

# Joint Audit and Governance Committee



Report of Head of Finance



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

DATE: 29 Jan 18 by Joint Audit and Governance Committee  
9 Feb (V) / 12 Feb 18 (S) by Cabinet  
14 Feb 18 (V) / 15 Feb 18 (S) by Council

## Treasury management mid-year monitoring report 2017/18

### Recommendations

That Joint Audit and Governance Committee:

- (a) notes the treasury management mid-year monitoring report 2017/18, and
- (b) is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy.

That Cabinet:

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 2017/18 and an update on the current economic conditions with a view to the remainder of the year.

## Strategic objectives

2. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to deliver its services and meet the council's strategic objectives.

## Background

3. 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 2017 to 30 September 2017.
4. The 2017/18 treasury management strategy was approved by each council in February 2017. This report summarises the treasury activity and performance for the first six months of 2017/18 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.
5. Link Asset Services are the councils' retained treasury advisors. Capita Asset Services was sold by Capita to Link Group during the early part of the year and the business has been rebranded. There are no implications for the councils in terms of service provision.

## Treasury activity

6. The mid-year performance of the two councils is summarised in the tables below<sup>1</sup>.

	South	Treasury investments £000	Non treasury loan £000	Sub Total £000	Property investment £000	Overall total £000
1	Average investment balance	127,151	15,000	142,151	5,075	147,226
2	Budgeted investment income	789	311	1,100		
3	Actual investment income	1,350	312	1,662	218	1,880
4	surplus/(deficit) (3) - (2)	561	1	562		
5	Annualised rate of return	2.12%	4.16%	2.34%	8.59%	2.55%

	Vale	Treasury investments £000	Property investment £000	Overall total £000
1	Average investment balance	58,185	8,455	66,640
2	Budgeted investment income	190		
3	Actual investment income	279	287	566
4	surplus/(deficit) (3) - (2)	90		
5	Annualised rate of return	0.96%	6.79%	1.70%

<sup>1</sup> For property, the balance shown is the fair value of investment properties as at 31 March 2017.

7. The forecast outturn position as at September 2017, based on known investments and maturities and an estimate for future earnings is shown in the table below:

	South Oxfordshire District Council	Vale of White Horse District Council
Annual budget as per MTFP	£2,201,300	£379,160
Forecast outturn	£2,604,771	£393,280
Variance against budget	£403,471	£14,120
Borrowing	Nil	Nil

8. The Councils remain restricted regarding financial institutions meeting their 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.
9. **SODC.** The latest estimate is that income receivable on cash investments will be above budget by £403,471 by the end of the year. Cash balances have been higher than expected as a result of grant receipts relating to Didcot Garden Town and re-profiling of the capital programme due to delays in expenditure.
10. Officers monitor the performance of the unit trust holding on a regular basis. When the value reaches £14 million, a disposal of £2 million is made. During the first six months of 2017/18 the value of unit trusts has been just below the £14 million threshold and no disposals have been made.
11. **VWHDC.** The latest estimate is that income receivable on cash investments will be above budget by £14,120. This is due to higher than budgeted cash balances relating to grant funding from the EZ building foundations for growth that was received at the end of 2014/15 and has been invested pending disbursement, and the re-profiling of the capital programme as a result of delays in expenditure.
12. Following the TUPE transfer of accountancy staff to Capita in August 2016, a review of treasury management practice has commenced. The service is currently provided on a business as usual basis.

### Performance measurement

13. A list of current investments as at 30 September is shown in 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 and equities as a result of its larger investment base.
14. The councils' performance against benchmarks for the first six months of the year are detailed in Appendices A3 and A4. All benchmarks have been achieved except the CCLA benchmark which measures performance from the investment date rather than performance in the year. Performance for the year to date of 4.88% is higher than the short term benchmark of 4.58%.

### Treasury management limits on activity

15. 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 2017/18**

16. During the first six months of 2017/18 there has been no need for either of the councils to borrow. The s151 officer will continue to take a prudent approach to the councils' debt strategies. The prudential indicators and limits set out in appendices B1 and B2 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**

17. Uncertainty following the referendum on EU membership in June 2016 remains. The depreciation of sterling has resulted in a rise in inflation (CPI) and this is predicted to remain above the two per cent target for some time. The Bank of England's Monetary Policy Committee increased interest rates by 0.25 per cent in November 2017 and has hinted that interest rates could rise further in 2018. Rates are not likely to reach pre-2008 levels for some considerable time (if at all).

