

**Report to:** Audit and Standards Committee

**Date:** 19 November 2018

**Title:** Treasury Management

**Report of:** Chief Finance Officer

**Ward(s):** All

**Purpose of report:** To present details of recent Treasury Management activity

**Officer recommendation:** To confirm to Cabinet that Treasury Management activity between 1 September and 31 October 2018 has been in accordance with the approved Treasury Strategy for the period.

**Reasons for recommendation:** The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

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## **1 Introduction**

- 1.1 The timetable for reporting Treasury Management activity in 2018/2019 is shown in the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
17 July 2018	1 March to 30 June 2018
24 September 2018	1 July to 31 August 2018
19 November 2018	1 September to 31 October 2018
21 January 2019	1 November to 31 December 2018
18 March 2019	1 January to 28 February 2019

## **2 Economic Background**

- 2.1 The Chancellor presented his Autumn budget on Monday 29 October; he announced that public finance has reached a turning point and that since 2009-2010 the deficit has fallen by four-fifths, from 9.9% to 1.9%. Public debt peaked in 2016-17 and is now falling. Next year the deficit is expected to be below 1.4% of GDP and there is a buoyant outlook for employment which in turn, will have a

positive effect on the underlying fiscal position. Amongst various funding announcements for local authorities it is the lifting of the debt cap for the Housing Revenue Account which potentially will have an impact for Treasury Management activities.

- 2.2 UK quarter 3 GDP seems set to maintain quarterly growth of 0.4%, however there are possibilities for greater strength as official data indicates that the rolling three month GDP growth to July was 0.6% which was 17 month high. The CBI suggests that retail sales did indeed remain healthy in September, but this has not been reflected in the high street, where many retailers are now struggling.
- 2.3 Interest rates are at 0.75% and it is not anticipated that they would rise prior to March 29<sup>th</sup> for obvious reasons in relation to Brexit. However, it is widely assumed that the gradual projection is upwards. Interest rates on short-term debt in the local government market are now around 0.7-0.9% for 6 month to 1 year debt. It was widely assumed until recently that interest rate increases would be limited to 0.5% per year. However, it is important to note that the Bank of England has referred to the new natural interest rate level as being between 2% and 3%. Uncertainty regarding Brexit has both delayed investment in the UK and the raising of interest rates. However, if pay inflation was to take off, this might cause a rethink.

### 3 Fixed Term Deposits

### 3.1 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 October 2018 and identifies the long-term credit rating of the counterparty at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All of the deposits met the minimum rating required for deposits made which is long term A- (Fitch).

Ref	Counterparty	Date From	Date To	Days	Principal £	Interest %	Long-term rating
239518	Thurrock Borough Council	14 May 18	14 Nov 18	184	3,000,000	0.63	*
239718	South Heighton Parish Council	29 May 18	29 Nov 18	184	24,000	0.63	*
240018	Surrey Heath Borough Council	12 Jun 18	12 Dec 18	163	1,000,000	0.60	*
240618	Thurrock Borough Council	02 Oct 18	02 Jan 19	182	2,500,000	0.90	*
241218	Eastbourne Borough Council	22 Oct 18	23 Jan 19	93	2,000,000	0.70	*
*UK Government body and therefore not subject to credit rating					<u>8,524,000</u>		

### 3.2 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 September 2018, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £22m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
240118	Thurrock Borough Council	02 Jul 18	02 Oct 18	92	2,000,000	0.50	*
240518	Debt Management Office	10 Sep 18	19 Sep 18	9	2,000,000	0.50	*
240718	Debt Management Office	01 Oct 18	03 Oct 18	2	2,000,000	0.50	*
240818	Debt Management Office	01 Oct 18	08 Oct 18	7	2,000,000	0.50	*
240918	Debt Management Office	08 Oct 18	18 Oct 18	10	2,000,000	0.50	*
241018	Debt Management Office	15 Oct 18	22 Oct 18	7	6,000,000	0.50	*
241118	Debt Management Office	15 Oct 18	18 Oct 18	3	4,000,000	0.50	*
241318	Debt Management Office	22 Oct 18	29 Oct 18	7	2,000,000	0.50	*
Total					22,000,000		

\*UK Government body and therefore not subject to credit rating

- 3.3 At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 September to 31 October 2018 was 0.67%, above the average bank base rate for the period of 0.61%. Those made during the period also averaged 0.61%.

