Division(s):

CABINET– 15 JULY 2014

TREASURY MANAGEMENT OUTTURN 2013/14

Report by Chief Finance Officer

Introduction

1. The Chartered Institute of Public Finance and Accountancy's (CIPFA's) 'Code of Practice on Treasury Management (Revised) 2009' requires that the Council (via Cabinet) and Audit & Governance Committee receives an updated report on Treasury Management activities at least twice per year. This report is the second report for the financial year 2013/14 and sets out the position as at 31 March 2014.

2. Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

3. The following annexes are attached

Annex 1	Debt Financing 2013/14
Annex 2	Public Works Loan Board (PWLB) Maturing Debt
Annex 3	Lending List Changes
Annex 4	Investment portfolio 31/03/2014
Annex 5	Prudential Indicators Outturn
Annex 6	Benchmarking

Strategy 2013/14

4. The Treasury Management Strategy for 2013/14 was based on an average base rate forecast of 0.50%. The budget for interest receivable assumed that an average interest rate of 0.90% would be achieved, 0.40% above base rate.

5. The Strategy for Long Term Borrowing was to continue to have the option to fund new or replacement borrowing up to the value of 25% of the portfolio through internal borrowing to reduce the Council's exposure to credit risk and reduce the cost of carry (difference between borrowing costs and investment returns) whilst debt rates remained higher than investment interest rates.

6. The Strategy included the Treasury Management Strategy Team (TMST) keeping under review the continued use of the services of external fund manager Investec, with decisions to advance or withdraw funds to external fund managers delegated to the TMST.

Market Background

7. At the beginning of the 2013-14 financial year markets were concerned about lacklustre growth in the Eurozone, the UK and Japan. Lack of growth in the UK economy, the threat of a 'triple-dip' alongside falling real wages (i.e. after inflation) and the scarcity of business investment were a concern for the Bank of England's Monetary Policy Committee. Only two major economies – the US and Germany – had growth above pre financial crisis levels, albeit these were still below trend.

8. With new Governor Mark Carney at the helm, the Bank of England unveiled forward guidance in August pledging not to consider raising interest rates until the unemployment rate fell below the 7% threshold. In the Bank's initial forecast, this level was only expected to be reached in 2016. Although the Bank stressed that this level was a threshold for consideration of a rate increase rather an automatic trigger, markets began pricing in a much earlier rise than was warranted and, as a result, gilt yields rose aggressively.

9. The recovery in the UK surprised with strong economic activity and growth. Q4 2014 GDP showed year-on-year growth of 2.7%. Much of the improvement was down to the dominant service sector, and an increase in household consumption buoyed by the pick-up in housing transactions which were driven by higher consumer confidence, greater availability of credit and strengthening house prices. However, business investment had yet to recover convincingly and the recovery was not accompanied by meaningful productivity growth.

10. Consumer Price Inflation fell from 2.8% in March 2013 to 1.7% in February 2014, the lowest rate since October 2009, reducing the pressure on the Bank to raise rates. Although the fall in unemployment (down from 7.8% in March 2013 to 7.2% in January 2014) was faster than the Bank of England or indeed many analysts had forecast, it hid a stubbornly high level of underemployment. Importantly, average earnings growth remained muted and real wage growth (i.e. after inflation) was negative. In February the Bank stepped back from forward guidance relying on a single indicator – the unemployment rate – to more complex measures which included spare capacity within the economy. The Bank also implied that when official interest rates were raised, the increases would be gradual – this helped underpin the 'low for longer' interest rate outlook despite the momentum in the economy.

11. The Federal Reserve's then Chairman Ben Bernanke's announcement in May that the Fed's quantitative easing (QE) programme may be 'tapered' caught markets by surprise. Investors began to factor in not just an end to QE but also rapid rises in interest rates. 'Tapering' (a slowing in the rate of QE) began in December 2013. By March 2014, asset purchases had been cut from $75bn to $55bn per month with expectation that QE would end by October 2014.

12. With the Eurozone struggling to show sustainable growth, the European Central Bank (ECB) cut main policy interest rates by 0.25% to 0.25% and the deposit

rate to zero. Markets were disappointed by the lack of action by the ECB despite CPI inflation below 1% and a looming threat of deflation. Data pointed to an economic slowdown in China which, alongside a weakening property market and a highly leveraged shadow banking sector, could prove challenging for its authorities.

13. Gilt yields ended the year higher than the start in April. The peak in yields was during autumn 2013. The biggest increase was in 5-year gilt yields which increased by nearly 1.3% from 0.70% to 1.97%. 10-year gilt yields rose by nearly 1% ending the year at 2.73%. The increase was less pronounced for longer dated gilts; 20-year yields rose from 2.74% to 3.37% and 50-year yields rose from 3.23% to 3.44%.

14. 3-month, 6-month and 12-month Libid rates remained at levels below 1% through the year.

Treasury Management Activity

Debt Financing

15. The Council's debt financing position for 2013/14 is shown in Annex 1.

16. The option to fund new or replacement borrowing requirements from internal balances, up to the value of 25% of the investment portfolio was retained in the 2013/14 annual treasury management strategy. This was intended to reduce the cost of carry of borrowing which is the difference between borrowing rates and investment returns.

17. No new borrowing has been arranged during 2013/14 with either the Public Works Loan Board (PWLB) or through the money markets.

18. At 31 March 2014, the authority had 66 PWLB loans totalling £351.38 and 10 LOBO[1] loans totalling £50m. The average rate of interest paid on PWLB debt was 4.60% and the average cost of LOBO debt in 2013/14 was 3.94%. The combined weighted average for interest paid on long-term debt was 4.50%.

