

Joint Audit and Governance Committee

Report of Head of Finance

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

DATE: 23 Jan 17 by Joint Audit and Governance Committee
1 Feb 17 (S) / 3 Feb 17 (V) by Cabinet
16 Feb 17 (S) / 15 Feb 17 (V) by Council

Treasury management mid-year monitoring report 2016/17

Recommendations

That Joint Audit and Governance Committee:

1. notes the treasury management mid-year monitoring report 2016/17, 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 2016/17 and an update on the current economic conditions with a view to the remainder of the year.



AGENDA ITEM

Strategic objectives

- 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 other strategic objectives.

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 2016 to 30 September 2016.
- The 2016/17 treasury management strategy was approved by each council in February 2016. This report summarises the treasury activity and performance for the first six months of 2016/17 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 tables below¹.

	South	Treasury investments £000	Non treasury loan £000	Sub Total £000	Property investment £000	Overall total £000
1	Average investment balance	117,182	15,000	132,182	8,950	141,132
2	Budgeted investment income	721	311	1,032		
3	Actual investment income	1,247	312	1,559	427	1,986
4	surplus/(deficit) (3) - (2)	501	1	502		
5	Annualised rate of return	2.13%	4.16%	2.36%	9.54%	2.81%

	Vale	Treasury investments £000	Property investment £000	Overall total £000
1	Average investment balance	47,809	8,210	56,019
2	Budgeted investment income	205		
3	Actual investment income	298	358	656
4	surplus/(deficit) (3) - (2)	93		
5	Annualised rate of return	1.25%	8.72%	2.34%

¹ For property, the balance shown is the fair value of investment properties as at 31 March 2016.

6. The forecast outturn position 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	£2,196,350	£411,000
Forecast outturn	£2,277,000	£570,000
Variance against budget	£80,650	£159,000
Borrowing	Nil	Nil

7. 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.
8. **SODC.** The latest estimate is that income receivable on cash investments will be above budget by £80,650 by the end of the year. Although cash balances have been higher than expected, as a result of insurance receipts and re-profiling of the capital programme, the ongoing decline in interest rates available to the council when looking to reinvest maturing deposits has meant that average rates of return over the last six months of the year are expected to be lower than achieved in the first six months. The budget for 2017/18 has been reduced to reflect this reduction.
9. 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 September 2016, the value of our unit trust holding reached the £14 million threshold and a disposal of £2 million was agreed.
10. **VWHDC.** The latest estimate is that income receivable on cash investments will be above budget by £159,000. 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. The ongoing decline in interest rates available to the council when looking to reinvest maturing deposits has meant that average rates of return over the last six months of the year are expected to be lower than achieved in the first six months. The budget for 2017/18 has been reduced to reflect this reduction.
11. The Section 151 officer is content that there is no current need to review practices following the TUPE transfer of staff to Capita in August 2016, whilst the service is provided on a business as usual basis. However, the status quo may change in 2017/18, and at such time practices will be reviewed.

Performance measurement

12. 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, equities and corporate bonds as a result of its larger investment base.
13. 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 where measurable.

14. **VWHDC.** Two benchmark performance indicators contained within the treasury management strategy for Vale are considered below, these have not got a defined measurable basis
- Maximum investment of daily balances (in house) – on a daily basis, cash balances are reviewed and invested with a view to earning the maximum return for the council.
 - Maintenance of a balanced portfolio – when cash balances allow, investments are made in line with the treasury management strategy, with a view firstly to minimise risk and then to achieve maximum returns for the council.

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.
16. During September 2016 a breach of counterparty limits occurred with Newcastle Building Society. South Oxfordshire District Council invested £2 million with Newcastle Building Society on 1 September 2016. This investment took the council £0.5 million over the agreed limit of £12 million. A temporary authorisation was sought and obtained from the Section 151 officer. The breach will be corrected in April 2017 when £1 million matures and brings the council back within its agreed limits.

Debt activity during 2016/17

17. During the first six months of 2016/17 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 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

18. Following the referendum on EU membership in June, we have entered a period of uncertainty. 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 has stated that interest rates could move in either direction and they will respond to changes to the economic outlook as they unfold. The projection from the council's treasury advisors (Capita Asset Services) is that the likelihood of a rise in official rates before early 2019 is unlikely. 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).

