

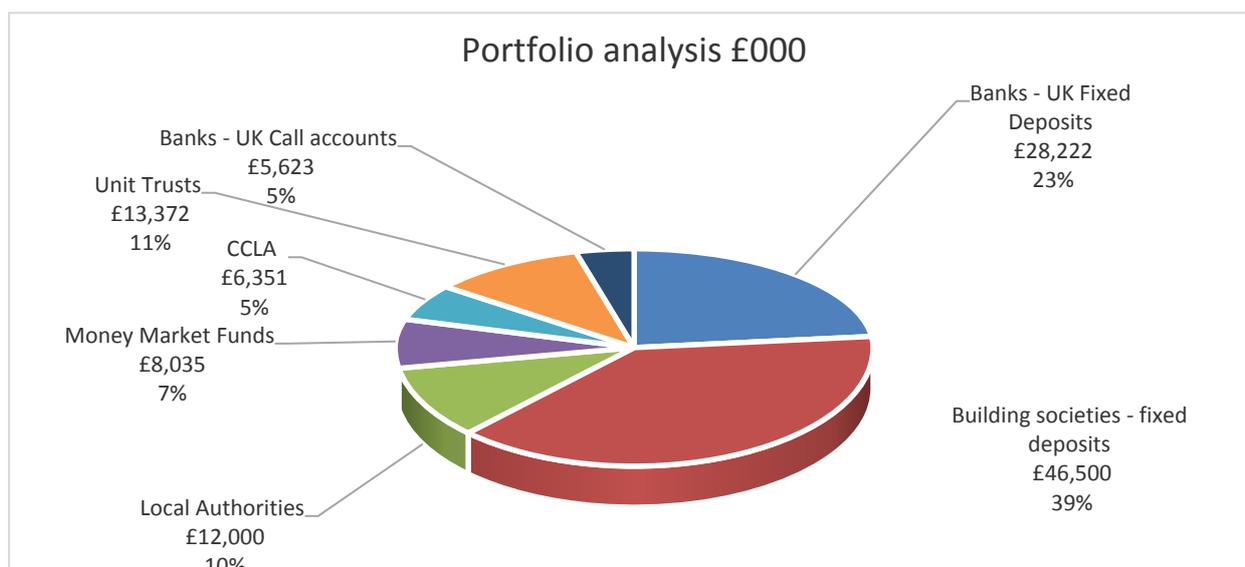
## SODC treasury activities in 2016/17

### Council treasury investments as at 31 March 2017

1. The council's treasury investments, analysed by age as at 31 March 2017 were as follows:

<b>Table 1: maturity structure of investments at 31 March 2017:</b>		
	<b>£000</b>	<b>% holding</b>
Call	5,623	5%
Money market fund	8,035	7%
<b>Cash available within 1 week</b>	<b>13,658</b>	<b>12%</b>
Up to 4 months	38,000	32%
5-6 months	6,500	5%
6 months to 1 year	25,000	21%
Over 1 year	17,000	14%
Kaupthing Singer & Friedlander	222	0%
<b>Total cash deposits</b>	<b>100,380</b>	<b>84%</b>
CCLA Property Fund	6,351	5%
Equities	13,372	11%
<b>Total investments</b>	<b>120,103</b>	<b>100%</b>

2. The majority 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 2016/17 was £1.9 million, compared to the original budget of £1.6 million, as shown in table 2 below:

<b>Table 2: Investment interest earned by investment type</b>			
<b>Investment type</b>	<b>Interest earned</b>		
	<b>Annual Budget</b>	<b>Actual</b>	<b>Variation</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fixed term and call	940	1,098	158
Corporate Bonds	24	9	(15)
Equities	360	456	96
CCLA property fund	250	304	54
	1,574	1,867	293

6. The actual return achieved was £0.3 million more than the original budget. This was due to:

- The call accounts earned less interest than forecast because of rates reducing on our accounts.
- Interest earned on cash deposits was £0.2 million higher than forecast due to an increase in interest rates achieved during the first part of the financial year.
- Dividend received on equities was £0.1 million higher than forecast due to the overall increase in the value during the year. As the value of our capital investment increases, the dividend earned goes up.
- Dividend earned on CCLA was £54,000 higher due to fluctuations in the price of units held.

