

To: City Executive Board

Date: 19 November 2014

Report of: Head of Finance

Title of Report: Treasury Management Performance Report for the 6 months ending 30th September 2014

Summary and Recommendations

Purpose of report: To report on the performance of the treasury management function for the six months to 30th September 2014.

Key Decision: No

Executive Lead Member: Councillor Edward Turner, Board Member for Finance, Asset Management and Public Health

Policy Framework: An efficient and effective Council

Recommendations: That the City Executive Board note the performance of the treasury management function for 2014/15 to date.

Appendices

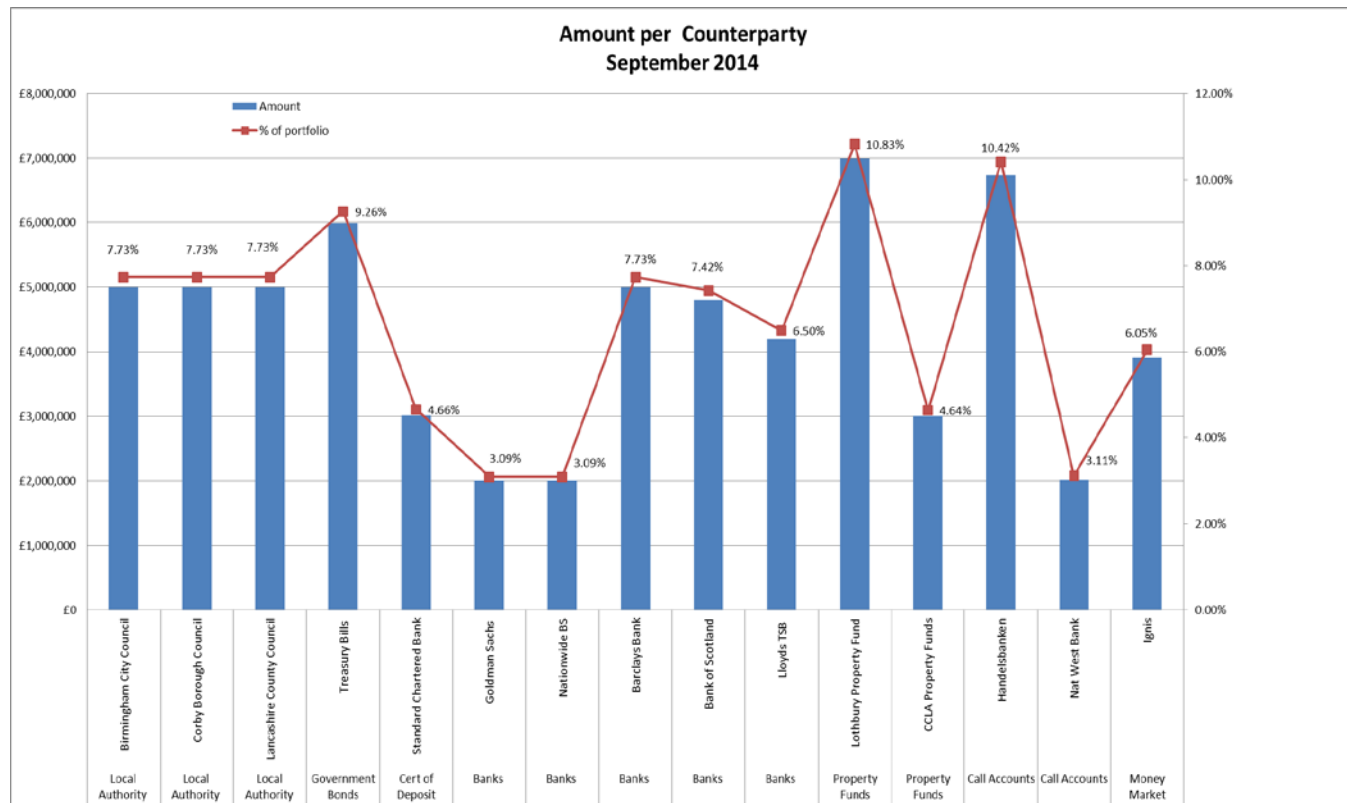
Appendix 1 – List of investments as at 30th September 2014

