

To: City Executive Board
Date: 11th December 2013
Report of: Head of Finance (Section 151 Officer)
Title of Report: TREASURY MANAGEMENT HALF YEAR
PERFORMANCE REPORT 2013/14

Summary and Recommendations

Purpose of report: To report on the performance of the treasury management function for the 6 months to 30th September 2013.

Key Decision? No

Executive lead member: Councillor Ed Turner

Policy Framework: Sustaining financial Stability

Recommendations / Points to note:

- 1) That the City Executive Board notes the performance of the treasury management function for the first six months of 2013/14; and
- 2) The Investment Strategy for the remainder of 2013/14

Appendices

Appendix 1 – Investments as at 30th Sept

Investment Performance 2013/14

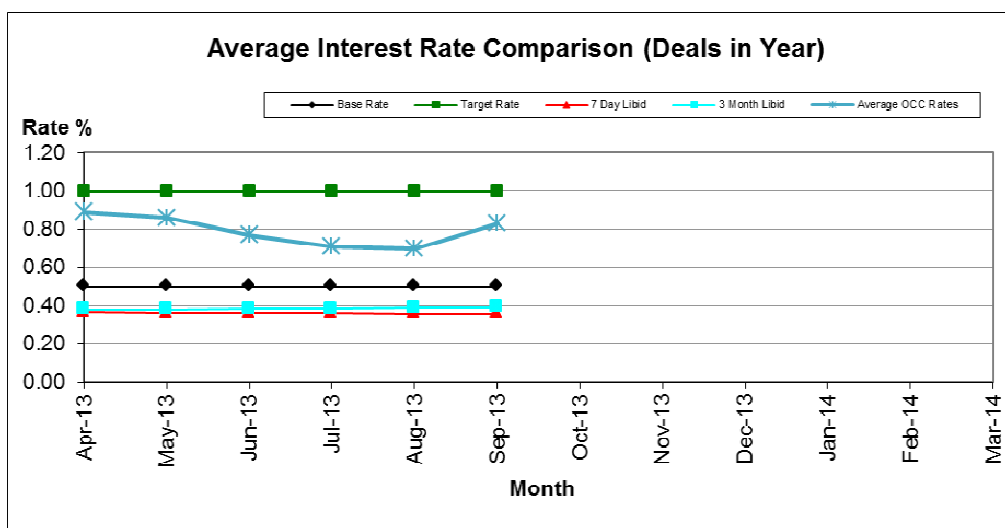
1. The cumulative average rate of return on investments to 30th September 2013 was 0.79%- 0.21% below the treasury performance indicator target of 1%. The cumulative return has decreased due to higher rated, longer term investments being repaid and having to be replaced by lower rated, longer term investments.
2. 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. However, cash balances have increased by 45% since March 2013; this is due to slippages on the capital program and deferral of expenditure. The Council has also transferred £7m from the HRA balance into the General Fund; which has been earmarked for capital projects which will produce a revenue return for the Council and all expenditure will be picked up as the

Council sets its budget for 2014/15 and reviews the medium term financial strategy

- 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:



- Clearly, the Council's average monthly return is significantly above our benchmark interest rates and the Bank of England's Base Rate. Whilst the Council's monthly investment return dropped during the first quarter of the year due to decreased market rates resulting in maturing loans being reinvested at a lower rate, 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.

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 30.09.2013
Glitnir	£1.5m	5.51%	28/012009	£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%	05/012009	£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	£471,286.41

9.

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 counterparty list provides limits to the amounts which can be placed with each counterparty. The Council works within this approved list on a day to day basis; currently however, foreign banks are not utilised.
15. The Council's approved Counterparty List is based upon Capita Asset Services' recommended counterparty lending list. The 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 currently restricted to a maximum of three months to all institutions, with the exception of other local authorities or semi-nationalised banks. No changes are required to the overall Investment Strategy. The situation will continue to be reviewed.
17. The Council continues to hold its main bank account with the Co-operative Bank. 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.
18. On 5th November, the Council received a letter from the Co-operative Bank informing the Council of its decision to withdraw from its involvement in providing banking transmission services to Local Authorities. In the short term, Oxford City Council will still have access to the banking services currently provided, but the Co-operative Bank has confirmed that it will not

be seeking to renew the contract. The letter states that the Co-operative Bank will support the Council in transferring to a new banking services provider and that should timescales for seeking formal banking tenders be brought forward, the bank will provide every assistance possible during the transitional period.

19. In March 2013, the Council extended its current contract with the Co-operative Bank for a further 3 years, with an expiry date of March 2016. The Council will therefore procure a new banking service in a timely fashion in accordance with criteria which will be made explicit at the start of the process.

Borrowing

20. 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 the Housing Revenue Account (HRA) from the subsidy system. The debt is held at fixed rates, with varying maturity terms. Opportunities for restructuring and premature repayment of the old debt has previously been considered and ruled out because the Council would incur a premium from PWLB, which would be a greater cost than the remaining balances on the existing loans.. The position will continue to be monitored going forward.
21. The residual balance of £889,040.60 owed to South Oxfordshire District Council was repaid in full during the second quarter. (This related to the transfer of debt following boundary changes).

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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							

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administrator:
does not include E5k
Stamp Duty Reserve
Tax

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

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