

WEST OXFORDSHIRE DISTRICT COUNCIL
FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE
THURSDAY 23 JULY 2014

TREASURY MANAGEMENT ACTIVITY AND PERFORMANCE 2014/15

REPORT OF GO SHARED SERVICE HEAD OF FINANCE

(Contact: Paul Stuart: - Tel (01993) 861171)

(Decisions on this matter will be resolutions)

1. PURPOSE

To advise members of treasury management activity and the performance of internal and external fund managers for the period 1 April 2014 – 30 June 2014.

2. RECOMMENDATIONS

- (a) That treasury management and the performance of in-house and external Pooled Funds' activity for the period 1 April 2014 – 30 June 2014 are noted; and
- (b) An invitation be made for Arlingclose Ltd to attend the next meeting and present some training to members.

3. SUPPORTING INFORMATION

Investment Portfolio Background

- 3.1. All remaining balances held by Investec Asset Management were recalled in March 2014, and the surplus funds of £12m were re- invested with seven new fund managers covering short term cash/ bonds, Multi Asset Funds, Absolute Bonds and Equities. Further information on each fund can be found in 3.10
- 3.2. The In house investment balance amounted to £14.610m at 1 April 2014 including the long term loan to Hanover Housing Association. However, the average balance of investments for the period to 30 June 2014 was £14.166m excluding outstanding Icelandic deposits.
- 3.3. Bonds purchased in 2013/14 (at a cost of £4.942m) were valued at £5.081m at 31st March 2014 and are now valued at £5.085m on 30 June 2014.
- 3.4. The performance of all funds are continually monitored and compared against the 3 month LIBID rate which is 0.41% as at 30 June 2014.

Investment Activity

- 3.5. The guidance on Local Government Investment in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2014/15. New investments were made with the following institutions:

- AAA-rated Money Market Funds;
- Term Deposits with UK Banks and Building Societies systemically important to the UK banking system;
- Pooled funds (collective investment schemes) meeting the criteria in SI 2004 No 534 and subsequent amendments.

Counterparty credit quality was assessed and monitored with reference to Credit Ratings (the Council's minimum long-term counterparty rating of A (or equivalent) across rating agencies Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms /potential support from a well-resourced parent institution; share price.

3.6. The cash investments outstanding at 30 June 2014 are detailed in Appendix A.

Counterparty Update

3.7. As last year the banking world has been relatively quiet as banks have been focusing on their balance sheets and following regulatory reforms. Because of this we are still seeing the Council's instant access account rates fall below the base rate. The short term end of the market has seen rates on offer at certain periods of the year fall to below 0.40%.

3.8. None of the long-term rating of the banks on the Council's lending list was downgraded to below the Council's minimum A credit rating threshold in the period. Maturity limits for new investments within the Council's list are currently as follows,

- Close Brothers, Goldman Sachs International, 14 Building Societies for a maximum period of 3 months;
- HSBC Bank, Standard Chartered and Nationwide BS, Barclays, Lloyds, Bank of Scotland and Santander UK for a maximum period of 12 months;
- Approved Australian, Canadian, German, Swedish, Dutch and US banks for a maximum period of 13 months;

Investment Performance

3.9. Performance Achieved for the period (excluding outstanding Icelandic investments) is shown below

Performance of Fund 1 April 2014 to 30 June 2014 (annualised returns)	Pooled Funds	In-House	Bonds	Total
Net Return	1.32%	1.62%	3.78%	1.85%

In – house investment achieved a net return of 1.62% which is 1.21% above the 3 month LIBID rate. The outperformance is due to the £5m loan to Hanover Housing Association at a rate of 3.35% and a number of fixed term deposits with Lloyds at the beginning of year with an average rate of 0.94%. However it should be noted in-house investments are largely constrained by cash flow commitments such as precept payments, benefit pay-out as well as the capital programme requirements.

