

To: Scrutiny Finance Panel

Date: 6th August 2013

Report of: Financial Accounting Manager

Title of Report: Treasury Management Performance Report 2013/14

Summary and Recommendations

Purpose of report: To report on the performance of the treasury management function for 2012/13.

Recommendations / Points to note:

- 1) **The performance of the treasury management function for 2013/14**
- 2) **The Investment Strategy for the remaining of 2013/14**

Introduction

1. This report has been prepared to cover the following:
 - The performance of the Treasury Management function for 2013/14
 - To outline the investment strategy for the remaining of 2013/14

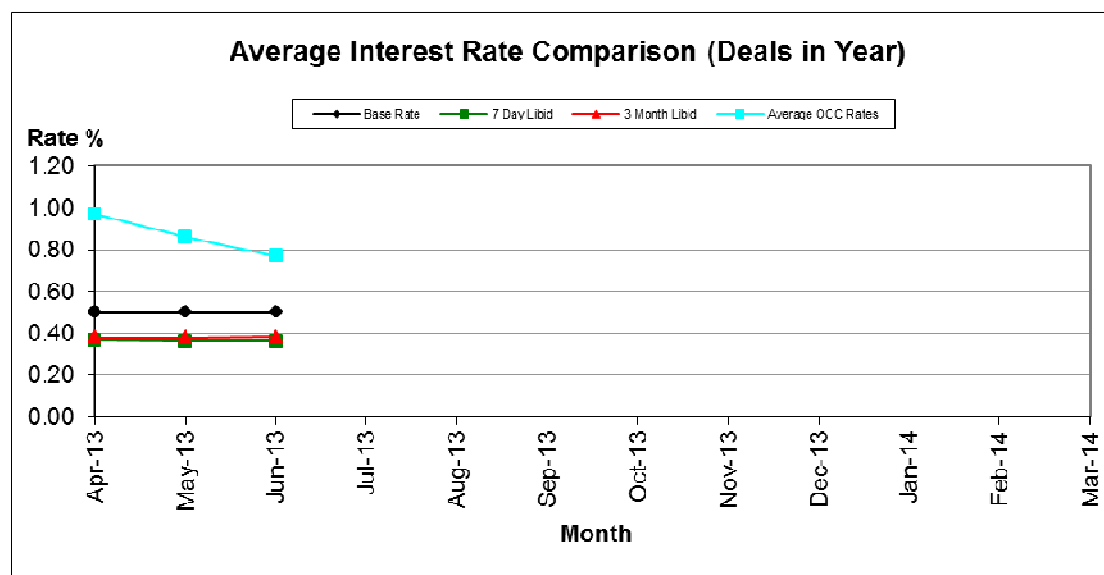
Investment Performance 2013/14

2. The cumulative average rate of return on investments to 30th June 2013 was 0.87%. The cumulative return has decreased due to higher rated, longer term investments being repaid and replaced by lower rated, longer term investments. This is below the treasury performance indicator target of 1%, being 50 basis points above the Bank of England's Base Rate (currently 0.50%).
3. The Council's investment balances have started to increase over the first quarter of the year from £44m at the end of March 2013 to £64m at the end of June 2013, an increase of 45%. As balances increase difficulties arise in finding suitable counterparties that meet the lending criteria within the Council's existing Treasury Management Strategy, coupled with an operational treasury strategy which has restricted investments to UK rather than foreign banks. As headroom with suitable available counterparties decreases, those that are available such as Local Authorities, pay lower returns.

4. The amount of investment interest included in the Councils budget for 2013/14 is £460k.

Average Interest Rate Comparison Graph

5. The graph below compares our in-house average rate of return for each month to the Bank of England's Base Rate and our benchmark interest rates:



6. The graph shows that the Council's average monthly return is significantly above our benchmark interest rates and the Bank of England's Base Rate. It also shows that the monthly investment return has dropped during the first quarter of the year.

