

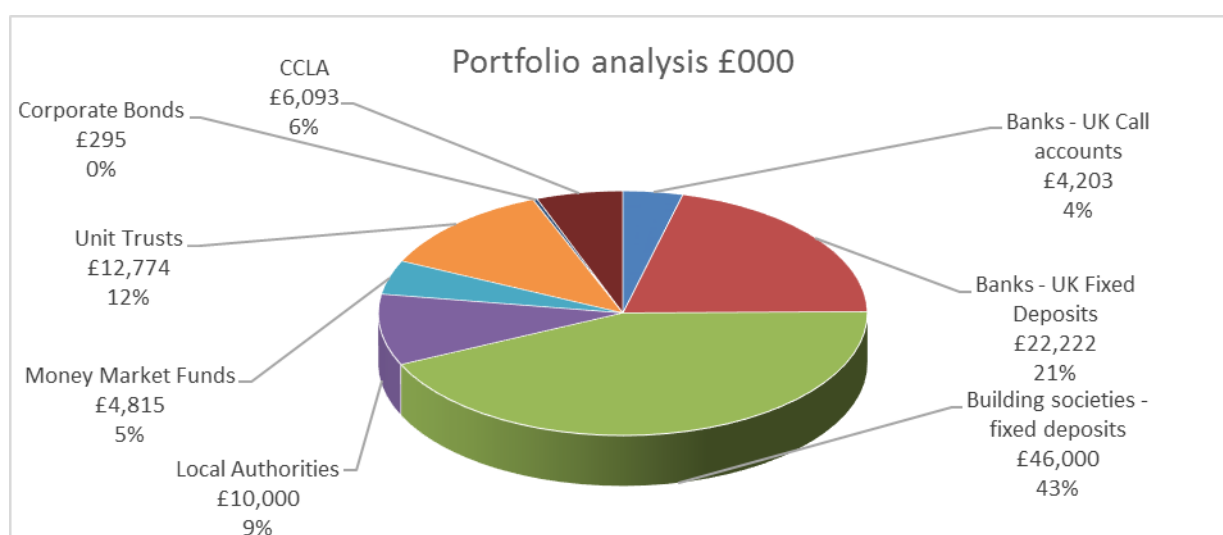
## SODC treasury activities in 2015/16

### Council treasury investments as at 31 March 2016

- The council's treasury investments, analysed by age as at 31 March 2016 were as follows:

<b>Table 1: maturity structure of investments at 31 March 2016:</b>		
	<b>£000</b>	<b>% holding</b>
Call	4,203	4%
Money market fund	4,815	5%
<b>Cash available within 1 week</b>	<b>9,018</b>	<b>9%</b>
Up to 4 months	37,500	35%
5-6 months	6,000	6%
6 months to 1 year	18,500	17%
Over 1 year	16,000	15%
Kaupthing Singer & Friedlander	222	0%
<b>Total cash deposits</b>	<b>87,240</b>	<b>82%</b>
CCLA Property Fund	6,093	6%
Equities (Unit trusts)	12,774	12%
Corporate Bonds	295	0%
<b>Total investments</b>	<b>106,402</b>	<b>100%</b>

- The majority of the funds invested are held in the form of fixed interest rate and term cash deposits. These provide some certainty over the investment return.
- The investment profile is organised in order to ensure sufficient liquidity for revenue and capital activities, security of investments and to manage risks within all treasury management activities.
- The chart below shows in percentage terms how the portfolio above is spread across the investment types:



### Treasury investment income

5. The total income earned on investments during 2015/16 was £1.9 million, compared to the original budget of £1.5 million, as shown in table 2 below:

<b>Table 2: Investment income earned by investment type</b>			
<b>Investment type</b>	<b>Interest earned</b>		
	<b>Annual Budget</b>	<b>Actual</b>	<b>Variation</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Call accounts	75	34	(41)
Cash deposits < 1yr	404	590	186
Cash deposits > 1yr	264	333	69
MMF	37	48	11
Corporate Bonds	75	65	(10)
Equities	360	456	96
CCLA property fund	250	300	50
	1,465	1,826	361

6. The actual return achieved was £361,000 or 24.6 per cent higher than the original budget. This was due to:
- The call accounts earned less interest than forecast because of rates reducing on our accounts.
  - Interest earned on cash deposits was £255,000 higher than forecast due to an increase in interest rates achieved during the first part of the financial year.
  - Dividend received on equities was £96,000 higher than forecast due to the overall increase in the value during the year. As our capital investment increases, the dividend earned goes up.
  - Dividend earned on CCLA was £50,000 higher due to fluctuations in the price of units held. As our capital investment increases, the dividend earned goes up.

