

# Joint Audit and Governance Committee



Report of Head of Finance



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To: **Joint Audit and Governance Committee; Cabinet; Council**

DATE: 25 Jan 16 by Joint Audit and Governance Committee

4 Feb 16 (S) / 5 Feb 16 (V) by Cabinet

17 Feb 16 (V) / 18 Feb 16 (S) by Council

## Treasury management mid-year monitoring report 2015/16

### Recommendations

That Joint Audit and Governance committee:

1. notes the treasury management mid-year monitoring report 2015/16, and
2. is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy.

That Cabinet:

3. considers any comments from Joint Audit and Governance committee and recommends council to approve the report.

### Purpose of report

1. The report fulfils the legislative requirements to ensure the adequate monitoring of the treasury management activities and that each council's prudential indicators are reported to their respective council mid-year (ie: as at 30 September). The report provides details of the treasury activities for the first six months of 2015/16 and an update on the current economic conditions with a view to the remainder of the year.

## Strategic objectives

- An effective treasury management strategy is required in order to meet our strategic objective of managing our business effectively. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that appropriate and sufficient resources are available to deliver its services and meet the council's other strategic objectives, whilst allowing surplus funds to be prudently invested to provide a return on investment that contributes to each council's medium term financial plan.

## Background

- The council's treasury activities are strictly regulated by legislation. The CIPFA Prudential Code and CIPFA Code of Practice for Treasury Management requires a monitoring report to be provided mid-year to council. The report covers the treasury activity for the period 1 April 2015 to 30 September 2015.
- The 2015/16 treasury management strategy was approved by each council in February 2015. This report summarises the treasury activity and performance for the first six months of 2015/16 against those prudential indicators and benchmarks set for the year. It also provides an opportunity to review and subsequently revise limits if required. Full council is required to approve this report and any amendments to the Treasury Management Strategy.

## Treasury activity

- The mid-year performance of the two councils is summarised in the table below.

	<b>1 April 2015 to 30 September 2015</b>	<b>South Oxfordshire District Council</b>	<b>Vale of White Horse District Council</b>
1	Average investment balance	£125,148,000	£40,741,769
2	Budgeted investment income	£1,044,000	£205,820
3	Actual investment income	£1,065,000	£266,047
4	Surplus/(deficit)	£21,000	£60,227
5	Rate of return	1.70%	1.31%
6	Benchmark rate of return: 3 month LIBID	0.45%	
7	Borrowing	Nil	Nil

- The forecasted outturn position based on known investments and maturities and an estimate for future earnings is shown in the table below:

	<b>South Oxfordshire District Council</b>	<b>Vale of White Horse District Council</b>
Annual budget as per MTFP	£2,088,000	£411,640
Forecast outturn	£2,386,700	£530,000
Variance against budget	£298,700	£118,360
Borrowing	Nil	Nil

- As a result of the many banking downgrades, there are now fewer financial institutions meeting the council's investment criteria. When it is possible, investments will be placed with highly rated institutions for a longer duration with a view to

increasing the weighted average maturity of the portfolio, but this has meant that overall there are less suitable counterparties available to the councils to deposit with.

## **Performance measurement**

8. A list of current investments as at 30 September is shown Appendices A1 and A2. All investments were with approved counterparties. The average return on these investments is shown above in the table at paragraph 5. South has performed better than Vale because it holds more long term loans at higher rates, equities and corporate bonds as a result of its larger investment base.

## **Icelandic banks**

### **SODC – Kaupthing Singer & Friedlander**

9. SODC has now received £2,144,488 in respect of the claim for £2.6 million (£2.5 million investment plus interest) from the investment made with the failed Icelandic bank Kaupthing Singer & Friedlander (KSF).
10. The administrators intend to make further payments at regular intervals. The last dividend was paid on 10 December 2014. The administrators have not advised when the next instalment will be paid. The estimated total amount to be recovered is forecast to be in the range of 85p to 86.5p in the pound. This equates to between £2,236,209 and £2,275,671.