### **Legal implications**

18. 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**

19. This report provides details of the treasury management activities for the period 1 April 2017 to 30 September 2017 and the mid-year prudential indicators to each respective council.
20. Treasury activities at both councils have operated within the agreed parameters set out in their respective approved treasury management strategies.
21. This report also 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 2017/18
  - SODC – council 16 February 2017
  - VWHDC – council 15 February 2017

## **Appendices**

- A1 – SODC List of investments as at 30 September 2017
- A2 – VWHDC List of investments as at 30 September 2017
- A3 – SODC Performance against benchmark
- A4 – VWHDC Performance against benchmark
- B1 – SODC Prudential Indicators
- B2 – VWHDC Prudential Indicators
- C1 – Note on Prudential Indicators

**South Oxfordshire District Council**

Investments as at 30 September 2017						
Counterparty	Deposit type	Investment date	Maturity date	Investment duration in days	Principal	Rate
National Counties Building Society	Fixed	16/12/2016	16/10/2017	304	1,500,000	0.69%
Goldman Sachs International Bank	Fixed	21/12/2016	20/12/2017	364	2,000,000	0.78%
Progressive Building Society	Fixed	23/12/2016	23/10/2017	304	1,000,000	0.70%
Progressive Building Society	Fixed	03/01/2017	03/11/2017	304	2,000,000	0.66%
Goldman Sachs International Bank	Fixed	08/02/2017	07/02/2018	364	2,000,000	0.88%
National Counties Building Society	Fixed	15/02/2017	15/12/2017	303	1,500,000	0.70%
Principality Building Society	Fixed	13/03/2017	13/03/2018	365	2,000,000	0.77%
Goldman Sachs International Bank	Fixed	15/03/2017	14/03/2018	364	3,000,000	0.80%
Close Brothers	Fixed	30/03/2017	29/03/2018	364	1,000,000	0.80%
Progressive Building Society	Fixed	03/04/2017	03/04/2018	365	3,500,000	0.75%
Progressive Building Society	Fixed	03/04/2017	29/03/2018	360	1,000,000	0.75%
Goldman Sachs International Bank	Fixed	03/04/2017	03/04/2018	365	2,000,000	0.92%
National Counties Building Society	Fixed	03/04/2017	03/04/2018	365	2,500,000	0.77%
Skipton Building Society	Fixed	03/04/2017	03/04/2018	365	2,000,000	0.75%
Monmouthshire Building Society	Fixed	04/04/2017	15/03/2018	345	2,000,000	0.75%
Monmouthshire Building Society	Fixed	12/04/2017	11/04/2018	364	1,000,000	0.75%
Newcastle Building Society	Fixed	27/04/2017	27/04/2018	365	2,000,000	0.78%
Newcastle Building Society	Fixed	02/05/2017	02/05/2018	365	2,000,000	0.77%
National Counties Building Society	Fixed	04/05/2017	04/05/2018	365	1,000,000	0.77%
Newcastle Building Society	Fixed	05/05/2017	04/05/2018	364	2,000,000	0.77%
Close Brothers	Fixed	08/05/2017	09/04/2018	336	2,000,000	0.80%
National Counties Building Society	Fixed	15/05/2017	15/02/2018	276	2,000,000	0.66%
Monmouthshire Building Society	Fixed	15/05/2017	15/02/2018	276	2,000,000	0.66%
National Counties Building Society	Fixed	23/05/2017	22/05/2018	364	1,500,000	0.80%
Monmouthshire Building Society	Fixed	23/05/2017	22/05/2018	364	1,500,000	0.78%
Principality Building Society	Fixed	30/05/2017	29/05/2018	364	2,000,000	0.78%
Nottingham Building Society	Fixed	06/06/2017	15/02/2018	254	2,000,000	0.60%
Monmouthshire Building Society	Fixed	06/06/2017	15/03/2018	282	2,000,000	0.66%
Principality Building Society	Fixed	12/06/2017	11/06/2018	364	3,000,000	0.77%
Nottingham Building Society	Fixed	12/06/2017	11/06/2018	364	1,000,000	0.76%
Goldman Sachs International Bank	Fixed	26/06/2017	25/06/2018	364	2,000,000	0.78%
Newcastle Building Society	Fixed	29/06/2017	28/06/2018	364	1,500,000	0.78%
Principality Building Society	Fixed	03/07/2017	02/07/2018	364	4,000,000	0.77%
Principality Building Society	Fixed	10/07/2017	09/07/2018	364	2,000,000	0.75%
Nottingham Building Society	Fixed	11/07/2017	10/07/2018	364	2,000,000	0.81%
Progressive Building Society	Fixed	17/07/2017	16/07/2018	364	2,500,000	0.78%
Skipton Building Society	Fixed	19/07/2017	18/07/2018	364	2,000,000	0.77%
Nottingham Building Society	Fixed	19/07/2017	16/10/2017	89	3,000,000	0.35%
Goldman Sachs International Bank	Fixed	24/07/2017	23/07/2018	364	2,000,000	0.91%
Newcastle Building Society	Fixed	30/08/2017	30/08/2018	365	2,000,000	0.80%
Newcastle Building Society	Fixed	31/08/2017	30/08/2018	364	2,000,000	0.80%
Goldman Sachs International Bank	Fixed	28/09/2017	27/09/2018	364	2,000,000	0.97%
Santander	Call *				417,756	0.15%
Royal Bank of Scotland	Call *				2,329	0.15%
Royal Bank of Scotland	Call *				95,101	0.15%
Goldman Sachs	MMF *				5,060,000	0.17%
Blackrock	MMF *				690,000	0.13%
<b>Total short term cash investments (&lt;1 yr duration)</b>					<b>89,265,186</b>	
Kingston upon Hull City Council	Fixed	19/08/2013	19/08/2020	2557	3,500,000	2.70%
Kingston upon Hull City Council	Fixed	19/08/2013	19/08/2020	2557	1,500,000	2.70%
Kingston upon Hull City Council	Fixed	15/01/2014	15/01/2021	2557	2,000,000	2.50%
Royal Bank of Scotland	Fixed	20/01/2015	22/01/2018	1098	2,000,000	1.50%
Royal Bank of Scotland	Fixed	16/02/2015	18/02/2019	1463	2,000,000	1.20%
Close Brothers	Fixed	26/11/2015	27/11/2017	732	3,000,000	1.60%
Royal Bank of Scotland	Fixed	08/04/2016	08/04/2019	1095	3,000,000	1.31%
Bury MBC	Fixed	18/07/2016	19/07/2021	1827	5,000,000	1.50%
Lloyds Bank	Fixed	10/03/2017	13/03/2018	368	2,000,000	0.90%
Close Brothers	Fixed	03/04/2017	03/04/2019	730	2,000,000	1.10%
<b>Total long-term cash investments (&gt;1 yr duration)</b>					<b>26,000,000</b>	
CCLA	Property				6,591,099	Variable
Legal & General Equities	Unit Trust				13,851,988	Variable
<b>Total Investments</b>					<b>135,708,273</b>	

