

Agenda Item No: 12 **Report No:** 113/12
Report Title: Treasury Management
Report To: Audit Committee **Date:** 25 June 2012
Ward(s) Affected: All
Report By: Director of Finance
Contact Officer(s)-
Name(s): Stephen Jump
Post Title(s): Head of Finance
E-mail(s): steve.jump@lewes.gov.uk
Tel No(s): 01273 484043

Purpose of Report:

To present details of recent Treasury Management activity and the Treasury Management Report for 2011/2012.

Officers Recommendation:

1. To confirm to Cabinet that Treasury Management activity between 1 March and 31 May 2012 has been in accordance with the approved Treasury Strategies for that period.
 2. To review the Annual Treasury Management Report for 2011/2012.
 3. To note the contents of this report.
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Reasons for Recommendations

- 1 The Council's approved Treasury Strategy Statement requires the Audit Committee to review details of Treasury transactions and make observations to Cabinet. The Audit Committee is also required to review the Annual Treasury Management Report.

Information

2 Treasury Management Activity

- 2.1 The Council's approved Treasury Strategy Statement requires the Audit Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.
- 2.2 The timetable for reporting Treasury Management activity over the next year (and including the current meeting) will be as 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 [Page 11 of 15](#) complete months. Any

extraordinary activity taking place between the close of the reporting period and the date of the Audit Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
25 June 2012	1 March 2012 to 31 May 2012
24 September 2012	1 June 2012 to 31 August 2012
3 December 2012	1 September 2012 to 31 October 2012
28 January 2013	1 November 2012 to 31 December 2012
18 March 2013	1 January 2013 to 28 February 2013

2.3 It should be noted that the transactions referred to in this report span two financial years and were therefore undertaken with reference to the terms set out under two separately approved Treasury Strategies. The main difference between the two Strategies in terms of investments is that the Long Term credit rating criterion for counterparties has been reduced from A+ to A for 2012/2013. The Audit Committee had taken the view that, given that the security of the Council's investments is the top priority within the Investment Strategy, this would be an adequate response to the reassessment by the rating agencies of future government support for the banking sector. The Council had then adopted this approach.

2.4 From early June 2012, in response to the continuing deterioration in the Eurozone, officers have been utilising the following approach to daily treasury management activity:

- First preference - deposits is with other local authorities
- Second preference - deposits with the Money Market Funds
- Fall back option – deposits with the Government's Debt Management Office

2.5 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 May 2012 (excluding that with the Icelandic bank, Landsbanki Islands hf), and identifies the long-term and short-term credit rating of each 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. As noted above, the minimum ratings required for deposits made in 2011/2012 were long term minimum A+ (Fitch) (equivalent to A1 (Moody's) or A+ (S&P)) and short term F1 (Fitch) (equivalent to P-1 (Moody's) or A-1 (S&P)) and those for 2012/2013 are long term minimum A+ (Fitch) and short term F1 (Fitch).

All of the deposits met the necessary criteria.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating	Short-term rating
204612	Birmingham City Council	01 May 12	01 Jun 12	31	2,000,000	0.30	Not Applicable *	
204712	Birmingham City Council	02 May 12	06 Jun 12	35	1,000,000	0.30	Not Applicable *	
205012	West Yorkshire Fire and Rescue	28 May 12	13 Jul 12	46	3,600,000	0.32	Not Applicable *	
	Total				<u>6,600,000</u>			

*UK Government body and therefore not subject to credit rating

2.6 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 March 2012, 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. Further information is given in paragraph 2.9.

