

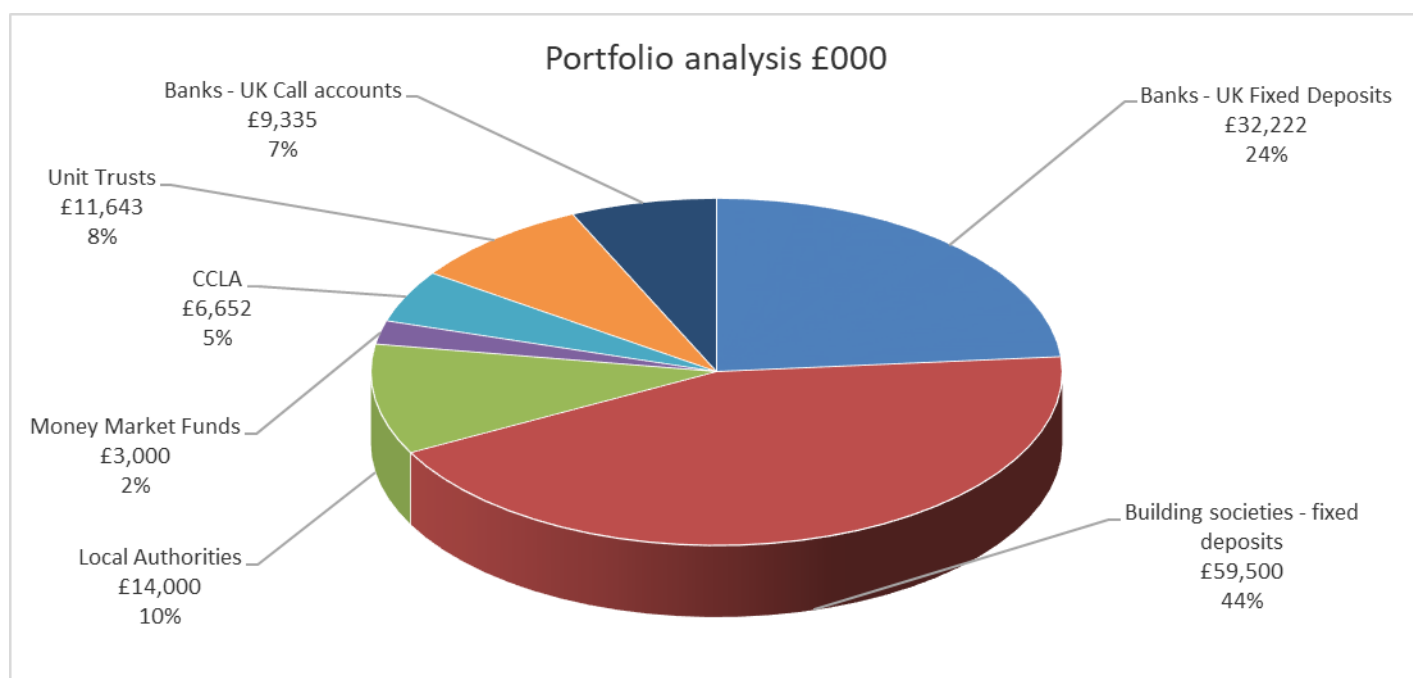
SODC treasury activities in 2017/18

Council treasury investments as at 31 March 2018

1. The council's treasury investments, analysed by age as at 31 March 2018 were as follows:

Table 1: maturity structure of investments at 31 March 2018:		
	£000	% holding
Call	9,335	7%
Money market fund	3,000	2%
Cash available within 1 week	12,335	9%
Up to 4 months	47,000	34%
5-6 months	6,000	4%
6 months to 1 year	32,500	24%
Over 1 year	20,000	15%
Kaupthing Singer & Friedlander	222	0%
Total cash deposits	118,057	86%
CCLA Property Fund	6,652	5%
Equities	11,643	9%
Total investments	136,352	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 2017/18 was £1.9 million, compared to the original budget of £1.6 million, as shown in table 2 below:

Table 2: Investment interest earned by investment type			
Investment type	Interest earned		
	Annual Budget	Actual	Variation
	£000	£000	£000
Fixed term and call	823	1,135	312
Equities	456	497	41
CCLA property fund	300	307	7
	1,579	1,939	360

6. The actual return achieved was £0.4 million more than the original budget. This was due to:
- Interest earned on cash deposits was £0.3 million higher than forecast principally due to an increase in interest rates achieved during the second part of the financial year.
 - Dividend received on equities was £41,000 higher than forecast.
7. The actual average rate of return on treasury investments for the year was 1.44 per cent.

