

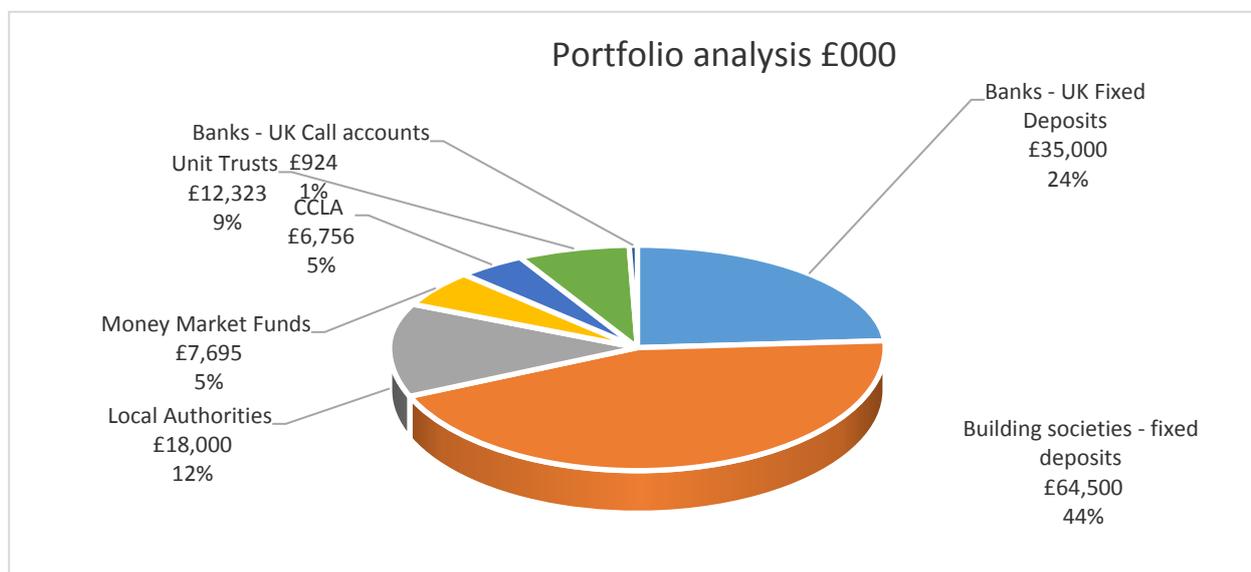
SODC treasury activities in 2018/19

Council treasury investments as at 31 March 2019

1. The council's treasury investments, analysed by age as at 31 March 2019 were as follows:

Table 1: maturity structure of investments at 31 March 2019:		
	£000	% holding
Call	924	1%
Money market fund	7,695	5%
Cash available within 1 week	8,619	6%
Up to 4 months	61,500	42%
5-6 months	9,000	6%
6 months to 1 year	40,000	28%
Over 1 year	7,000	5%
Kaupthing Singer & Friedlander	222	0%
Total cash deposits	126,342	86%
CCLA Property Fund	6,756	5%
Equities	12,323	8%
Total investments	145,420	100%

2. Most 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.
3. 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.
4. 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 2018/19 was £2 million, compared to the original budget of £2.3 million, as shown in table 2 below:

Table 2: Investment interest earned by investment type			
Investment type	Annual Budget £000	Actual Interest £000	Variation £000
Fixed term and call	1,568	1,366	(202)
Equities	456	358	(98)
CCLA property fund	294	293	(0)
	2,317	2,018	(299)

6. The actual return achieved was £0.3 million less than the original budget. This was due to:

- Interest earned on cash deposits was £0.2 million lower than forecast principally due to interest rates not increasing as expected in the 2018/19 budget setting. The average rate received during 2018/19 was 1.73 per cent and the budget was set at a rate of 2.10 per cent.
- Dividend received on equities was £98,000 lower than forecast. This is partly due to a prior year correction.