7. The actual average rate of return on treasury investments for the year was 1.55 per cent.

### Performance measurement

8. A list of treasury investments as at 31 March 2016 is shown in **appendix E**. All investments were with approved counterparties. The average level of investments held was £117 million. Table 3 below shows in summary the performance of the council's treasury investments against the benchmarks set out in the TMS. These benchmarks are used to assess and monitor the council's treasury investment performance for each type of investment.

Table 3: Treasury investment returns achieved against benchmark				
	Benchmark Return	Actual Return	Growth (Below)/above Benchmark	Benchmarks
Bank & Building Society deposits - internally managed	0.46%	1.06%	0.60%	3 Month LIBID
Equities	(7.33%)	(7.79%)	(0.46%)	FTSE All Shares Index
Property related investments	11.00%	11.30%	0.30%	IPD balanced property unit trust index
Corporate Bonds	0.50%	11.50%	11.00%	BoE base rate

\*source CCLA Local Authorities Property Fund Report March 2016

Note: the benchmark return for unit trusts and CCLA includes the movement in capital value. All other benchmarks reflect earnings of treasury investment income.

9. Returns on Bank and building society deposits (Call accounts, money market funds and fixed term deposits) are benchmarked against the three-month LIBID rate, which was an average of 0.46 per cent for 2015/16. The performance for the year of 1.06 per cent exceeded the benchmark by 0.60 per cent.
10. It remained difficult to place investments because of continued financial uncertainty. Some good rates were achieved which contributed to the increase in investment income during the year.
11. The CCLA property fund principal investment of £5 million (March 2013) increased in value during 2015/16 to £6.5 million. Dividends were received in the year totalling £300,000. Both the capital appreciation and the interest earned are included in the performance of 11.3% achieved above. The capital gain is however not realised and so for comparison purposes, the actual rate of return is interest as a factor of market value of holding being 4.6 per cent.

### Equities

12. The council's holdings with the Legal & General (L&G) UK 100 Index Trust were purchased in 2000/01 at an initial cost of £10 million. This is an authorised unit trust incorporated in the United Kingdom and regulated by the FSA. The trust's objective is to track the capital performance of the UK equity market as represented by the FTSE 100 index which represents 98-99 per cent of the UK market capitalisation

## Appendix C

13. The index shows the performance of all eligible companies listed on the London Stock Exchange main market and today covers 630 constituents with a combined value of nearly £1.8 trillion. It is recognised as the main benchmark for unit trusts.
14. Table 4 below shows the movement in capital value during the year of the holding of unit trusts as at 31 March 2015 so the decrease in value of this holding only, can be compared to the movement in the stock market as a whole for the year to 31 March 2016.

<b>Table 4: Unit Trusts - Movement in capital</b>		
	£	£
Market Value as at 31.3.16		12,774,260
Less:		
Dividends received in year	275,761	
Accrued dividends	180,000	
		(455,761)
Market value of Unit trusts which were held at 1.4.15 as at 31.3.16		12,318,499
Market value as at 1.4.15		13,359,340
Decrease in Market Value in year		(1,040,841)

15. The decrease above is compared to the performance of the stock market as a whole using the benchmarking in table 5 below. The funds underperformance of 0.46 per cent equates to £61,601 in real terms.

<b>Table 5: Unit Trust performance 1.4.15 - 31.3.16</b>	
Decrease in FTSE all share was	(7.33%)
Decrease in Market Value	(7.79%)
Under-performance	(0.46%)
	£
Market Value 1.4.15	13,359,340
Less 7.33% FTSE decrease	(979,240)
Benchmark Market Value at 31.3.16	12,380,100
Market Value (amended at 31.3.16)	12,318,499
<b>Under performance 1.4.15 to 31.3.16</b>	<b>(61,601)</b>

16. The performance of the fund over the past few years is summarised in table 5.1 below.

<b>Table 5.1 Unit Trust past performance</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
--	----------------	----------------	----------------

## Appendix C

Performance against FTSE all share % (Under)/Over	(0.92%)	(0.22%)	0.49%
Performance against FTSE all share £0 (Under)/Over	(122,746)	(30,492)	61,163

The justification for holding this investment is regularly reviewed.

