

**WEST OXFORDSHIRE DISTRICT COUNCIL**  
**FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE**  
**WEDNESDAY 20 JULY 2016**

**TREASURY MANAGEMENT ACTIVITY AND PERFORMANCE 2016/17**

**REPORT OF GO SHARED SERVICE HEAD OF FINANCE**

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

**1. PURPOSE**

To advise Members of treasury management activity and the performance of internal and external fund managers for the period 1 April 2016 – 30 June 2016.

**2. RECOMMENDATIONS**

That treasury management and the performance of in-house and external Pooled Funds' activity for the period 1 April 2016 – 30 June 2016 are noted.

**3. BACKGROUND**

**Investment Portfolio Background**

- 3.1. The in- house investment balance amounted to £9.510m at 1 April 2016 inclusive of the long term loan to Hanover Housing Association. The average balance of investments for the period to 30 June 2016 rose to £20.496m in line with cash-flow forecasts for 2016/17.
- 3.2. Bonds purchased in 2013/14 (at a cost of £4.942m) were valued at £5.054m at 31<sup>st</sup> March 2016 and are now valued at £5.031m on 30 June 2016 based on current mid-prices. These bonds were acquired on a principle of holding to maturity.
- 3.3. The performance of all funds is continually monitored and compared against the 3 month LIBID rate which was 0.46% as at 30 June 2016.
- 3.4. 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.

Long term security of capital remains 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 2016/17. New investments were made in line with policy as quoted in the Investment Strategy for 2016/17:

- AAA-rated Money Market Funds;
- Term Deposits with UK Banks and Building Societies systemically important to the UK banking system;
- Certificate of Deposits (CD's) and Bonds with UK and Non UK banks and corporates.
- 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; financial statements, information on potential government support and reports in the quality financial press

- 3.5. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority has a well-balanced and diversified investment portfolio but needs to consider other investment vehicles to counteract risks from changes to bail-in legislation.

The cash investments outstanding at 30 June 2016 are detailed in Appendix A.

### Investment Performance

- 3.6 Performance Achieved for the period (excluding outstanding Icelandic investments) is shown below:-

<b>Performance of Fund 1 April 2016 to 30 June 2016 (annualised returns)</b>	<b>In-House</b>	<b>Bonds</b>
Net Return	1.33%	3.76%

- 3.7 In-house investment achieved a net return of 1.33% which is 0.87% 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 deposits taken with Lloyds Bank at the beginning of year with an average rate of 1.05% for the year were achieved. 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 any capital programme requirements. Also income from Council Tax and Business Rates falls dramatically in February and March so investment balances will decrease over this period of time.

The table below shows the current valuations of the Pooled Funds portfolio at the end of June 2016 compared with the values at the close of the 2015/16 financial year. In the first quarter of the year we have seen a gain of over £126k.

## Pooled Funds Portfolio

	Initial Investment	1 April Fund Value	30 June Fund Value	Unrealised Gain / (Loss) for 2016/17	Unrealised Gain / (Loss) to Initial Principal
	£	£	£	£	£
Insight LPF – Cash +	2,000,000	2,017,186	2,013,328	(3,858)	13,328
Payden & Rygel – Cash +	2,000,000	2,034,974	2,028,830	(6,144)	28,830
UBS – Bond / Equity	2,000,000	1,949,200	1,973,162	23,962	(26,838)
M&G Strategic – Bond	1,000,000	990,198	1,004,710	14,512	4,710
Aberdeen – Bond	2,000,000	1,790,194	1,794,716	4,522	(205,284)
Schroders – Equity	1,000,000	972,619	953,291	(19,328)	(46,709)
Threadneedle – Equity	1,000,000	1,124,886	1,190,346	65,460	190,346
M&G Global - Equity	1,000,000	1,023,951	1,071,452	47,501	71,452
<b>June 2016 Total</b>	<b>12,000,000</b>	<b>11,903,208</b>	<b>12,029,835</b>	<b>126,627</b>	<b>29,835</b>
Previous Report –March 2016				<b>(335,361)</b>	<b>(95,750)</b>