Performance measurement

8. A list of treasury investments as at 31 March 2018 is shown in **appendix E**. All investments were with approved counterparties. The average level of investments held was £134 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.

Table 3: Treasury investment returns achieved against benchmark				
	Benchmark Return	Actual Return	Growth (Below)/above Benchmark	Benchmarks
Bank & Building Society deposits - internally managed	0.29%	0.90%	0.61%	3 Month LIBID
Equities	(2.40%)	(1.69%)	0.71%	FTSE All Shares Index
Property related investments (excluding SOHA loan)*	3.60%	6.14%	2.54%	IPD balanced property unit trust index

*source CCLA Local Authorities Property Fund Report March 2018

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

9. 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 0.29 per cent for 2017/18. The performance for the year of 0.90 per cent exceeded the benchmark by 0.61 per cent.
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.
11. The CCLA property fund principal investment of £5 million (March 2013) increased in value during 2017/18 to £6.7 million. Dividends received in the year totalled £0.3 million. Both the capital appreciation and the interest earned are included in the performance of 6.14 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 4.61 per cent.
12. The performance of 6.14 per cent for CCLA includes accruals and therefore creates a marginal difference between councils on the calculated return achieved.

Equities

13. 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.

Appendix C

14. 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.

Table 4: Unit Trusts - Movement in capital		
	£	£
Market Value as at 31.3.18		11,642,721
Less:		
Dividends received in year	316,500	
Accrued dividends	<u>180,000</u>	
		(496,500)
Add:		
Disposal in year		2,000,000
Amended market value as at 31.3.18		<u>13,146,221</u>
Market value as at 1.4.17		13,372,084
Decrease in Market Value in year		(225,863)

15. The decrease 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 0.71 per cent compared with the stock market equates to £95,067 in real terms.

Table 5: Unit Trust performance	
Decrease in FTSE all share was	(2.40%)
Decrease in Market Value	(1.69%)
Over-performance	0.71%
	£
Market Value 1.4.17	13,372,084
Less 2.40% FTSE decrease	<u>(320,930)</u>
Benchmark Market Value at 31.3.18	13,051,154
Market Value (amended at 31.3.18)	13,146,221
Over performance 1.4.17 to 31.3.18	95,067

16. The performance of the fund over the past few years is summarised in table 5.1 below.

Table 5.1 Unit Trust past performance	2014/15	2015/16	2016/17
Performance against FTSE all share % (Under)/Over	0.49%	(0.46%)	(0.76%)
Performance against FTSE all share £000 (Under)/Over	61,163	(61,601)	(96,679)

The justification for holding this investment is regularly reviewed.

17. Dividends received of £0.50 million were reinvested to acquire additional fund units.

18. 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. During November 2017, the value of our unit trust holding reached the £14 million threshold and a disposal of £2 million took place.

Icelandic bank default – Kaupthing Singer & Friedlander

19. The Council invested £2.5 million in July 2007 with the failed Icelandic bank Kaupthing Singer and Friedlander Ltd (KSF). The Council has received £2,249,739 to date in respect of the claim for £2.6 million (£2.5 million investment plus interest).

20. 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

21. 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 2017/18, the council received £0.6 million.

Land and property

22. 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 a net book value of £5.08 million at 31 March 2018 (£5.08 million at 31 March

2017) and generated income of £0.40 million in 2017/18 (£0.24 million in 2016/17) giving a gross rate of return of 7.90 per cent.

23. 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

24. 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.

25. The amount maintained for liquidity was £12 million. The 2017/18 strategy removed the requirement to maintain £10 million on call for liquidity purposes. This means officers can place more short term deposits, covering cash flows, which will achieve better yields for the council.