

**WEST OXFORDSHIRE DISTRICT COUNCIL**  
**FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE**  
**WEDNESDAY 4 OCTOBER 2017**

**TREASURY MANAGEMENT ACTIVITY AND PERFORMANCE 2017/18**

**REPORT OF GROUP MANAGER GO SHARED SERVICES**

**(Contact: Jenny Poole: - Tel. 01285 623313)**

**I. PURPOSE**

- (a) To advise Members of treasury management activity and the performance of internal and external fund managers for the period 1 April 2017 – 31 August 2017.
- (b) To consider an update to the Treasury Management Strategy Statement and Investment Strategy 2017/18 to enable the Council to add Publica Group (Support) Ltd and Ubico Ltd to the list of Counterparties for investment purposes.
- (c) To seek Member's endorsement for Officers to apply for the Council to be recognised as a professional client (rather than a retail client) for treasury management transactions.

**2. RECOMMENDATIONS**

- (a) That treasury management and the performance of in-house and external Pooled Funds' activity for the period 1 April 2017 – 31 August 2017 are noted.
- (b) That the Cabinet be requested to recommend to Council that:-
  - (i) the Council's Treasury Management Strategy Statement and Investment Strategy 2017/18 be updated to include Publica Group (Support) Ltd as an approved counterparty;
  - (ii) investments with Publica Group (Support) Ltd are limited to a maximum of £500,000 and for periods no longer than 1 year.
  - (iii) the Council's Treasury Management Strategy Statement and Investment Strategy 2017/18 be updated to include Ubico Ltd as an approved counterparty;
  - (iv) investments with Ubico Ltd are limited to a maximum of £500,000 and for periods no longer than 1 year.
  - (v) Officers be authorised to apply for the Council to be recognised as a profession client for treasury management transactional purposes.

**3. BACKGROUND**

**Investment Portfolio Background**

- 3.1. The in- house investment balance amounted to £17.265m at 1 April 2017 inclusive of the long term loan to Hanover Housing Association. The average balance of investments for the period

to 31 August 2017 rose to £26.880m in line with cash-flow forecasts for 2017/18 achieving a return of 0.98% for the period.

- 3.2. Bonds purchased in 2013/14 (at a cost of £2.5m) were valued at £2.785m at 31<sup>st</sup> March 2017 and are now valued at £2.793m on 31 August 2017 based on current mid-prices. This bond was 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 0.18% as at 31 August 2017.
- 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 2017/18. New investments were made in line with policy as quoted in the Investment Strategy for 2017/18:
  - 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 31 August 2017 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   April 2017 to 31 August 2017 (annualised returns)</b>	<b>In-House</b>	<b>Bonds</b>
Net Return	0.98%	4.75%

- 3.7 The current In-house investments have achieved a net return of 0.98% which is 0.80% 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 0.57% and an investment with a local authority returning 0.65%. However, it should be noted in-house investments returns may fall during the second half of this

financial year due to income from Council Tax and Business Rates which falls dramatically in February and March so investment balances will decrease over this period of time.

- 3.8 The table below shows the current valuations of the Pooled Funds portfolio at the end of August 2017 compared with the values at the close of the 2016/17 financial year. In the first five months of the year we have seen a loss of £27,675. The table below shows the current valuations of the Pooled Funds portfolio at the end of August 2017 compared with the values at the close of the 2016/17 financial year.

	Initial Investment	1 April Fund Value	31 August Fund Value	Dividends paid out in 2017/18 as at 31 August	Unrealised Gain / (Loss) for 2017/18	Unrealised Gain / (Loss) to Initial Principal
	£	£	£	£	£	£
Insight LPF – Cash +	2,000,000	2,020,017	2,020,223	4,190	205	20,223
Payden & Rygel –Cash+	2,000,000	2,045,356	2,040,170	3,347	(5,186)	40,170
UBS – Bond / Equity	2,000,000	2,004,981	2,018,337	40,461	13,356	18,337
M&G Strategic – Bond	1,000,000	1,030,971	1,054,541	9,546	23,570	54,541
Royal London Cash +	2,000,000	2,000,224	1,993,017	6,715	(7,207)	(6,983)
Schroders – Equity	1,000,000	1,086,168	1,073,887	25,840	(12,281)	73,887
Threadneedle – Equity	1,000,000	1,379,098	1,347,775	15,283	(31,322)	347,775
M&G Global - Equity	1,000,000	1,349,619	1,340,809	22,167	(8,810)	340,809
<b>August 2017 Total</b>	<b>12,000,000</b>	<b>12,916,434</b>	<b>12,888,759</b>	<b>127,549</b>	<b>(27,675)</b>	<b>888,759</b>

**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 0.18%). The performance for 2017/18 is estimated to make a return of 0.30% to 0.45% which is on target with the budget.

