


Record of Cabinet member decision

Local Government Act 2000 and the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

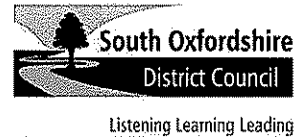
Decision made by	Councillor Mathew Barber
Key decision?	No
Date of decision (same as date form signed)	30 September 2015
Name and job title of officer requesting the decision	Bob Watson Accountancy manager (technical)
Officer contact details	Tel: 01235 540426 or Internal 7426 Email: bob.watson@southandvale.gov.uk
Decision	To: note and agree the attached Treasury Outturn report before it is presented to council on 14 October 2015
Reasons for decision	Information report – one of three annual treasury reports that should be reported to council. The attached report has been agreed by JAGC with no amendments or recommendations. The attached report is due to be presented to council on 14 October 2015.
Alternative options rejected	None – information report
Legal implications	As per attachment
Financial implications	As per attachment
Other implications	As per attachment
Background papers considered	As per attachment
Declarations/conflict of	

interest? Declaration of other councillor/officer consulted by the Cabinet member?				
List consultees		Name	Outcome	Date
	Ward councillors	N/A		
	Legal	N/A		
	Finance	Bob Watson		
	Human resources	N/A		
	Sustainability	N/A		
	Diversity and equality	N/A		
	Communications	N/A		
	Strategic Management Board	Steve Bishop	Agreed	9 Sep 15
Confidential decision? If so, under which exempt category?	No			
Call-in waived by Scrutiny Committee chairman?	Final report to go to council – no call-in			
Cabinet member's signature To confirm the decision as set out in this notice.	Signature  Date <u>2.x.MMV</u>			

ONCE SIGNED, THIS FORM MUST BE HANDED TO DEMOCRATIC SERVICES IMMEDIATELY.

For Democratic Services office use only		
Form received	Date:	Time:
Date published to Scrutiny Committee	Date:	
Call-in deadline	Date:	Time:

Audit and Governance Committee



Report of Head of Finance

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To: Audit and Governance Committee

DATE: 28 September 2015

Treasury Outturn 2014-15

That Audit and Governance Committee:

1. notes the treasury management outturn report 2014/15,
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 Audit and Governance Committee and recommends Council to:

1. approve the treasury management outturn report for 2014/15;
2. approve the actual 2014/15 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 2014/15.
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 in order to meet our strategic objective of managing our business effectively. Managing the finances of the authorities in accordance with the treasury management strategy will help to ensure resources are available to deliver our services and meet the councils' other 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 2014/15 against prudential indicators and benchmarks set for the year in the 2014/15 treasury management strategy, approved by each council in February 2014. Each council is required to approve this report.
6. Capita Asset Services are the councils' retained treasury advisors. They provide a regular forecast of interest rates and the latest forecast is reproduced at annex 'A'.

Summary of treasury activities during 2014/15

7. The performance of the two councils is summarised in the table below. Detailed performance review is contain in Appendix 1 (SODC) and Appendix 2 (VWHDC).

		South Oxfordshire District Council	Vale of White Horse District Council
1	Average investment balance	£127,831,000	£30,874,514
2	Budgeted investment income	£2,090,000	£355,500
3	Actual investment income	£2,492,767	£430,807
4	Surplus/(deficit) (3) – (2)	£421,605	£75,307
5	Rate of return (3) ÷ (1)	1.950%	1.395%
6	Benchmark rate of return: 3 month LIBID Industry average*		0.43% 0.75%
7	Borrowing	Nil	Nil

*Capita Asset Services - weighted average of 5 fund managers results covering 22 funds.

8. Even with the bank base rate continuing at a half of one percent, which has restricted the investment rates on offer, both councils have exceeded their budgeted income targets. Neither council has had to borrow for long-term capital financing or short-term for cash flow purposes during the year.
9. Both councils continue to invest with regard for security, liquidity and yield, in that order. Detailed reports on the treasury activities for each council are contained in Appendix 1 – South Oxfordshire DC and Appendix 2 – Vale of White Horse DC. A detailed list of both councils' investments as at 31 March 2015 is shown at Annex B.

Treasury management limits on activity

10. Prudential limits. Both councils are required by the Prudential Code to report on the limits set each year in the Treasury Management Strategy. 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. During the year none of these limits were exceeded. These limits are shown in annex C.
11. Liquidity and yield. 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. The weighted average life (wal) in days sets an indicator for how long investments should be made and the benchmark is a target set to ensure that investments are not made for too long.

Debt activity during 2014/15

12. During 2014/15 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 annex C provide the scope and flexibility for the Council to borrow in the short-term up if such a need arose for cash flow purposes to support the council(s) in the achievement of their service objectives.

