

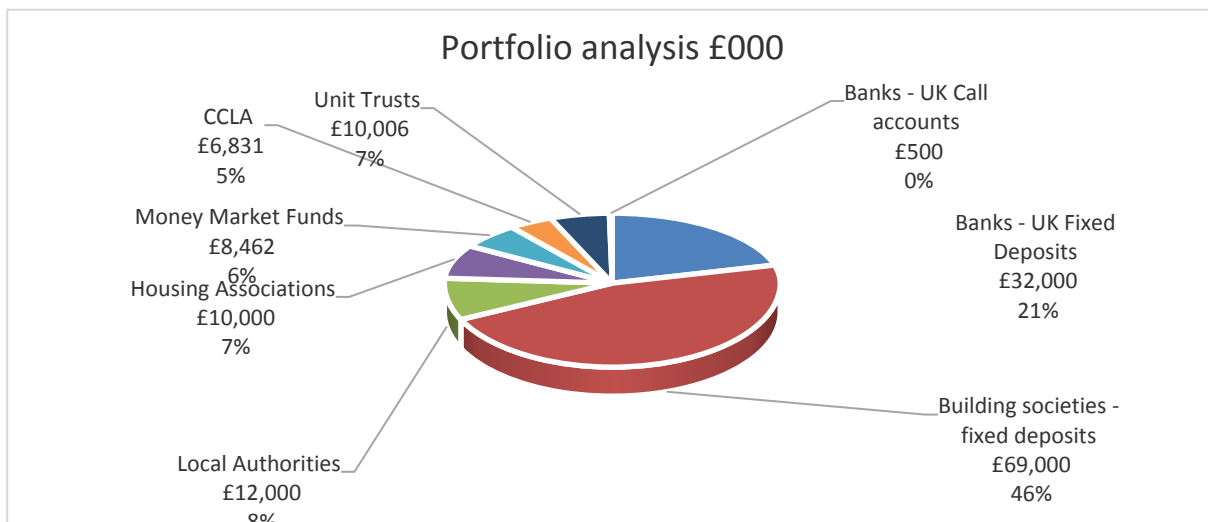
## SODC treasury activities in 2019/20

### Council treasury investments as at 31 March 2020

1. The council's treasury investments, analysed by age as at 31 March 2020 were as follows:

Table 1: maturity structure of investments at 31 March 2020:		
	£000	% holding
Call	500	0%
Money market fund	8,462	6%
<b>Cash available within 1 week</b>	<b>8,962</b>	<b>6%</b>
Up to 4 months	53,000	36%
5-6 months	14,000	9%
6 months to 1 year	30,000	20%
Over 1 year	26,000	17%
Kaupthing Singer & Friedlander	222	0%
<b>Total cash deposits</b>	<b>132,184</b>	<b>88%</b>
CCLA Property Fund	6,831	5%
Equities	10,006	7%
<b>Total investments</b>	<b>149,021</b>	<b>100%</b>

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 2019/20 was £2.6 million, compared to the original budget of £2.2 million, as shown in table 2 below:

Table 2: Investment interest earned by investment type			
Investment type	Annual Budget £000	Actual Interest £000	Variation £000
Fixed term and call	1,429	1,758	329
Equities	456	574	118
CCLA property fund	299	288	(11)
	2,184	2,620	436

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 balances available to invest being more than predicted in the 2019/20 budget setting.
- Dividend received on equities was £118,000 higher than forecast. The value of our equities holding tracks the FTSE. For most of the financial year this rose, resulting in an increase in dividends received. When the coronavirus pandemic struck at the beginning of 2020 the FTSE fell sharply, which resulted in the year end losses seen in tables four and five below.

7. The actual average rate of return on treasury investments for the year was 1.64 per cent (1.33 in 2018/19).

### Performance measurement

8. A list of treasury investments as at 31 March 2020 is shown in **appendix E**. All investments were with approved counterparties. The average level of investments held was £160 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.

9. The £160 million does not represent the council's usable, cash backed reserves, which at 31 March 2020 totalled £118 million. The difference represents the council's working capital balance and capital grants received in advance of spend.

Table 3: Treasury investment returns achieved against benchmark				
	Benchmark Return	Actual Return	Growth (Below)/above Benchmark	Benchmarks
Bank & Building Society deposits - internally managed	0.64%	1.64%	1.00%	3 Month LIBID
Equities	(21.89%)	(23.46%)	(1.57%)	FTSE All Shares Index
Property related investments (excluding SOHA loan)*	3.69%	5.77%	2.08%	IPD balanced property unit trust index

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

10. 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 0.64 per cent for 2019/20. The performance for the year of 1.64 per cent exceeded the benchmark by 1.00 per cent.
11. 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.
12. The CCLA property fund principal investment of £5 million (March 2013) increased in value during 2019/20 to £6.8 million. Dividends received in the year totalled £0.3 million. Both the capital appreciation and the interest earned are included in the performance of 5.77 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 3.69 per cent.

### 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.
14. The index shows the performance of all eligible companies listed on the London Stock Exchange main market and today covers 616 constituents with a combined value of nearly £1.9 trillion. It is recognised as the main benchmark for unit trusts.

Table 4: Unit Trusts - Movement in capital		
	£	£
Market Value as at 31.3.20		10,006,338
Less:		
Dividends received in year	443,923	
Accrued dividends	130,231	
		(574,154)
Amended market value as at 31.3.20		9,432,184
Market value as at 1.4.19		12,322,880
Decrease in Market Value in year		(2,890,696)

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 under performance of 1.57 per cent compared with the stock market equates to £193,172 in real terms.

Table 5: Unit Trust performance	
Decrease in FTSE all share was	(21.89%)
Decrease in Market Value	(23.46%)
Under-performance	<b>(1.57%)</b>
	£
Market value as at 1.4.19	12,322,880
Adjusted for FTSE change	(2,697,523)
Benchmark Market Value at 31.3.20	<b>9,625,356</b>
Amended market value as at 31.3.20	<b>9,432,184</b>
<b>Under performance</b>	<b>(193,172)</b>

16. The performance of the fund over the past three years is summarised in table 5.1 below. The justification for holding this investment is regularly reviewed.

Table 5.1 Unit Trust past performance	2017/18	2018/19	2019/20
Performance against FTSE all share % (Under)/Over	0.71%	0.60%	(1.57%)
Performance against FTSE all share £000 (Under)/Over	95,067	70,350	(193,172)

17. Dividends received of £0.6 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. No disposal took place during 2019/20.

### Non-treasury investment loan

19. 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 2019/20, the council received £0.6 million.

### Land and property

20. The Council holds a portfolio of investment properties, which includes land, depots, garages, and shops that are let on a commercial basis. These assets are valued on an annual basis and had average net book value of £7.8 million during 2019/20 (£6.46 million at 31 March 2019). Income generated was £0.39 million in 2019/20 (£0.32 million in 2018/19) giving a gross rate of return of 5.01 per cent.

21. 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**

22. 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.

23. The amount maintained for liquidity was £9 million.