19. The Council continues to qualify for the Certainty Rate on PWLB loans, offering a 0.20% discount on the Standard Rate (currently gilts plus 1.00%). Qualification is based on provision of additional information on long-term borrowing and associated capital spending plans. Although no new external borrowing is planned in the short-term the Council continues with the provision of additional information in order to qualify for the reduced rate, in case a need to borrow arises.

[1] LOBO (Lender's Option/Borrower's Option) Loans are long-term loans which include a re-pricing option for the bank at predetermined intervals.

Maturing Debt

20. The Council repaid £11m of maturing PWLB loans during the year. The weighted average interest rate payable on the matured loans was 4.12%. The details are set out in Annex 2.

Debt Restructuring

21. No long term debt was restructured during 2013/14.

Investment Strategy

22. Security and liquidity of cash was prioritised above the requirement to maximise returns. The Council adopted a cautious approach to lending to financial institutions, and continuously monitored credit quality information regarding the institutions on the Council's approved Lending List.

23. During 2013/14 the Council limited the exposure to banks by lending to local authorities deemed to be of high credit quality. At 31 March 2014 the Council had £86m of long term fixed deposits (deposits over 364 days), all of which were placed with local authorities or police authorities. The aim was to maintain a high level of security and manage exposure to interest rate and counterparty risk.

24. The weighted average maturity of all deposits at 31 March 2014, including money deposited in short-term notice accounts, was 296 days (compared with 349 days during 2012/13). This comprised £270m fixed deposits with a weighted average maturity of 297 days and £20m held in short-term notice deposit accounts. In addition, £0.6m was invested in other short-term investments.

25. The Council used fixed and structured deposits, as well as call accounts, money market funds, short dated bond funds and strategic bond funds to deposit its in-house temporary cash surpluses during 2013/14.

26. In early February, the Council participated in a joint sale, via auction, of remaining Landsbanki claims. Following the sale, local authority participants have collectively recovered approximately 95% of the original amounts deposited with Landsbanki. The sale of the council's claim has removed the risk of future Icelandic Krona currency fluctuations and accelerated the claim recovery period. The council no longer has an outstanding claim with Landsbanki.

The Council's Lending List

27. The Council's in-house cash balances are deposited with institutions that meet the Council's approved credit rating criteria. The approved Lending List is regularly updated during the year to reflect changes in bank and building society credit ratings. Changes are reported to the Cabinet each month. The approved

lending list may also be further restricted by officers, in response to changing conditions and perceived risk. Annex 3 shows the amendments incorporated into the Lending List during 2013/14, in accordance with the approved credit rating criteria and additional temporary restrictions.

Investment Outturn

28. The average daily balance of temporary surplus cash invested in-house was £349m in 2013/14. The Council achieved an average in-house return for the year of 0.85%, producing gross interest receivable of £2.98m (excluding interest accrued on Landsbanki deposits). Temporary surplus cash balances include: developer contributions; council reserves and balances; trust fund balances; and various other funds to which the Council pays interest at each financial year end, based on the average rate earned on all deposits.

29. During 2013/14 the average three month inter-bank sterling rate was 0.56%. The Council's average in-house return of 0.85% exceeded this benchmark by 0.29%. The average in-house return was 0.05% lower than the budgeted rate of interest of 0.90%, this was in part caused by a reduction in the enhanced rates achieved on the short-term notice accounts used for liquidity purposes.

30. The Council operates a number of instant access call accounts and money market funds to deposit short-term cash surpluses. During 2013/14 the average balance held on instant access was £36.5m.

31. At 31 March 2014, the Council's investment portfolio of £336.92m comprised £270.03m of fixed term deposits, £20.49m at short term notice in money market funds and call accounts, £26.28m in short dated bond funds and £20.12m in strategic bond funds. Annex 4 shows the analysis of the investment portfolio at 31 March 2014.

32. The council's Treasury Management Strategy Team regularly monitors the risk profile of the Council's investment portfolio. An analysis of the credit and maturity position of the portfolio at 31 March 2014 is shown in Annex 4.

External Fund Managers

33. Following a review of external investments by the Treasury Management Strategy Team it was decided that the Council should terminate its mandate with Investec Asset Management. Notice was given at the end of January 2014. The decision was taken due to the volatility of performance and returns being below those expected, along with a lack of confidence that this situation would be turned around. The funds from the disinvestment totalled £12.444m and were received on 31 January 2014.

34. Having reviewed further investment options in consultation with the Council's treasury advisors Arlingclose Ltd, the Treasury Management Strategy Team

approved the decision to invest £20m in the Threadneedle Strategic Bond Fund in February 2014.

35. The Threadneedle Strategic Bond Fund invests at least two-thirds of its assets in bonds (which are similar to a loan and pay a fixed or variable interest rate), issued by companies or governments in the UK and Europe as well as by large international organisations such as the World Bank or the International Monetary Fund. The remainder of the fund is invested in money market instruments, cash or near cash and other securities (other than equities). The performance of the fund will be monitored by the Treasury Management Strategy Team.

Prudential Indicators for Treasury Management

36. During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Report. The outturn for the Prudential Indicators is shown in Annex 5.

External Performance Indicators and Statistics

37. The County Council is a member of the CIPFA Treasury and Debt Management Benchmarking Club and completed returns for the financial year 2013/14. The results of this exercise are not yet available.

38. Arlingclose has also benchmarked Oxfordshire County Council's investment performance against its other clients. Since 31 March 2013 the Council has achieved a yield on its deposits in line with the average for all Arlingclose clients whilst simultaneously maintaining low credit risk. The investment performance benchmarking is shown on Annex 6.

