

**Report to:** Audit and Standards Committee

**Date:** 21 January 2019

**Title:** Treasury Management

**Report of:** Chief Finance Officer

**Ward(s):** All

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

**Officer recommendation(s):** To confirm to Cabinet that Treasury Management activity from 1 November to 31 December 2018 has been in accordance with the approved Treasury Strategy for the period.

**Reasons for recommendations:** 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 final estimates of Quarter 3 GDP showed the UK economy expanded by 0.6% over the quarter and 1.5% year-on-year. Both the quarter's figure and the

year-on-year figure met expectations. The headline inflation figure CPI rose at an annual rate of 2.3% in November, the lowest since March 2017. In the November inflation report, the Bank of England changed this year's growth forecast to 1.3% and lowered next year's forecast from 1.7% to 1.6%. Inflation is predicted to be 2.5% this year and 2.1% next year, still above the target rate of 2%. The unemployment rate was 4.1% in October, remaining unchanged from September's figure.

- 2.2 After holding interest rates in November the Monetary Policy Committee voted unanimously to hold rates again in December. The Bank of England have said that the economy is operating at almost full capacity, raising the prospect of more inflationary pressure ahead, despite slow growth. The Bank of England stated in December that Brexit related uncertainty has 'intensified considerably' and the drop in oil prices will likely push inflation below the 2% target..
- 2.3 House prices grew at their slowest pace since February 2013, with an annual growth rate of 0.5% in December from 1.9% in the previous month as uncertainty over the economic outlook appeared to be dragging down buyer confidence.

### 3. Inter- Authority Dealings

- 3.1 As the Treasury and Finance Sections of Lewes District Council and Eastbourne Borough Council are now working closer together it is important that all dealings between the two Authorities are totally transparent.

It is Council Policy to ensure that all monies lent by Lewes District Council to Eastbourne Borough Council are at prevailing market rates. No discounts are given.

### 4 Fixed Term Deposits

- 4.1 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 December 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 £	Int Rate %	Long-term rating
240618	Thurrock Borough Council	02/10/18	02/04/19	182	2,500,000	0.90	*
241218	Eastbourne Borough Council	22/10/18	23/01/19	93	2,000,000	0.70	*
241418	Thurrock Borough Council	14/11/18	14/05/19	181	3,000,000	0.90	*
241818	Thurrock Borough Council	09/11/18	11/02/19	94	5,000,000	0.73	*
242018	Eastbourne Borough Council	03/12/18	01/03/19	88	3,000,000	0.75	*
242318	Debt Management Office	17/12/18	02/01/19	16	3,000,000	0.50	*
					18,500,000		

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

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

The table below shows the fixed term deposits which have matured since 1 November 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 £28m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
241518	Debt Management Office	01/11/18	05/11/18	04	8,000,000	0.50	*
241618	Debt Management Office	05/11/18	09/11/18	04	4,000,000	0.50	*
241718	Debt Management Office	05/11/18	12/11/18	07	4,000,000	0.50	*
239518	Thurrock Borough Council	14/05/18	14/11/18	184	3,000,000	0.63	*
241918	Debt Management Office	15/11/18	19/11/18	04	2,000,000	0.50	*
239718	South Heighton Parish Council	29/05/18	29/11/18	184	24,000	0.63	*
240018	Surrey Heath Borough Council	12/06/18	12/12/18	183	1,000,000	0.60	*
242118	Debt Management Office	10/12/18	17/12/18	07	3,000,000	0.50	*
242418	Debt Management Office	17/12/18	19/12/18	02	2,000,000	0.50	*
242218	Debt Management Office	17/12/18	24/12/18	07	1,000,000	0.50	*
<b>Total</b>					<u>28,024,000</u>		

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

4.3 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 November to 31 December 2018 was 0.72%, whereas those made during the period also averaged 0.78%. The bank rate was 0.75% throughout the period.

### 5. Investment Account

#### 5.1 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 £2.51m generating interest of approximately £2,500.

	Balance at 31 Dec'18 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	2,000	1,248	0.65
Lloyds Bank Corporate Account	1,108	1,266	0.65

#### 5.2 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 Dec '18 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	3,000	2,324	0.84
Deutsche Managed Sterling Fund	3,000	2,448	0.80

### 5.3 Treasury Bills (T-Bills)

No T-bills were held at 31 December 2018. Activity in the period is shown below:

	Maturity Date	Purchased in period	Purchase date	£'000	Disc %
<b>Matured during the period</b>					
UK Treasury Bill 0%	26/11/18		29/10/18	1,000	0.651
UK Treasury Bill 0%	10/12/18	✓	12/11/18	1,000	0.622
UK Treasury Bill 0%	10/12/18	✓	12/11/18	1,000	0.628
UK Treasury Bill 0%	10/12/18	✓	12/11/18	1,000	0.638
UK Treasury Bill 0%	10/12/18	✓	12/11/18	1,000	0.619
				<u>5,000</u>	

### 5.4 Secured Investments

There were no secured investments at 31 December 2018.

### 5.5 Tradeable Investments

There were no Tradeable Investments held at 31 December 2018.

### 5.6 Overall investment position

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

	Minimum £'000	Maximum £'000	Average £'000
Deposit Account	290	4,000	2,510
Money Market Funds	Nil	6,000	4,780
Fixed Term Investments	13,500	21,500	16,590
Treasury Bills	Nil	5,000	2,250
Tradeable Investments	Nil	1,000	0.700
<b>Total Invested (mix of those above)</b>	<b>20,192</b>	<b>31,098</b>	<b>26,828</b>

## 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