7. The actual average rate of return on treasury investments for the year was 1.33 per cent (1.44 in 2017/18).

Performance measurement

8. A list of treasury investments as at 31 March 2019 is shown in **appendix E**. All investments were with approved counterparties. The average level of investments held was £151 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.

9. The £151 million does not represent the council's usable, cash backed reserves, which at 31 March 2019 totalled £114 million. The difference represents the council's working capital balance and capital grants received in advance of spend.

Table 3: Treasury investment returns achieved against benchmark				
	Benchmark Return	Actual Return	Growth (Below)/above Benchmark	Benchmarks
Bank & Building Society deposits - internally managed	0.71%	1.33%	0.62%	3 Month LIBID
Equities	2.16%	2.76%	0.60%	FTSE All Shares Index
Property related investments (excluding SOHA loan)*	3.59%	4.54%	0.95%	IPD balanced property unit trust index

Appendix C

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

10. 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 0.71 per cent for 2018/19. The performance for the year of 1.33 per cent exceeded the benchmark by 0.62 per cent.
11. 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.
12. The CCLA property fund principal investment of £5 million (March 2013) increased in value during 2018/19 to £6.8 million. Dividends received in the year totalled £0.3 million. Both the capital appreciation and the interest earned are included in the performance of 4.54 per cent 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 3.59 per cent.
13. The performance of 4.54 per cent for CCLA includes accruals and therefore creates a marginal difference between councils on the calculated return achieved.

Equities

14. 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.
15. The index shows the performance of all eligible companies listed on the London Stock Exchange main market and today covers 635 constituents with a combined value of nearly £2.3 trillion. It is recognised as the main benchmark for unit trusts.

Table 4: Unit Trusts - Movement in capital		
	£	£
Market Value as at 31.3.19		12,322,880
Less:		
Dividends received in year	281,338	
Accrued dividends	77,000	
		(358,338)
Amended market value as at 31.3.19		11,964,542
Market value as at 1.4.18		11,642,721
Increase in Market Value in year		321,821

Appendix C

16. The increase above is compared to the performance of the stock market as a whole using the benchmarking in table 5 below. The fund's over performance of 0.60 per cent compared with the stock market equates to £70,350 in real terms.

Table 5: Unit Trust performance	
Increase in FTSE all share was	2.16%
Increase in Market Value	2.76%
Over-performance	0.60%
Market value as at 1.4.18	£ 11,642,721
Adjusted for FTSE change	251,471
Benchmark Market Value at 31.3.19	11,894,191
Amended market value as at 31.3.19	11,964,542
Over performance	70,350

17. The performance of the fund over the past three years is summarised in table 5.1 below. The justification for holding this investment is regularly reviewed.

Table 5.1 Unit Trust past performance	2016/17	2017/18	2018/19
Performance against FTSE all share % (Under)/Over	(0.76%)	0.71%	0.60%
Performance against FTSE all share £000 (Under)/Over	(96,679)	95,067	70,350

18. Dividends received of £0.3 million were reinvested to acquire additional fund units.

19. Officers monitor the performance of the unit trust holding on a regular basis. When the market value reaches £14 million, a disposal of £2 million is made. No disposal took place during 2018/19.

Icelandic bank default – Kaupthing Singer & Friedlander

20. The Council invested £2.5 million in July 2007 with the failed Icelandic bank Kaupthing Singer and Friedlander Ltd (KSF). The Council has received £2,256,317 to date in respect of the claim for £2.6 million (£2.5 million investment plus interest).

21. 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 86.25p to 87p in the pound. In total terms, this would mean receiving between £2,269,094 and £2,288,826.

Non-treasury investment loan

22. 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 per cent. Interest is paid quarterly and during 2018/19, the council received £0.6 million.

Land and property

23. 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 average net book value of £6.46 million during 2018/19 (£5.08 million at 31 March 2018) and generated income of £0.32 million in 2018/19 (£0.40 million in 2017/18) giving a gross rate of return of 4.92 per cent.

24. 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.

Liquidity and yield

25. 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.

26. The amount maintained for liquidity was £8.6 million.