Financial and Legal Implications

39. The combined activities of debt and investment management contribute to the strategic measures element of the Council's budget. The outturn for Interest Payable in 2013/14 was £18.405m, which was in line with the budget of £18.405m in the Medium Term Financial Plan.

40. The 2013/14 budget for interest receivable was £2.115m, compared with the outturn of £3.075m giving a net overachievement of £0.960m. In addition the 2013/14 accounts recognise an increase in the value of available for sale assets[2] of £0.315m. The increase in interest received is due to higher average cash balances due in part to slippage on the capital programme and receipt of government grants earlier in the year.

[2] Available for sale assets comprise the Investec fund, short dated bond funds and the strategic bond fund.

RECOMMENDATION

41. **The Cabinet is RECOMMENDED to note the report, and to RECOMMEND Council to note the Council's Treasury Management Activity in 2013/14.**

LORNA BAXTER
Chief Finance Officer

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June 2014

Annex 1

OXFORDSHIRE COUNTY COUNCIL DEBT FINANCING 2013/14

Debt Profile			£m
1.	PWLB	88%	362.38
2.	Money Market LOBO loans	12%	50.00
3.	Sub-total External Debt		412.38
4.	Internal Balances	0 %	-9.05
5.	**Actual Debt at 31 March 2013**	**100%**	**403.33**
6.	Government Supported Borrowing		0.00
7.	Unsupported Borrowing		1.22
8.	Borrowing in Advance		0.00
9.	Minimum Revenue Provision		-16.70
10.	**Actual Debt at 31 March 2014**		**387.85**
Maturing Debt			
11.	PWLB loans maturing during the year		11.00
12.	PWLB loans repaid prematurely in the course of debt restructuring		0.00
13.	**Total Maturing Debt**		**11.00**
New External Borrowing			
14.	PWLB Normal		0.00
15.	PWLB loans raised in the course of debt restructuring		0.00
16.	Money Market LOBO loans		0.00
17.	**Total New External Borrowing**		**0.00**
Debt Profile Year End			
18.	PWLB	88%	351.38
19.	Money Market LOBO loans	12%	50.00
20.	Sub-total External Debt		401.38
21.	Internal Balances	0 %	-13.53
22.	Actual Debt at 31 March 2014	**100%**	**387.85**

Line

1 – 5 This is a breakdown of the Council's debt at the beginning of the financial year (1 April 2013). The PWLB is a government agency operating within the Debt Management Office. LOBO (Lender's Option/ Borrower's Option) loans are long-term loans, with a maturity of up to 60 years, which includes a re-pricing option for the bank at predetermined time intervals. Internal balances include provisions, reserves, revenue balances, capital receipts unapplied, and excess of creditors over debtors.

6 'Government Supported Borrowing' is the amount that the Council can borrow in any one year to finance the capital programme. This is determined by Central Government, and in theory supported through the Revenue Support Grant (RSG) system.

7 'Unsupported Borrowing' reflects Prudential Borrowing taken by the authority whereby the associated borrowing costs are met by savings in the revenue budget.

8 'Borrowing in Advance' is the amount the Council borrowed in advance during 2013/14 to fund future capital finance costs.

9 The amount of debt to be repaid from revenue. The sum to be repaid annually is laid down in the Local Government and Housing Act 1989, which stipulates that the repayments must equate to at least 4% of the debt outstanding at 1 April each year.

10 The Council's total debt by the end of the financial year at 31 March 2014, after taking into account new borrowing, debt repayment and movement in funding by internal balances.

11 The Council's normal maturing PWLB debt.

12 PWLB debt repaid early during the year.

13 Total debt repaid during the year.

14 The normal PWLB borrowing undertaken by the Council during 2013/14.

15 New PWLB loans to replace debt repaid early.

16 The Money Market borrowing undertaken by the Council during 2013/14.

17 The total external borrowing undertaken.

18-22 The Council's debt profile at the end of the year.

Annex 2

Long-term debt Maturing 2013/14

Public Works Loan Board: Loans Maturing in 2013/14

Date	Amount £m	Rate %	Repayment Type
22/05/2013	5.000	4.200	Maturity
31/12/2013	4.000	4.900	Maturity
13/07/2013	0.500	2.350	EIP
13/01/2014	0.500	2.350	EIP
31/07/2013	0.500	2.350	EIP
31/01/2014	0.500	2.350	EIP
Total	**11.000**		

Repayment Types

Maturity – Full amount of principal is repaid at the final maturity date
EIP – Equal Instalments of Principal are repaid every 6 months until the final maturity date

Annex 3

Lending List Changes during 2013/14

Counterparties suspended during 2013/14

JP Morgan Chase Bank

Royal Bank of Scotland

Lending limits & maturity limits increased from 1 April 2013

	Lending Limit as at 31 March 2014	Maximum Maturity as at 31 March 2014
Prime Rate Sterling Fund	£12,000,000	6 months
Morgan Stanley MMF	£5,000,000	O/N
Svenska Handelsbanken	£25,000,000	12 months