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 March 2012 to 31 May 2012 was 0.36% which is lower than the average bank base rate for the period, 0.50%. Those made during the period averaged 0.31% which is also lower than base rate.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating	Short-term rating
202511	Midlothian Council	12 Dec 11	12 Mar 12	91	2,000,000	0.40	Not Applicable *	
202411	Birmingham City Council	01 Dec 11	14 Mar 12	104	5,000,000	0.40	Not Applicable *	
203911	Debt Management Office	15 Mar 12	22 Mar 12	07	2,000,000	0.25	Not Applicable *	
203811	Blaenau Gwent CBC	20 Feb 12	23 Mar 12	32	2,000,000	0.32	Not Applicable *	
204011	Debt Management Office	22 Mar 12	27 Mar 12	05	2,300,000	0.25	Not Applicable *	
201511	Thurrock Borough Council	05 Dec 11	28 Mar 12	114	2,000,000	0.40	Not Applicable *	
204111	Hinkley & Bosworth BC	23 Mar 12	02 Apr 12	10	2,600,000	0.50	Not Applicable *	
204311	Debt Management Office	30 Mar 12	12 Apr 12	13	600,000	0.25	Not Applicable *	
204211	West Yorkshire Fire & Rescue	30 Mar 12	16 Apr 12	17	1,000,000	0.35	Not Applicable *	
204812	Debt Management Office	15 May 12	21 May 12	06	1,000,000	0.25	Not Applicable *	
204412	Thurrock Borough Council	16 Apr 12	22 May 12	36	2,000,000	0.30	Not Applicable *	
204912	Debt Management Office	15 May 12	22 May 12	07	3,500,000	0.25	Not Applicable *	
204512	Plymouth City Council	25 Apr 12	25 May 12	3036	2,000,000	0.28	Not Applicable *	
Total					28,000,000			

*UK Government body and therefore not subject to credit rating

2.7 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following deposit accounts in the period covered by this report, with the average amount held being £2,814,370, generating interest of £3,807. Neither the Santander Business Reserve Account or the Bank of Scotland Corporate Deposit Account are currently in use.

	Balance at 31 May '12 £'000	Average balance £'000	Average interest rate %
Co-Operative Bank overnight account	475	249	nominal
Santander Business Reserve Account	Nil	456	0.80
Bank of Scotland Corporate Deposit Account	400	2,109	0.80

