000	TO 22 MARCH 2002	3.9700
18/12/01	MARKET HARBOROUGH B.SOC	£500,000	TO 18 MARCH 2002	3.96875
20/12/01	CUMBERLAND B.SOC	£500,000	TO 20 MARCH 2002	3.9700
20/12/01	COVENTRY B.SOC	£1,000,000	TO 3 JANUARY 2002	3.9375
21/12/01	STROUD & SWINDON B.SOC	£500,000	TO 21 MARCH 2002	3.9300
31/12/01	HSBC	£920,000	OVERNIGHT	3.5625
		-----		---
	TOTAL	£48,307,000		
		=====		==
			WEIGHTED AVERAGE	4.2646
			WEIGHTED AVERAGE (less Dresdner Global Investments)	4.3764

APPENDIX B

TREASURY MANAGEMENT 2001/021. INTRODUCTION

1. The purpose of this report is to provide an interim report on Treasury Management 2001/02 as recommended by the CIPFA code of Practice on Treasury Management. A final and more detailed report will be submitted after the end of the financial year.

2. MONEY MARKET CONDITIONS

1. Bank Base Rate stood at $5\frac{3}{4}$ on 1 April 2001, having remained at 6% for virtually the whole of 2000/01. However that pattern of unusual stability has not been replicated in this financial year. Instead the Monetary Policy Committee (MPC), who are charged with the task of setting interest rates, have made no fewer than six changes, all in a downward direction, to bring the rate down to its present level of 4%.
2. Most commentators at the start of the year anticipated a modest fall in rates and indeed by August these had dropped from $5\frac{3}{4}$ % to 5%. These reductions must be seen in the context of movements in American rates which fell by $1\frac{1}{2}$ % in the same period as the US attempted to stave off the effects of recession. The terrorist attacks in September 11 2001 precipitated a further bout of interest rate cuts, firstly in the USA but followed soon afterward in both Europe and in the UK where for the first time the MPC agreed an emergency change in rates midway through the monthly cycle of meetings.
3. However the last MPC reduction to 4% took place in November 2001. The general sentiment now seems to be that rates will remain relatively stable (both in the UK and abroad) for some months before a gradual rise towards the end of the year. In the UK in particular there is a tension between a boom in consumer spending, which would encourage rates to rise and the slowdown in manufacturing industry which would predicate a fall.
4. The fall in interest rates in 2001/02 has been greater than almost everyone foresaw twelve months ago. This reduction has naturally impacted on the City Council's budget although higher balances and stronger than anticipated cash flow have both combined to indicate that the investment income budget should be attained, both in respect of in house investments and those held in the Investment Fund.

3. LONG TERM FUND

1. The City Council's long term funding requirements in 2001/02 have been

forecast as follows:

£m

Borrowing Approvals 2001/02 1.1

Add Maturing Long Term Debt 1.1

—

Gross Requirement 2.2

Less Principal Repaid (0.6)

Net Requirement £1.6m

2. The above calculation excludes the fact that the City Council was some £0.6m under funded at the start of the financial year i.e. there was a shortfall of loans held compared to capital debt.
3. To date the City Council has not taken up any new loans this year. Although there is an estimated requirement of £1.6m, this is a relatively small percentage of the City Council's long term debt. In addition the prospect of an LSVT and externalisation of Leisuretime suggest that significant new long term commitments should not be entered into until the outcome of these processes is known.
4. However one loan rescheduling exercise was undertaken in October 2001. Four long term Public Works Loans Board (PWLB) loans totalling £4.25m were redeemed yielding a discount of £382,000 and replaced by one PWLB loan of £4.25m which will mature on 31 October 2002. Approx 30% of the discount will accrue to the General Fund and the remaining 70% to the HRA where it will serve to offset other HRA premia that will still remain to be funded post LSVT. Furthermore the fact that the new loan matures in October will provide an opportunity to reduce the City Council's long term borrowings from that date if that is deemed appropriate.
5. Although the City Council still retains its PWLB quota of £1.5m for 2001/02, it is unlikely that any drawdown on that sum will be undertaken this year.

4. SHORT TERM TRANSACTIONS

1. The City Council continues to be a frequent lender in the short term money market, with the total of outstanding investments currently almost £50m. The building society sector is still the favoured depository for period deposits (1

month – 364 days) though banks and other local authorities are also used on occasions. Holding a small balance of overnight funds normally enables closer fine-tuning of the daily bank balance.

5. CONCLUSIONS

1. The most dramatic feature of this financial year to date has been the reduction in short term interest rates to levels not seen for 40 years and where investment in one month money has been as low as $3\frac{3}{4}\%$. Apart from anything else, the scale of the movement indicates how sometimes nearly all the experts can be wrong footed by an unexpected turn of events. It would appear that 2002 could see a fairly stable regime in terms of monetary policy though in view of events in 2001, it may be unwise to make very firm predictions.
2. Perhaps only slightly less significant has been the effective decision not to take up any long term borrowing in 2001/02 and indeed to start planning for a lower level of long term commitments. This trend may well continue in 2002/03.

