

To: Executive Director of Organisational Development
and Corporate Services

Scrutiny Finance Panel

Date: 4th February 2014

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 third quarter of 2013/14
- 2) The Investment Strategy for the remaining of 2013/14

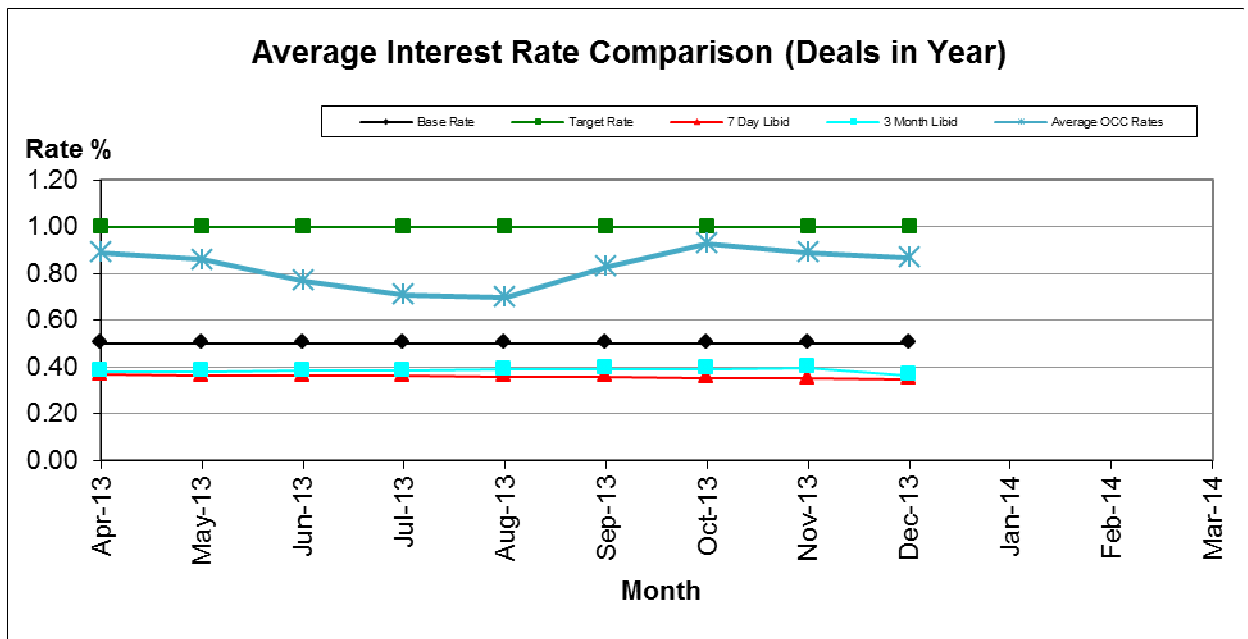
Investment Performance 2013/14

1. The cumulative average rate of return on investments to 31st December 2013 was 0.83%. This is a small increase on the 0.79% cumulative return reported in quarter 2 and is primarily due to elongating fixed deposits with local authorities from 3 months to between 3 months and 364 days. However, it is worth noting that as existing deposits with banks mature, they are likely to be reinvested at lower rates due to a general decline in the money market rates.
2. The 0.83% cited above takes into account the rate of return achieved from investments in the CCLA property fund; the cumulative average rate of return on investments to 31st December 2013 exclusive of property fund investments (currently amounting to £2.8m) is 0.66%.
3. The Council's investment balances have seen a slight increase over the third quarter of the financial year, averaging £66.1m at the beginning of October 2013 and £71.6m at the end of December 2013. Investment balances are likely to decrease in the final quarter of 2013/14 due to reduced amounts of collectable Council Tax and Business Rates income in February and March.

- The amount of investment interest included in the Council's budget for 2013/14 is £460k, and this is forecast to be on target.

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 although it is still short of the target 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.
- In the third quarter, there has been a slight month on month decline in the average rate of return and factors contributing to this include maturing 364-day deposits being reinvested at lower rates and a reduction in rate on the Council's 95-day notice account with NatWest, which has dropped by 20 basis points.