**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 is not far from the estimate of 0.60% for the year (currently 0.68% annualised)

**UBS Multi-Asset Income Fund** – The fund seeks to provide an income, through a diversified portfolio of investments. The fund was increased by a further £1m in April 2015 to £2m and is still seeing its capital value increase month on month. The fund is expected to return income of around 3% to 3.5% for the year though.

**Royal London Enhanced Cash Plus Fund** – The fund invests in high quality bonds, cash, deposits, money market instruments, floating rate notes and short dated debt securities. The investment objective is capital preservation combined with the production of income. The fund will seek to outperform its benchmark, 7 day sterling LIBID over the 12 month rolling period. Income return is estimated to return around 1.30%.

**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. The value of this fund has risen strongly in the first five months of this financial year. Estimated income dividend return for the year is 3.5% - 4.0%.

**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, and the fund has continually been improving recently. Income return on this fund is expected to be around 3.25% - 3.75% for the year.

**M&G Strategic Corporate Bond Fund** - The aim of the Fund is to provide income and capital growth, through a top-down approach of the fund manager’s economic outlook determining the fund duration, the sector allocation and stock concentration. It invests primarily in investment grade corporate bonds. An annual return of 2.5% is expected from income dividends.

#### 4. ECONOMIC AND INTEREST RATE FORECAST

- 4.1 The outlook for the UK economy remains uncertain as the minority government continues to negotiate the country’s exit from the European Union. As expected, economic growth is slowing as higher inflation and lower confidence weigh on activity and business investment is held back due to Brexit concerns.
- 4.2 Household spend has diminished due to a contraction in real wages. Savings rates are at an all-time low, with little scope for further reduction to smooth consumption. When inflation eventually eases, savings are likely to be replenished, further diverting money away from consumption
- 4.3 Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods, particularly if this feeds through into wage growth. Several members recently voted for a rate hike. The view of Arlingclose Interest rate forecast is to remain at 0.25% for the unforeseeable future as can be seen from the table below.

	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Official Bank Rate												
Upside risk	0.00	0.00	0.00	0.00	0.00	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	-0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

## **5. ADDITION OF PUBLICA GROUP (SUPPORT) LTD AND UBICO LTD AS COUNTERPARTIES TO THE TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY**

- 5.1 The Council is required, on an annual basis, to approve a Treasury Management Strategy Statement and Investment Strategy prior to the commencement of the financial year. The Council approved the strategy 2017/18 on 22 February 2017.
- 5.2 Council approved becoming a shareholder in Ubico Ltd on 26 October 2016. Ubico Ltd will commence delivery of the Council's waste and recycling services this month. In order to enable the Council to provide Ubico Ltd with working capital funding (should that be necessary) the Council needs to add Ubico Ltd as a Counterparty within its Treasury Management Strategy Statement and Investment Strategy for 2017/18. Officers recommend that the Strategy is updated to provide a maximum investment with Ubico Ltd of £500,000 for a period of up to 365 days. Similar arrangements have been put in place with other Ubico shareholding authorities; although utilisation of the arrangement has rarely been necessary due to the operational funding arrangements put in place.
- 5.3 Council approved the establishment of 2020 partnership companies to deliver services on its behalf on 26 October 2016. The first of the companies to become operational will be Publica Group (Support) Ltd. The company is expected to become operational on 1st November 2017. In order to be able to provide the company with working capital, the Council needs to update its Treasury Management Strategy Statement and Investment Strategy. Officers recommend that the Strategy is updated to provide a maximum investment with Publica Group (Support) Ltd of £500,000 for a period of up to 365 days.
- 5.4 Financial modelling has indicated that Publica Group (Support) Ltd will require a short-term loan upon commencement of operational activity as it will need to pay for the costs associated with establishing the company and purchase some assets and equipment from the partner Councils. Once the company is operational, it is unlikely that Publica will need to utilise the loan facility from the Council on a regular basis.
- 5.5 In order to comply with State Aid regulations, the interest rate charged to Ubico Ltd and Publica Group (Support) Ltd will be informed by the EU Commission's "Interest Rate Communication". The proposed interest rate for investments placed with Publica during 2017/18 is therefore 5%. The interest rate will vary according to prevailing economic conditions, but will be fixed for the forthcoming financial year according to the prevailing economic conditions at the time when the Council approves its annual Treasury Management Strategy.