Legal implications

19. 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

20. This report provides details of the treasury management activities for the period 1 April 2016 to 30 September 2016 and the mid-year prudential indicators to each respective council.
21. During the first six months a breach of limits occurred at SODC and temporary authorisation was sought and obtained. All other treasury activities at both councils have operated within the agreed parameters set out in their respective approved treasury management strategies.
22. 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 2016/17

SODC – council 18 February 2016

VWHDC – council 17 February 2016

Appendices

- A1 – SODC List of investments as at 30 September 2016
- A2 – VWHDC List of investments as at 30 September 2016
- 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 2016						
Counterparty	Deposit type	Maturity date	Investment duration in days	Principal	Rate	
Close Brothers	Fixed	15/12/2016	366	3,000,000	1.05%	
National Counties Building Society	Fixed	16/12/2016	304	1,500,000	0.95%	
National Counties Building Society	Fixed	21/12/2016	303	2,000,000	0.95%	
Progressive Building Society	Fixed	23/12/2016	304	1,000,000	0.90%	
Progressive Building Society	Fixed	03/01/2017	308	2,000,000	0.90%	
National Counties Building Society	Fixed	15/02/2017	229	1,500,000	0.73%	
National Counties Building Society	Fixed	27/02/2017	306	2,000,000	0.97%	
Skipton Building Society	Fixed	10/03/2017	364	3,000,000	1.02%	
Principality Building Society	Fixed	13/03/2017	367	2,000,000	1.05%	
National Counties Building Society	Fixed	15/03/2017	257	2,000,000	0.83%	
Progressive Building Society	Fixed	03/04/2017	304	2,000,000	1.00%	
Progressive Building Society	Fixed	03/04/2017	304	1,000,000	0.97%	
Newcastle Building Society	Fixed	12/04/2017	364	1,000,000	1.15%	
Newcastle Building Society	Fixed	27/04/2017	365	2,000,000	1.15%	
Newcastle Building Society	Fixed	02/05/2017	364	2,000,000	1.15%	
National Counties Building Society	Fixed	04/05/2017	304	1,000,000	0.95%	
Newcastle Building Society	Fixed	05/05/2017	364	2,000,000	1.15%	
Skipton Building Society	Fixed	08/05/2017	367	2,000,000	1.04%	
Principality Building Society	Fixed	30/05/2017	364	2,000,000	1.03%	
West Bromwich Building Society	Fixed	12/06/2017	364	3,000,000	1.07%	
Nottingham Building Society	Fixed	12/06/2017	364	1,000,000	1.01%	
Goldman Sachs International Bank	Fixed	26/06/2017	367	2,000,000	1.00%	
Newcastle Building Society	Fixed	29/06/2017	364	1,500,000	1.15%	
West Bromwich Building Society	Fixed	03/07/2017	367	4,000,000	1.00%	
Nottingham Building Society	Fixed	11/07/2017	365	2,000,000	0.81%	
Principality Building Society	Fixed	10/07/2017	364	2,000,000	0.80%	
Progressive Building Society	Fixed	17/07/2017	304	2,500,000	0.70%	
West Bromwich Building Society	Fixed	19/07/2017	364	1,000,000	0.85%	
Goldman Sachs International Bank	Fixed	24/07/2017	364	2,000,000	0.60%	
Newcastle Building Society	Fixed	30/08/2017	365	2,000,000	0.77%	
Newcastle Building Society	Fixed	31/08/2017	364	2,000,000	0.77%	
Nottingham Building Society	Fixed	18/09/2017	367	2,500,000	0.72%	
Goldman Sachs International Bank	Fixed	28/09/2017	364	2,000,000	0.70%	
Santander	Call *			7,105,464	0.25%	
Royal Bank of Scotland	Call *			2,329	0.25%	
Royal Bank of Scotland	Call *			95,101	0.25%	
Goldman Sachs	MMF *			4,460,000	0.44%	
Blackrock	MMF *			690,000	0.36%	
Total short term cash investments (<1 yr duration)				76,852,894		
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%	
Bury MBC	Fixed	19/07/2021	1827	5,000,000	1.50%	
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%	
Royal Bank of Scotland	Fixed	08/04/2019	1095	3,000,000	1.31%	
Close Brothers	Fixed	27/11/2017	732	3,000,000	1.60%	
Close Brothers	Fixed	03/04/2017	549	2,000,000	1.41%	
Close Brothers	Fixed	14/03/2017	547	2,000,000	1.40%	
Total long-term cash investments (>1 yr duration)				28,000,000		
Santander	Corporate Bond	04/01/2017		280,719	11.50%	
Total corporate bond investments				280,719		
CCLA	Property			6,524,585	Variable	
Legal & General Equities	Unit Trust			12,209,874	Variable	
Total Investments				123,868,072		

* Rates are variable. Returns shown represent prevailing rates at end Q2 2016.