7. The actual average rate of return on treasury investments for the year was 1.49 per cent.

## Performance measurement

8. A list of treasury investments as at 31 March 2017 is shown in **appendix E**. All investments were with approved counterparties. The average level of investments held was £125 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	0.32%	1.07%	0.75%	3 Month LIBID
Equities	17.52%	16.76%	(0.76%)	FTSE All Shares Index
Property related investments (excluding SOHA loan)*	4.60%	6.71%	2.11%	IPD balanced property unit trust index
Corporate Bonds	0.25%	11.50%	11.25%	BoE base rate

\*source CCLA Local Authorities Property Fund Report March 2017

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 0.32 per cent for 2016/17. The performance for the year of 1.07 per cent exceeded the benchmark by 0.75 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 2016/17 to £6.4 million. Dividends received in the year totalled £0.3 million. Both the capital appreciation and the interest earned are included in the performance of 6.71 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 4.79 per cent.

## Equities

12. 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.
13. 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.

<b>Table 4: Unit Trusts - Movement in capital</b>		
	£	£
Market Value as at 31.3.17		13,372,084
Less:		
Dividends received in year	276,453	
Accrued dividends	180,000	
		(456,453)
Add:		
Disposal in year		2,000,000
Amended market value as at 31.3.17		14,915,631
Market value as at 1.4.16		12,774,260
Increase in Market Value in year		2,141,371

14. The increase above is compared to the performance of the stock market as a whole using the benchmarking in table 5 below. The funds underperformance of 0.76 per cent equates to £96,679 in real terms.

<b>Table 5: Unit Trust performance</b>	
Increase in FTSE all share was	17.52%
Increase in Market Value	16.76%
Under-performance	(0.76%)
	£
Market Value 1.4.16	12,774,260
Plus 17.52% FTSE increase	2,238,050
Benchmark Market Value at 31.3.17	15,012,310
Market Value (amended at 31.3.17)	14,915,631
<b>Under performance 1.4.16 to 31.3.17</b>	<b>(96,679)</b>

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

Table 5.1 Unit Trust past performance	2013/14	2014/15	2015/16
Performance against FTSE all share % (Under)/Over	(0.22%)	0.49%	(0.46%)
Performance against FTSE all share £000 (Under)/Over	(30,492)	61,163	(61,601)

The justification for holding this investment is regularly reviewed.

16. Dividends received of £0.46 million were reinvested to acquire additional fund units.

17. 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 September 2016, the value of our unit trust holding reached the £14 million threshold and a disposal of £2 million took place.

### Corporate Bonds

18. The Council's corporate bonds are also accounted for in the financial statements at fair value. The opening carrying value for 1 April 2016 was £0.3 million. The RBS corporate bond matured and was disposed of during the year; therefore, the council has no corporate bond holdings at 31 March 2017. The carrying values and market values for the corporate bonds are shown in table 6 below:

Table 6: Corporate bond values					
	Original cost £000	Nominal value £000	Carrying Value as at 1.4.16 £000	Carrying Value as at 1.4.17 £000	Market value at 1.4.17 £000
Bonds					
Santander 11.50%	422	270	287	0	0
	422	270	287	0	0

### 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 £2,240,529 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 2016/17, 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 2017 (£8.95 million at 31 March 2016) and generated income of £0.24 million in 2016/17 (£0.77 million in 2015/16) giving a gross rate of return of 4.67 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.

24. Performance of the councils investment property portfolio is assessed annually by Arcadis in order to advise whether assets should be retained or disposed of and to propose any actions to improve where this would enhance the value of the investment property holdings.

### **Liquidity and yield**

25. 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.

26. The amount maintained for liquidity was £14 million, which is higher than the benchmark. A review of the benchmark took place during 2016/17 and it was removed from the strategy in 2017/18. This will allow officers to place more short term deposits, covering cash flows, which will achieve better yields for the council.

27. The actual for the weighted average life of 200 days was within the range set of 0.5 years to 3 years.