## **6. CHANGES RESULTING FROM MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE II**

- 6.1. The way that local authorities can access financial services will change in January 2018 as a result of the second Markets in Financial Instruments Directive. Following a consultation last year, rules published in the summer confirm that local authorities can only continue to be classed as professional clients if they have at least a £10m investment balance, staff with relevant experience and knowledge to make investment decisions and understand the risks involved. Local authorities not meeting the criteria will be reclassified as retail clients, which may mean reduced access to financial services or higher fees and greater administrative burden.

- 6.2. Local authorities are currently treated by regulated financial services firms as professional clients who can “opt down” to be treated as retail clients instead. But from 3rd January, local authorities will be treated as retail clients who can “opt up” to be professional clients, providing that they meet certain criteria.
- 6.3. Many firms, including those only serving institutional investors, are not currently authorised to serve retail clients, and some will not wish to incur the extra costs of becoming authorised. Local Authorities may therefore lose access to certain products and providers.
- 6.4. This report recommends that the Council authorises Officers to apply for the Council to be recognised as a professional client under the MiFID II regulations.

## 7. FINANCIAL IMPLICATIONS

- 7.1 The original investment interest budget for 2017/18 was set at £607,300 which was based on an average balance of £35.545 million from all the different type of investments (e.g. fixed term deposits, pooled funds, bonds) achieving an overall average return of 1.70%.
- 7.2 The breakdown of the budget and estimated performance for the year is as follows:

	2017/18 Budget	2017/18 Estimate Outturn
Pooled Funds	249,300	295,000
In-House Investments	71,700	79,000
Hanover Housing Association	167,500	167,500
Bonds	118,800	118,800
<b>Total</b>	<b>607,300</b>	<b>660,300</b>

- 7.3 Any lending to Publica Group (Support) Ltd or Ubico Ltd will be in line with the European Commission Interest Rate Communication. The interest rate for 2017/18 will be 5%. The interest rate will be set annually within the Treasury Management Strategy.

## 8. RISKS

- 8.1 Publica Group (Support) Ltd is a company limited by guarantee, wholly owned by local authorities. The Council is an owner (Member) of the company together with Cheltenham Borough, Forest of Dean and Cotswold District Councils. The Council has a significant interest in the company and therefore the risk of a default on an investment is minimal.
- 8.2 Ubico Ltd is a company limited by shareholding, wholly owned by local authorities. The Council is an owner (shareholder) of the company together with Cheltenham Borough, Tewkesbury Borough, Forest of Dean District, Cotswold District, Stroud District and Gloucestershire County Councils. The Council has a significant interest in the company and therefore the risk of a default on an investment is minimal.

8.3 Should the Council decide not to opt up to professional status, as per the Markets in Financial Instruments Directive, the Council will not be able to access the range of investment products that it is currently invested in. There will be a significant resulting reduction in investment income to the Council.