Annex 4

OXFORDSHIRE COUNTY COUNCIL INVESTMENT PORTFOLIO 31/03/2014

Fixed term deposits held at 31/03/2014

Counterparty	Principal Deposited (£)	Maturity Date
DBS Bank (Development Bank of Singapore)	5,000,000	15-Apr-14
Toronto-Dominion Bank	10,000,000	22-Apr-14
Doncaster Metropolitan Borough Council	5,000,000	25-Apr-14
Lloyds TSB Bank plc	5,000,000	29-Apr-14
Nationwide Building Society	10,000,000	14-May-14
Kingston Upon Hull City Council	6,000,000	15-May-14
Close Brothers Ltd	5,000,000	06-Jun-14
Close Brothers Ltd	5,000,000	06-Jun-14
DBS Bank (Development Bank of Singapore)	10,000,000	25-Jun-14
United Overseas Bank	5,000,000	30-Jun-14
Oversea-Chinese Banking Corp	10,000,000	02-Jul-14
Svenska Handelsbanken	5,000,000	07-Jul-14
DBS Bank (Development Bank of Singapore)	5,000,000	07-Jul-14
Nottinghamshire County Council	5,000,000	22-Jul-14
Newcastle City Council	3,000,000	31-Jul-14
National Australia Bank (through broker)	5,000,000	04-Aug-14
Fife Council	5,000,000	15-Aug-14
Kingston Upon Hull City Council	2,000,000	05-Sep-14
Derby City Council	3,000,000	12-Sep-14
Oversea-Chinese Banking Corp	5,000,000	17-Sep-14
Oversea-Chinese Banking Corp	5,000,000	19-Sep-14
Lancashire County Council	5,000,000	22-Sep-14
Lancashire County Council	5,000,000	23-Sep-14
Doncaster Metropolitan Borough Council	5,000,000	26-Sep-14
Birmingham City Council	10,000,000	29-Sep-14
Corby Borough Council	5,000,000	02-Dec-14
Lloyds TSB Bank plc	5,000,000	19-Dec-14
Rugby Borough Council	5,000,000	09-Jan-15
Lloyds TSB Bank plc	5,000,000	04-Mar-15
The Mayors Office for Policing and Crime	10,000,000	13-Mar-15
Newcastle City Council	5,000,000	03-Jul-15
Doncaster Metropolitan Borough Council	5,000,000	03-Jul-15
Lancashire County Council	10,000,000	31-Jul-15
Fife Council	4,000,000	05-Aug-15
Newcastle City Council	5,000,000	07-Aug-15
Barnsley Metropolitan Borough Council	5,000,000	24-Aug-15
Fife Council	2,000,000	04-Sep-15
Newcastle City Council	10,000,000	09-Oct-15
Lancashire County Council	5,000,000	09-Oct-15
Police & Crime Commissioner for Northumbria	5,000,000	29-Apr-16
Fife Council	5,000,000	03-Jun-16

Glasgow City Council		5,000,000	04-Jul-16
Glasgow City Council		5,000,000	22-Jul-16
Peterborough City Council		5,000,000	02-Sep-16
Newcastle City Council		5,000,000	13-Sep-16
Glasgow City Council		5,000,000	10-Jan-17
	Total	**260,000,000**	

Structured deposits held at 31/3/2014

Counterparty	**Principal Deposited (£)**		**Maturity Date**
HSBC Bank plc		10,000,000	27-May-14
	Total	**10,000,000**	

Notice accounts

Counterparty	**Balance at 31/03/14 (£)**		**Notice period**
Royal Bank of Scotland 95 Day Notice		28,441	95 days
	Total	**28,441**	

Short-term notice call accounts and Money Market Funds

Counterparty	**Balance at 31/03/14 (£)**		**Notice period**
Royal Bank of Scotland Call Account		2,298	Same day
Santander UK Call Account		2,806	Same day
Svenska Handelsbanken Call Account		19,874,976	Same day
Ignis Sterling Liquidity Fund		613,999	Same day
	Total	**20,494,079**	