\* Rates are variable. Returns shown represent prevailing rates at end Q2 2017.

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

**Vale of White Horse District Council**

Investments as at 30 September 2017						
Counterparty	Deposit type	Investment date	Maturity date	Total investment duration in days	Principal	Rate
Goldman Sachs International Bank	Fixed	31/10/2016	30/10/2017	364	2,000,000	0.90%
Newcastle Building Society	Fixed	08/12/2016	06/12/2017	363	1,000,000	0.80%
Goldman Sachs International Bank	Fixed	23/03/2017	19/12/2017	271	1,500,000	0.80%
National Counties Building Society	Fixed	29/03/2017	15/01/2018	292	2,000,000	0.70%
Progressive Building Society	Fixed	04/05/2017	15/02/2018	287	2,000,000	0.67%
Newcastle Building Society	Fixed	12/05/2017	15/11/2017	187	2,000,000	0.57%
Monmouthshire Building Society	Fixed	17/05/2017	19/03/2018	306	1,000,000	0.69%
National Counties Building Society	Fixed	22/05/2017	19/02/2018	273	1,000,000	0.68%
Principality Building Society	Fixed	02/06/2017	27/11/2017	178	1,000,000	0.49%
Places for People Homes (HA)	Fixed	19/06/2017	18/06/2018	364	2,000,000	1.25%
Santander UK	Fixed	15/06/2017	15/12/2017	183	3,000,000	0.70%
Cumberland Building Society	Fixed	26/06/2017	04/10/2017	100	1,000,000	0.37%
Goldman Sachs International Bank	Fixed	30/06/2017	29/06/2018	364	2,000,000	0.94%
Skipton Building Society	Fixed	28/06/2017	27/06/2018	364	5,000,000	0.77%
Nottingham Building Society	Fixed	28/06/2017	04/01/2018	190	2,000,000	0.51%
Principality Building Society	Fixed	05/07/2017	19/03/2018	257	2,000,000	0.60%
Monmouthshire Building Society	Fixed	19/07/2017	15/03/2018	239	2,000,000	0.62%
Close Brothers Ltd	Fixed	29/09/2017	28/09/2018	364	2,000,000	0.90%
Cumberland Building Society	Fixed	31/07/2017	30/10/2017	91	2,000,000	0.36%
Nottingham Building Society	Fixed	01/08/2017	15/02/2018	198	1,500,000	0.54%
Goldman Sachs International Bank	Fixed	19/09/2017	18/09/2018	364	2,000,000	0.99%
LGIM	MMF *				7,000,000	0.19%
Goldman Sachs	MMF *				3,200,000	0.13%
<b>Total short term cash investments (&lt;1 yr duration)</b>					<b>50,200,000</b>	
Kingston Upon Hull City Council	Fixed	19/08/2013	19/08/2020	2,557	2,000,000	2.70%
Kingston Upon Hull City Council	Fixed	15/01/2014	15/01/2021	2,557	2,000,000	2.50%
Close Brothers	Fixed	16/11/2015	16/11/2017	731	2,000,000	1.60%
Places for People Homes (HA)	Fixed	15/06/2016	15/06/2018	730	2,000,000	1.70%
<b>Total long-term cash investments (&gt;1 yr duration)</b>					<b>8,000,000</b>	
CCLA	Property				2,636,676	variable
<b>Total Investments</b>					<b>60,836,676</b>	