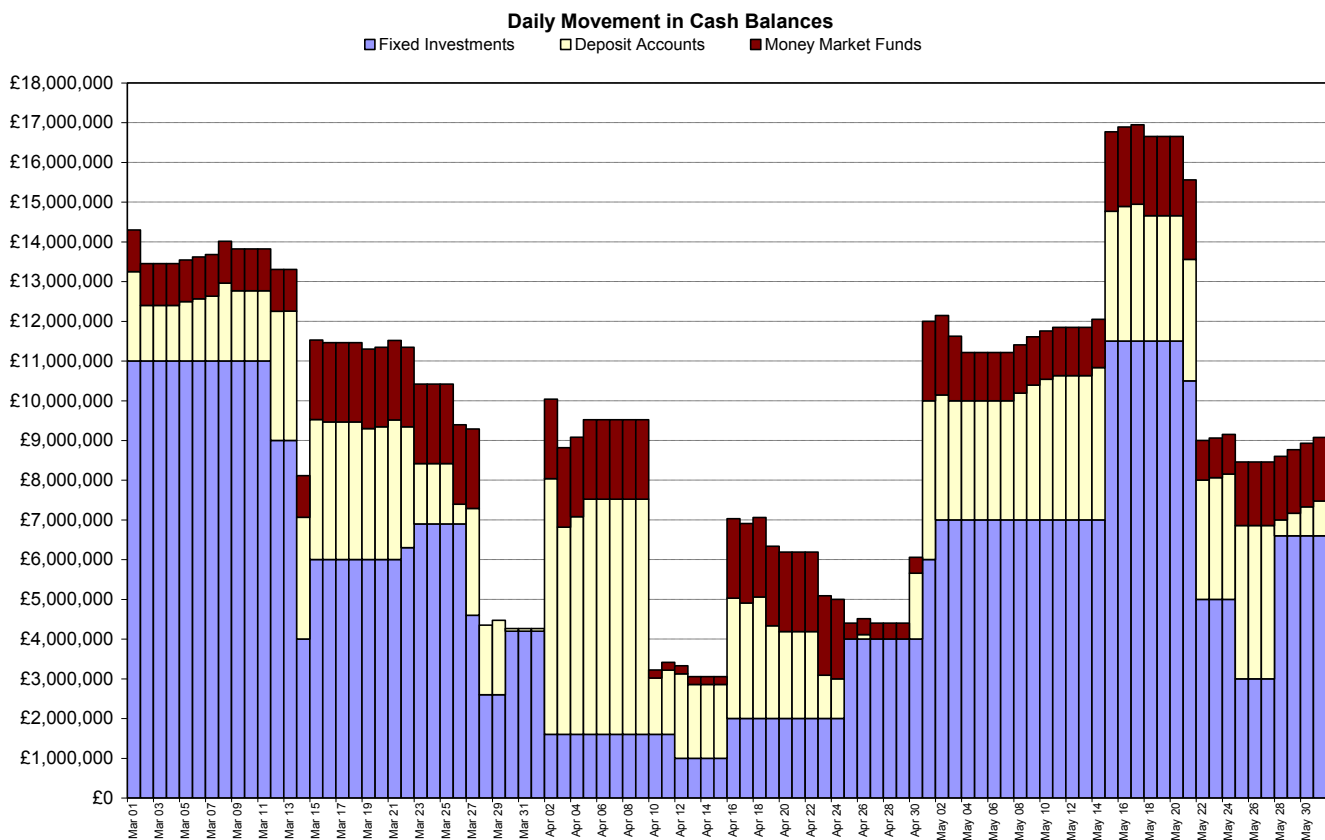
2.8 Use of Money Market Funds

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 £1m in each fund, and Page 8 of 16 was this limit exceeded.

	Balance at 31 May '12 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	800	695	0.57
Deutsche Managed Sterling Fund	800	695	0.56

2.9 Overall investment position

The chart overleaf summarises the Council's investment position over the period 1 March to 31 May 2012. It shows the total sums invested each day as either Fixed Term deposits or amounts held in Deposit accounts or MMFs and excludes the residual element of the Council's deposit with Landsbanki Islands hf, currently pending future distribution (see paragraph 2.10).



2.10 Deposit with Landsbanki Islands hf

On 29 May 2012 the Landsbanki winding-up board made a second distribution to priority creditors, which include local authorities. The total received from this and the initial distribution amounts to approximately 40% of the value of the Council's claim, £1.04m. The Council expects to recover all of the money that it deposited in Landsbanki.

2.11 Borrowing

On 28 March the Council took out £51.67m in new loans from the Public Works Loans Board in order to finance the majority of the £56.7m payment to the Government required under the national housing finance reform initiative. A package of 12 loans with varying maturity dates and interest rates was put in place.

The average interest rate is 2.9%. More details are given in the Annual Treasury Management Report. An internal loan from the General Fund to the HRA (effectively reducing cash available for investment) funded the remainder of the payment to the Government.

3 Annual Treasury Management Report

- 3.1** As well as reviewing details of Treasury transactions during the course of the year, the Audit Committee is also required to review a formal summary report after the year end before it is considered by Council in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.
- 3.2** The Annual Report is attached at Appendix 1. Any comments that the Audit Committee may wish to make will be passed on to Cabinet, which is also required to review the Annual Report and will do so on 12 July 2012.

Financial Implications

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

Sustainability Implications

- 5** The Sustainability Screening process for this Report took place in June 2012. There are no implications for sustainability.

Risk Management Implications

- 6** 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.

Equality Screening

- 7** The Equality Screening process for this Report took place in June 2012. There are no implications for equality.

Appendices – Appendix 1: Annual Treasury Management Report 2011/2012

Background Papers – Treasury Strategy Statements 2011/2012 and 2012/2013