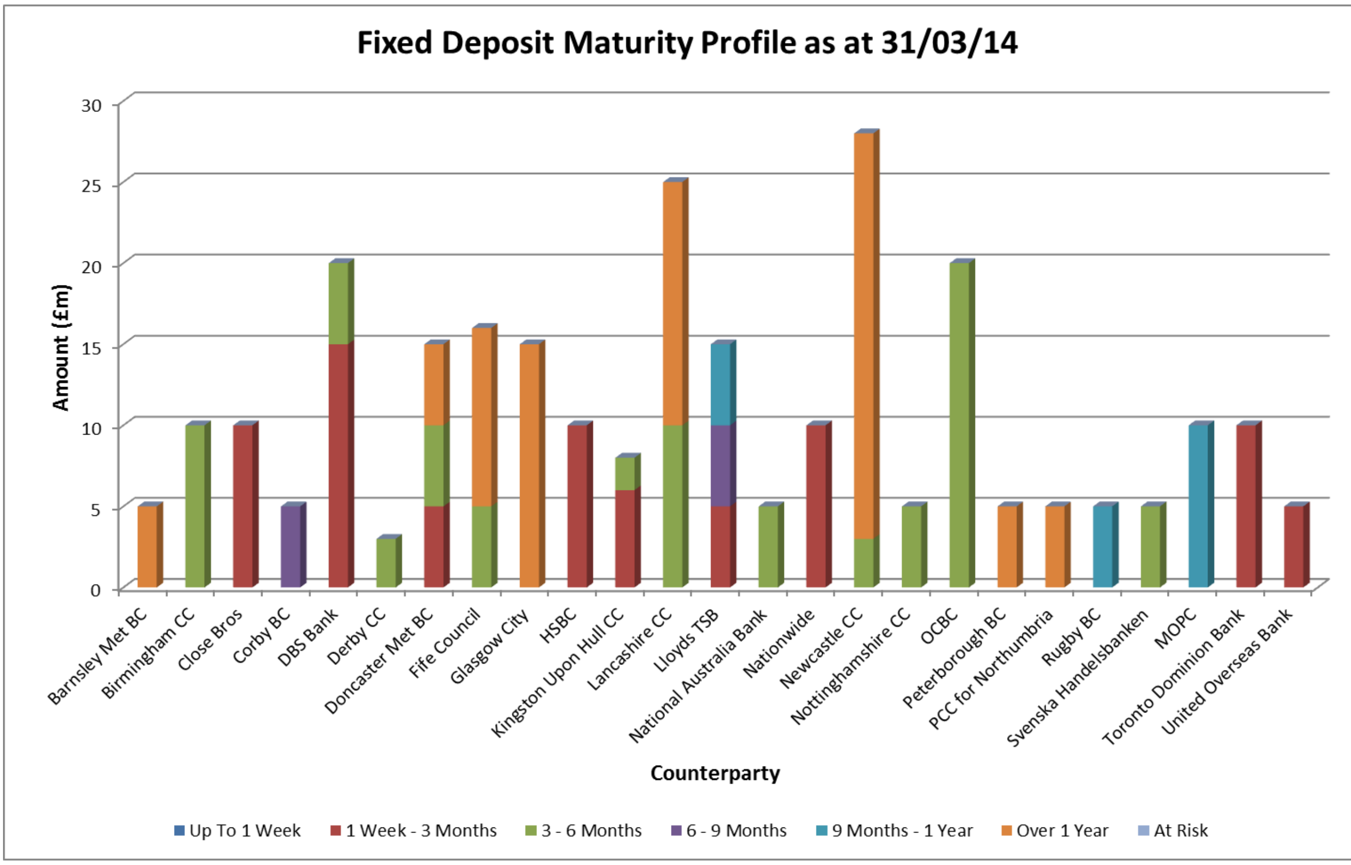
Short Dated Bond Funds

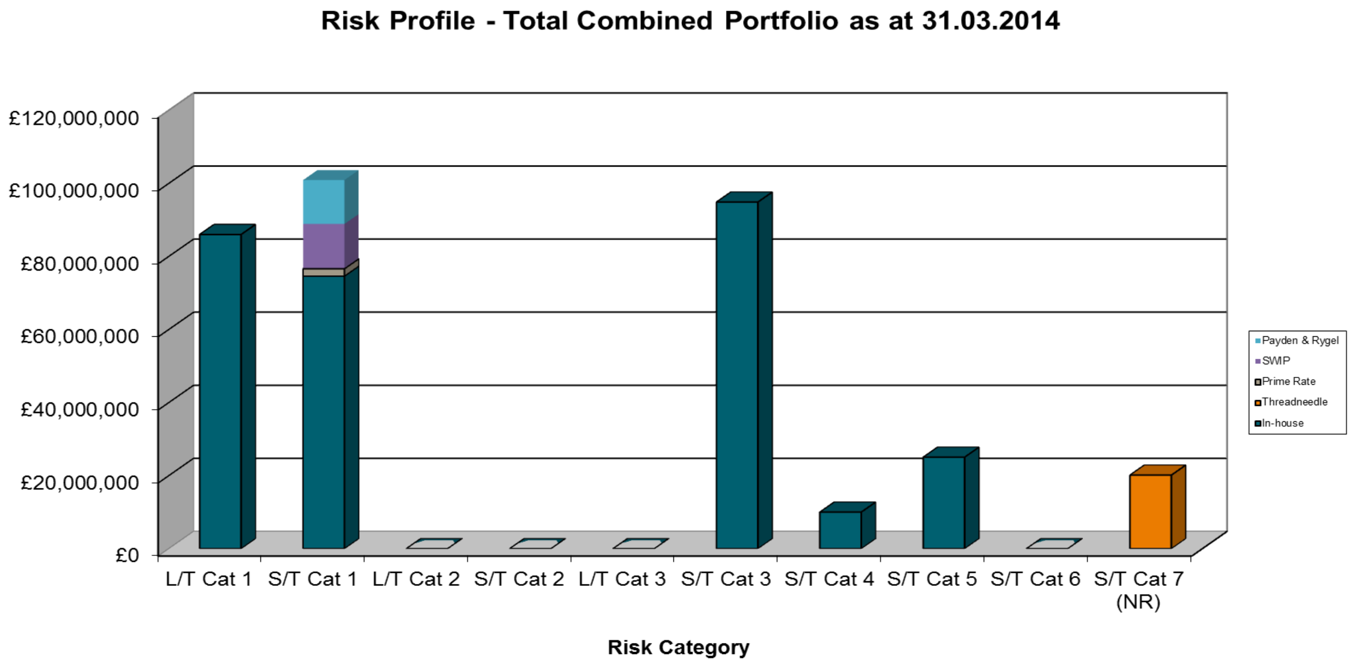
Counterparty	**Balance at 31/03/14 (£)**	**Notice period**
SWIP	12,234,160	3 days
Federated Cash Plus Fund	2,011,382	2 days
Payden & Rygel Sterling Reserve Fund	12,030,421	2 days
Total	**26,275,963**	

Strategic Bond Funds

Counterparty	**Balance at 31/03/14 (£)**		**Notice period**
Threadneedle Strategic Bond Fund		20,124,901	4 days
	Total	**20,124,901**	

