

Agenda Item No: 9

Report No: 153/12

Report Title: Treasury Management

Report To: Audit and Standards Committee Date: 27 September 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.

Officers Recommendation:

1. To confirm to Cabinet that Treasury Management activity between 1 June and 31 August 2012 has been in accordance with the approved Treasury Strategies for that period.
 2. 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.

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 overleaf. 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 Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
27 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 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 August 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. The minimum ratings required for deposits made in 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
205412	Birmingham City Council	06 Jun 12	06 Sep 12	92	3,000,000	0.350	* not applicable	
205712	Thurrock Borough Council	04 Jul 12	04 Oct 12	92	2,000,000	0.290	* not applicable	
205812	Thurrock Borough Council	11 Jul 12	11 Oct 12	92	1,000,000	0.290	* not applicable	
205912	Dundee City Council	12 Jun 12	19 Oct 12	129	2,500,000	0.350	* not applicable	
206412	Birmingham City Council	16 Jul 12	22 Nov 12	129	2,000,000	0.300	* not applicable	
206712	Thurrock Borough Council	07 Aug 12	07 Dec 12	122	2,000,000	0.305	* not applicable	
207412	Nationwide Building Society	01 Aug 12	01 Nov 12	92	1,000,000	0.58	A+	F1
Total					13,500,000			

*UK Government body and therefore not subject to credit rating

2.4 Fixed Term Deposits which have matured in the reporting period

The table overleaf shows the fixed term deposits which have matured since 1 June 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 £33.8m over this period. Further information is given in paragraph 2.7.

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 June 2012 to 31 August 2012 was 0.32% which is lower than the average bank base rate for the period, 0.50%. Those **made** during the period also averaged 0.32%.

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 & Rescue	28 May 12	13 Jul 12	46	3,600,000	0.32	Not Applicable *	
205112	Debt Management Office	01 Jun 12	06 Jun 12	05	2,000,000	0.25	Not Applicable *	
205212	Debt Management Office	01 Jun 12	08 Jun 12	07	2,500,000	0.25	Not Applicable *	
205312	Debt Management Office	01 Jun 12	12 Jun 12	11	2,500,000	0.25	Not Applicable *	
205512	Debt Management Office	08 Jun 12	04 Jul 12	26	2,500,000	0.25	Not Applicable *	
205612	Debt Management Office	08 Jun 12	18 Jun 12	10	1,000,000	0.25	Not Applicable *	
206012	Debt Management Office	15 Jun 12	19 Jun 12	04	1,000,000	0.25	Not Applicable *	
206112	Debt Management Office	15 Jun 12	25 Jun 12	10	2,500,000	0.25	Not Applicable *	
206212	Debt Management Office	25 Jun 12	02 Jul 12	07	1,000,000	0.25	Not Applicable *	
206312	Debt Management Office	25 Jun 12	11 Jul 12	16	1,000,000	0.25	Not Applicable *	
206512	Debt Management Office	02 Jul 12	03 Jul 12	01	1,000,000	0.25	Not Applicable *	
206612	Debt Management Office	05 Jul 12	19 Jul 12	14	500,000	0.25	Not Applicable *	
206812	West Yorkshire Fire & Rescue	13 Jul 12	16 Jul 12	03	3,600,000	0.32	Not Applicable *	
206912	Debt Management Office	16 Jul 12	19 Jul 12	03	1,000,000	0.25	Not Applicable *	
207012	Debt Management Office	16 Jul 12	25 Jul 12	09	1,000,000	0.25	Not Applicable *	
207112	Debt Management Office	16 Jul 12	09 Aug 12	24	2,000,000	0.25	Not Applicable *	
207212	Debt Management Office	19 Jul 12	09 Aug 12	21	1,000,000	0.25	Not Applicable *	
207312	Debt Management Office	01 Aug 12	13 Aug 12	12	1,100,000	0.25	Not Applicable *	
Total					<u>33,800,000</u>			
*UK Government body and therefore not subject to credit rating								

2.5 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 £986,137, generating interest of £2,151. After being suspended temporarily, the Bank of Scotland Corporate Deposit Account was brought back into use on 1 August 2012 – the Council's Treasury Adviser, Arlingclose, supports the use of this bank for deposits of up to 3 months' duration. Use of the Santander UK deposit account remains suspended.

It should be noted that after the end of this reporting period, the balance held in the Co-operative Bank deposit account exceeded the £1m limit set out in the Investment Strategy on one occasion. This was overnight on September 3 and was outside the Council's control – it arose because the PWLB failed to draw down a scheduled direct debit of £629,000 in respect of interest due on the Council's loans.

	Balance at 31 Aug '12 £'000	Average balance £'000	Average interest rate %
Co-Operative Bank overnight account	254	343	nominal
Santander Business Reserve Account	Nil	Nil	0.80
Bank of Scotland Corporate Deposit Account	700	643	0.80