Pooled Funds

Fund Manager	Original Investment £	Fund Values for first Quarter April-June 2014			Unrealised Gain/(Loss) £	% Return Annualised %
		April £	May £	June £		
Insight LPF Payden & Rygel	2,000,000	2,001,277	2,002,812	2,004,150	4,150	0.83
UBS	2,000,000	1,999,658	2,003,759	2,002,259	2,259	0.45
SWIP	1,000,000	1,011,569	1,021,832	1,023,698	23,698	9.51
Schroders	4,000,000	3,996,324	3,981,618	3,955,882	-44,118	-4.42
Threadneedle	1,000,000	1,025,053	1,037,126	1,019,922	19,922	7.99
M&G	1,000,000	994,352	1,019,182	1,012,853	12,853	5.16
	12,000,000	12,030,222	12,091,935	12,039,470	39,470	1.32

Insight ILF GBP Liquidity Plus Fund – The Fund aims to preserve capital and provide an investment return in excess of sterling money markets. The fund aims to for a net return equivalent to 0.125% above the 3 month sterling LIBID (currently 0.41%). Activity in the first quarter of this financial year has focused on highly liquid, short-dated instruments.

Payden Sterling Reserve Fund – The fund invests in a diversified range of sterling-denominated, highly-rated and very liquid government agency securities and corporate fixed – and floating-rate and covered bonds. The Fund has delivered a positive return for the quarter.

UBS Multi-Asset Income Fund – The fund seeks to provide an income, through a diversified portfolio of investments. A very positive return has been generated to date coming from both income and return on capital. The Fund's allocation to high yield debt, both US and European, provided the largest contribution to performance this quarter.

SWIP Absolute Return Bond Fund – The Fund aims to achieve a positive capital return, regardless of market conditions, over rolling 12 month periods. Emphasis on credit and currency positions is the strategy for fixed income

Schroder Income Maximiser Fund – The Fund's investment objective is to provide income with potential for capital growth primarily through investment in equity and equity related securities of UK companies. The fund aims to deliver a target yield of 7% per year.

Threadneedle Global Equity Income Fund – The aim of the Fund is to provide income with the potential to grow the amount invested as well. The fund invests two thirds of its assets in shares of companies worldwide. Global equities gained and fell over the three months to date. The US hit fresh highs as investors were encouraged by the job market and PMI data while in Europe peripheral markets under-formed.

M&G Global Dividend Fund – The fund aims to deliver a dividend yield above the market average, by investing mainly in a range of global equities. The fund aims to grow distributions over the long term whilst also maximising total return. The fund will usually hold around 50 stocks, with a long-term investment view and a typical holding period of three to five years.

Update on Icelandic Banks Investment

- 3.10. There are no significant changes since previously reported, the Council remains as secured priority creditors to Icelandic Banks. The latest estimate that the Council is expecting to 100% recovery rate from both Glitnir and Landsbanki.
- 3.11. The repayments from Icelandic banks as at the 30 June are summarised in the table below:-

	Principal (£)	Cash Repaid (£)	% repayment
GLITNIR	5,000,000	4,225,794	0.85
Kaupthing Singer Friedlander	1,500,000	1,324,603	0.815
Total	6,500,000	6,826,211	

- 3.12. Glitnir (£5m) – the Council received a total of £4.225m cash on 15/16 March 2012. The distribution currencies were; Kroner, Euros, US dollars, pounds sterling and Norwegian krona. The outstanding claim is to be repaid in ISK currency and is held in an escrow account pending the lifting of Icelandic currency restrictions. Bevan Brittan – the Council’s legal representative continue to liaise with the Central Bank of Iceland and the Bank of England in relation to the ISK distribution element. In the meantime, these distributions must remain in Iceland, held in the escrow account accruing interest at the rate of 4.20% p.a.
- 3.13. In September 2013 a decision on a foreign exchange dispute by the Icelandic Supreme Court resulted in the winding up board of Glitnir formally demanding to recover the overpayments it had made to creditors in March 2012. On behalf of all local authorities the LGA are liaising and negotiating with the board over the repayment. The potential impact for the Council is a net cost in the region of £85,000 but it is still far from clear of the timing and the full amount to be repaid.
- 3.14. Kaupthing Singer and Friedlander (£1.5m) – the Council received its eleventh repayment in December 2013 amounting to 2.5p in £ taking the amount received to 81.5p in the £. The Administrator has estimated the recovery rate to be 86.5p. Further repayments will be made at regular intervals, subject to the agreement of the Creditors’ Committee.
- 3.15. Landsbanki deposits as reported in May 2014 have now been recovered and the Council is no longer a creditor of Landsbanki – the associated gains from the sales transaction were incorporated into the 2013/14 Income and Expenditure account.

