# Joint Audit and Governance Committee

Report of Head of Finance/Senior Business Partner (Capita)

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To: Joint Audit and Governance Committee, Cabinet and Council

DATE: 27 September 2018 by Joint Audit and Governance Committee

4 October 2018 (S) / 5 October 2018 (V) by Cabinet

11 October 2018 (S) / 10 October 2018 (V) by Council

# Treasury Outturn 2017-18

That Joint Audit and Governance Committee:

1. notes the treasury management outturn report 2017/18,
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 Joint Audit and Governance Committee and recommends Council to:

1. approve the treasury management outturn report for 2017/18;
2. approve the actual 2017/18 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 2017/18.

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 to help the councils meet their 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 2017/18 against prudential indicators and benchmarks set for the year in the 2017/18 Treasury Management Strategy (TMS), approved by each council in February 2017. Each council is required to approve this report.

6. Link Asset Services are the councils' retained treasury advisors.

7. On 1 August 2016, the operational treasury management staff were outsourced to Capita. The executive decision making function remains with the head of finance.

8. There are three types of investment, the performance of which is covered in this report

    a. True treasury investments – these investments are primarily for generating interest for the councils. Examples of these are loans to banks or other local authorities. It also includes investments in property funds.

    b. Non-treasury loans – these are loans to third parties, which earn a return, but they do not fall under the strict definition of a treasury investment.

    c. Property investments - both councils have investment properties let on commercial basis. The primary purpose of holding these assets is for investment purposes and they are not part of regeneration schemes.

9. The councils continue to invest with regard for security, liquidity and yield, in that order.

## Economic conditions and factors effecting investment returns during 2017/18

10. UK bank base rates were increased to 0.50 per cent in November 2017, having been at an historic low of 0.25 per cent since August 2016. Link Asset Services provide a regular forecast of interest rates and the latest forecast is reproduced in **appendix A**. This forecast shows that base rates are expected to rise in November 2018, with three further increases over the next two years. An increase in inflationary pressures is likely and this, coupled with rising wage inflation, would mean more consumer spending power and therefore a rise in interest rates.

11. The TMS makes clear that investment priority is given to the security of principal in the first instance. As a result, investments have only been made with counterparties of high credit quality and low risk. Since the global banking crisis and the downgrading of the credit ratings of many banks, it has become increasingly difficult to place money at competitive rates, as institutions with high credit ratings have been offering lower rates.

12. Average treasury investment balances were higher for both councils than expected in the year. This arose from a combination of accumulated revenue and capital surpluses/slippage and unbudgeted grant receipts. More cash to invest has been a factor in the surplus of treasury investment income over budget in the year. This was also the case in 2016/17.

13. Investments that have helped to keep yields up for both councils include longer term investments taken out when rates were higher, such as the CCLA property fund at both councils, and the unit trusts at South.

14. Outlook for 2018/19 – as discussed above, interest rates are expected to rise over the next three years. In order to reduce risk, efforts are being made to rebalance the treasury portfolio to reduce the value held by building societies. Other counterparties considered are other councils, housing associations and treasury bills.

## Summary of investment activities during 2017/18

15. Prudential limits (security). Both councils are required by the Prudential Code to report on the limits set each year in the TMS. 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. These limits are shown in **appendix B**.

16. The benchmark for liquidity is the Weighted Average Life (WAL) of treasury investments in days, which sets an indicator for how long investments should be made. Both councils were well within the acceptable ranges for WAL as set out in the TMS for 2017/18. 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.

17. Yield - the performance of the two councils is summarised in the tables below.

| | South | Treasury investments £000 | Non treasury loan £000 | Sub Total £000 | Property investment £000 | Overall total £000 |
|---|---|---|---|---|---|---|
| 1 | Average investment balance | 134,465 | 15,000 | 149,465 | 5,075 | 154,540 |
| 2 | Budgeted investment income | 1,579 | 623 | 2,202 | | |
| 3 | Actual investment income | 1,938 | 623 | 2,561 | 401 | 2,962 |
| 4 | surplus/(deficit) (3) - (2) | 359 | 0 | 359 | | |
| 5 | Rate of return (3) ÷ (1) | 1.44% | 4.15% | 1.71% | 7.90% | 1.92% |

| | Vale | Treasury investments £000 | Property investment £000 | Overall total £000 |
|---|---|---|---|---|
| 1 | Average investment balance | 64,464 | 8,442 | 72,906 |
| 2 | Budgeted investment income | 346 | | |
| 3 | Actual investment income | 610 | 532 | 1,142 |
| 4 | surplus/(deficit) (3) - (2) | 264 | | |
| 5 | Rate of return (3) ÷ (1) | 0.95% | 6.30% | 1.57% |

18. Both councils have exceeded their treasury budgeted investment income this year in terms of both actual income against budget and rates of return against benchmark. More detail on benchmarks is included in the appendices that follow this report.

19. Capita manages the councils' treasury investments and cash flow on a daily basis. During 2017/18, Arcadis looked after the councils' short to medium term property investments.

20. Detailed reports on the treasury activities for each council and performance for 2017/18 against prudential indicators and benchmarks set for the year in the 2017/18 are contained in **appendix C** – South Oxfordshire DC and **appendix D** – Vale of White Horse DC.

21. A detailed list of both councils' treasury investments as at 31 March 2018 is shown at **appendix E**.

## Debt activity during 2017/18

22. During 2017/18, 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 **appendix B** provide the scope and flexibility for the Council to borrow in the short-term, if such a need arose, for cash flow purposes to support the council(s) in the achievement of their service objectives.

## Financial implications

23. The treasury investments made in 2017/18 ensured that both councils exceeded their budgeted targets for treasury investment income. Income earned from investments supports the councils' medium term financial plans and contributes to the councils' balances, or supports the in-year expenditure programmes.

24. Looking forward, income is anticipated to remain stable with any increase due to ongoing surplus cash balances and rises in market rates offset by a general reduction in the balances available to invest. This will be reflected in the councils' 2019/20 budgets and medium term financial plans.

## Legal implications

25. There are no significant legal implications. 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

26. Despite a difficult operating environment, both councils continued to make investments during 2017/18 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 2017/18 – Councils in February 2017.

### Appendices

A. Interest rate forecasts
B. Prudential limits
C. SODC – Treasury activities 2017-2018
D. VWHDC – Treasury activities 2017-2018
E. Treasury investments as at 31 March 2018
F. Glossary of terms