Cabinet

Report of Head of Finance/Principal Accountant (Capita)

Author: William Jacobs/Rhona Bellis (Capita)

Telephone: 01235 422480/01235 422497

Textphone: 18001 01235 422480/18001 01235 422497

E-mail: William.jacobs@southandvale.gov.uk

rhona.bellis@southandvale.gov.uk

SODC cabinet member responsible: Councillor Jane Murphy

Telephone: **07970 932054**

E-mail: jane.murphy@southoxon.gov.uk

VWHDC cabinet member responsible: Councillor Robert Sharp

Telephone: **01367 710549**

E-mail: robert.sharp@whitehorsedc.gov.uk

To: Joint Audit and Governance Committee, Cabinet and Council

DATE: 25 September 2017 by Joint Audit and Governance Committee

5 Oct 17(S) / 6 Oct 17 (V) by Cabinet

12 Oct 17 (S) / 11 Oct 17 (V) by Council

Treasury Outturn 2016-17

That Joint Audit and Governance Committee:

1. notes the treasury management outturn report 2016/17,
2. is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy, and
3. make any comments and recommendations to Cabinets as necessary.

That Cabinet:

Considers any comments from Joint Audit and Governance Committee and recommends Council to:

1. approve the treasury management outturn report for 2016/17;
2. approve the actual 2016/17 prudential indicators within the report.

Purpose of report

1. This report fulfils the legislative requirements to ensure the adequate monitoring and reporting of the treasury management activities and that the councils' prudential indicators are reported to the councils at the end of the year. The report provides details of the treasury activities for the financial year 2016/17.

2. This complies with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA's) Code of Practice on Treasury Management (revised) 2009.

Strategic objectives

3. Effective treasury management is required to help the councils meet their strategic objectives.

Background

4. The councils' treasury activities are strictly regulated by legislation. The CIPFA Prudential Code and CIPFA Treasury Management Code of Practice require a report to be provided to the councils at the end of the financial year.

5. This report provides details on the treasury activity and performance for 2016/17 against prudential indicators and benchmarks set for the year in the 2016/17 Treasury Management Strategy (TMS), approved by each council in February 2016. Each council is required to approve this report.

6. Capita Asset Services are the councils' retained treasury advisors.

7. On 1 August 2016, the operational treasury management staff were outsourced to Capita. The executive decision making function remains with the head of finance.

8. There are three types of investment, the performance of which is covered in this report

    a. True Treasury investments – these investments are primarily for generating interest for the councils. Examples of these are loans to banks or other local authorities. It also includes investments in property funds.

    b. Non-treasury loans – these are loans to third parties, which earn a return, but they do not fall under the strict definition of a treasury investment.

    c. Property investments - both councils have investment properties let on commercial bases. The primary purpose of holding these assets is for investment purposes and they are not part of regeneration schemes.

9. The councils continue to invest with regard for security, liquidity and yield, in that order.

Economic conditions and factors effecting investment returns during 2016/17

10. UK bank base rates were cut to 0.25 per cent in August 2016, having been at an historic low of 0.5 per cent since 2009. Capita Asset Services provide a regular forecast of interest rates and the latest forecast is reproduced in **appendix A**. This forecast shows that base rates are expected to continue at low levels for the near future. There are a number of reasons for this assumption, including subdued domestic inflationary pressure, in particular wage growth and uncertainty over the final terms of Brexit.

11. The TMS makes clear that investment priority is given to the security of principal in the first instance. As a result, investments have only been made with counterparties of high credit quality and low risk. Since the global banking crisis and the downgrading of the credit ratings of many banks, it has become increasingly difficult to place money, as institutions with high credit ratings have been offering lower rates.

12. Average treasury investment balances were higher for both councils than expected in the year. This arose from a combination of accumulated revenue and capital surpluses/slippage and unbudgeted grant receipts. More cash to invest has been a factor in the surplus of treasury investment income over budget in the year. This was also the case in 2015/16.

13. Investments that have helped to keep yields up for both councils include longer term investments taken out when rates were higher, such as the CCLA property fund at both councils, and the unit trusts at South.

14. Outlook for 2017/18 – as discussed above, interest rates are expected to remain low for the near future. In order to reduce risk, efforts are being made to rebalance the treasury portfolio to reduce the value held by building societies. Other counterparties considered are other councils, housing associations and treasury bills.

Summary of investment activities during 2016/17

15. Prudential limits (security). Both councils are required by the Prudential Code to report on the limits set each year in the TMS. The purpose of these limits is to ensure that the activity of the treasury function remains within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in interest rates. However, if these limits are set to be too restrictive they may impair the opportunities to reduce costs/improve performance. These limits are shown in **appendix B**.

