

Report to: Audit and Standards Committee

Date: 18 March 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 January to 28 February 2019 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 UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement

reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a “no deal” Brexit still hangs over economic activity. This uncertainty has manifested itself of late in both lower gilt yields and expectations for official interest rates.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the Bank of England, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK’s exit from the EU is relatively smooth.

While the domestic focus has been on Brexit’s potential impact on the UK economy, globally 2019 has so far been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself is suffering from a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund has downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Longer term interest rates will remain benign until a clearer picture emerges and in the near-term there is potential for yields to be driven lower still. Official interest rates will also remain low and in the event of a hard Brexit on 29th March it would not be a surprise to see a policy response from the MPC that could take rates back to the emergency level of 0.25% it introduced shortly after the referendum result in 2016.

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.

No new Inter-Authority dealings were made during the period covered by this report.

4 Fixed Term Deposits

- 4.1 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 28 February 2019 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	*
241418	Thurrock Borough Council	14/11/18	14/05/19	181	3,000,000	0.90	*
242018	Eastbourne Borough Council	03/12/18	01/03/19	88	3,000,000	0.75	*
					<u>8,500,000</u>		

*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 January 2019, 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
242318	Debt Management Office	17/12/18	02/01/19	16	3,000,000	0.50	*
242518	Debt Management Office	02/01/19	07/01/19	5	3,000,000	0.50	*
242618	Debt Management Office	15/01/19	21/01/19	6	2,500,000	0.50	*
241218	Eastbourne Borough Council	22/10/18	23/01/19	93	2,000,000	0.70	*
242718	Debt Management Office	24/01/19	08/02/19	15	2,000,000	0.50	*
242818	Debt Management Office	04/02/19	08/02/19	4	2,500,000	0.51	*
241818	Thurrock Borough Council	09/11/18	11/02/19	94	5,000,000	0.76	*
242918	Debt Management Office	13/02/19	18/02/19	5	2,000,000	0.50	*
	Total				<u>22,000,000</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 January to 28 February 2019 was 0.69%, whereas those made during the period also averaged 0.50%. 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 £2.84m generating interest of approximately £2,250.

	Balance at 28 Feb '19 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	500	1,745	0.65
Lloyds Bank Corporate Account	812	1,096	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 28 Feb '19 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	3,000	2,932	0.87
Deutsche Managed Sterling Fund	3,000	2,627	0.83

5.3 Treasury Bills (T-Bills)

No T-bills were held at 28 February 2019. Activity in the period is shown below:

	Maturity Date	Purchased in period	Purchase date	£'000	Disc %
Matured during the period					
UK Treasury Bill 0%	04/01/19	✓	07/01/19	1,000	0.649
UK Treasury Bill 0%	04/01/19	✓	07/01/19	1,000	0.651
UK Treasury Bill 0%	04/01/19	✓	07/01/19	1,000	0.658
				<u>3,000</u>	

5.4 Secured Investments

There were no secured investments at 28 February 2019.

5.5 Tradeable Investments

There were no Tradeable Investments held at 28 February 2019.

5.6 Overall investment position

The chart below summarises the Council's investment position over the period 1 January to 28 February 2019. It shows the total sums invested in the various

instruments used by the Authority:

	Minimum £'000	Maximum £'000	Average £'000
Deposit Account	790	4,000	2,850
Money Market Funds	3,000	6,000	5,560
Fixed Term Investments	8,500	18,500	14,130
Treasury Bills	Nil	3,000	1,420
Tradeable Investments	Nil	Nil	Nil
Total Invested (mix of those above)	15,600	30,180	23,950

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. A total of £10,000 has been advanced to Aspiration Homes.

7.3 No investment 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