Icelandic Investments

7. In October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The authority had £4.5 million deposited across 2 of these institutions, with varying maturity dates and interest rates.
8. The original terms and the amounts outstanding are shown in the table below:

Counterparty	Original Principal	Interest Rate	Maturity Date	Interest Received	Principal Repaid	Exchange Rate Loss	Total Repaid	Total Outstanding as at 31.12.12
Glitnir	£1.5m	5.51%	28/01 2009	£81,172.63	£1,213,800	(£45,238.57)	£1,249,734.06	£305,339.56
Heritable	£1.0m	5.83%	09/12 2008	£3,949.98	£772,803.44		£776,753.42	£228,357.81
Heritable	£1.0m	6.04%	05/01 2009	£15,857.50	£772,803.44		£788,660.94	£231,858.51
Heritable	£1.0m	6.18%	30/04 2009	£9,682.70	£772,803.44		£782,486.14	£230,043.18
Total				£110,662.81	£3,532,210.32	(£45,238.57)	£3,597,634.56	£995,599.06

Interest Rate Forecast

9. The Bank of England's Monetary Policy Committee (MPC) have continued to maintain the official Bank Rate paid on commercial bank reserves at 0.50%.
10. The Council's Treasury Advisor, Sector, is currently predicting that the Bank of England's Base Rate will not rise before quarter 4 of 2014. There is no change to forecast from the previous report.
11. Sector have provided the following interest rate forecast:

Bank Rate	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q1 2015
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%
10yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.20%	3.30%	3.50%	3.60%
25yr PWLB Rate	4.10%	4.10%	4.20%	4.20%	4.30%	4.40%	4.60%	4.60%
50yr PWLB Rate	4.20%	4.20%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%

Investment Balances as at 30th June 2013

12. A list of investments held as at 30th June 2013 is shown in appendix 1 of this report. During this financial year we have invested £1,000,000 with CCLA property fund, which in its first two months produced a return of just over 4%. Other new investments include Treasury Bills, giving a return of 0.29% and Certificates of Deposit giving a return of approx. 0.43%.

The Treasury Management Counterparty List

13. The approved current counterparty list provides limits of the amounts which can be placed with each counterparty. Whilst the Council works within this approved list from an operational day to day strategy currently foreign banks are not utilised.
14. The Council's average cash balance over the first quarter of the year has been around £55 million, with a peak at £63 million in July. Difficulties have been encountered with finding suitable counterparties within which to place monies. This pressure is likely to continue and increase as surplus cash arising on the Housing Revenue Account from Self Financing increases
15. The Council's approved Treasury Management Counterparty List is based upon Sector's recommended counterparty lending list. This list is determined by current counterparty credit ratings provided by the three main credit rating agencies and by changes to their credit default swap spreads. Officers review the lending list on a weekly basis, or more frequently if additional information is released.

16. All lending is also currently restricted to a maximum of three months to all other institutions, with the exception of other local authorities or semi-nationalised banks. No changes are required to the overall Investment Treasury Management Strategy as this change is at an operational level. The situation will continue to be reviewed.
17. At a previous meeting it was agreed to increase the limit for part nationalised banks upto to the limit of 20%, which is now £9 million. This has now been undertaken and we have invested an additional £2.2 million to Lloyds TSB and £2 million to Natwest. This now makes each of these counterparties fully up to their limits.
18. We are also looking to make further investment with an additional property fund and have identified 6 potential funds for which we will be investigating further to see which meets our needs the best.

Borrowing

19. The Council's external debt as at 31st March 2013 was approximately £201.2 million. This includes approximately £198.5 million borrowed from the Public Work Loans Board (PWLB) to buyout of the Housing Revenue Account (HRA) subsidy system. The debt is held at fixed rates, with varying lengths of time before maturity. The debt is wholly related to Housing with the interest being met by the Housing Revenue Account. Restructuring and premature repayment of the old debt has been considered and ruled out because the Council would incur a large premium from PWLB as these existing debts are at very high interest rates.
20. The Council also has a long-term liability; this is an outstanding debt with South Oxfordshire District Council and is held at a variable rate, which is currently approximately £0.9 million.
21. The Council continues to monitor borrowing interest rates and forecasts on a regular basis to ensure we are in a position to take on new external debt to fund the current Capital Programme commitments.