### **VWHDC – Landsbanki hf**

11. VWHDC disposed of the majority of its claim against the administrators of Landsbanki hf last year. Due to restrictions on repatriating Icelandic Kroner (ISK) back to UK or other tradable currencies, there is a small balance held in an escrow account in Iceland. The current value of this is assessed as £7,822.

## **Treasury management limits on activity**

12. Each council is required by the Prudential Code to report on the limits set each year in their respective Treasury Management Strategies. The purpose of these limits is to ensure that the activity of the treasury functions remain 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 will impair the opportunities to reduce costs/improve performance. The limits for both councils are shown in appendices B1 and B2.

## **Debt activity during 2015/16**

13. During the first six months of 2015/16 there has been no need for either of the councils to borrow. The treasury manager will continue to take a prudent approach to the councils' debt strategies. The prudential indicators and limits set out in annex C provide the scope and flexibility for either of the councils to borrow in the short-term up to the maximum limits, if ever such a need arose within the cash flow management activities of the authority in order to achieve its service objectives.

## **Financial implications**

14. Recent economic data has shown continued growth in UK GDP, improving sentiment in the services and construction sectors and falling levels of unemployment. Despite

this, the Bank of England's Monetary Policy Committee continues to take a cautious view on rates and the projection from the council's treasury advisors (Capita Asset Services) is that near zero or negative rates of inflation (CPI) have reduced the likelihood of a rise in official rates before early 2017. Furthermore, when rates do rise, they will do so more slowly than in pre-crash years due to concerns over the sustainability of the recovery and the continuing levels of high personal indebtedness. Rates are not likely to reach pre-2008 levels for some considerable time (if at all).

15. SODC. The latest estimate is that income receivable on cash investments will be above budget. This is a result of reprofiling on the capital programme which has deferred expenditure, meaning the council has more funds for investment and allowing investments to be retained longer than originally forecast. It is projected that overall interest receivable will be in the region of £298,700 above budget.
16. VWHDC. The latest estimate is that income receivable on cash investments will be above budget, due to the EZ building foundations for growth funding that was received at the end of last year and has been invested pending disbursement. This means that overall interest receivable by the end of 2015/16 will be in the region of £118,000 above budget.

### **Legal implications**

17. 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 CLG Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

### **Conclusion**

18. This report provides details of the treasury management activities for the period 1 April 2015 to 30 September 2015 and the mid-year prudential indicators to each respective council.
19. These details confirm that treasury activities at both councils have operated within the agreed parameters set out in their respective approved treasury management strategies, and provides the monitoring information for joint audit and governance committee to fulfil its role of scrutinising treasury management activity at each council.

### **Background papers**

- CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes (revised 2011)
- CIPFA Prudential Code for Capital Finance in Local Authorities (2011 edition)
- Various committee reports, principally:-
  - Treasury Management Investment Strategy 2015/16
  - SODC – council 19 February 2015
  - VWHDC – council 18 February 2015