Interest rate forecast

- 3.16. The recent strong performance of the UK economy continued with output growing at 0.8% in Q1 2014. Although confirming that the UK has one of the fastest rates of economic growth in the western world, the components of growth did not provide any support towards a rebalancing of the economy, which remains a key strategy for the government. House prices continued on their upward trend but there were some signs of cooling in the housing market evident from the fall in the number of housing

transactions and new mortgage lending due to tighter lending standards following the introduction of the Mortgage Market Review in March.

- 3.17. The MPC made no change to the Bank Rate of 0.5%. However, there was a marked shift in tone from the Bank of England's Governor and other MPC members. In his Mansion speech in June Governor Mark Carney warned that interest rates might rise sooner than financial markets were expecting. The MPC's minutes from June's meeting outlined the Bank's central view that whilst wage growth and inflation had been weak, economic activity had been stronger than expected and the policy decision had therefore become more 'balanced' for some members of the MPC than earlier on the year.
- 3.18. Arlingclose's projected interest rates are tabled below. Based on stronger growth, which is likely to use up spare capacity more quickly, they expect the first rise in official interest rates in Q3 2015. They then expect a slow rise in Bank Rate going forwards.

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Official Bank Rate												
Upside risk	0.25	0.25	0.25	0.50	0.25	0.50	0.50	0.50	0.50	0.75	0.75	0.75
Central case	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50
Downside risk					0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00

4. FINANCIAL IMPLICATIONS

The original investment interest budget for 2014/15 was set at £550,000 which was based on an average balance of £32.9 million with an average return of 1.67%. Investment income of £120,000 from the Pooled Fund Managers, £72,500 interest from the in-house investments, £167,500 from the Hanover Housing Association Loan and £190,000 from the Bonds purchased has been budgeted for 2014/15. To date the current estimate is that investment income will achieve £586,600 but this is dependent upon the new Pooled Funds performance during the rest of the financial year.

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 Date: 9th July 2014

Background Papers

Valuation 30 June 2014 – Pooled Funds & Bonds
 In – House investment as at 30 June 2014

SCHEDULE OF CASH INVESTMENTS OUTSTANDING AT 30 June 2014

NAME OF COUNTERPARTY	VALUE DATE	NOMINAL AMOUNT (£)	MATURITY DATE	RATE OF INTEREST	Long Term	Fitch Credit Rating		
						Short Term	Viability	Support
IN HOUSE MANAGEMENT								
Hannover Housing Association	24.07.13	5,000,000	24.07.18	3.35%	A	FI		
Lloyds Bank	04.02.14	1,100,000	04.08.14	0.70%	A	FI	a-	I
Lloyds Bank	03.03.14	2,000,000	03.09.14	0.70%	A	FI	a-	I
Lloyds Bank	01.04.14	1,900,000	31.03.15	0.95%	A	FI	a-	I
Nationwide BS	11.04.14	2,100,000	25.03.15	0.80%	A	FI	a	I
Nationwide BS	06.05.14	1,000,000	06.08.14	0.48%	A	FI	a	I
Barclays Bank	16.06.14	3,500,000	16.10.14	0.51%	A	FI	a	I
Goldman Sachs MMF	30.06.14	4,050,000		0.38%	AAAmmf			
Invesco AIM MMF	30.06.14	1,430,000		0.38%	AAAmmf			
TOTAL IN-HOUSE INVESTMENTS		22,080,000						
ICELANDIC BANK DEPOSITS								
GLITNIR	27.06.07	236,166	29.06.09	6.520%				
Kaupthing Singer Friedlander	02.07.07	175,397	02.07.09	6.590%				
GLITNIR (Tradition)	31.08.07	538,041	28.08.09	6.350%				
TOTAL ICELANDIC DEPOSITS		949,604						

POOLED FUND & BONDS PORTFOLIO VALUATION AT 30 JUNE 2014

POOLED FUNDS & BONDS	MARKET VALUE (£)
Insight ILF GBP Liquidity Plus Fund	2,004,150
Payden Sterling Reserve Fund	2,002,259
UBS Multi-Asset Income Fund	1,023,698
SWIP Absolute Return Bond Fund	3,955,882
Schroder Income Maximiser Fund	1,019,922
Threadneedle Global Dividend Fund	1,012,853
M&G Global Dividend Fund	1,020,706
A2D Bond	2,629,600
Places For People Bond	2,454,951
TOTAL VALUE OF FUNDS & BONDS	17,327,889