

SUBJECT:	Investment Performance Quarter Ending 30th June 2013
REPORT OF:	Officer Management Team - Director of Resources Prepared by - Principal Accountant

1. Purpose of Report

- 1.1 To inform Members of the investment returns for the quarter ending 30th June 2013.

2. Links to Council Policies & Plans

- 2.1 The Council's Treasury Management function is a key element to the Financial Strategy, which in turn feeds into the prudent use of Resources, one of the Council's Management Principles.

3. Background

- 3.1 The Council's Treasury Management Strategy 2013/14 set an estimated return on investment income for the year of £775,000 which was to be generated from a combination of Fixed and short term cash deposits, returns on the Stoke Poges Memorial Gardens Fund and from the possible investment of some of the Council's investment portfolio into corporate bonds.
- 3.2 In addition Sector Treasury Services Ltd is engaged by the Council as its Treasury Management consultants providing advice on investment, performance and regulations where necessary.
- 3.3 The Council has adopted the CIPFA code of practice on Treasury Management, which includes the creation of a Treasury Management Policy Statement setting out the policies and objectives of the Council's treasury management activities.
- 3.4 The code recommends that reports on investment performance are made on a quarterly basis including a Mid-year Review Report. This report represents the first of these reports for 2013/14.

4. Investment Performance - Quarter to 30 June 2013.

- 4.1 **In House Investments** - Officers invest cash flow surpluses with approved counter parties. Decisions on investing in callable and fixed deposits are taken by Officers in the light of advice from the Council's treasury consultants and brokers acting in the local authority money market, combined with general intelligence available from money market briefings made available to the authority. Members approved a new matrix for in house investments as part of the Treasury Management Strategy 2013/14 as follows.

	Duration	Maximum Amount	Fitch Rating	Comment
UK Institutions	Up to 5 years	£5m	A- or better	
	Up to 3 years	£5m	BBB+ or better	
Non UK Institution	Up to 3 years	£2m	A- or better	Sovereignty rating AA or better
Corporate Bonds/Bond Funds	Up to 5 years	£5m	A- or better	

4.2 A summary of the Council's holdings of fixed deposits with a maturity of over one year at 30th June 2013 is shown below:

UK Institutions	Fitch Credit Rating	Principal £	Interest Rate	Invested	Matures	Notes
Royal Bank of Scotland	A					
Fixed Deposit		5,000,000	4.25%	08/02/12	08/02/17	(1)
Fixed Deposit		2,000,000	3 Month Libor	02/06/11	02/06/14	(2)
Total RBS		7,000,000				
Cater Allen	A					
Fixed Deposit		1,000,000	3.50%	21/07/10	21/07/13	
Fixed Deposit		2,000,000	3.20%	30/09/10	30/09/13	
Total CA		3,000,000				
Lloyds Bank	A					
Fixed Deposit		1,000,000	3 Month Libor, Floor 2.85%, Cap 5.85%	11/05/10	12/05/15	
Fixed Deposit		1,000,000	3 Month Libor, Floor 3.07%, Cap 5.00%	19/05/10	19/05/15	
Total Lloyds Group		2,000,000				
Barclays	A					
Fixed Deposit		1,000,000	3 Month Libor, Floor 3.05%, Cap 5.00%	24/05/10	26/05/15	
Total Barclays		1,000,000				
Close Brothers	A					
Fixed Deposit		1,000,000	2.80%	04/10/12	04/10/13	
Fixed Deposit		1,000,000	2.70%	22/02/13	22/08/14	
Fixed Deposit		1,000,000	1.50%	12/04/13	13/10/14	
Total Close Brothers		3,000,000				
Total Deposits		16,000,000				

(1) RBS have the option to switch to 3 month LIBOR¹ in years 3,4 & 5.

(2) RBS have exercised their option to switch to 3 month LIBOR in year 2.

¹ LIBOR - London Inter Bank Offered Rate

In addition the Council held the following investments of short term cash with duration of under one year at the end of the quarter:

	Fitch	Amount £	Interest Rate	Notes
Nat West Bank	A	5,628,000	Base Rate	Instant Access
Nat West Bank	A	3,000,000	0.80%	95 Day Notice Account
Bank of Scotland	A	3,000,000	3%	16/7/12 to 4/7/13
Bank of Scotland	A	1,000,000	0.75%	95 Day Notice Account
Total		12,628,000		

Since the end of the quarter the Cater Allen fixed deposit for £1 million at 3.50% matured on 21/7/13 and the fixed deposit with the Bank of Scotland for £3 million at 3% matured on 4/7/13.

This £4 million has been reinvested as follows:

£1 million into Nat West 95 Day Notice account

£1 million into Bank of Scotland 95 Day Notice account

£1 million fixed deposit with Close Brothers at 1.20% maturing on 5th September 2014

£1 million held in short term Nat West overnight account.