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.

9. Original balances were £3m with Heritable and £1.5m with Glitnir. Heritable has repaid 94% of the initial deposit plus an element of 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. There have been no changes to the Council's impaired Icelandic investments since last quarter.

10. 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

11. 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%.

12. The Council's Treasury Advisor, Capita Asset Services, is currently predicting that the Bank of England's Base Rate will not rise before quarter 3 of 2016/17 (October 2016); this forecast has not changed since last quarter's report.

13. Capita Asset Services has provided the following interest rate forecast:

	Q4 2013/14	Q1 2014/15	Q2 2014/15	Q3 2014/15	Q4 2014/15	Q1 2015/16	Q2 2015/16	Q3 2015/16	Q4 2015/16
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5-yr PWLB Rate	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%
25-yr PWLB Rate	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%
50-yr PWLB Rate	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%

Investment Balances as at 31st December 2013

14. A list of investments held as at 31st December 2013 is shown in appendix 1 of this report. At the end of quarter 2, we invested a further £1.8m with the CCLA property fund. No further Treasury Bills have been purchased and the current strategy prevents us from arranging any further investments in certificates of deposit as we have reached our limit. Further investments into property funds are under consideration but as such an investment is classified as non-specified, due care and attention must be paid to the maximum 25% limit.

15. The most notable change in our investment portfolio since quarter 2 is the increase in investments with Local Authorities; these are proving a favourable option as they are low risk, the rates offered are more competitive than those being offered by the banks and building societies for equivalent periods and there is no limit as to the amount the Council may invest with other Local Authorities. Furthermore, the current strategy permits a maximum lending period of 364 days thus providing scope for a diversified maturity profile.

Property Funds

16. The total investment in the CCLA property fund currently stands at £2.8m. The initial £1m invested in the first quarter of the financial year produced a return of 6% per annum as did the additional £1.8m that was invested at the end of quarter 2. It is expected that the fund will continue to achieve this rate on the total funds invested to date; the effects of this return have already started to show in the average weighted monthly return and is another contributing factor to the recently improved monthly returns.

17. 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.

18. Fees of approx. £135k were paid in relation to the further investment made in Sept. The table below is showing that the unit price of our current investment has risen by 4% since April.

	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	2.2331	999,328				999,328	-672	-0.07%
August	447,507	2.2320	998,836				998,836	-1,164	-0.12%
September	447,507	2.2539	1,008,636	826,105	2.2539	1,861,958	2,870,594	8,636	0.86%
October	447,507	2.2637	1,013,022	826,105	2.2637	1,870,054	2,883,075	21,117	0.74%
November	447,507	2.2609	1,011,769	826,105	2.2609	1,867,741	2,879,509	17,551	0.61%
December	447,507	2.3390	1,046,719	826,106	2.3390	1,932,262	2,978,981	117,023	4.09%

It is important to note that the market value of the properties and the unit price held by the Council can fluctuate both upwards and downwards.

The Treasury Management Counterparty List

19. The approved counterparty list provides details of both maximum duration periods and cash amounts that may be placed with each counterparty and where applicable, counterparty group at any given point in time.
20. 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. Whilst the Council uses this list as the main basis for determining whether or not an investment is arranged with a specific counterparty, foreign banks are not utilised at present. Officers review the lending list on a weekly basis, or more frequently if additional information is released.
21. 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.
22. 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.
23. In November 2013, the Co-operative announced that whilst it would honour existing contracts with local authority customers, it would not be renewing them. The Council's current contract is due to expire in March 2016. A re-tendering process is likely to take between six and twelve months and as less support will be available as the Co-operative winds down its operations, officers are scheduling a project to procure a revised banking service with effect from 1st April 2015. Oxford City Council may corroborate with other local authorities on this procurement exercise.

Borrowing

24. 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.

25. The Council continues to monitor borrowing interest rates and forecasts on a regular basis to be in a position to track any restructuring opportunities as they arise.