## South Oxfordshire District Council

Investments as at 30 September 2015					
Counterparty	Deposit type	Maturity date	Investment duration in days	Principal	Rate
Close Brothers	Fixed	02/10/2015	365	2,000,000	1.30%
Close Brothers	Fixed	26/11/2015	364	3,000,000	1.30%
Progressive Building Society	Fixed	01/10/2015	304	2,000,000	0.90%
Close Brothers	Fixed	15/12/2015	365	3,000,000	1.30%
Principality Building Society	Fixed	11/03/2016	365	2,000,000	0.92%
Skipton Building Society	Fixed	11/03/2016	364	3,000,000	1.00%
National Counties Building Society	Fixed	16/02/2016	306	1,500,000	0.95%
National Counties Building Society	Fixed	22/02/2016	308	2,000,000	0.95%
Progressive Building Society	Fixed	23/02/2016	306	1,000,000	0.95%
Newcastle Building Society	Fixed	27/04/2016	366	2,000,000	1.10%
Progressive Building Society	Fixed	01/03/2016	305	2,000,000	1.00%
Newcastle Building Society	Fixed	03/05/2016	364	2,000,000	1.10%
Skipton Building Society	Fixed	06/05/2016	364	2,000,000	1.02%
Newcastle Building Society	Fixed	06/05/2016	364	2,000,000	1.10%
National Counties Building Society	Fixed	21/03/2016	305	2,000,000	0.92%
Principality Building Society	Fixed	31/05/2016	364	2,000,000	1.00%
West Bromwich Building Society	Fixed	13/06/2016	364	3,000,000	1.01%
Skipton Building Society	Fixed	13/06/2016	364	1,000,000	1.00%
Goldman Sachs International Bank	Fixed	24/06/2016	364	2,000,000	1.00%
National Counties Building Society	Fixed	26/04/2016	305	2,000,000	0.96%
West Bromwich Building Society	Fixed	01/07/2016	365	4,000,000	1.05%
Skipton Building Society	Fixed	30/06/2016	364	1,500,000	1.00%
Goldman Sachs International Bank	Fixed	11/07/2016	364	2,000,000	1.00%
West Bromwich Building Society	Fixed	20/07/2016	364	1,000,000	1.00%
Goldman Sachs International Bank	Fixed	25/07/2016	364	2,000,000	1.02%
Progressive Building Society	Fixed	03/06/2016	305	2,000,000	1.00%
Progressive Building Society	Fixed	03/06/2016	305	1,000,000	0.88%
Newcastle Building Society	Fixed	30/08/2016	364	2,000,000	1.10%
Newcastle Building Society	Fixed	01/09/2016	364	2,000,000	1.10%
National Counties Building Society	Fixed	04/07/2016	305	1,000,000	1.00%
Progressive Building Society	Fixed	11/06/2016	276	2,000,000	1.00%
Santander	Call *			8,171,665	0.40%
Royal Bank of Scotland	Call *			2,329	0.25%
Royal Bank of Scotland	Call *			95,101	0.25%
Goldman Sachs	MMF *			4,770,000	0.44%
Deutsche Bank	MMF *			1,815,000	0.40%
Blackrock	MMF *			690,000	0.36%
<b>Total short term cash investments (&lt;1 yr duration)</b>				<b>77,544,095</b>	
Blaenau Gwent County Borough Council	Fixed	08/04/2016	913	3,000,000	1.38%
HSBC	Fixed	27/02/2017	1827	2,000,000	1.90%
Kingston upon Hull City Council	Fixed	19/08/2020	2557	3,500,000	2.70%
Kingston upon Hull City Council	Fixed	19/08/2020	2557	1,500,000	2.70%
Kingston upon Hull City Council	Fixed	15/01/2021	2557	2,000,000	2.50%
Royal Bank of Scotland	Fixed	22/01/2018	1098	2,000,000	1.25%
Royal Bank of Scotland	Fixed	18/02/2019	1463	2,000,000	1.20%
Close Brothers	Fixed	14/03/2017	547	2,000,000	1.40%
<b>Total long-term cash investments (&gt;1 yr duration)</b>				<b>18,000,000</b>	
Santander	Corporate Bond	04/01/2017		299,552	11.50%
<b>Total corporate bond investments</b>				<b>299,552</b>	
CCLA	Property			5,000,000	Variable
Legal & General Equities	Unit Trust			12,313,780	Variable
<b>Total Investments</b>				<b>113,157,427</b>	

\* Rates are variable. Returns shown represent prevailing rates at end Q2 2015.