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Date: 25th September 2017

Background Papers

Valuation 31 August 2017 – Pooled Funds & Bonds

In – House investment as at 31 August 2017

## SCHEDULE OF CASH INVESTMENTS OUTSTANDING AT 30 AUGUST 2017

NAME OF COUNTERPARTY	VALUE DATE	NOMINAL AMOUNT (£)	MATURITY DATE	RATE OF INTEREST	Fitch Credit Rating	
					Long Term	Short Term
IN HOUSE MANAGEMENT						
Hanover Housing Association	24.07.13	5,000,000	24.07.18	3.35%	A	FI
Canadian Imperial Bank of Commerce	18.10.16	1,000,000	18.10.17	0.64%	AA-	FI
Lloyds	13.01.17	1,000,000	13.01.18	0.90%	A+	FI
Lloyds	31.03.17	2,000,000	29.03.18	0.80%	A+	FI
Lloyds	13.04.17	1,700,000	12.01.18	0.65%	A+	FI
Birmingham City Council	28.04.17	2,000,000	27.04.18	0.65%	AA	FI
Goldman Sachs International Bank	03.07.17	2,000,000	03.10.17	0.46%	A	FI
Goldman Sachs International Bank	15.08.17	3,000,000	15.11.17	0.31%	A	FI
Goldman Sachs MMF	31.08.17	330,000		0.15%	AAmmf	
Invesco AIM MMF	31.08.17	5,000,000		0.20%	AAmmf	
Deutsche Asset & Wealth MMF	31.08.17	2,680,000		0.20%		
<b>TOTAL IN-HOUSE INVESTMENTS</b>		<b>25,710,000</b>				

## ICELANDIC BANK DEPOSITS

Kaupthing Singer Friedlander	02.07.07	8,575		-		
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West Oxfordshire DC - Pooled Funds

Bloomberg  
Ticker

	INLIQP5		PAYSRSD		RLECPYG		UMAIGLI	
	Insight Liquidity Plus Fund - Share Class 5		Payden & Rygel Sterling Reserve Fund - Income		Royal London Enhanced Cash Plus Fund - Income		UBS Multi Asset Income Fund - L Class Income Gross	
Mar-17	0.9845	2,020,017	10.1457	2,045,356	0.9991	2,000,224	0.5104	2,004,981
Capital variance to 31/3/2016	2,831		10,382		220		55,781	
Variance to initial investment	20,017		45,356		220		4,981	
Div declared 2016-17 (cuml)	£15,715		£15,214		£19,598		£77,387	
	<i>Div payable monthly</i>		<i>Div payable quarterly</i>		<i>Div payable quarterly</i>		<i>Div payable quarterly</i>	
<b><u>2017-18</u></b>								
Apr-17	0.9844	2,019,771	10.1579	2,038,765	1.0002	2,002,426	0.5087	1,998,303
May-17	0.9848	2,020,551	10.1656	2,040,311	0.9981	1,998,222	0.5139	2,018,730
Jun-17	0.9874	2,025,947	10.1421	2,035,594	0.9975	1,997,021	0.5124	2,012,838
Jul-17	0.9847	2,020,366	10.1547	2,038,123	0.9992	2,000,424	0.5105	2,005,374
Aug-17	0.9846	2,020,223	10.1649	2,040,170	0.9955	1,993,017	0.5138	2,018,337
Capital variance to 31/3/2017	205		(5,186)		(6,983)		13,356	
Variance to initial investment	20,223		40,170		(7,207)		18,337	

**West Oxfordshire DC - Pooled Funds**

Bloomberg Ticker	MGSCBII		SCHIMZI		THGQZNI		MGDIIG	
	M&G Strategic Corporate Bond Fund I Class Accumulation		Schroders Income Maximiser Fund - Z Class Income		Threadneedle Global Equity Income Fund - Z Class Income Net		M&G Global Dividend Fund - Class I Income	
Mar-17	11.0751	1,030,971	0.5395	1,086,168	1.5190	1,379,098	2.1906	1,349,619
Capital variance to 31/3/2016		40,773		113,549		254,212		325,668
Variance to initial investment		30,971		86,168		379,098		349,619
<b><u>2017-18</u></b>								
Apr-17	11.1442	1,037,403	0.5355	1,078,115	1.4810	1,344,598	2.1065	1,297,806
May-17	11.3130	1,053,117	0.5510	1,109,321	1.5059	1,367,204	2.1253	1,309,388
Jun-17	11.1926	1,041,909	0.5290	1,065,029	1.5017	1,363,391	2.1412	1,319,184
Jul-17	11.2769	1,049,756	0.5330	1,073,082	1.4891	1,351,952	2.1343	1,314,933
Aug-17	11.3283	1,054,541	0.5334	1,073,887	1.4845	1,347,775	2.1763	1,340,809
Capital variance to 31/3/2017		23,570		(12,281)		(31,322)		(8,810)
Variance to initial investment		54,541		73,887		347,775		340,809