### Brexit and the effect on the UK economy

- 3.8 Following the United Kingdom’s vote to leave the European Union we have seen some volatility in the UK and European markets. The immediate volatility is far lower than the credit crunch and ensuing financial crisis, but it is expected to continue into the medium term and it is that there will be a limited weakening of the UK economy. The long term economic effects remain uncertain and they may be less severe than many previously suggested. The situation in the markets will evolve, however impacts have been less pronounced than worst case considerations indicated. Sterling has fallen against the dollar and the euro since the result of vote was known. The UK sovereign rating has been downgraded to AA by all three credit ratings agencies and this has had the effect of UK banks being put on Stable outlook from Positive outlook, however none of the bank’s credit ratings have been reduced. Arlingclose remains comfortable with council’s making investments in all UK institutions which were approved in the 2016/17 Lending List, but they continue to monitor the situation closely.
- 3.9 The economic outlook for the UK has immeasurably altered following the vote to leave the EU. The long term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU, particularly with regard to Single market access. The short term outlook is easier to predict; economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- 3.10 UK CPI inflation (currently 0.3% year/year) will rise close to target over the coming year as previous rates in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for businesses. Whilst there is a debatable benefit to further cut interest rates, the medium term outlook for inflation is likely to support looser monetary policy

and a cut in Bank Rate is an easy and visible lever for policymakers to pull. The view of Arlingclose Interest rate forecast is to see a rate cut between now and September 2016 to 0.25% and to remain at this level for several years, as can be seen from the table below.

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Official Bank Rate												
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Central case	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

#### 4. Update on Iceland Investments

- 4.1 The Council took the opportunity to enter into an auction with the Central Bank of Iceland in June 2016 for exchanging the Icelandic Kronas held in an escrow account into Euros. The auction was successful in getting the monies repatriated into sterling and paid into the council's current account on 1<sup>st</sup> July 2016. Just over £1.09m was received back in total and this now clears all of the funds which remained in Iceland with regards to the Glitnir deposit.
- 4.2 The Kaupthing Singer & Friedlander investment has received 83.75% of the original investment (plus interest) and is forecast to return around 85% to 86%, which compared to the original principal this equates to 90.7%. The outstanding balance the Council is due to receive is £29,500 over the next two years with the next distribution expected to be made in December 2016.
- 4.3 In summary, the Council has now received £9.081 million back from the initial investments of £9m. The table below shows the detail.

	Landsbanki £	Glitnir £	Kaupthing £	Total £
Original Investment	2,500,000	5,000,000	1,500,000	9,000,000
Less: Payments Received	2,543,715	5,176,267	1,361,172	9,081,154
Net Received / (Due)	43,715	176,267	(138,828)	81,154

It should be noted the Council has made provision for these investments in respect of exchange rate gains and estimated interest over previous years. Consequently, following the settlement of the Glitnir investments there is nearly £250,000 of that provision remaining which is covering the £29,500 liability for the outstanding Kaupthing Singer Friendlander Investment. The balance of this provision, approximately £220,000, will be returned to General Fund Balances.

## 5. FINANCIAL IMPLICATIONS

The original investment interest budget for 2016/17 was set at £657,500 which was based on an average balance of £33.669 million from all the different type of investments (e.g. fixed term deposits, pooled funds, bonds) achieving an overall average return of 1.95%. The breakdown of the budget is as follows:

	2016/17 Budget (£)
Pooled Fund Managers	249,700
In-House Investments	68,500
Hanover Housing Assoc	167,500
Bonds	171,800
Total	657,500

At present there are fluctuations within Pooled Funds and Bond valuations, however officers are comfortable the overall budget will be achieved this financial year.

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(Author: Andrew Sherbourne), Tel: (01242 264337)  
Date: 4<sup>th</sup> July 2016  
Background Papers  
Valuation 30 June 2016 – Pooled Funds & Bonds  
In – House investment as at 30 June 2016

## SCHEDULE OF CASH INVESTMENTS OUTSTANDING AT 30 JUNE 2016

NAME OF COUNTERPARTY	VALUE DATE	NOMINAL AMOUNT (£)	MATURITY DATE	RATE OF INTEREST	Long Term	Fitch Credit Rating		
						Short Term	Viability	Support
IN HOUSE MANAGEMENT								
Hanover Housing Association	24.07.13	5,000,000	24.07.18	3.35%	A	FI	a	5
Barclays	16.05.16	1,000,000	16.08.16	0.49%	A	FI	a	5
Lloyds	01.04.16	2,000,000	31.03.17	1.05%	A+	FI	a	5
Lloyds	13.04.16	1,700,000	13.04.17	1.05%	A+	FI	a	5
Lloyds	15.04.16	1,000,000	13.01.17	0.90%	A+	FI	a	5
Rabobank International	06.05.16	1,000,000	06.02.17	0.70%	AA-	FI	a	5
Nationwide Building Society	05.01.16	1,000,000	05.07.17	0.71%	A	FI	a	5
Nationwide Building Society	15.04.16	1,000,000	14.10.16	0.71%	A	FI	a	5
Nationwide Building Society	16.05.16	2,000,000	16.11.16	0.71%	A	FI	a	5
Goldman Sachs MMF	30.06.16	480,000		0.44%	AAAmmf			
Invesco AIM MMF	30.06.16	2,720,000		0.53%	AAAmmf			
<b>TOTAL IN-HOUSE INVESTMENTS</b>		<b>18,900,000</b>						
<b>ICELANDIC BANK DEPOSITS</b>								
Kaupthing Singer Friedlander	02.07.07	138,828		-				
<b>TOTAL ICELANDIC DEPOSITS</b>		<b>138,828</b>						