Financial implications

13. The investments made in 2014/15 ensured that both councils exceeded their budgeted targets for investment income. Income earned from investments is used to support the councils' medium term financial plans and contributes to the councils' balances, or supports the in-year expenditure programmes.
14. Looking forward, income is anticipated to remain stable with any increase due to rises in market rates offset by a general reduction in the balances available to invest. This will be reflected in the councils' 2016/17 budgets and medium term financial plans.

Legal implications

15. There are no significant legal implications as a result of the recommendations in this report. 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

16. The financial year 2014/15 continued to provide a challenge to treasury management with a difficult environment to invest in. The main factors were:

- low investment returns and difficulty to place long term investments;
- increased counterparty risk – reduced choice of counterparties
- interest rate exposure risk – due to investments held in short-term maturity periods.

17. Despite the uncertainty, both councils continued to make investments during 2014/15 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 2014/15 – Councils in February 2014.

Appendices

1. SODC – detailed treasury performance – 1 April 2014 to 31 March 2015
2. VWHDC – detailed treasury performance – 1 April 2014 to 31 March 2015

Annexes

- A – Forecast of interest rates
- B – List of investments as at 31 March 2015
- C – Prudential indicators
- D – Glossary of terms

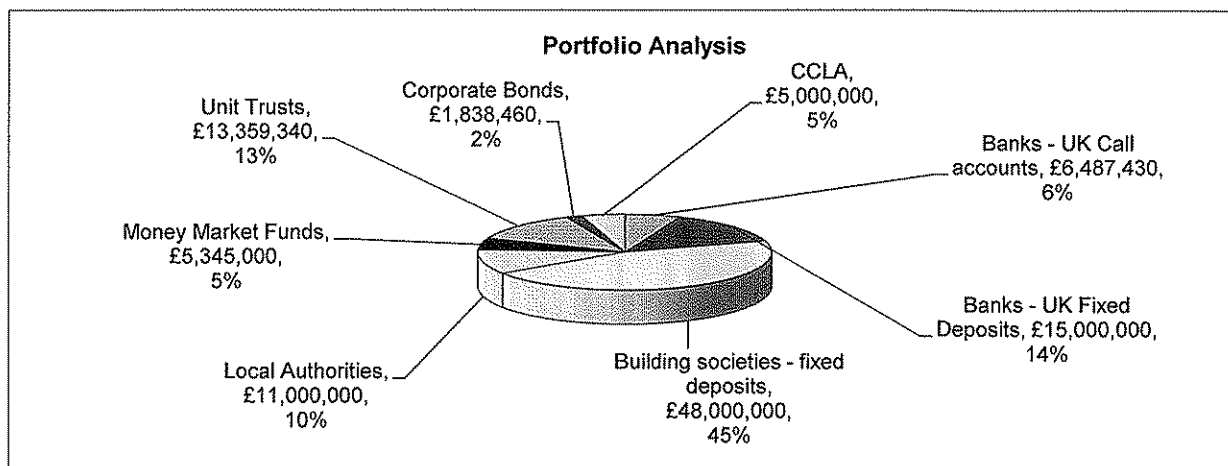
SODC treasury activities in 2014/15

Council investments as at 31 March 2015

1 - 1. The Council's investments, analysed by age as at the end of 2014/15, is shown in table 1 below.

Table 1: maturity structure of investments as at 31 March 2015:	Total £000	% holding
Cash deposits:		
Call account	6,487	6%
Notice account	-	0%
Up to 1 month	6,500	6%
2 month	8,000	8%
3 month	10,000	9%
4 month	9,500	9%
5-6 Month	8,000	8%
7-12 Month	15,000	14%
1 -2 Year	5,000	5%
2-7 Year	12,000	11%
Kaupthing Singer & Friedlander	222	0%
Total cash deposits	80,710	76%
CCLA pooled property fund	5,000	5%
Equities	13,359	13%
Corporate bonds	1,838	1%
Money market funds	5,345	5%
Overall total	106,253	100%

1 - 2. A significant proportion of the portfolio is held in the form of fixed interest rate cash deposits. These provide some certainty over the investment return. The chart below shows in percentage terms how the portfolio is spread across the investment types:



Investment income

1 - 3. The total interest earned on investments during 2014/15 was £2.4 million, compared to the original estimate of £2.1 million, as shown in table 2 below:

Investment type	Interest earned		
	Annual Budget	Actual	Variation
	£000	£000	£000
Call accounts	250	57	(193)
Cash deposits < 1yr	560	725	165
Cash deposits > 1yr	526	219	(307)
MMF	34	17	(17)
Corporate Bonds	120	121	1
Equities	300	409	109
SOHA	0	623	623
CCLA	300	322	22
	2,090	2,493	403

1 - 4. The variation in investment earnings of £403,000 above the original estimate for 2014/15 is due to a number of reasons:

- Interest received on unit trusts was £109,000 higher than forecast due to the overall increase in the value during the year.
- Interest earned on SOHA property was not budgeted as the loan was finalised post budget setting and therefore achieved £623,000 of extra interest income.
- Interest earned on cash deposits was £351,000 lower than forecast due to a significant drop in interest rates achieved.
- Interest earned on CCLA was £22,000 higher due to fluctuations in the price of units held.
- The call accounts earned less interest than forecast as a result of rates reducing on our accounts.
- The unbudgeted SOHA loan had decreased the funds available for other investments.

1 - 5. The actual average interest rate of return achieved for the year was 1.95 per cent.

Movement in the value of investments

1 - 6. Table 3 below shows the movement in value of the Council's investments at the end of the year.

Table 3: Investment portfolio values and movements.	2013/14 £m's	2014/15 £m's	Movement in Investments
Cost Values (£m's)			
Bank & Building Society deposits	81.94	80.71	(1.23)
Money Market Funds	0.93	5.35	4.42
CCLA	5.00	5.00	0.00
Equities	12.51	13.36	0.85
Corporate Bonds	1.95	1.84	(0.11)
	102.33	106.26	3.93

The value of investment deposits fluctuates throughout the year due to cash flow and spending patterns.

Performance measurement

- 1 - 7. A list of investments as at 31 March 2015 is shown in annex B. All investments were with approved counterparties. The average level of investments held was £128 million and the average return on these investments is shown below in table 4. This shows in summary the performance of the council's investments against the benchmarks set out in the Treasury Management Strategy. These benchmarks are used to assess and monitor the council's investment performance for each type of investment.

Table 4: Investment returns achieved against benchmark				
	Benchmark Return	Actual Return	Growth (Below)/above Benchmark	Benchmarks
Bank & Building Society deposits - internally managed	0.43%	1.08%	0.65%	3 Month LIBID
Equities	3.04%	4.95%	1.91%	FTSE All Shares Index
Property related investments (excluding SOHA loan)*	11.98%	10.12%	(1.86%)	IPD balanced property unit trust index
Corporate Bonds	0.50%	9.91%	9.41%	BoE base rate

*source CCLA Local Authorities Property Fund Report March 2015

Note: the benchmark return for unit trusts reflects the movement in capital value. All other benchmarks reflect earnings of investment income. The total actual return for the whole investment portfolio was 1.95 per cent.

- 1 - 8. Bank and building society deposits decreased by £1.23 million during the year from £81.94 million as at 1 April 2014 to £80.71 million by 31 March 2015.
- 1 - 9. Returns on internally managed cash deposits are benchmarked against the three month LIBID rate, which was an average of 0.43 per cent for 2014/15. The performance for the year of 1.08 per cent exceeded the benchmark by 0.65 per cent.
- 1 - 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. The government's Funding for Lending Scheme (FLS) was introduced in August 2012. As a result interest rates at which banks and building societies accepted deposits from local authorities dropped sharply. After this, investments were primarily held in call accounts which offered a better return than the market rates for deposits.

- 1 - 11. Local authority market rates for cash deposits have historically been around the same level as the three month LIBID rate. However, actual rates achieved are dictated by changeable factors, such as cash flow and the market demand for funds. For the purposes of providing comparative performance indicators, the market average rates of interest are shown in table 5.

Table 5: Cumulative performance against benchmark & industry average	Cumulative % returns
Actual	1.08
Benchmark - 3 Month LIBID	0.43
Variance - (Under)/Over benchmark	0.65
Industry average*	0.75
Variance - (Under)/Over Ind Average	0.33

*Source: Capita Asset Services - weighted average of 5 fund managers results covering 22 funds.

Equities

- 1 - 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.
- 1 - 13. The unit trusts are accounted for in the Council's financial statements at fair value¹. Table 6 below shows the movement in capital value:

¹ Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. In some cases this will be the amount paid for purchasing the investment. This may not always be the case, where there have been substantial transaction costs (as in an investment fund), or where interest payable does not reflect market rates or obligations (as in corporate bonds).