The bulk of these maturities have been invested short term in order to fund future possible investments in corporate bonds the progress of which is discussed later in this report.

5. Treasury Management Strategy Update

- 5.1 The new Governor of the Bank of England, Mark Carney, attended his first MPC meeting in July 2013. The tradition had been that decisions to leave official interest rates unchanged were not accompanied by any analysis on the economic outlook, with markets instead expected to wait until the MPC minutes were published two weeks after the meeting. At the July 2013 meeting the MPC issued a statement noting that while, “the incoming data over the past couple of months had been broadly consistent with the central outlook for output growth and inflation contained in the May report the significant upward movement in market interest rates would, however, weigh on that outlook; would in the Committee’s view, the implied rise in the expected future path of Bank Rate was not warranted by the recent developments in the domestic economy”. In August it was indicated that there would be no increase in the bank rate until the unemployment indicator was less than 7% of the total workforce.
- 5.2 This forward indication that there would be no foreseeable increase in interest rates combined with the all ready low interest rate environment for investments mainly as a result of the funding for lending scheme continues to make it difficult to reinvest investments that mature to achieve the return that the Council has budgeted for. We have also received notice from Nat West Bank that they will be reducing further the interest rates payable on the Council’s overnight short term deposits account on 14/9/13 from bank rate to 20 basis points under bank rate (0.50% to 0.30%) and on the 95 day notice account on 22/10/13 from 0.80% to 0.60%.

Officers will continue to seek the best possible returns for cash set against the need for security set out in the Council's approved credit ratings matrix including alternatives from Nat West for the investment of short term cash.

5.3 Corporate Bonds Update

As part of the Treasury Management Strategy 2013/14 Officers were asked to investigate the diversification of up to £5 million of the investment portfolio into corporate bonds. After considering Officers findings Members agreed that investing in individual corporate bonds did have advantages and should proceed when market conditions were appropriate.

At the last meeting of this Pag a list of corporate bonds that met the Council's counterparty criteria was considered and Members expressed an interest in exploring further the potential for investing in corporate bonds issued by utilities with a final decision to invest delegated to me in consultation with the Portfolio Holder.

Officers have investigated current available UK corporate bonds in the utilities sector. Utilities have proved to be a very popular sector with few available bonds and those that become available are sold very quickly. As this is the case following discussion with the Portfolio Holder it was agreed to extend the search to include telecommunications and pharmaceuticals.

There have been a few bonds under the extended search that meet the Council's investment criteria however nothing with an effective interest rate calculation (the interest rate that the Council would receive taking into account the purchase price of the bond) that has been particularly appealing. The search for the correct bonds for the Council to purchase therefore continues. A brief summary of the bonds that have become available to date is listed below:

	Matures	Coupon	Net Yield	Effective Int Rate
Centrica	2016	5.50%	1.52%	1.28%
AT&T	2017	5.875%	1.80%	1.397%
Vodafone	2017	5.375%	1.96%	1.631%
BG Group	2017	5.125%	1.57%	1.03%

5.4 Sector Contract

South Bucks District Council and Chiltern District Council both had contracts which had a co terminus end date of 30th June 2013. As a result I have reviewed the services provided to both Councils and agreed a new joint contract for both authorities for a basic service, covering credit ratings and investment advice with any additional requirements purchased separately on an as and when basis, which has been agreed with both Councils Portfolio Holders. The new contract has resulted in a total saving of £7,500 per annum which will be distributed to both authorities appropriately.

6. Investment Policy and Procedures

- 6.1 As detailed in 3.3 above the Council has adopted the CIPFA Code of Practice on Treasury Management.
- 6.2 The Code recommends the creation & maintenance of Treasury Management Policy & Procedures.

- 6.3 It is not normally expected that the procedures will need to be revised very often and any changes have therefore been delegated down to me as Chief Finance Officer. A copy of the document is brought to Members attention on an annual basis and a copy has therefore been attached at Appendix A for Members information.

7. Economic and Interest Rate Commentary

- 7.1 Following the change to the joint Sector contract and the reduction in the service provided to the Council the economic and interest rate commentary previously provided by Sector is no longer available to the Council.

8. Resources, Risk & Other Implications

8.1 The investment budget set for the year is £775,000 .The current estimate is that there will be a shortfall in the year of £25,000 which has been declared in budget monitoring. However the budget for 2013/14 had an assumption built in that the Council would be able to achieve returns at the same level when reinvesting maturing investments which has not happened currently and the shortfall figure may grow during the year if this continues to be the case.

9. Summary

9.1 The PAG is requested to:

1. Note the investment performance for the quarter to 30th June 2013 and the progress to date on investing in corporate bonds.

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Background Papers:	None