West Oxfordshire DC - Pooled Funds

Bloomberg Ticker	INLIQP5		PAYSRSD		UMAIGLI	
	Insight Liquidity Plus Fund - Share Class 3		Payden & Rygel Sterling Reserve Fund - Accumulation		UBS Multi Asset Income Fund - L Class Accumulation Gross	
Transaction Ref	33544		AA1771001		0000486436	
Date of purchase	31/03/2014		28/03/2014		28/03/2014	
Number of units/shares	2,051,799.720		200,707.339		3,928,254.420	
Purchase Price £	1.31575		10.5349		0.536	
Initial investment 2013/14 £	2,000,000		2,000,000		2,000,000	
Initial investment 2014/15						
	Unit price	Value	Unit price	Value	Unit price	Value
Mar-16	0.9831	2,017,186	10.0942	2,034,974	0.4962	1,949,200
	<i>Div payable monthly</i>		<i>Div payable quarterly</i>		<i>Div payable quarterly</i>	
Apr-16	0.9827	2,016,386	10.0971	2,026,562	0.4965	1,950,378
May-16	0.9818	2,014,519	10.1107	2,029,292	0.4977	1,955,092
Jun-16	0.9813	2,013,328	10.1084	2,028,830	0.5023	1,973,162
Capital variance to 31/3/2016	(3,857)		(6,143)		23,962	

Variance to initial investment	13,328	28,830	(26,838)
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Bloomberg Ticker	ABARBII	MGSCBII	SCHIMZI
	Aberdeen (SWIP) Absolute Return Bond Fund - D Class Accumulation	M&G Strategic Corporate Bond Fund I Class Accumulation	Schroders Income Maximiser Fund - Z Class Accumulation
Transaction Ref	P3B/003072Z/1		0016426876
Date of purchase	25/03/2014		08/04/2014
Number of units/shares	1,884,216.379	93089.085	2,013,286.550
Purchase Price £	1.088	11.5927	0.6626
Initial investment 2013/14 £	2,000,000	1,000,000	
Initial investment 2014/15			1,000,000
	Unit price      Value		Unit price      Value
Mar-16	0.9501    1,790,194	10.6371    990,198	0.4831    972,619
	<i>Div payable semi-annually</i>	<i>Div payable quarterly</i>	<i>Div payable quarterly</i>
Apr-16	0.9521    1,793,962	10.7343    999,246	0.5002      1,007,046
May-16	0.9559    1,801,122	10.7737    1,002,914	0.4946      995,772
Jun-16	0.9525    1,794,716	10.7930    1,004,710	0.4735      953,291
Capital variance to 31/3/2016	4,522	14,513	(19,328)
Variance to initial investment	(118,994)	4,710	(46,709)



Bloomberg Ticker	THGQZNI	MGGDIIG	ISIN XS 0975865949		ISIN XS 0635014177	
	Threadneedle Global Equity Income Fund - Z Class Accumulation Net	M&G Global Dividend Fund - Class I Accumulation	A2D Funding Plc Bond 4.75% 18/10/2022		Places for People Homes Bond 5% 27/12/2016	
Transaction Ref	0006673718	0226768331	Purchase £2,500,000		Purchase £2,300,000	
Date of purchase	01/04/2014	26/03/2014				
Number of units/shares	907,898.550	616,095.772				
Purchase Price £	1.0270	2.041				
Initial investment 2013/14 £		1,000,000				
Initial investment 2014/15	1,000,000		mid price (p)	mid yield	mid price (p)	mid yield
	Unit price      Value	Unit price      Value				
Mar-16	1.2390    1,124,886	1.6620    1,023,951	106.819	3.571%	102.081	2.137%
	<i>Div payable quarterly</i>	<i>Div payable quarterly</i>				
Apr-16	1.2419    1,127,519	1.6583    1,021,672	106.686	3.581%	102.229	1.525%
May-16	1.2236    1,110,905	1.6366    1,008,302	106.938	3.525%	101.880	1.676%
Jun-16	1.3111    1,190,346	1.7391    1,071,452	107.853	3.354%	101.503	1.845%
Capital variance to 31/3/2016	65,459	47,501				
Variance to initial investment	190,346	71,452				