

SUBJECT:	Investment Performance Quarter Ending 31st December 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 31st December 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 third of these reports for 2013/14.

4. Investment Performance - Quarter to 31st December 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 31st December 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	1.13%	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				
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	2.70%	22/02/13	22/08/14	
Fixed Deposit		1,000,000	1.50%	12/04/13	13/10/14	
Fixed Deposit		1,000,000	1.20%	05/07/13	05/09/14	
Total Close Brothers		3,000,000				
Total Deposits		13,000,000				

(1) Investment was at 4.25% for the first 2 years with RBS having the option which they exercised to switch to 3 month LIBOR however officers have negotiated a rate of 1.13% until February 2015 when a review will take place.

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

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	4,513,000	20 Basis Points Below Bank Rate - 0.30%	Instant Access
Nat West Bank	A	4,000,000	0.60%	95 Day Notice Account
Bank of Scotland	A	1,000,000	0.50%	32 Day Notice
Bank of Scotland	A	1,000,000	0.70%	21/10/13 to 21/01/14
Barclays Bank	A	1,000,000	0.63%	14/10/13 to 16/06/14
Total		11,513,000		

There is a high level of short term cash investments at the current time which is due to cash flow being held to fund future possible investments in corporate bonds and to fund major capital projects in the last quarter of the year including the Dropmore Road Depot development and the new waste scheme. A review of short term cash will take place in April with a view to investing some of this money on a slightly longer duration dependant on what is available at that time.

5. Treasury Management Strategy Update

- 5.1 The Governor of the Bank of England, Mark Carney, had been indicating since August 2013 in the MPC forward view that there would be no increase in the bank rate until the unemployment indicator was less than 7% of the total workforce. This indicator has now been achieved however he has now updated his view that although the economy is beginning to show an encouraging level of growth the economic recovery is still weak and there would be no increase from the current level of bank rate of 0.50% before there was more strength in the economy recovery which was not anticipated to be before at least the spring of 2015.
- 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 which is reflected in the underachievement in returns compared to budget which is currently forecast as an underachievement of £175,000 for the year.
- 5.3 Officers continue to search the corporate bond markets in order to achieve the alternative of investing up to £5 million within utilities, telecommunications and pharmaceuticals sectors that Members approved as part of the Treasury Management Strategy 2013/14. However there continues to be few bonds that meet the Council's investment criteria and 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.

6. Economic and Interest Rate Commentary

6.1 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.

7. Resources, Risk & Other Implications

7.1 The investment budget set for the year is £775,000 .The current estimate is that there will be a shortfall in the year of £175,000 which has been declared in budget monitoring. 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 and is reflected in the shortfall in the year. The budget for investment income for 2014/15 has been set at £550,000 as this is regarded to be a more realistic figure in the continuing low interest rate environment.

8. Summary

8.1 The PAG is requested to:

1. Note the investment performance for the quarter to 31st December 2013 and the progress to date on investing in corporate bonds.

Officer Contact:	Mr H Woodbridge - Ext 7319 Email address - howard.woodbridge @southbucks.gov .uk
Background Papers:	None