

To: Executive Director of Organisational Development
and Corporate Services

Scrutiny Finance Panel

Date: 30th October 2013
7th November 2013

Report of: Technical Officer (Treasury Management & VAT)

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 2013/14 to date.

Recommendations / Points to note:

- 1) **The performance of the treasury management function for the second quarter of 2013/14**
- 2) **The Investment Strategy for the remaining of 2013/14**
- 3) **Potential considerations for the 2014/15 Treasury Management strategy**

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

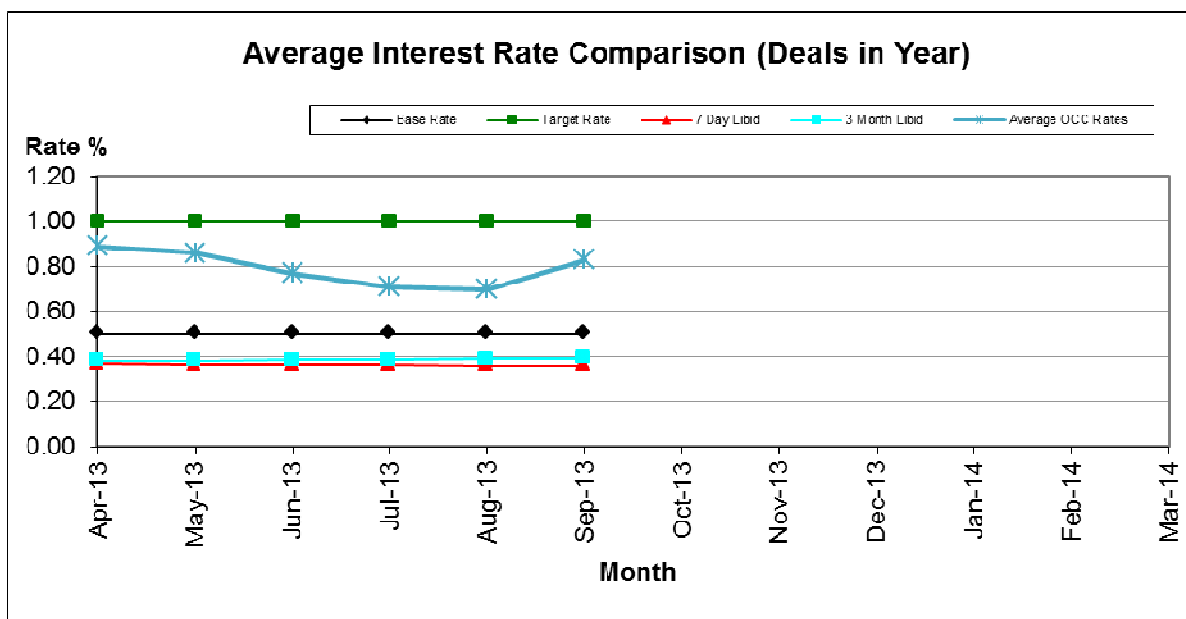
2. The cumulative average rate of return on investments to 30th September 2013 was 0.79%. The cumulative return has decreased due to higher rated, longer term investments being repaid and replaced by lower rated, longer term investments. This is below the treasury performance indicator target of 1%, being 50 basis points above the Bank of England's Base Rate (currently 0.50%).
3. The Council's investment balances have remained fairly constant over the second quarter of the financial year, averaging around £64m at the beginning of July 2013 and £63m at the end of September 2013. Overall cash balances have increased by 45% since March 2013; this is due to

slippages in the capital program and a deferral of expenditure, in addition to a transfer of £7m from the HRA to the General Fund.

- The amount of investment interest included in the Council's budget for 2013/14 is £460k, and we continue to predict that we will achieve this position.

Average Interest Rate Comparison Graph

- 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:



- 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 dropped during the first quarter of the year, which was due to decreased market rates resulting in maturing loans being reinvested at a lower rate. However, the monthly return increased again towards the end of the second quarter and this was primarily due to the high yielding return achieved by the CCLA Property Fund.

Icelandic Investments

- 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.
- Original balances were £3m with Heritable and £1.5m with Glitnir. Heritable has repaid 94% of the initial deposit plus interest back and

continue to make repayments. We have also received over 80% of the initial deposit placed with Glitnir. The remaining balance is currently held in Iceland, under Icelandic law, and we are awaiting advice from Bevan Brittan and Local Government Association regarding our options on this matter.