\* Rates are variable. Returns shown represent prevailing rates at end Q2 2017.

**South Oxfordshire District Council**

<b>Investment returns achieved against benchmark</b>				
	Benchmark Return	Actual Return	Growth (Below)/above Benchmark	Benchmarks
Bank & Building Society deposits - internally managed	0.18%	2.12%	1.94%	3 Month LIBID
Equities	1.50%	5.12%	3.62%	FTSE All Shares Index

- All benchmarks managed by the treasury team were met in the first six months of the year.

**CCLA**

<b>Annualised total return performance</b>			
Performance to 31 March 2017	1 year	3 years	5 years
The local authorities property fund	3.07%	10.55%	9.81%
Benchmark - IPD property index	4.58%	10.69%	8.81%

- The CCLA investment is a long term holding. The above table shows the performance of the fund as a whole and the longer term performance should be used as a guide to returns achievable in the medium term.
- South invested £5 million into the fund and in the first six months of 2017/18, achieved a return of 4.88 per cent calculated as a ratio of income over the market value held as at 30 September 2017. This is not the same basis upon which the performance of the fund above is calculated.



**Vale of White Horse District Council**

<b>Investment returns achieved against benchmark</b>				
	Benchmark return	Actual return	Growth (below)/above benchmark	Benchmarks
	%	%	%	
Internally managed - Bank & Building Society deposits	0.18%	0.96%	0.78%	3 month LIBID

- All benchmarks managed by the treasury team were met in the first six months of the year.

**CCLA**

<b>Annualised total return performance</b>			
Performance to 31 March 2017	1 year	3 years	5 years
The local authorities property fund	3.07%	10.55%	9.81%
Benchmark - IPD property index	4.58%	10.69%	8.81%

- The CCLA investment is a long term holding. The above table shows the performance of the fund as a whole and the longer term performance should be used as a guide to returns achievable in the medium term.
- Vale invested £2 million into the fund and in the first six months of 2017/18, achieved a return of 4.88 per cent calculated as a ratio of income over the market value held as at 30 September 2017. This is not the same basis upon which the performance of the fund above is calculated.

**South Oxfordshire District Council**

<b>Prudential indicators as at 30th September 2017</b>		
	<b>2017/18 Original Estimate</b>	<b>Actual as at 30-Sep</b>
	<b>£m</b>	<b>£m</b>
<b>Debt</b>		
<b>Authorised limit for external debt</b>		
Borrowing	30	0
Other long term liabilities	0	0
	<b>30</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	100%	80%
Limits on variable interest rates	50	6
<b>Principal sums invested &gt; 364 days</b>		
Upper limit for principal sums invested >364 days	70	26

**Vale of White Horse District Council**

<b>Prudential indicators as at 30th September 2017</b>		
	2017/18	Actual as at
	Original estimate	30-Sep
	£m	£m
<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	100%	79%
Limits on variable interest rates	50	10
<b>Principal sums invested &gt; 364 days</b>		
Upper limit for principal sums invested >364 days	40	8

### **Prudential indicators – explanatory note**

#### **Debt**

There are two limits on external debt: the ‘Operational Boundary’ and the ‘Authorised Limit’. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case scenario.

The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, “invest to save” projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows.

The Operational Boundary is a more realistic indicator of the likely position.

#### **Interest rate exposures**

The maximum proportion of interest on borrowing which is subject to fixed/variable rate of interest.

#### **Investments**

##### **Interest rate exposure**

The purpose of these indicators is to set ranges that will limit exposure to interest rate movement. The indicator required by the Treasury Management Code considers the net position of borrowing and investment and is based on principal sums outstanding.

##### **Principal sums invested**

This indicator sets a limit on the level of investments that can be made for more than 364 days.