Table 6: Unit Trusts - Movement in capital		
	£	£
Market Value as at 31.3.15		13,359,340
Less:		
Dividends received in year	228,752	
Accrued dividends	180,000	
		(408,752)
Add:		
Disposal in year		-
Amended market value as at 31.3.15		12,950,588
Market value as at 1.4.14		12,509,147
Increase in Market Value in year		441,441

1 - 14. The value quoted in the statement of accounts includes adjustments for accrued interest. In order to assess the true unit trust performance an adjustment must be made to amend the market value². Table 7 below shows the unit trust performance without the accounting adjustments required for the statement of accounts:

1 - 15. The value of the council's unit trusts have increased throughout the year. Volatility in the markets which had previously driven investors to move to safer havens such as gilts, seem to be ignored as investors have moved back to equities in search of better returns, which has seen an increase in equity prices as a whole.

Table 7: Unit Trust performance 1.4.14 - 31.3.15		
Increase in FTSE all share was		3.04%
Increase in Market Value		3.53%
Under-performance		0.49%
	£	
Market Value 1.4.14	12,509,147	
Plus 3.04% FTSE increase	380,278	
Benchmark Market Value at 31.3.15	12,889,425	
Market Value (amended at 31.3.15)	12,950,588	
Over performance 1.4.14 to 31.3.15	61,163	

² Market value: this is the price that would be paid on a specific date.

1 - 16. Dividends received of £0.2 million were reinvested to acquire additional fund units. The unit trusts are benchmarked against the FTSE All Shares Index, which represents 98-99 per cent of the UK market capitalisation. 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.

Corporate Bonds

1 - 17. The Council's corporate bonds are also accounted for in the financial statements at fair value. The opening carrying value for 1 April 2014 was £1.9 million. The closing carrying value at 31 March 2015 was £1.9 million. The carrying values and market values for the corporate bonds are shown in table 8 below:

Bonds	Original cost £000's	Nominal Value £000's	Carrying Value as at 1.4.14 £000's	Carrying Value as at 1.4.15 £000's	Market value at 1.4.15
Santander 11.50%	422	270	311	299	312
RBS 9.625%	1,973	1,500	1,589	1,549	1,526
	2,395	1,770	1,900	1,848	1,838

1 - 18. The weighted average return on the Council's corporate bonds for 2014/15 was 9.91 per cent, this significantly exceeded the benchmark return.

1 - 19. The corporate bonds mature on dates between 2015 and 2017. Annual interest earned will remain the same for the whole period a bond is held. Table 9 below shows the redemption yield of the bonds if held until the redemption date.

Bank	Interest rate %	Original cost £000	Nominal value £000	Interest to date	Interest due	Redemption value £000	Redemption date	Redemption yield
Santander	11.50%	422	270	334	93	697	04/01/2017	5.59%
RBS	9.63%	1,973	1,500	1,673	239	3,412	22/06/2015	6.20%

Money market funds (MMFs)

1 - 20. Money market funds are commercially run pooled investments. They work rather like unit trusts, but whereas the latter are based upon shares in companies, MMFs rely on loans to companies. As their pooled funds have a high total value, better rates of return can be obtained. Legislation allows authorities to access only those MMFs with the highest possible credit rating (AAA).

- 1 - 21. Access and liquidity, together with high security, have meant these funds have been used throughout the year. The Council currently invests in three MMFs and the amount held in each at the 31 March 2015 is shown below:

Table 10: Money market funds	31/03/2015 £000
Deutsche Bank	265
Blackrock	4,690
Goldman Sachs	390
	5,345

Icelandic bank default – Kaupthing Singer & Friedlander

- 1 - 22. The Council invested £2.5 million in July 2007 with the failed Icelandic bank Kaupthing Singer and Friedlander Ltd (KSF). The Council has received £2,144,488 to date in respect of the claim for £2.6 million (£2.5 million investment plus interest).
- 1 - 23. 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.

Land and property

- 1 - 24. The Council holds a portfolio of investment property which includes land, industrial estates, depots, garages and shops that are used on a commercial basis. These assets had a net book value of £15.9 million at 31 March 2015 (£15.9 million at 31 March 2014) and generated income (net of any direct service costs) of £1.1 million in 2014/15 (£1.1million in 2013/14) giving a gross rate of return of 6.9 per cent.
- 1 - 25. 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

- 1 - 26. The amount maintained for liquidity was £12 million and was above the benchmark – this reflected better than market rates negotiated on call accounts and was not as a need for increased liquidity. The actual for the wal of 290.6 days was within the range set. 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.