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Appendix 1

INVESTMENTS BALANCE AS AT					30-Jun-13			
TOTAL INVESTED(£)	GROUP INVESTMENT TAKERS	INVESTMENT TAKER & INVESTMENT REFERENCE	DATE INVESTED	AMOUNT (£) TO 364 DAYS	PURPOSE / COVERING	CURRENT RATE (%)	REDEMPTION DATE	AVAILABLE TO INVEST (£)
0	CO-OPERATIVE BANK PLC	CO-OP Public Sector Reserve A/c - 19	18-Apr-13	0	Cashflow Only	0.18%	-	500,000
0	DEBT MANAGEMENT OFFICE					0.25%		20,000,000
3,000,000	SKIPTON BUILDING SOCIETY	Skipton Building Society - 9986A	13-Jun-13	2,000,000	Cashflow	0.43%	13-Sep-13	
		Skipton Building Society - 4	03-Apr-13	1,000,000	Cashflow	0.44%	02-Jul-13	
2,500,000	COVENTRY BUILDING SOCIETY	Coventry Building Society - 7	05-Apr-13	1,500,000	Cashflow	0.43%	05-Jul-13	500,000
		Coventry Building Society - 20	17-Apr-13	1,000,000	Cashflow	0.43%	16-Jul-13	
3,000,000	LEEDS BUILDING SOCIETY	Leeds Building Society - 63	04-Jun-13	2,000,000	Precepts	0.35%	12-Sep-13	0
		Leeds Building Society - 65	07-Jun-13	1,000,000		0.35%	09-Sep-13	
2,000,000	LOCAL AUTHORITIES	Leeds City Council	19-Jun-13	2,000,000	Cashflow	0.27%	19-Sep-13	
3,996,983	TREASURY BILLS	King and Shaxson	13-Jun-13	3,996,983	Cashflow	0.29%	16-Sep-13	6,003,017
3,000,227	CERTIFICATES OF DEPOSIT	Standard Chartered Bank PLC	27-Jun-13	3,000,227	Cashflow	0.43%	27-Sep-13	6,999,773
6,800,000	NATIONWIDE BUILDING SOCIETY	Nationwide BS - 9603E	04-Jun-13	2,000,000	Payment Runs	0.44%	03-Sep-12	3,200,000
		Nationwide BS - 9437F	12-Mar-13	2,000,000	Cashflow	0.44%	11-Jun-13	
		Nationwide BS - 9828D	07-May-13	1,500,000	Cashflow	0.44%	06-Aug-13	
		Nationwide BS - 44	15-May-13	1,300,000	Cashflow	0.43%	13-Aug-13	
6,800,000	BARCLAYS BANK	Barclays Bank - 3	03-Apr-13	2,000,000	Cashflow	0.449%	02-Jul-13	
		Barclays Bank - 9652D	13-May-13	1,800,000	Payment Runs	0.440%	13-Aug-13	
		Barclays Bank - 16	15-Apr-13	3,000,000	Cashflow	0.450%	15-Jul-13	
	PROPERTY FUNDS							10,000,000
1,000,000	LOCAL AUTHORITIES' PROPERTY FUND (CCLA)		30-Apr-13	1,000,000	administrator: does not include £5k Stamp Duty Reserve Tax			
0	SUMITOMO MITSUI BANKING CORPORATION EUROPE	SMBCE		0				10,000,000
9,000,000	LLOYDS BANKING GROUP	Bank of Scotland-9294a	12-Jul-12	3,500,000	Cashflow	3.00%	04-Jul-13	0
		Bank of Scotland-9653B	13-Nov-12	1,300,000	Cashflow	1.90%	12-Nov-13	
		Lloyds TSB Bank - 9665A (7882577)	17-May-13	2,000,000	Cashflow	1.05%	16-May-14	
		Lloyds TSB Bank - 8	05-Apr-13	2,200,000	Cashflow	1.10%	04-Apr-14	
8,799,978	NATWEST CALL ACCOUNT	Natwest Liquidity Select Account - 13	11-Apr-13	2,000,000	Cashflow	0.25%	Instant Access	200,022
	NATWEST TREASURY RESERVE ACCOUNT	Treasury Deposit - 14396982	30-Nov-12	6,799,978	Cashflow	1.58%	29-Nov-13	
13,370,000	MONEY MARKET FUNDS	GOLDMAN SACHS MMF - 87	28-Jun-13	0	Cashflow	-		6,630,000
	MONEY MARKET FUNDS	IGNIS MMF - 9678	29-May-12	6,800,000	Cashflow			
	MONEY MARKET FUNDS	DB ADVISORS MMF - 9926	08-Jan-13	0	Cashflow	-	-	
	MONEY MARKET FUNDS	PRIME RATE MMF - 88	28-Jun-13	6,570,000	Cashflow			
	MONEY MARKET FUNDS	STANDARD LIFE MMF	FUND MERGED WITH DB ADVISORS AS OF 01/06/11				-	
63,267,188		TOTAL INVESTED		63,267,188				

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