City Treasury

Carlisle

11 February 2002

DKS/EL/f1370102

APPENDIX C

CITY OF CARLISLE INVESTMENT FUND 2000/011. INTRODUCTION

1. The City of Carlisle Investment Fund (the Fund) has been in existence since 1986. It provides for the external investment and management of certain accumulated balances, particularly those of a capital nature. As Members will be all too well aware, local authorities have long been restricted in the extent to which these accumulated balances can be released to fund new capital spending, notwithstanding the implementation of the Capital Receipts Initiatives. Whilst this has increased local authority capital spending, it has done so via the Supplementary Credit Approval mechanism rather than through release of the receipts themselves.
2. For much of the past decade, the greater proportion of the City Council's capital receipts has been reserved and may only be used for a limited range of purposes, the principal one being the repayment of outstanding debt. Even though new General Fund receipts are now generally 100% usable, HRA receipts are still subject to the set aside rules that have been in operation since 1990. The object of the Fund is to help secure the best possible return on this 'cash mountain' of reserved receipts commensurate with security of capital until such time as it is deemed prudent to repay outstanding debt or alternatively local authorities are permitted to spend these receipts directly. It is thought that upwards of 100 of such Funds are now in existence. This authority's Fund was managed from its inception until May 2000 by Phillips and Drew. Since then it has been managed by Dresdner RCM Global Investors.
3. A full report on the progress and performance of the fund was last presented in August 2000 (FM 2000/01 No 64). The purpose of this report is to give an update on activity and performance within the Fund since that time. At the time of transfer in May 2000, the Fund stood at £13,000,000 and by March 2001 this had increased to £13,802,240.

2. MANAGEMENT OF THE FUND

2.1 A report is received at the end of each month from the Fund Manager detailing transactions, interest received etc. during that period, together with a general resume of economic conditions, viewed particularly from the viewpoint of investment strategy. This compares incidentally with the quarterly reports received from Phillips and Drew. The report also calculates the return on the Fund during the period, comparing this with the return on Local Authority Seven Day Deposits in the same period, this rate being the benchmark for the Fund's performance.

2.2 Capital Income Total Total 7 Day

Return Return (Gross) (Net) Cash

% % % % %

May-June 2000 0.00 1.00 1.00 1.00 0.98

July-Sept 2000 0.03 1.60 1.63 1.61 1.52

Oct-Dec 2000 0.09 1.67 1.76 1.72 1.46

Jan-Mar 2001 0.09 1.56 1.65 1.60 1.37

Total 0.21 5.96 6.18 6.06 5.44

2.3 It should be observed that due to the effect of compounding, the annual totals above may slightly exceed the total for each quarter. Nevertheless it will be noted that the net return of 6.06% comfortably exceeded the 7 Day Cash benchmark by 0.62% i.e. an out performance of over 11%.

2.4 The reporting mechanism is supplemented by regular meetings between myself and the Fund Manager. These meetings offer the opportunity to discuss the past performance and future prospects of the Fund. In particular they enable me to raise any areas of concern and to discuss the economic background against which the Fund is managed and investment strategies are determined.

3. PERFORMANCE OF THE FUND

1. In one sense the appointment of a new manager for the Fund after 14 years indicates the start of a new era. Yet in a deeper sense, the change was far less significant. The investment philosophy of the Fund has always been

based on generally conservative principles with investments confined to gilt edged stocks cash and short term deposits in banks and other financial institutions with very high credit ratings. The desire to continue this philosophy was an important factor in the choice of Dresdner to replace the under performing Phillips and Drew as Fund Manager.

2. In important ways therefore, the Fund management has not changed in the past year. Although forays have been made into the gilt market, these have not constituted more than some 15% of the total Fund and quite often gilts have been eschewed altogether.
3. It must be recognised that successful exposure to the gilt market is normally the only realistic way that a Fund can substantially out perform the 7 Day Cash benchmark. The last financial year was a good one for gilts with an aggregate yield of some 8.3% compared to a 7 Day Cash performance of 5.8%. Yet due to the possibility of incurring a capital loss, gilts are also inherently risky as was demonstrated the previous year. In 1999/2000, the gilt index showed a return of only 2.6%, well below even the cash benchmark of 5.2%.
4. Comparatively, Dresdner's performance in 2000/01 was very satisfactory. Because the Fund only transferred in May 2000, a full annual comparison with previous years is not possible. However Dresdner have a large exposure to the local authority fund management market. The overall performance of all their Funds was 6.65% i.e. above the mean of 6.54% and close to the upper quartile of 6.70%. In addition on a risk management index, their performance was situated within the lowest quartile, this indicated in short an above average return for a below average risk.

4. PHILLIPS AND DREW

4.1 For the sake of completeness, it should be noted that for the month of April 2000, the Fund was still managed by Phillips and Drew. The Fund was being wound down prior to transfer in that period but they achieved a return of 0.51% in that month which at least enabled their stewardship to end on a satisfactory note.

5. CONCLUSION

1. Dresdner made a promising start in 2000/01 to their period as managers of the Fund. Investment performance is never guaranteed and past achievement can never be a certain guide to future results. However the level of out performance of the cash benchmark in 2000/01 was sufficient to be regarded as a very positive outcome and in that respect was the best result since 1994/95.

5.2 A report on performance in 2001/02 will be submitted during the summer of 2002.

City Treasury, Carlisle

11 February 2002 DKS/EL/f1370102