Appendix 2 – Risk Register

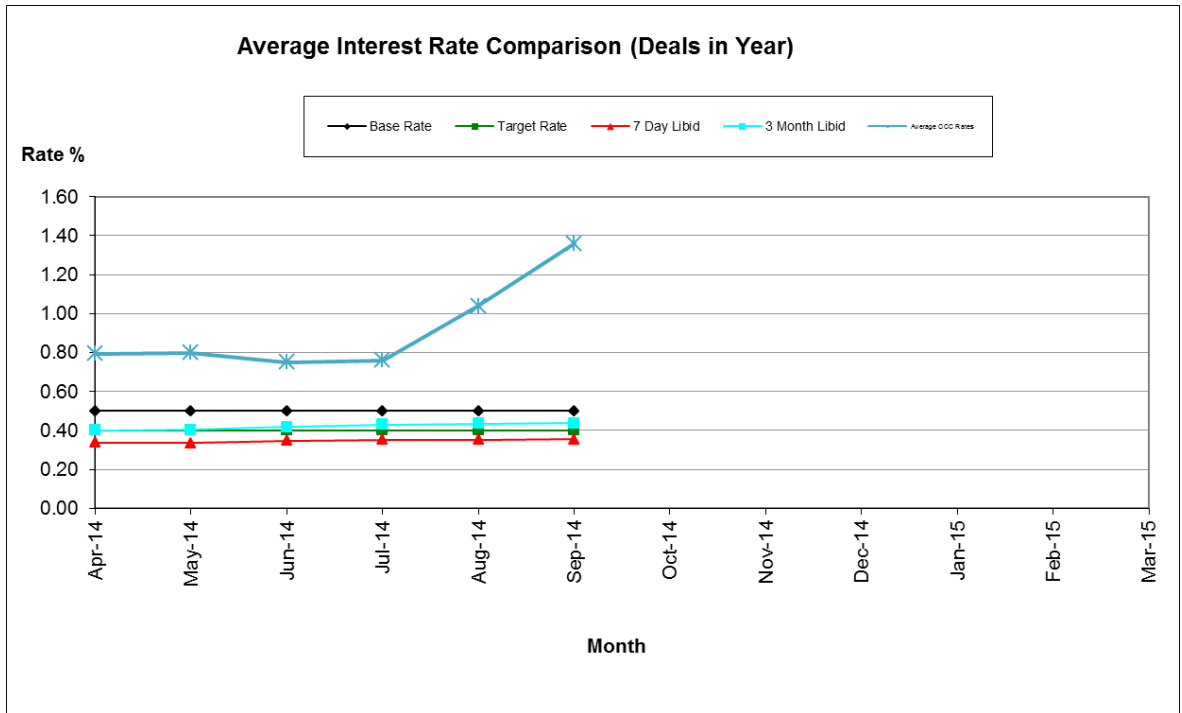
Investment Performance 2014/15

1. The cumulative average rate of return on investments up to 30th September 2014 was 1.36%. This is the highest return the Council has achieved for over twelve months and has been achieved by increasing the gross investment in Property Funds to £10 million. The cumulative average rate of return on investments to 30th September 2014 exclusive of property fund investments was 0.86%.
2. At the end of September the Council's investments totalled £67 million of which £4.1 million was held in money market funds. The MMF's are currently paying around 0.40%.

- The Council's Treasury advisors, have confirmed that Oxford City Council is now the highest performing Treasury team in their peer benchmarking group.
- The Council has diversified its range of investments spreading them in a variety of fund types, e.g. Treasury Bills, Certificates of Deposits, Property Funds, Banks, Building Society's and Local Authorities. The chart below shows this diversification as at the 30th September 2014:



- 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 above the benchmark interest rates and the Bank of England's Base Rate. The Base Rate is being forecast to increase to 0.75% in Q1 of next year, possibly in February.