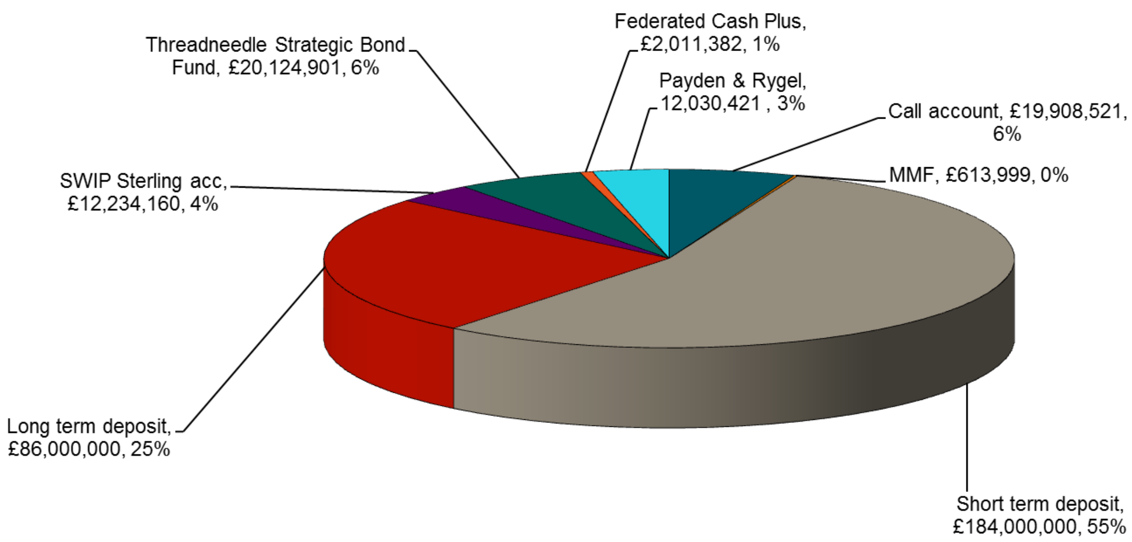
Risk profile of investment portfolio at 31/3/14





Risk Category	L/T rating	S/T rating	Individual rating	Viability rating
1 (Including Local Authorities)	AA+, AA	F1+	1, 2	aaa, aa
2	AA-	F1+	1, 2	aa, a
3	AA-	F1+	1	bbb
4	AA-	F1+	1	bbb
5	A+, A	F1	1, 2, 3	a, bbb,bb
6	A	F1	2, 3, lower	b or lower

Total Combined Portfolio as at 31.03.14



Annex 5

Prudential Indicators Outturn 31 March 2014

Authorised and Operational Limit for External Debt
Authorised Limit for External Debt
£485,000,000
Operational Limit for External Debt
£475,000,000
Actual External Debt at 31 March 2013
£441,382,618

Fixed Interest Rate Exposure

Fixed Interest Net Borrowing limit	150.00%
Actual at 31 March 2013	87.44%

Variable Interest Rate Exposure

Variable Interest Net Borrowing limit	25.00%
Actual at 31 March 2013	12.56%

Sums Invested over 364 days

Total sums invested for more than 364 days maximum limit	£100,000,000
Actual sums invested for more than 364 days at 31 March 2013	£ 86,000,000

Maturity Structure of Borrowing at 31/03/14

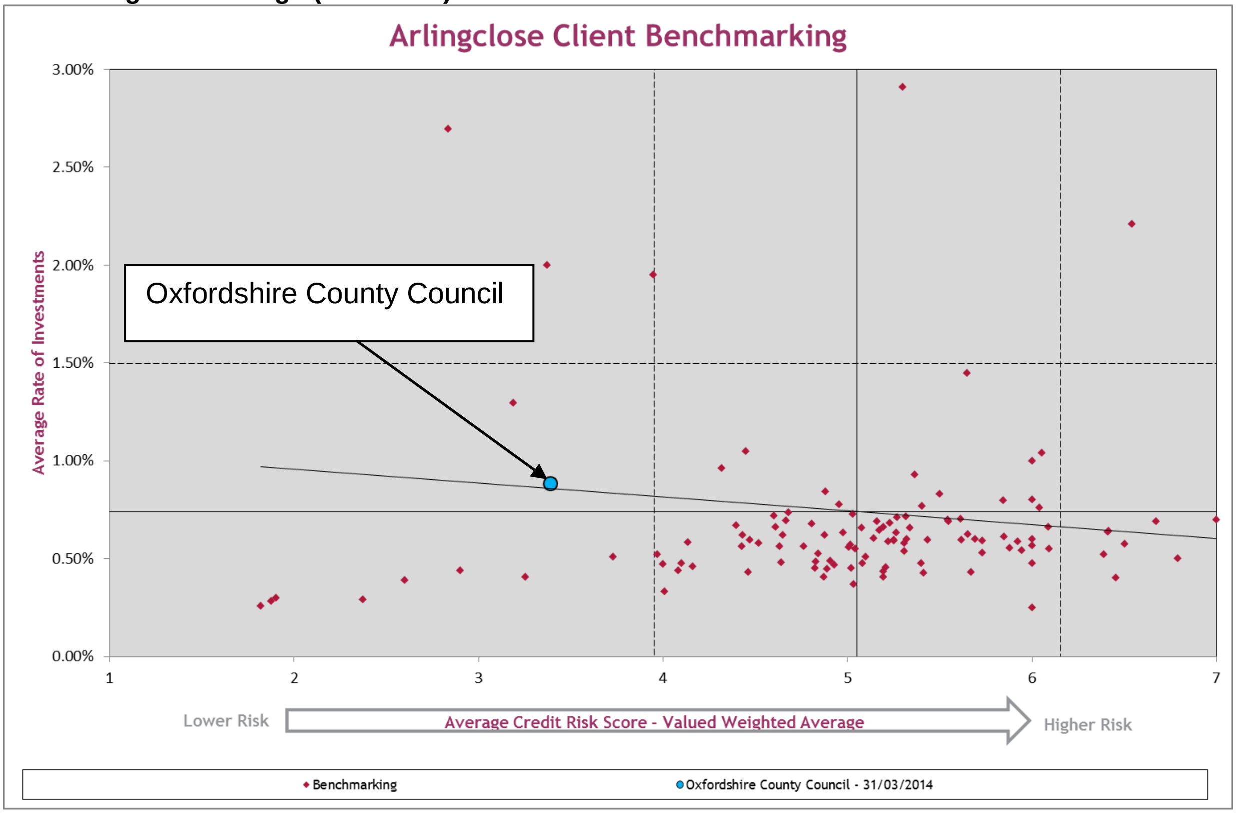
	Limit %	Actual %
From 01/04/13		
Under 12 months	0 - 20	0.00
12 – 24 months	0 - 25	4.24
24 months – 5 years	0 - 35	14.20
5 years – 10 years	5 - 40	17.69
10 years +	50 - 95	63.87

The Prudential Indictors for maturity structure are set with reference to the start of the financial year. The actual % shown above relates to the maturity period remaining at 01/04/13 on loans still outstanding at 31/03/14.