16. During December 2016, due to high balances being held at Vale, a fixed term investment for £2 million was placed with Principality Building Society. Although this was the best course of action in the circumstances the investment inadvertently breached the prudential indicator limit for fixed term deposits set at £40 million. In January 2017 the Head of Finance retrospectively approved an increase in the Vale prudential fixed interest rate limit as per the Treasury Management Strategy to £43 million from December until the end of March 2017 under delegated powers

17. South counterparty limits were breached during September 2016. The council invested £2 million with Newcastle Building Society on 1 September 2016. This investment took the council £0.5 million over the agreed limit of £12 million. A temporary authorisation was sought and obtained from the Section 151 officer. The breach was corrected in April 2017 when £1 million matured, bringing the council back within its agreed limits.

18. The benchmark for liquidity is the Weighted Average Life (WAL) of treasury investments in days, which sets an indicator for how long investments should be made. Both councils were well within the acceptable ranges for WAL as set out in the TMS for 2016/17. The benchmarks for liquidity are set to ensure that sufficient funds can be accessed at short notice. These are set as targets and not definitive limits.

19. Yield - the performance of the two councils is summarised in the tables below.

	South	Treasury investments £000	Non treasury loan £000	Sub Total £000	Property investment £000	Overall total £000
1	Average investment balance	124,883	15,000	139,883	5,075	144,958
2	Budgeted investment income	1,574	623	2,197		
3	Actual investment income	1,867	623	2,490	307	2,797
4	surplus/(deficit) (3) - (2)	293	0	293		
5	Rate of return (3) ÷ (1)	1.49%	4.15%	1.78%	6.05%	1.93%

	Vale	Treasury investments £000	Property investment £000	Overall total £000
1	Average investment balance	51,603	8,455	60,058
2	Budgeted investment income	411		
3	Actual investment income	582	482	1,064
4	surplus/(deficit) (3) - (2)	171		
5	Rate of return (3) ÷ (1)	1.13%	5.70%	1.77%

20. With the exception of unit trusts, both councils have exceeded their treasury budgeted investment income this year in terms of both actual income against budget and rates of return against benchmark. As benchmarks are quite detailed, they are not included above, but are included in the appendices that follow this report. The performance of the unit trusts are within five per cent of the benchmark.

21. Capita manages the councils' treasury investments and cash flow on a daily basis. Arcadis looks after the councils' short to medium term property investments.

22. Detailed reports on the treasury activities for each council and performance for 2016/17 against prudential indicators and benchmarks set for the year in the 2016/17 are contained in **appendix C** – South Oxfordshire DC and **appendix D** – Vale of White Horse DC.

23. A detailed list of both councils' treasury investments as at 31 March 2017 is shown at **appendix E**.

Debt activity during 2016/17

24. During 2016/17, there has not been a need for either council to borrow and both councils continue to take a prudent approach to their debt strategy. The prudential indicators and limits set out in **appendix B** provide the scope and flexibility for the Council to borrow in the short-term if such a need arose for cash flow purposes to support the council(s) in the achievement of their service objectives.

Financial implications

25. The treasury investments made in 2016/17 ensured that both councils exceeded their budgeted targets for treasury investment income. Income earned from investments supports the councils' medium term financial plans and contributes to the councils' balances, or supports the in-year expenditure programmes.

26. Looking forward income is anticipated to remain stable with any increase due to ongoing surplus cash balances and rises in market rates offset by a general reduction in the balances available to invest. This will be reflected in the councils' 2018/19 budgets and medium term financial plans.

Legal implications

27. There are no significant legal implications. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the DCLG Local Government Investment Guidance provides assurance that the councils' investments are, and will continue to be, within their legal powers.

Conclusion

28. Despite a difficult operating environment, both councils continued to make investments during 2016/17 that maintained security and liquidity whilst providing a return that exceeded market benchmarks.

Background papers

- Chartered Institute of Public Finance and Accounting (CIPFA) code of practice for treasury management in the public sector.
- DCLG Local Government Investment Guidance
- CIPFA treasury management in the public services code of practice and cross sectoral guidance notes
- Treasury Management Strategy 2016/17 – Councils in February 2016.

Appendices

A. Interest rate forecasts
B. Prudential limits
C. SODC – Treasury activities 2016-2017
D. VWHDC – Treasury activities 2016-2017
E. Treasury investments as at 31 March 2017
F. Glossary of terms