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. There is currently £350k outstanding with Glitnir and £182k with Heritable and these remaining balance are currently held in Iceland, under Icelandic law, and the Council are awaiting advice from Bevan Brittan (lawyers acting on behalf of a number of Councils) and Local Government Association regarding the Council's options on this matter. There have been no changes to the Council's impaired Icelandic investments since last quarter.

Investment Balances as at 30th June 2014

9. A list of investments held as at 30th September 2014 is shown in Appendix 1 of this report.
10. Interest rates offered on the markets from Banks and Building Societies are slowly rising. Local Authorities are also starting to appear in the market, with some larger authorities paying attractive rates.

Property Funds

CCLA Investment Management Limited

11. CCLA is a specialist investment management firm that acts on behalf of charities, faith organisations, and local authorities. The total investment in the CCLA property fund is £2.8 million. The investment has produced a return of 6% per annum to date. It is expected that the Fund will continue to achieve this rate. The impact of this return has already started to show in the average weighted monthly return as indicated above.

12. The table below shows the number of units purchased, together with the unit price at the end of each month. The unit price is re-valued on a monthly basis and reflects the value of the Council's interest.

13. The table below shows that the unit price of our current investments has risen by nearly 15% since April 2013.

	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	826,105	2.3390	1,932,260	2,978,978	117,020	4.09%
2014									
January	447,507	2.3767	1,063,590	826,105	2.3767	1,963,404	3,026,994	165,036	5.77%
February	447,507	2.3820	1,065,962	826,105	2.3820	1,967,782	3,033,744	171,786	6.00%
March	447,507	2.4306	1,087,711	826,105	2.4306	2,007,931	3,095,641	233,683	8.17%
April	447,507	2.4292	1,087,084	826,105	2.4292	2,006,774	3,093,858	231,900	8.10%
May	447,507	2.4319	1,088,292	826,105	2.4319	2,009,005	3,097,297	235,339	8.22%
June	447,507	2.5031	1,120,155	826,105	2.5031	2,067,823	3,187,978	326,020	11.39%
July	447,507	2.4931	1,115,680	826,105	2.4931	2,059,562	3,175,242	313,284	10.95%
August	447,507	2.4823	1,110,847	826,105	2.4823	2,050,640	3,161,487	299,529	10.47%
September	447,507	2.5821	1,155,508	826,105	2.5821	2,133,086	3,288,594	426,635	14.91%

Lothbury Property Fund

14. £6.65 million of investments have also been placed in the Lothbury Property fund. The table below shows the purchases made and the unit prices of the Fund, which is already showing an increase of around 0.9%.

	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 August 2014			2nd Tranche purchased 30th Sept 2014					
2014									
August	2,118.4004	1569.7793	3,325,421				3,325,421		
September	2,118.4004	1583.4475	3,354,376	2100.1092	1583.4475	3,325,413	6,679,788	28,955	0.87%

15. It important to note that the market value of the properties held in the fund and the unit price of the fund can fluctuate both upwards and downwards,

and whilst we are seeing the rewards of a positive property market, this can also become negative.

The Treasury Management Counterparty List

16. 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.
17. 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.
18. The Council uses this list as the main basis for determining whether or not an investment is arranged with a specific counterparty. Officers review the lending list on a weekly basis, or more frequently if additional information is released.
19. The Council has adopted the following ethical policy:

The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values. This would include, inter alia, avoiding direct investment in institutions with material links to:

- *Human rights abuse (eg child labour, political oppression)*
- *environmentally harmful activities (eg pollution, destruction of habitat, fossil fuels)*
- *socially harmful activities (eg tobacco, gambling)*

Borrowing

20. The Council's external debt as at 30th September 2014 was £198.5 million borrowed from the Public Work Loans Board (PWLB) to buy out the Housing Revenue Account (HRA) from the previous 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.
21. 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.