Actual Maturity Structure of Borrowing at 01/04/14
(LOBO's included at next option date)

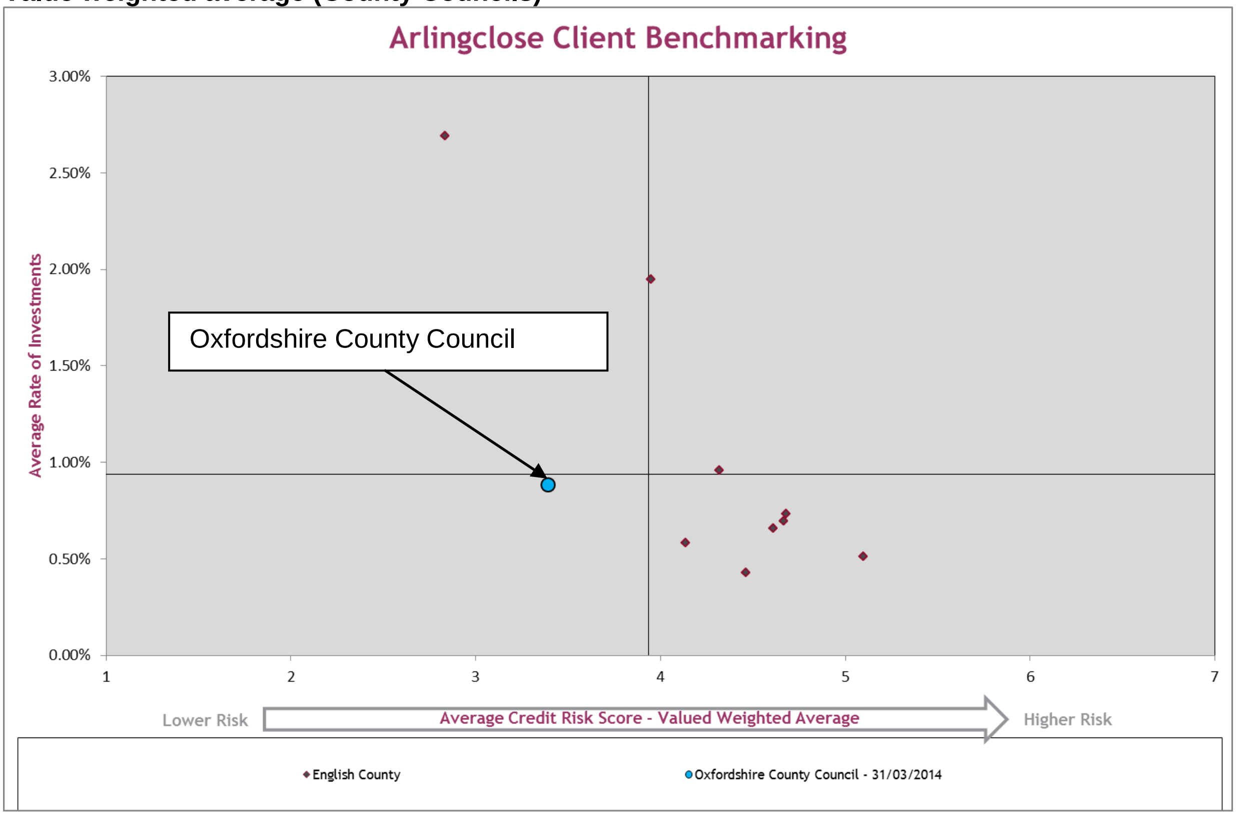
	Limit %	Actual %
From 01/04/14		
Under 12 months	0 - 20	4.24
12 – 24 months	0 - 25	3.99
24 months – 5 years	0 - 35	17.44
5 years to 10 years	5 – 40	13.45
10 years +	50 – 95	60.88

Value weighted average (all clients)