1 - 27. The year end position against the original benchmarks approved in February 2014 is shown below:

Table 11: Risk-liquidity against benchmark		
	2014/15 Benchmark £m	2014/15 Actual £m
Bank overdraft*	Nil	0
Short term deposits - minimum available within 1 week	10	12
	2014/15 Benchmark £m	2014/15 Actual £m
Weighted average life (days)	182.5	290.6

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

Summary

1 - 28. As at 31 March 2015, the Council's financial investments had a cost value of approximately £107 million. As a result of proactive management of investments held, and despite the low interest rates, during 2014/15 investments generated £2.493 million in investment income, which was £403,000 above the £2.090 million original budgeted estimate.

VWHDC treasury activities in 2014/15**Council investments as at 31 March 2015**

2 - 1 The council's investments at 31 March 2015 were as follows:

	£000's	% holding
Call	5,430	18%
Money market fund	750	3%
Up to 4 months	4,000	13%
5-6 months	-	0%
6 months to 1 year	13,500	45%
Over 1 year	4,000	13%
Total cash deposits	27,680	93%
CCLA Property Fund	2,000	7%
Total investments	29,680	100%

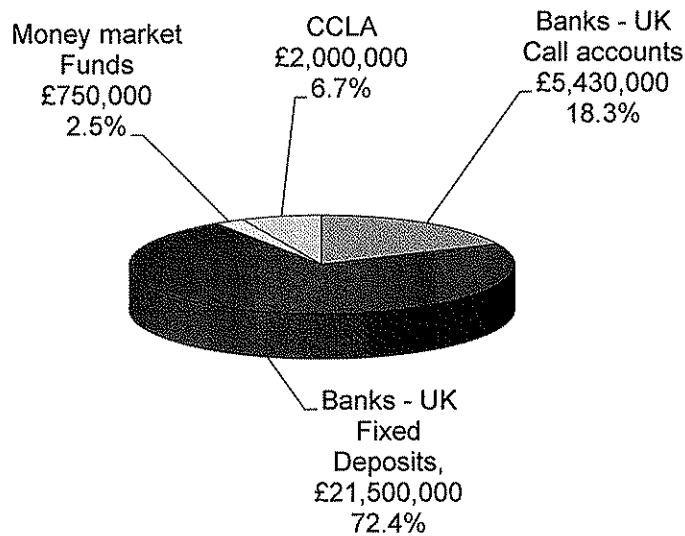
2 - 2 The majority of the funds invested are held in the form of fixed interest rate and term cash deposits. These provide some certainty over the investment return. The investment profile is organised in order to ensure sufficient liquidity for revenue and capital activities, security of investments and to manage risks within all treasury management activities.

2 - 3 Money market rates over the year have remained very low and flat. One year rates have steadied and are now averaging just below one per cent. The government's Funding for Lending Scheme (FLS) has now completed, but there is still little demand for money in the markets which has perpetuated the low investment rates available. It continues to be difficult to find re-investment opportunities offering a return which also meet the security and risk criteria.

2 - 4 The weighted average maturity period at the end of the year was 484 days. This is mainly due to a long term investment with another local authority.

2 - 5 The chart below shows in percentage terms how the portfolio is spread across investment types:

Portfolio Exposure as at 31 March 2015



Investment income

2 - 6 The total investment income achieved in 2014/15 was £432,000 compared to the original budget estimate of £356,000 as shown in table 2 below:

Investment type	Actual Budget £000's	Actual Interest £000's	Variation £000's
Call accounts	236	78	158
Cash deposits	120	226	(106)
MMFs	-	7	(7)
CCLA Property Fund	-	120	(120)
Total Interest	356	431	(75)

2 - 7 The actual return achieved was 21 per cent higher than the original budget. This was due to :

- The maturity period for investments was extended thereby attracting slightly higher rates.
- Average balances throughout the year have remained higher than forecast.

2 - 8 The total actual average interest rate achieved for the year was 1.39 per cent.

Performance measurement

2 - 9 The average level of investments held throughout the year was £30.8 million and the average return on these investments is shown below in table 3.

Table 3: Cumulative performance against benchmark & industry average	Cumulative % returns
Actual	1.39
Benchmark - 3 Month LIBID	0.43
Variance - (Under)/Over benchmark	0.96
Industry average*	0.75
Variance - (Under)/Over Ind Average	0.64

*Source: Capita Asset Services - weighted average of 5 fund managers results covering 22 funds.

2 - 10 The table shows in summary the performance of the council's investments against the benchmarks set out in the treasury management strategy. These benchmarks are used to assess and monitor the council's investment performance. The annual investment strategy set the benchmark target for internal cash invested as the 3 month LIBID. The performance for the year of 1.39% exceeded the benchmark by 0.99 per cent and was 1.13 per cent above the industry average.