Climate change/environmental impact

22. There are none

Equalities impact

23. There are none

Financial Implications

24. The budgeted investment income for 2014/15 is £657,600. As at the 30th September 2014 the Council's accrued income was £289,500. Whilst this is slightly below profile at the half year of £328,800, this will pick up in the next half year with the accrued interest from the Lothbury Property Fund which was only fully deposited in September 2014.

Legal Implications

25. There are none

Risk Implications

26. There are no risks in connection with the report's recommendations. Risk assessment and management is a key part of Treasury Management activity especially in the selection of counterparties when investing is being considered. The Council uses external advisors and counterparty credit ratings issued by the rating agencies to assist in this process.

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Appendix 1 Current Lending List as at 30th September 2014

Counterparty	Principal	Interest Rate	Trade Rate	Start Date	Maturity Date	Type of Investment/Deposit
Corby Borough Council	£5,000,000.00	0.50	28/11/2013	05/12/2013	06/10/2014	Fixed Term Deposit
Lancashire County Council	£3,000,000.00	0.60	05/11/2013	09/12/2013	04/11/2014	Fixed Term Deposit
Lancashire County Council	£2,000,000.00	0.55	17/07/2014	31/07/2014	30/01/2015	Fixed Term Deposit
Central Government	£1,995,522.00	0.45	04/07/2014	07/07/2014	05/01/2015	Treasury Bill
Central Government	£1,995,423.00	0.46	04/07/2014	07/07/2014	05/01/2015	Treasury Bill
Central Government	£1,995,324.00	0.47	04/07/2014	07/07/2014	05/01/2015	Treasury Bill
Lothbury Property Fund	£3,500,000.00	6.00		06/08/2014		Other structured deposit
Goldman Sachs Int Bank	£2,000,000.00	0.50	14/07/2014	14/07/2014	15/10/2014	Fixed Term Deposit
Standard Chartered Bank	£3,012,345.00	0.63	28/04/2014	28/04/2014	23/10/2014	Certificate of Deposit
Standard Chartered Bank	£3,000,450.00	0.56	01/04/2014	01/04/2014	01/10/2014	Certificate of Deposit
Nationwide Building Society	£2,000,000.00	0.49	14/07/2014	14/07/2014	15/10/2014	Fixed Term Deposit
Barclays Bank	£2,000,000.00	0.47	15/07/2014	15/07/2014	15/10/2014	Fixed Term Deposit
Barclays Bank	£3,000,000.00	0.45	07/07/2014	07/07/2014	07/10/2014	Fixed Term Deposit
CCLA Property Fund	£3,000,000.00	6.00				Other structured deposit
Bank of Scotland	£3,500,000.00	0.95	03/07/2014	03/07/2014	02/07/2015	Fixed Term Deposit
Bank of Scotland	£1,300,000.00	0.98	12/11/2013	12/11/2013	11/11/2014	Fixed Term Deposit
Lloyds TSB Bank	£2,000,000.00	0.70	16/05/2014	16/05/2014	19/11/2014	Fixed Term Deposit
Lloyds TSB Bank	£2,200,000.00	0.95	03/04/2014	04/04/2014	02/04/2015	Fixed Term Deposit
Handelsbanken	£6,735,000.00	0.45				Callable deposit
Santander Corporate Notice Account	£36.88					Call account
Natwest 95day Liquidity Manager	£2,011,426.04	0.30				Call account
Ignis	£4,100,000.00	0.48				Money Market Fund
Birmingham City Council	£3,000,000.00	0.55	18/07/2014	13/08/2014	13/02/2015	Fixed Term Deposit
Birmingham City Council	£2,000,000.00	0.55	23/07/2014	29/08/2014	27/02/2015	Fixed Term Deposit
Lothbury Property Fund	£3,500,000.00	6.00		04/09/2014		Other structured deposit

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