17. Dividends received of £0.46 million were reinvested to acquire additional fund units.

### Corporate Bonds

18. The Council's corporate bonds are also accounted for in the financial statements at fair value. The opening carrying value for 1 April 2015 was £1.9 million. The closing carrying value at 31 March 2016 was £0.3 million as the RBS corporate bond matured and was disposed of during the year. The carrying values and market values for the corporate bonds are shown in table 6 below:

Table 6: Corporate bond values					
	Original cost	Nominal Value	Carrying Value as at 1.4.15	Carrying Value as at 1.4.16	Market value at 1.4.16
Bonds	£000	£000	£000	£000	£000
Santander 11.50%	422	270	299	287	287
RBS 9.625%	1,973	1,500	1,549	0	0
	2,395	1,770	1,848	287	287

19. The weighted average return on the Council's corporate bonds for 2015/16 was 11.50 per cent, this significantly exceeded the benchmark return of 0.5 per cent (Bank of England base rate).

20. The remaining corporate bond matures in 2017. Annual interest earned remains the same for the whole period a bond is held. Table 7 below shows the redemption yield of the bonds if held until the redemption date.

Table 7: corporate bond redemption yields if held to maturity								
Bank	Interest rate %	Original cost £000	Nominal value £000	Interest to date £000	Interest due £000	Redemption value £000	Redemption date	Redemption yield
Santander	11.50%	422	270	334	93	697	04/01/2017	5.59%

### Icelandic bank default – Kaupthing Singer & Friedlander

21. The Council invested £2.5 million in July 2007 with the failed Icelandic bank Kaupthing Singer and Friedlander Ltd (KSF). The Council has received

## Appendix C

£2,203,691 to date in respect of the claim for £2.6 million (£2.5 million investment plus interest).

22. As a wholesale depositor, the Council is treated as an unsecured creditor in the administration process and ranks equally with all other unsecured creditors. The administrators intend to make further payments at regular intervals. The latest creditors' report now indicates that the estimated total amount to be recovered should be in the range of 84p to 86.5p in the pound. In total terms, this would mean receiving between £2,209,901 and £2,275,671.

### Non-treasury investment loan

23. During 2013/14, the council entered into a secured loan agreement with SOHA to enable them to finance affordable housing schemes. The Council lent £15 million over 20 years at a fixed rate of 4.15%. Interest is paid quarterly and during 2015/16, the council received £624,205.

### Land and property

24. The Council holds a portfolio of investment properties, which includes land, depots, garages, and shops that are let on a commercial basis. These assets had a net book value of £8.95 million at 31 March 2016 (£9.88 million at 31 March 2015) and generated income of £0.77 million in 2015/16 (£0.75 million in 2014/15) giving a gross rate of return of 8.65 per cent.
25. Due to movement in property values and the exclusion of whole life costs, these rates of return should not be taken as a direct comparison with the treasury rates.
26. The Economy, Leisure and Property (ELP) team manages investment property, ensuring that rent is collected and rent reviews are implemented. The performance of the investment property is assessed annually by ELP to determine if assets should be retained or disposed of and agree any actions to improve or enhance the value of the investment property holdings.

### Liquidity and yield

27. The council uses short-term investments to meet daily cash-flow requirements and aims to invest a proportion of the portfolio over longer dated cash deposits where possible.
28. The amount maintained for liquidity was £9 million, which is lower than the benchmark. The benchmark is to be reviewed as it may be set too high. Good rates were achieved on short dated investments and funds were placed on the market, rather than on call to increase yield.
29. The actual for the weighted average life of 307 days was within the range set of 0.5 years to 3 years but above the benchmark level of 182.5 days. The reason that the actual was above the benchmark is that during the year the council lent out some longer term investments to spread the investment portfolio and access better returns – like many others, the council is struggling to achieve suitable investment returns in the short to medium term investment market.
30. The year-end position against the original benchmarks approved in February 2015 is shown below:

## Appendix C

<b>Table 9: Risk-liquidity against benchmark</b>		
	<b>2015/16 Benchmark £m</b>	<b>2015/16 Actual £m</b>
Bank overdraft*	0	0
Short term deposits - minimum available within 1 week	10	9
	<b>2015/16 Benchmark</b>	<b>2015/16 Actual</b>
Weighted average life (days)	182.5	307.0

\*Since 1 April 2014, following the re-tender process for the bank contract, the council no longer has an agreed overdraft facility.