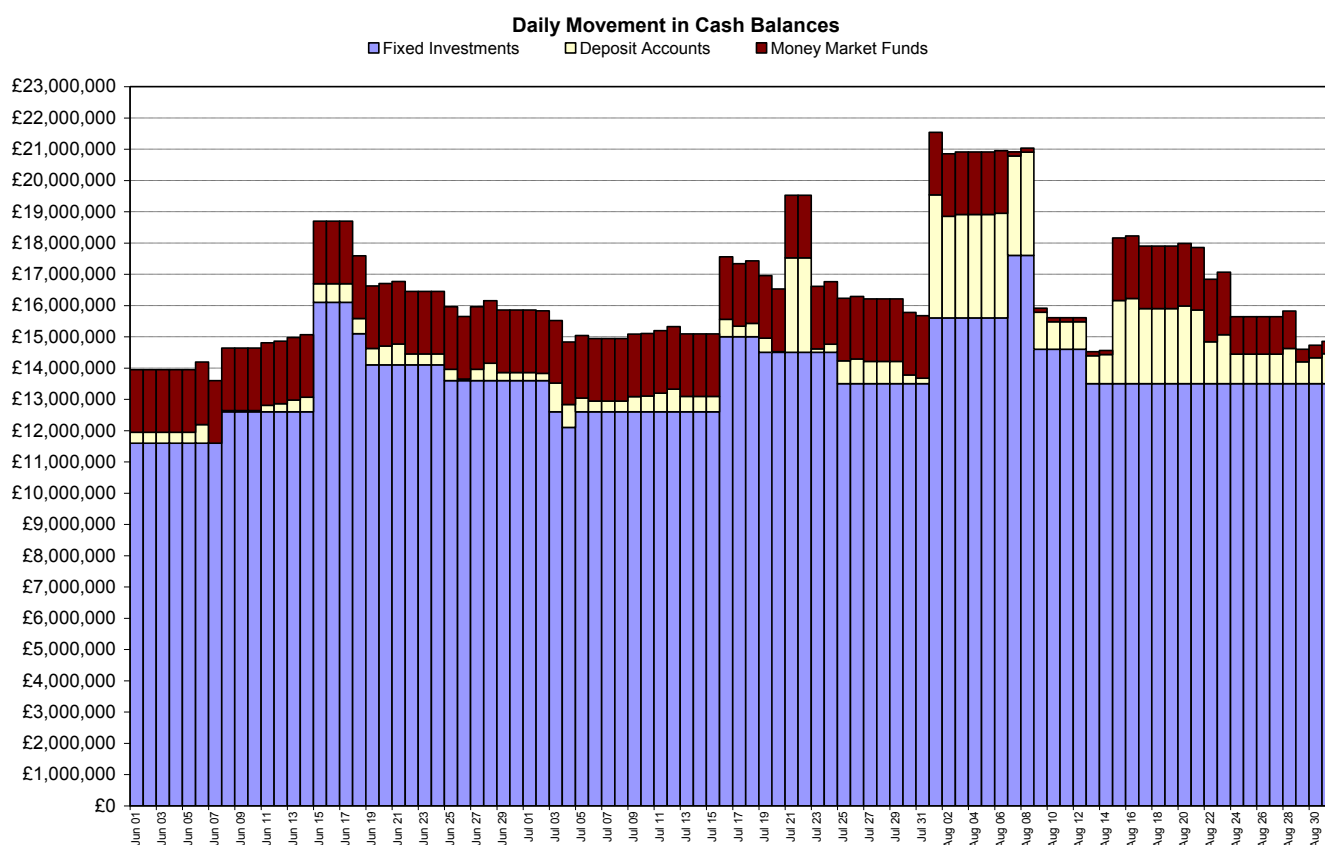
2.6 Use of Money Market Funds

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 at no time was this limit exceeded.

	Balance at 31 Aug '12 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	200	871	0.55
Deutsche Managed Sterling Fund	200	871	0.51

2.7 Overall investment position

The chart below summarises the Council's investment position over the period 1 June to 31 August 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.



2.8 Diversification in Investment Instruments

An increasing theme in Arlingclose's investment advice is directed towards diversification in investment instruments as well as investment counterparties. The credit outlook for banks remains fragile and the level of external scrutiny by international authorities – reflecting the international activities of mainstream banks – is heightened and demonstrably active.

Many of Arlingclose's clients now utilise Treasury Bills and CDs as part of their normal treasury management activities. The Council has approved the use of both of these Investment Instruments in its 2012/2013 Treasury and Investment Strategy. However, the use of these instruments requires a Custodian facility in order to enable transactions in these instruments to be executed and the instruments held.

Arlingclose have recommended that the Council should open a Custodian facility and has provided advice on alternative options. As a result, officers opened a facility with 'King and Shaxson' in early September, but no use of it has yet been made.

2.9 Borrowing

The Council's bank account was overdrawn on two occasions, each of which was predetermined and agreed as part of day to day cash management.

On 29 August 2012, the Council completed the purchase of a housing development in Newhaven known as the Crest. The total acquisition cost, including fees was £1,167,500, and a budget of £200,000 is needed to carry out works required to bring the property back into use. This project is to be funded from a combination of capital receipts and new long-term borrowing. At the present time, no new borrowing has taken place – in cash terms the transaction has been funded from surplus cash balances, reducing the amount held for investment.

From 1 November this year the Government is introducing a 20 basis points (bps) discount on loans from the PWLB under the prudential borrowing regime for those principal local authorities providing improved information and transparency on their locally determined long-term borrowing and associated capital spending plans. This 'PWLB certainty rate', will apply across all loan types and maturities, and will be available to those local authorities opting to complete a return showing their budgeted capital expenditure for the next three years. The Council's return was completed and sent back by the due date of 17 September 2012.

Financial Implications

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

Sustainability Implications

- 4 The Sustainability Screening process for this Report took place in September 2012. There are no implications for sustainability.

Risk Management Implications

- 5 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

- 6 The Equality Screening process for this Report took place in September 2012. There are no implications for equality.