Land and Property

2 - 11 The council holds a portfolio of non-operational assets, which includes land, offices and shops that are let on a commercial basis. These assets had a net book value of £20.6 million at 31 March 2015 (£20.6 million as at 31 March 2014) and generated income of £1.5 million (£1.5 million in 2013/14). This is equivalent to a gross return of 7.2% (2013/14, 7.2%), which excludes costs such as maintenance and management fees. 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. 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 portfolio is assessed annually by the property team to determine if assets should be retained or disposed of.

Icelandic bank default – Landsbanki Islands hf

2 - 12 On the 24 September 2008 the council placed a deposit of £1 million with Landsbanki Islands hf until 24 October 2008 at an interest rate of 5.95 per cent. The bank went into administration on 7 October 2008, and as a result the repayment of the deposit and interest has not been made.

2 - 13 At 24 October 2008, the amount due to be repaid was the principal amount of £1,000,000 plus interest of £4,890.41, giving a total amount of £1,004,890.41.

- 2 - 14 In April 2011 the Reykjavik District Court ruled that local authorities' claims qualified for priority under Icelandic bankruptcy legislation. The decision was appealed to the Icelandic Supreme Court who affirmed the district court's ruling in October 2011. Subsequently the Reykjavik District Court recognised the council's priority claim at £1,004,890.41.
- 2 - 15 At 31 March 2014 the council had received repayments totalling £531,286.57 with the expectation that further repayments would continue to be made until the total amount was repaid. Initial expectations were that full repayment could be by December 2018, but it increasingly became more likely that full repayment would not be before December 2021 and could be considerably or later.
- 2 - 16 Therefore, in October 2014, the council took the opportunity to sell its entire claim via Deutsche Bank AG; this decision was taken due to the tightening restrictions placed on the amount of foreign currency allowed to leave Iceland by the Icelandic government, the ongoing uncertainty about when future repayments would be made and a potential weakening of the position of priority creditors. The council therefore received a final payment of £387,605.86 (net of fees and exchange rate differences) from Deutsche Bank in November 2014 bringing the total received to £932,136.34 resulting in an overall loss of £72,754.07.
- 2 - 17 The loss has been charged to the Income & Expenditure (I&E) account in 2014/15, however due to the effect of accrued interest and impairments made in previous years, the actual amount charged to the I&E account was £37,225.11.

Table 4 Landsbanki hf - financial asset impairment	
Carrying amount at 1 April 2014	373,930.87
Add fees and exchange rate differences	13,243.94
Add accrued interest to 19 November 2014	37,656.16
	424,830.97
Final payment received	(387,605.86)
Loss charged to I&E account	(37,225.11)

- 2 - 18 The council still holds a minimal balance in an Icelandic escrow account which will be monitored with regard to repatriation, but currently the fees and exchange rates mean that the net sum the council would potentially receive makes any potential repatriation unviable.
- 2 - 19 Given the minimal remaining balances, it is not planned to report in detail on this in future treasury reports.

Liquidity and yield

- 2 - 20 The council uses short-term investments to meet daily cash-flow requirements and has also aims to invest a proportion of the portfolio over longer dated cash deposits where possible.
- 2 - 21 The amount maintained for liquidity was £11 million and was above the benchmark – this reflected better than market rates negotiated on call accounts and was not as a need for increased liquidity – there is also a dearth of short-to-medium term investments available at present that offer a reasonable rate of return

over and above that on offer from the call accounts and MMFs. The actual for the year of 484 days was within the range set. The reason that the actual was above the benchmark is that the council has previously let some long term investments with another local authority in order to spread the investment portfolio and access better returns.

2 - 22 The year-end position against the original benchmarks approved in February 2014 is shown below:

Table 11: Risk-liquidity against benchmark		
	2014/15 Benchmark £m	2014/15 Actual £m
Bank overdraft	0	0
Short term deposits - minimum available within 1 week	10	11
	2014/15 Benchmark £m	2014/15 Actual £m
Weighted average life (days)	150.0	484.0

Summary

2 - 23 As at 31 March 2015, the council's financial investments portfolio had a value of £29.57million. As a result of proactive management of investments held, and despite the continuing low market interest rates, during 2014/15 these investments generated £432,000 in investment income, which was £76,000 above the £355,500 original budgeted estimate.