9. 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 30.09.2013
Glitnir	£1.5m	5.51%	28/01 2009	£81,172.63	£1,213,800.00	(£45,238.57)	£1,249,734.06	£350,577.94
Heritable	£1.0m	5.83%	09/12 2008	£4,805.45	£940,173.45		£944,978.90	£60,132.33
Heritable	£1.0m	6.04%	05/01 2009	£19,291.84	£940,173.45		£959,465.29	£61,054.16
Heritable	£1.0m	6.18%	30/04 2009	£11,779.73	£940,173.45		£951,953.18	£60,576.14
Total				£117,049.65	£4,034,320.35	(£45,238.57)	£4,106,131.43	£532,340.57

Interest Rate Forecast

10. The Bank of England's Monetary Policy Committee (MPC) has continued to maintain the official Bank Rate paid on commercial bank reserves at 0.50%.
11. The Council's Treasury Advisor, Capita Asset Services (formerly known as Sector), is currently predicting that the Bank of England's Base Rate will not rise before quarter 3 of 2016/17 (October 2016) which is later than forecast in the previous report.
12. Capita Asset Services has provided the following interest rate forecast:

	Q3 2013/14	Q4 2013/14	Q1 2014/15	Q2 2015/16	Q3 2015/16	Q4 2015/16	Q1 2016/17	Q2 2016/17	Q3 2016/17	Q4 2017/18
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%
10-yr PWLB Rate	3.30%	3.30%	3.30%	3.30%	3.40%	3.50%	4.20%	4.30%	4.40%	4.50%
25-yr PWLB Rate	4.60%	4.70%	4.80%	4.90%	5.00%	5.00%	5.00%	5.10%	5.10%	5.20%
50-yr PWLB Rate	4.50%	4.50%	4.50%	4.50%	4.60%	5.10%	5.10%	5.20%	5.20%	5.30%

Investment Balances as at 30th September 2013

A list of investments held as at 30th September 2013 is shown in appendix 1 of this report. At the end of quarter 2, we invested a further £2m with the CCLA property fund. No further Treasury Bills have been purchased and the ones reported in quarter 1 have since matured. Existing Certificates of Deposit are currently giving an average return of 0.48%; this rate has

increased as we have reinvested one Certificate of Deposit for a longer period, increasing the maturity period from 3 months to 6 months; this allows for a higher rate of return without increasing risk.

Property Funds

13. The total investment in the CCLA property fund currently stands at £3m. The initial £1m invested in the first quarter of the financial year produced a return of 6% per annum and it is expected that the fund will continue to achieve this rate on the total funds invested to date; the effects of this return will start to show in the average return over the coming months. The table below shows the number of units purchased in each tranche, along with the unit price at the end of each month. The unit price is re-valued on a monthly basis and reflects the value at which our share is held.

	No of units held	Price per unit	Value of Units	No of units held	Price per unit	Value of Units	Total Value of Units	Increase/Decrease of total portfolio	% increase of total portfolio
	1st Tranche purchased 30th April 2013			2nd Tranche purchased 30th Sept 2013					
2013									
April	447,507	2.2346	1,000,000				1,000,000		
May	447,507	2.2351	1,000,223				1,000,223	223	0.02%
June	447,507	2.2636	1,012,977				1,012,977	12,977	1.30%
July	447,507	2.2631	1,012,753				1,012,753	12,753	1.28%
August	447,507	2.2671	1,014,543				1,014,543	14,543	1.45%
September	447,507	2.2894	1,024,523	826,105	2.4210	2,000,000	3,024,523	24,523	2.45%

The Treasury Management Counterparty List

14. 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.
15. The Council's approved Treasury Management Counterparty List is based upon Capita Asset Services' 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. The Council continues to hold its main bank account with the Co-op. Currently, the Co-op's long and short term credit ratings are BB- and B respectively, with a viability rating of bb- and support rating of 5. Although these ratings do not meet the strategy criteria, the bank account is used for

overnight transactional purposes only and no funds are held in the account on a longer term basis.

Borrowing

18. 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 buy out 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.
19. The remaining balance of £889,040.60 of the Council's outstanding debt with South Oxfordshire District Council was repaid in full during the second quarter. (This related to the transfer of debt following boundary changes).
20. 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.

Treasury Management Strategy 2014/15

21. The proposed Treasury Management Strategy for 2014/15 will be submitted to Council in February 2014. The items outlined below are considerations which may be proposed:
22. The current strategy permits lending to Local Authorities and Police Commissioning bodies for a maximum of 364 days. However, by elongating the strategy beyond one year, the Council will be able to expand its investment opportunities. Interest rates are forecast to remain constant until 2016 and so committing to longer term investments should still look comparatively favourable in 3 years' time. Evidently, maturity limits for individual counterparties will be taken into consideration to ensure the security of the investment.
23. Recent monitoring of the holdings of the MMFs used by the Council suggests that they have exposure to similar counterparties. Therefore, if the Council were to consolidate its balances into one fund only, there will be no increased risk but potential for an increased yield if we can be "upgraded" into a higher share class.
24. In accordance with best practice advice from Capita Asset Services, the Treasury Management team will also look into the possibility of extending maturity limits with other counterparties on the approved list (i.e. banks and building societies).

25. On-going research into new counterparties that could be added/reinstated to the lending list will also be presented to Council for approval; expanding the list will not only allow for a greater spread of investments to enable us to deal with the increasing cash balances, but it will also serve to diversify our portfolio and spread the risk. It may also enable us to achieve higher returns on our investments.