## 4 Investment Account

### 4.1 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £2.47m generating interest of approximately £2,600.

	Balance at 31 Oct '18 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	1,500	1,114	0.65
Lloyds Bank Corporate Account	1,370	1,358	0.65

### 4.2

#### Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £3m in each fund, and at no time was this limit exceeded.

	Balance at 31 Oct '18	Average balance	Average
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	£'000	£'000	return %
Goldman Sachs Sterling Liquid Reserves Fund	3,000	1,967	0.74
Deutsche Managed Sterling Fund	3,000	2,688	0.71

#### 4.3 Treasury Bills (T-Bills)

The table below shows the T-Bills held at 31 October 2018 and activity in the period. It is the Council's intention to hold T-Bills until maturity.

	Maturity Date	Purchased in period	Purchase date	£'000	Disc %
Held at 31 October 2018					
UK Treasury Bill 0%	26Nov 18	✓	29 Oct 18	1,000	0.651
				<u>1,000</u>	
Matured during the period					
UK Treasury Bill 0%	10 Sep 18		13 Aug 18	1,000	0.697
UK Treasury Bill 0%	10 Sep 18		13 Aug 18	1,000	0.684
UK Treasury Bill 0%	01 Oct 18	✓	03 Sep 18	1,000	0.727
UK Treasury Bill 0%	29 Oct 18	✓	01 Oct 18	1,000	0.674
				<u>4,000</u>	

#### 4.4 Secured Investments

There were no secured investments at 31 October 2018.

#### 4.5 Tradeable Investments

The table shows the Tradeable Investments held at 31 October 2018. It is the Council's intention to hold investments until maturity.

Ref	Counterparty	Date From	Date To	Days	Principal £	Rate %	Long Term Rating
Held at 31 October 2018							
XS0739933421	BMW Finance NV	FB	19 Dec 17	14 Dec 18	360	1,000,000	0.691
						<u>1,000,000</u>	A+
FB – Fixed Bond							

#### 4.5 Overall investment position

The chart below summarises the Council's investment position over the period 1 March to 31 October 2018. It shows the total sums invested in the various instruments used by the Authority:

	Minimum	Maximum	Average
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	£'000	£'000	£'000
Deposit Account	750	4,000	2,470
Money Market Funds	2,000	6,000	4,660
Fixed Term Investments	6,024	18,520	8,630
Treasury Bills	1,000	3,000	1,260
Tradeable Investments	1,000	1,000	1,000
Total Invested (mix of those above)	12,510	29,260	18,020

## **6.0 Borrowing**

- 6.1 The current account with Lloyds Bank remained in credit throughout the period. No temporary borrowing for cash-flow management purposes took place.

There has been no change in the total value of the Council's long term borrowing in the reporting period, which remains at £56.673m

## **7.0 Non-treasury investments**

- 7.1 At its previous meeting, the Committee requested that information should be included in this report about the Council's 'non-treasury' investment activity eg loans to Council-owned companies or the purchase of property assets for the purpose of income generation
- 7.2 At the time of drafting this report, no loans have yet been advanced to Lewes Housing Investment Company or Aspiration Homes.
- 7.3 No investments properties were purchased by the Council during the period covered by this report

## **8 Financial appraisal**

- 8.1 All relevant implications are referred to in the above paragraphs.

## **9 Risk Management Implications**

- 9.1 The risk management implications associated with this activity are explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

## **10 Equality Analysis**

- 10.1 This is a routine report for which detailed Equality Analysis is not required to be undertaken.

## **11 Legal implications**

- 11.1 None arising from this report

## **12      Background papers**

### **12.1    Treasury Strategy Statements 2018/2019**