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Appendix 1 Current Lending List as at 31st December 2013

Counterparty	Principal	Intrest Rate	Trade Date	Start Date	Maturity Date	Type of Investment/ Deposit
Lloyds TSB	£2,200,000.00	1.10%	05-Apr-13	05-Apr-13	04-Apr-14	Fixed deposit
Lloyds TSB	£2,000,000.00	1.05%	17-May-13	17-May-13	16-May-14	Fixed deposit
Bank of Scotland	£3,500,000.00	3.00%	04-Jul-13	04-Jul-13	03-Jul-14	Fixed deposit
Standard Chartered	£3,000,000.00	0.54%	27-Sep-13	27-Sep-13	27-Mar-14	Certificate of Deposit
Skipton Building Society	£1,000,000.00	0.43%	01-Oct-13	01-Oct-13	02-Jan-14	Fixed deposit
Barclays Bank plc	£2,000,000.00	0.46%	02-Oct-13	02-Oct-13	02-Jan-14	Fixed deposit
Coventry Building Society	£2,000,000.00	0.45%	07-Oct-13	07-Oct-13	07-Jan-14	Fixed deposit
Barclays Bank plc	£3,000,000.00	0.46%	15-Oct-13	15-Oct-13	15-Jan-14	Fixed deposit
Coventry Building Society	£1,000,000.00	0.45%	16-Oct-13	16-Oct-13	16-Jan-14	Fixed deposit
Standard Chartered	£3,000,000.00	0.53%	18-Oct-13	18-Oct-13	22-Apr-14	Certificate of Deposit
Birmingham City Council	£3,000,000.00	0.45%	31-Oct-13	16-Dec-13	17-Mar-14	Fixed deposit
Nationwide Building Society	£1,500,000.00	0.45%	05-Nov-13	05-Nov-13	05-Feb-14	Fixed deposit
Lancashire County Council	£3,000,000.00	0.60%	05-Nov-13	09-Dec-13	04-Nov-14	Fixed deposit
Stirling Council	£3,000,000.00	0.50%	05-Nov-13	12-Nov-13	12-May-14	Fixed deposit
Blaenau Gwent County Borough Council	£2,000,000.00	0.40%	08-Nov-13	06-Dec-13	06-Mar-14	Fixed deposit
Bank of Scotland	£1,300,000.00	0.98%	12-Nov-13	12-Nov-13	11-Nov-14	Fixed deposit
Nationwide Building Society	£1,300,000.00	0.45%	12-Nov-13	12-Nov-13	12-Feb-14	Fixed deposit
Barclays Bank plc	£1,800,000.00	0.45%	15-Nov-13	15-Nov-13	14-Feb-14	Fixed deposit
Dundee City Council	£3,000,000.00	0.47%	11-Nov-13	02-Dec-13	13-May-14	Fixed deposit
Corby Borough Council	£5,000,000.00	0.59%	28-Nov-13	05-Dec-13	06-Oct-14	Fixed deposit
Salford City Council	£3,000,000.00	0.45%	05-Dec-13	06-Dec-13	21-Mar-14	Fixed deposit
Salford City Council	£2,000,000.00	0.50%	09-Dec-13	10-Dec-13	27-Jun-14	Fixed deposit
Nationwide Building Society	£1,000,000.00	0.45%	13-Dec-13	13-Dec-13	13-Mar-14	Fixed deposit
Nationwide Building Society	£1,000,000.00	0.42%	13-Dec-13	13-Dec-13	05-Feb-14	Fixed deposit
Natwest Bank Liquidity Manager 95-day account	£2,010,368.53	0.60%				Notice account
CCLA Property Fund	£3,000,000.00					Property Fund
Deutsche Bank	£415,000.00					Money Market Fund
Goldman Sachs (Sterling Liquid Reserves Fund)	£4,860,000.00					Money Market Fund
Ignis Sterling Liquidity Fund	£6,800,000.00					Money Market Fund
	£71,685,368.53					

Glossary of Terms:

Certificates of Deposit
Property Fund

Fixed rate, fixed term promissory note with a commercial bank
A portfolio of properties held for investment by a third party