Joint Audit and Governance Committee

Report of Head of Finance/Financial Accountant (Capita)

Author: William Jacobs/Jelena Peet (Capita)

Telephone: 01235 422480/01749 341260

Textphone: 18001 01235 422480

E-mail: William.jacobs@southandvale.gov.uk

jelena.peet@southandvale.gov.uk

SODC cabinet member responsible for Finance: Councillor David Turner
Telephone: 01865 891169
Email: david.turner@southoxon.gov.uk

VWHDC cabinet member responsible for Finance: Councillor Andrew Crawford
Telephone: 01235 772134
Email: andy.crawford@whitehorsedc.gov.uk

To: Joint Audit and Governance Committee, Cabinet and Council

DATE: 14 October 2019 by Joint Audit and Governance Committee

05 December 2019 (S) / 06 December 2019 (V) by Cabinet

12 December 2019 (S) / 11 December 2019 (V) by Council

Treasury Outturn 2018-19

That Joint Audit and Governance Committee:

1. notes the treasury management outturn report 2018/19,

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 2018/19;

2. approve the actual 2018/19 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 2018/19.

2. This complies with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA's) Code of Practice on Treasury Management.

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 2018/19 against prudential indicators and benchmarks set for the year in the 2018/19 Treasury Management Strategy (TMS), approved by each council in February 2018. 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 2018/19

10. UK bank base rates were increased to 0.75 per cent in August 2018, having been set at 0.50 per cent since November 2017. 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 late 2020, with two 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. This was also the case in 2017/18. More cash to invest has been a factor in the surplus of treasury investment income over budget in the year for VOWHDC.

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 2019/20 – as discussed above, interest rates are expected to rise slowly 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 used by the council are other councils and housing associations.

Summary of investment activities during 2018/19

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. 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	151,513	15,000	166,513	6,456	172,969
2	Budgeted investment income	2,317	623	2,940		
3	Actual investment income	2,018	623	2,641	318	2,959
4	surplus/(deficit) (3) - (2)	(299)	0	(299)		
5	Rate of return (3) ÷ (1)	1.33%	4.15%	1.59%	4.92%	1.71%

	Vale	Treasury investments £000	Property investment £000	Overall total £000
1	Average investment balance	84,161	7,062	91,223
2	Budgeted investment income	450		
3	Actual investment income	933	357	1,290
4	surplus/(deficit) (3) - (2)	483		
5	Rate of return (3) ÷ (1)	1.11%	5.06%	1.41%

17. VWHDC has exceeded treasury budgeted investment income this year in terms of both actual income against budget and rates of return against benchmark. SODC exceeded in terms of rates of return against benchmark. SODC has 0.3 million deficit compared to treasury budgeted investment income, mainly due to interest rates not increasing in 2018/19 as expected when the budget was set. More detail on benchmarks is included in the appendices that follow this report.

18. Detailed reports on the treasury activities for each council and performance for 2018/19 against prudential indicators and benchmarks set for the year are contained in **appendix C** – South Oxfordshire DC and **appendix D** – Vale of White Horse DC.

19. A detailed list of both councils' treasury investments as at 31 March 2019 is shown at **appendix E**.

Debt activity during 2018/19

20. During 2018/19, 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

21. The treasury investments made in 2018/19 ensured over £2 million of actual investment income achieved for SODC during year and over £0.9 million received for VOWHDC. Income earned from investments supports the councils' medium term financial plans and contributes to the councils' balances or supports the in-year expenditure programmes.

22. 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

23. 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

24. Despite a difficult operating environment, both councils continued to make investments during 2018/19 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 2018/19 – Councils in February 2018.

Appendices

A. Interest rate forecasts
B. Prudential limits
C. SODC – Treasury activities 2018-2019
D. VWHDC – Treasury activities 2018-2019
E. Treasury investments as at 31 March 2019
F. Glossary of terms