Forecast of interest rates as at September 2015

The table below shows Capita Asset Services' forecast of the expected movement in medium term interest rates:

	NOW	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
BANK RATE	0.50	0.50	0.50	0.50	0.75	0.75
3 month LIBID	0.52	0.50	0.60	0.70	0.80	0.90
6 month LIBID	0.66	0.70	0.80	0.90	1.00	1.10
12 month LIBID	0.98	1.00	1.10	1.20	1.30	1.40
5 yr PWLB	2.10	2.30	2.40	2.50	2.60	2.80
10 yr PWLB	2.80	2.90	3.00	3.20	3.30	3.40
25 yr PWLB	3.40	3.60	3.70	3.80	4.00	4.10
50 yr PWLB	3.40	3.60	3.70	3.80	4.00	4.10
	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
BANK RATE	1.00	1.00	1.25	1.50	1.50	1.75
3 month LIBID	1.10	1.30	1.40	1.50	1.80	1.90
6 month LIBID	1.30	1.50	1.60	1.70	2.00	2.10
12 month LIBID	1.60	1.80	1.90	2.00	2.30	2.40
5 yr PWLB	2.90	3.00	3.10	3.20	3.30	3.40
10 yr PWLB	3.50	3.70	3.80	3.90	4.00	4.10
25 yr PWLB	4.20	4.30	4.40	4.40	4.50	4.60
50 yr PWLB	4.20	4.30	4.40	4.40	4.50	4.60

South Oxfordshire District Council investments as at 31 March 2015				
Counterparty	Deposit Type	Maturity Date	Principal	Rate
HSBC	Fixed	Feb-17	2,000,000	1.90%
Kingston upon Hull City Council	Fixed	Aug-20	3,500,000	2.70%
Kingston upon Hull City Council	Fixed	Aug-20	1,500,000	2.70%
Blaenau Gwent County Borough Council	Fixed	Apr-16	3,000,000	1.38%
Kingston upon Hull City Council	Fixed	Jan-21	2,000,000	2.50%
West Bromwich Building Society	Fixed	May-15	2,000,000	0.95%
Skipton Building Society	Fixed	May-15	2,000,000	0.91%
West Bromwich Building Society	Fixed	Jun-15	3,000,000	0.90%
National Counties Building Society	Fixed	Apr-15	1,500,000	0.80%
National Counties Building Society	Fixed	Apr-15	2,000,000	0.85%
Newcastle Building Society	Fixed	Apr-15	2,000,000	0.93%
West Bromwich Building Society	Fixed	Jul-15	4,000,000	1.15%
Skipton Building Society	Fixed	Jul-15	1,500,000	0.93%
Newcastle Building Society	Fixed	May-15	2,000,000	0.95%
National Counties Building Society	Fixed	May-15	2,000,000	0.90%
West Bromwich Building Society	Fixed	Jul-15	1,000,000	1.10%
Manchester Building Society	Fixed	Apr-15	1,000,000	0.90%
National Counties Building Society	Fixed	Jun-15	2,000,000	0.84%
Progressive Building Society	Fixed	Jun-15	1,000,000	0.83%
Progressive Building Society	Fixed	Jun-15	1,000,000	0.83%
Skipton Building Society	Fixed	Sep-15	2,000,000	1.00%
Furness Building Society	Fixed	Jun-15	2,000,000	0.85%
Close Brothers	Fixed	Sep-15	2,000,000	1.30%
Close Brothers	Fixed	Oct-15	2,000,000	1.30%
Progressive Building Society	Fixed	Aug-15	1,000,000	0.88%
Manchester Building Society	Fixed	Jul-15	2,000,000	0.93%
Manchester Building Society	Fixed	Jul-15	2,000,000	0.88%
Newcastle Building Society	Fixed	Sep-15	2,000,000	1.00%
National Counties Building Society	Fixed	Sep-15	1,000,000	0.95%
Close Brothers	Fixed	Nov-15	3,000,000	1.30%
Progressive Building Society	Fixed	Oct-15	2,000,000	0.90%
Close Brothers	Fixed	Dec-15	3,000,000	1.30%
Royal Bank of Scotland	Fixed	Jan-18	2,000,000	1.25%
Royal Bank of Scotland	Fixed	Feb-19	2,000,000	1.20%
Principality Building Society	Fixed	Mar-16	2,000,000	0.92%
Skipton Building Society	Fixed	Mar-16	3,000,000	1.00%
Santander	Call		6,390,000	0.90%
Royal Bank of Scotland	Call		2,329	0.85%
Royal Bank of Scotland	Call		95,101	0.80%
Goldman Sachs	MMF		390,000	Variable
Deutsche Bank	MMF		265,000	Variable
Blackrock	MMF		4,690,000	Variable
L&G Equities	Unit trust		13,359,340	Variable
Royal Bank of Scotland	Corporate bond		1,526,475	9.63%
Santander	Corporate bond		311,985	11.50%
CCLA - property fund	Property fund		5,000,000	4.65%
GRAND TOTAL			105,030,230	