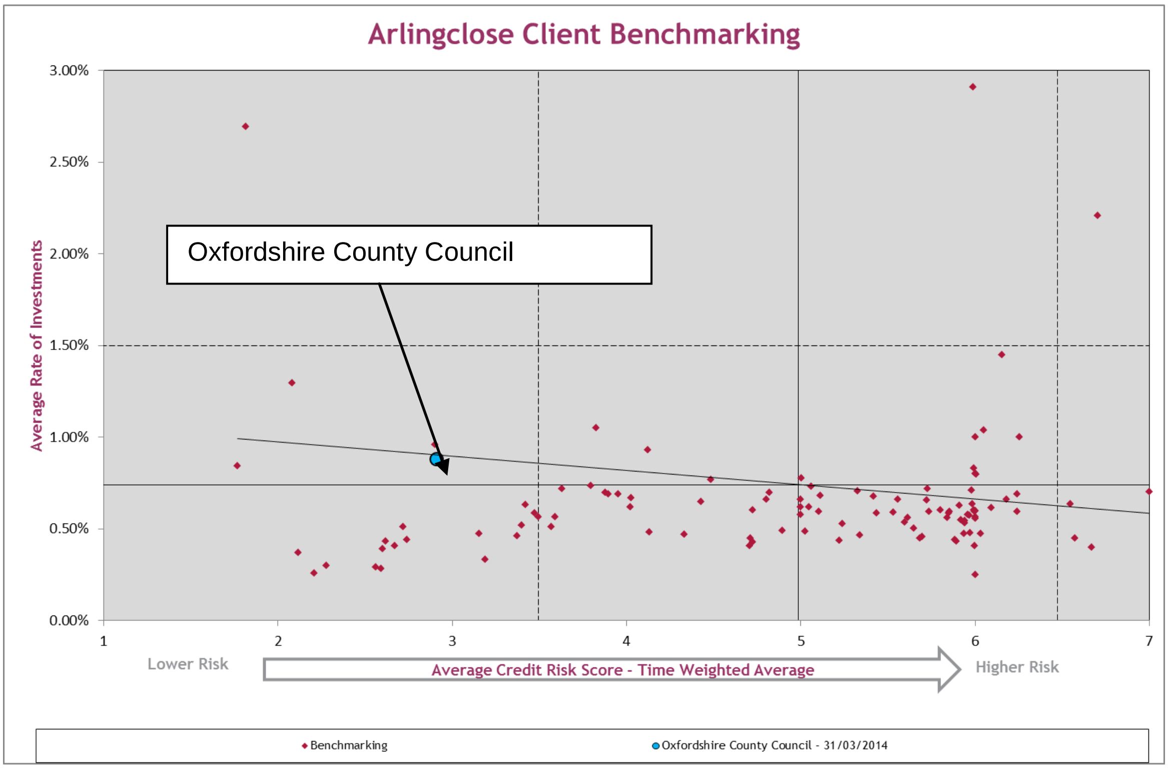
The above graph shows that Oxfordshire County Council achieved a similar interest rate to the average achieved by all Arlingclose clients, whilst it maintained a lower value weighted credit risk as at 31/03/2014.

Value weighted average (County Councils)



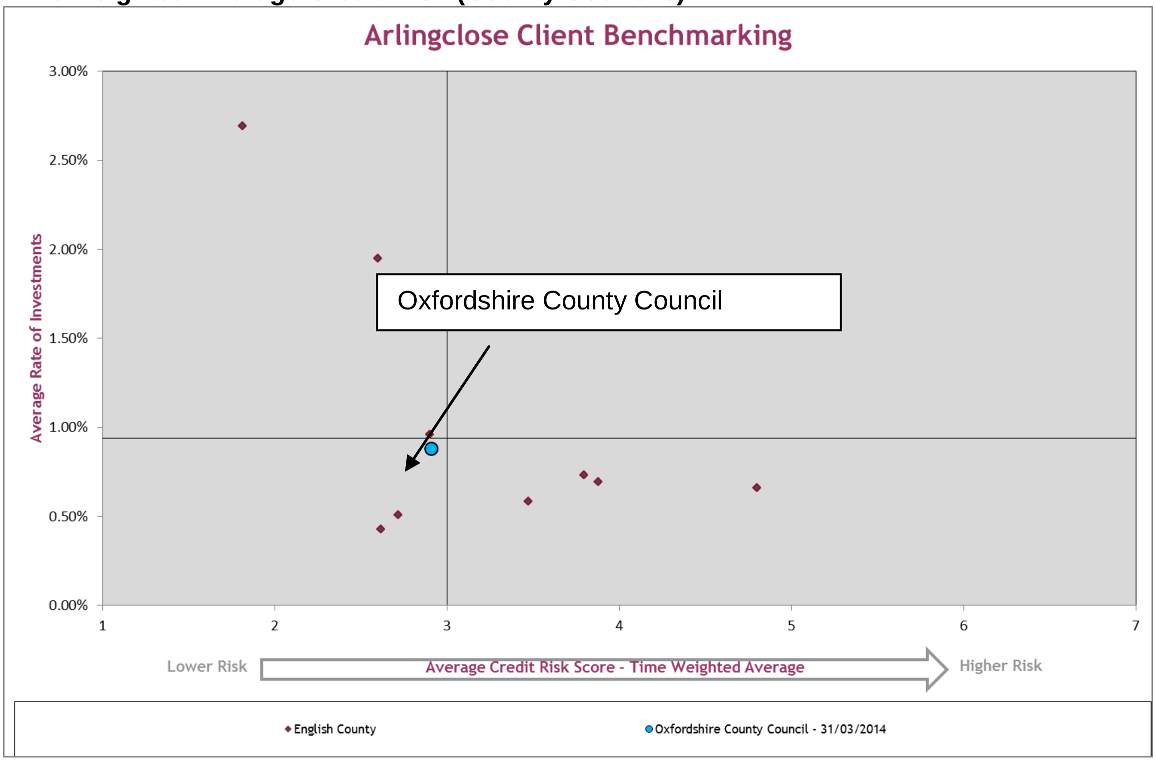
The above graph shows that Oxfordshire County Council achieved a similar interest rate for less credit risk compared to seven other County Councils as at 31/03/2014.

Time weighted Average (all clients)



The above graph shows that Oxfordshire County Council achieved a similar interest rate on deposits when compared to all Arlingclose clients, whilst maintaining a relatively low credit risk at 31/03/2014.

Time weighted Average Credit Risk (County Councils)



The above graph shows that Oxfordshire County Council achieved a similar interest rate to the other County Councils in the sample, whilst it maintained a lower time weighted credit risk as at 31/03/2014.