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Appendix 1

INVESTMENTS BALANCE AS AT				30-Sep-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 (£)	BROKER	Interest	
0	CO-OPERATIVE BANK PLC	CO-OP Public Sector Reserve A/c - 19	18-Apr-13	0	Cashflow Only	0.18%	-	500,000	Non Broker		
3,000,000	SKIPTON BUILDING SOCIETY	Skipton Building Society - 9986B	13-Sep-13	2,000,000	Cashflow	0.43%	13-Dec-13		Tradition		
		Skipton Building Society - 4A	02-Jul-13	1,000,000	Cashflow	0.43%	01-Oct-13		Tradition	2,144.11	
3,000,000	COVENTRY BUILDING SOCIETY	Coventry Building Society - 95	05-Jul-13	2,000,000	Cashflow	0.43%	07-Oct-13	0	ICAP		
		Coventry Building Society - 20A	16-Jul-13	1,000,000	Cashflow	0.43%	16-Oct-13		ICAP		
3,000,000	YORKSHIRE BUILDING SOCIETY	Yorkshire Building Society - 124	08-Aug-13	2,000,000	Cashflow	0.40%	08-Nov-13	0	Sterling		
		Yorkshire Building Society - 147	09-Sep-13	1,000,000	Cashflow	0.40%	09-Dec-13			2,016.44	
4,000,000	LOCAL AUTHORITIES	Leeds City Council	19-Sep-13	2,000,000	Cashflow	0.27%	19-Dec-13		ICAP		
		Newcastle City Council	12-Sep-13	2,000,000	Cashflow	0.28%	12-Dec-13		ICAP	1,346.30	
6,000,470	CERTIFICATES OF DEPOSIT	Standard Chartered Bank PLC	27-Sep-13	3,000,227	Cashflow	0.54%	27-Mar-14	3,999,530	King & Shaxson	1,396.16	
		Standard Chartered Bank PLC - 102	01-Jul-13	3,000,244	Cashflow	0.41%	18-Oct-13	10,000,000	King & Shaxson	8,034.03	
6,800,000	NATIONWIDE BUILDING SOCIETY	Nationwide BS - 9603F	03-Sep-13	2,000,000	Payment Runs	0.44%	03-Dec-13	3,200,000	Sterling	3,673.45	
		Nationwide BS - 9437H	10-Sep-13	2,000,000	Cashflow	0.44%	10-Dec-13		Tradition	2,193.97	
		Nationwide BS - 9828E	06-Aug-13	1,500,000	Cashflow	0.44%	05-Nov-13		R P Martin	2,193.97	
		Nationwide BS - 44A	13-Aug-13	1,300,000	Cashflow	0.44%	12-Nov-13		ICAP	1,645.48	
6,800,000	BARCLAYS BANK	Barclays Bank - 3A	02-Jul-13	2,000,000	Cashflow	0.450%	02-Oct-13		Non Broker		
		Barclays Bank - 9652E	13-Aug-13	1,800,000	Payment Runs	0.450%	15-Nov-13		Non Broker	2,268.49	
		Barclays Bank - 16	15-Jul-13	3,000,000	Cashflow	0.450%	15-Oct-13		Non Broker	2,086.03	
	PROPERTY FUNDS							10,000,000		3,402.74	
3,000,000	LOCAL AUTHORITIES' PROPERTY FUND (CCLA)		30-Apr-13	1,000,000						-	
			27-Sep-13	2,000,000						-	
9,000,000	LLOYDS BANKING GROUP	Bank of Scotland-93	04-Jul-13	3,500,000	Cashflow	1.01%	03-Jul-14	0	Non Broker		
		Bank of Scotland-9653B	13-Nov-12	1,300,000	Cashflow	1.90%	12-Nov-13			35,253.15	
		Lloyds TSB Bank - 9665A (7882577)	17-May-13	2,000,000	Cashflow	1.05%	16-May-14		Non Broker		
		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	Non Broker		
	NATWEST TREASURY RESERVE ACCOUNT	Treasury Deposit - 14396982	30-Nov-12	6,799,978	Cashflow	1.58%	29-Nov-13		Direct		
9,700,000	MONEY MARKET FUNDS	GOLDMAN SACHS MMF - 166	26-Sep-13	1,820,000	Cashflow	-		10,300,000			
	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 - 168	30-Sep-13	1,080,000	Cashflow						
	MONEY MARKET FUNDS	STANDARD LIFE MMF	FUND MERGED WITH DB ADVISORS AS OF 01/06/11								
63,100,448		TOTAL INVESTED		63,100,448							

administrator:
does not include E5k
Stamp Duty Reserve
Tax

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Glossary of Terms:

Certificates of Deposit

Fixed rate, fixed term promissory note with a commercial bank

Property Fund

A portfolio of properties held for investment by a third party