Vale of White Horse District Council investments as at 31 March 2015				
Counterparty	Deposit Type	Maturity Date	Principal	Rate
Hull City Council	Fixed	January 2021	2,000,000	2.50%
Hull City Council	Fixed	August 2020	2,000,000	2.70%
Close Brothers Ltd	Fixed	October 2015	1,500,000	1.35%
West Bromwich Building Society	Fixed	January 2015	3,000,000	1.05%
Lloyds TSB Bank Plc	Fixed	March 2015	3,000,000	1.00%
Lloyds TSB Bank Plc	Fixed	March 2016	6,000,000	1.00%
National Counties Building Society	Fixed	January 2016	2,000,000	1.00%
National Counties Building Society	Fixed	November 2015	1,000,000	0.98%
Progressive Building Society	Fixed	July 2015	1,000,000	0.85%
Santander	Call		4,930,000	0.90%
Lloyds TSB Bank Plc	Call		500,000	0.40%
Goldman Sachs	MMF		750,000	Variable
GRAND TOTAL			27,680,000	

Annex C

Prudential indicators as at 31 March 2015					
	Vale		South		
	2014/15	31.03.2015	2014/15	31.03.2015	
	Original estimate	Position	Original estimate	Position	
	£m	£m	£m	£m	
Authorised limit for external debt					
Borrowing	30	0	5	0	
Other long term liabilities	5	0	5	0	
	35	0	10	0	
Operational boundary for external debt					
Borrowing	25	0	2	0	
Other long term liabilities	0	0	3	0	
	25	0	5	0	
Investments					
Interest rate exposures					
Limits on fixed interest rates	60	18	100	100	
Limits on variable interest rates	30	6	30	30	
Maximum principal sums invested > 364 days					
Upper limit for principal sums invested > 364 days	30	4	70	57	
Limit to be placed on investments to maturity					
1 - 2 years	0	0	70	5	
2 - 5 years	0	0	50	10	
5 years +	0	0	50	2	
Investment portfolio spread					
Supranational bonds	10	0	15	0	
Gilts	n/a	0	15	0	
Equities*	3	0	10	13	
Corporate bonds	5	0	10	2	
Money market funds	20	1	20	5	
Pooled bond fund	0	0	5	0	
Property - direct investments	n/a	0	30	16	
Property related pooled funds	3	2	20	5	
Cash and certificates of deposit			85%	76%	
Debt management account deposit facility	100%		100%	0%	
*Limit at time of purchase - Equities include accumulated dividends					

GLOSSARY OF TERMS

Basis point (BP)	1/100th of 1%, i.e. 0.01%
Base rate	Minimum lending rate of a bank or financial institution in the UK.
Benchmark	A measure against which the investment policy or performance of a fund manager can be compared.
Bill of Exchange	A non-interest-bearing written order used primarily in international trade that binds one party to pay a fixed sum of money to another party at a predetermined future date.
Callable Deposit	A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.
[Cash] Fund Management	Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.
Certificate of Deposit (CD)	Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD.
Commercial Paper	Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.
Corporate Bond	Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Counterparty	Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)

Credit Default Swap (CDS)	A swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
Capital Financing Requirement (CFR)	The amount the council has to borrow to fund its capital commitments.
CIPFA	Chartered Institute of Public Finance and Accountancy.
CLG	[Department for] Communities and Local Government.
Derivative	A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.
Debt Management Account Deposit Facility (DMADF)	Deposit Account offered by the Debt Management Office, guaranteed by the UK government
European Central Bank (ECB)	European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.
European and Monetary Union (EMU)	The Economic and Monetary Union (EMU) is an umbrella term for the group of policies aimed at converging the economies of all member states of the European Union.
Equity	A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital appreciation. Equity values can decrease as well as increase.
Forward Deal	The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.
Forward Deposits	Same as forward dealing (above).
Fiscal Policy	The government policy on taxation and welfare payments.
GDP	Gross Domestic Product.
[UK] Gilt	Registered UK government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.

LIBID	London inter-bank bid rate
LIBOR	London inter-bank offered rate.
Money Market Fund	A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. It is very similar to a unit trust, however in a MMF.
Monetary Policy Committee (MPC)	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment.
Other Bond Funds	Pooled funds investing in a wide range of bonds.
PWLB	Public Works Loan Board.
QE	Quantitative Easing.
Retail Price Index	Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.
Sovereign Issues (excl UK Gilts)	Bonds issued or guaranteed by nation states, but excluding UK government bonds.
Supranational Bonds	Bonds issued by supranational bodies, e.g. European Investment Bank. The bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given their relative illiquidity when compared with gilts.
Treasury Bill	Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.