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

Vale of White Horse District Council

Investments as at 30 September 2016					
Counterparty	Deposit type	Maturity date	Total investment duration in days	Principal	Rate
Skipton Building Society	Fixed	13/10/2016	364	2,000,000	1.02%
National Counties Building Society	Fixed	18/11/2016	305	2,000,000	1.00%
Principality Building Society	Fixed	20/01/2017	364	2,000,000	1.05%
Newcastle Building Society	Fixed	08/12/2016	304	1,000,000	1.02%
Principality Building Society	Fixed	28/12/2016	303	2,000,000	0.93%
National Counties Building Society	Fixed	28/11/2016	273	1,000,000	0.90%
West Bromwich Building Society	Fixed	20/03/2017	364	2,000,000	1.05%
Lloyds Bank Plc	Fixed	28/03/2017	364	6,000,000	1.05%
Newcastle Building Society	Fixed	15/03/2017	336	2,500,000	1.10%
Progressive Building Society	Fixed	15/03/2017	254	2,000,000	0.77%
Skipton Building Society	Fixed	20/03/2017	200	2,000,000	0.49%
Close Brothers	Fixed	29/09/2017	364	2,000,000	0.80%
LGIM	MMF *			5,750,000	0.34%
Goldman Sachs	MMF *			6,620,000	0.27%
Total short term cash investments (<1 yr duration)				38,870,000	
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%
Close Brothers	Fixed	16/11/2017	731	2,000,000	1.60%
Places for People Homes (HA)	Fixed	15/06/2018	730	2,000,000	1.70%
Total long-term cash investments (>1 yr duration)				8,000,000	
CCLA	Property			2,580,865	variable
Total Investments				49,450,865	

* Rates are variable. Returns shown represent prevailing rates at end Q2 2016.

South Oxfordshire District Council

Investment returns achieved against benchmark				
	Benchmark Return	Actual Return	Growth (Below)/above Benchmark	Benchmarks
Bank & Building Society deposits - internally managed	0.38%	2.13%	1.75%	3 Month LIBID
Equities	10.61%	11.51%	0.90%	FTSE All Shares Index
Corporate Bonds	0.25%	11.50%	11.25%	BoE base rate

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

CCLA

Annualised total return performance			
Performance to 30 September 2016	1 year	3 years	5 years
The local authorities property fund	2.9%	12.5%	9.3%
Benchmark	4.3%	12.0%	8.3%

- 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 2016/17, achieved a return of 4.7 per cent calculated as a ratio of income over the market value held as at 30 September 2016. This is not the same basis upon which the performance of the fund above is calculated.

Vale of White Horse District Council

Investment returns achieved against benchmark				
	Benchmark return	Actual return	Growth (below)/above benchmark	Benchmarks
	%	%	%	
Internally managed - Bank & Building Society deposits	0.38%	1.25%	0.87%	3 month LIBID

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

CCLA

Annualised total return performance				
Performance to 30 September 2016	1 year	3 years	5 years	
The local authorities property fund	2.9%	12.5%	9.3%	
Benchmark	4.3%	12.0%	8.3%	

- 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 2016/17, achieved a return of 4.7 per cent calculated as a ratio of income over the market value held as at 30 September 2016. This is not the same basis upon which the performance of the fund above is calculated.

South Oxfordshire District Council

Prudential indicators as at 30th September 2016		
	2016/17 Original Estimate £m	Actual as at 30-Sep £m
Debt		
Authorised limit for external debt		
Borrowing	5	0
Other long term liabilities	5	0
	10	0
Operational boundary for external debt		
Borrowing	2	0
Other long term liabilities	3	0
	5	0
Interest rate exposures		
Maximum fixed rate borrowing	100%	0
Maximum variable rate borrowing	100%	0
Investments		
Interest rate exposures		
Limits on fixed interest rates	100	93
Limits on variable interest rates	30	12
Principal sums invested > 364 days		
Upper limit for principal sums invested >364 days	70	28
Limit to be placed on investments to maturity:		
1 - 2 years	70	7
2-5 years	50	12
5 years+	50	9

Vale of White Horse District Council

Prudential indicators as at 30th September 2016		
	2016/17	Actual as at
	Original estimate	30-Sep
	£m	£m
Debt		
Authorised limit for external debt		
Borrowing	30	0
Other long term liabilities	5	0
	35	0
Operational boundary for external debt		
Borrowing	25	0
Other long term liabilities	0	0
	25	0
Interest rate exposures		
Maximum fixed rate borrowing	100%	0
Maximum variable rate borrowing	100%	0
Investments		
Interest rate exposures		
Limits on fixed interest rates	40	34.5
Limits on variable interest rates	30	12.4
Principal sums invested > 364 days		
Upper limit for principal sums invested >364 days	30	8
Limit to be placed on investments to maturity:		
1 - 2 years	30	4
2-5 years	5	0
5 years+	5	4

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.