Above figures exclude balance outstanding from Kaupthing Singer and Friedlander and SOHA loan

**Vale of White Horse District Council**

<b>Investments as at 30 September 2015</b>					
<b>Counterparty</b>	<b>Deposit type</b>	<b>Maturity date</b>	<b>Total investment duration in days</b>	<b>Principal</b>	<b>Rate</b>
Close Brothers Ltd	Fixed	02/10/2015	364	1,500,000	1.35%
Skipton Building Society	Fixed	15/10/2015	183	2,000,000	0.71%
National Counties Building Society	Fixed	16/11/2015	306	1,000,000	0.98%
National Counties Building Society	Fixed	18/01/2016	301	2,000,000	1.00%
Skipton Building Society	Fixed	18/01/2016	201	2,000,000	0.73%
Nottingham Building Society	Fixed	25/01/2016	178	2,000,000	0.71%
Progressive Building Society	Fixed	22/02/2016	297	2,000,000	1.00%
Lloyds Bank Plc	Fixed	15/03/2016	365	3,000,000	1.00%
Progressive Building Society	Fixed	21/03/2016	264	1,000,000	0.90%
Newcastle Building Society	Fixed	21/03/2016	188	2,000,000	0.75%
Lloyds Bank Plc	Fixed	29/03/2016	370	6,000,000	1.00%
LGIM	MMF *			5,600,000	0.46%
Goldman Sachs	MMF *			2,880,000	0.44%
<b>Total short term cash investments (&lt;1 yr duration)</b>				<b>32,980,000</b>	
Kingston Upon Hull City Council	Fixed	19/08/2020	2,557	2,000,000	2.70%
Kingston Upon Hull City Council	Fixed	15/01/2021	2,557	2,000,000	2.50%
<b>Total long-term cash investments (&gt;1 yr duration)</b>				<b>4,000,000</b>	
CCLA	Property			2,000,000	variable
<b>Total Investments</b>				<b>38,980,000</b>	

\* Rates are variable. Returns shown represent prevailing rates at end Q2 2015.

**South Oxfordshire District Council**

<b>Prudential indicators as at 30th September 2015</b>		
	<b>2015/16</b>	<b>Actual as at</b>
	<b>Original Estimate</b>	<b>30-Sep</b>
	<b>£m</b>	<b>£m</b>
<b>Debt</b>		
<b>Authorised limit for external debt</b>		
Borrowing	5	0
Other long term liabilities	5	0
	<b>10</b>	<b>0</b>
<b>Operational boundary for external debt</b>		
Borrowing	2	0
Other long term liabilities	3	0
	<b>5</b>	<b>0</b>
<b>Interest rate exposures</b>		
Maximum fixed rate borrowing	100%	0
Maximum variable rate borrowing	100%	0
<b>Investments</b>		
<b>Interest rate exposures</b>		
Limits on fixed interest rates	100	80
Limits on variable interest rates	30	16
<b>Principal sums invested &gt; 364 days</b>		
Upper limit for principal sums invested >364 days	70	18
Limit to be placed on investments to maturity:		
1 - 2 years	70	2
2-5 years	50	7
5 years+	50	9
<b>Investment portfolio spread</b>		
Supranational bonds	15	0
Gilts	15	0
Equities*	10	12
Corporate bonds	10	0
Money market funds	20	7
Pooled bond fund	5	0
Property - direct investments	30	0
Property related pooled funds	20	5
Cash and certificates of deposit	85%	84%
Debt management account deposit facility	100%	0%
*Limit at time of purchase - Actuals shown for equities include accumulated dividends		
Above table excludes £15m SOHA loan		

**Vale of White Horse District Council**

<b>Prudential indicators as at 30th September 2015</b>		
	<b>2015/16 Original estimate £m</b>	<b>Actual as at 30-Sep £m</b>
<b>Debt</b>		
<b>Authorised limit for external debt</b>		
Borrowing	30	0
Other long term liabilities	5	0
	<b>35</b>	<b>0</b>
<b>Operational boundary for external debt</b>		
Borrowing	25	0
Other long term liabilities	0	0
	<b>25</b>	<b>0</b>
<b>Interest rate exposures</b>		
Maximum fixed rate borrowing	100%	0
Maximum variable rate borrowing	100%	0
<b>Investments</b>		
<b>Interest rate exposures</b>		
Limits on fixed interest rates	60	24.5
Limits on variable interest rates	30	8.5
<b>Principal sums invested &gt; 364 days</b>		
Upper limit for principal sums invested >364 days	30	6