

Agenda Item No: 7

Report No: 201/12

Report Title: Treasury Management

Report To: Audit and Standards Committee Date: 3 December 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 along with a 2012/2013 mid-year report.

Officers Recommendation:

1. To confirm to Cabinet that Treasury Management activity between 1 September and 31 October 2012 has been in accordance with the approved Treasury Strategies for that period.
 2. To review the Mid-year Treasury Management Report 2012/2013.
 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 and Standards Committee to review details of Treasury transactions and make observations to Cabinet. The Audit and Standards Committee is also required to review the Mid-year 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 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
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 October 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
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
208012	Debt Management Office	03 Oct 12	11 Feb 13	131	3,500,000	0.25	* not applicable	
208412	Woking Borough Council	12 Oct 12	29 Nov 12	48	2,000,000	0.29	* not applicable	
208612	Nationwide Building Society	15 Oct 12	15 Jan 12	92	2,000,000	0.38	A+	F1
	Total				<u>12,500,000</u>			

*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 September 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 £21.9m 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 September 2012 to 31 October 2012 was 0.33% which is lower than the average bank base rate for the period, 0.50%. Those made during the period averaged 0.32%.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating	Short-term rating
207512	Debt Management Office	03 Sep 12	04 Sep 12	1	1,500,000	0.25	* not applicable	
205412	Birmingham City Council	06 Jun 12	06 Sep 12	92	3,000,000	0.35	* not applicable	
207612	Debt Management Office	06 Sep 12	07 Sep 12	1	1,500,000	0.25	* not applicable	
207712	Debt Management Office	06 Sep 12	10 Sep 12	4	1,300,000	0.25	* not applicable	
207812	Debt Management Office	06 Sep 12	12 Sep 12	6	1,200,000	0.25	* not applicable	
207912	Newport City Council	01 Oct 12	03 Oct 12	2	3,500,000	0.30	* not applicable	
205712	Thurrock Borough Council	04 Jul 12	04 Oct 12	92	2,000,000	0.29	* not applicable	
208112	Debt Management Office	04 Oct 12	08 Oct 12	4	1,000,000	0.25	* not applicable	
205812	Thurrock Borough Council	11 Jul 12	11 Oct 12	92	1,000,000	0.29	* not applicable	
208212	Debt Management Office	05 Oct 12	12 Oct 12	7	1,000,000	0.25	* not applicable	
205912	Dundee City Council	12 Jun 12	19 Oct 12	129	2,500,000	0.30	* not applicable	
208512	Debt Management Office	15 Oct 12	19 Oct 12	4	1,000,000	0.25	* not applicable	
208312	Debt Management Office	11 Oct 12	22 Oct 12	11	1,400,000	0.25	* not applicable	
Total					<u>21,900,000</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 £1,599,129 generating interest of £1,575. After being suspended temporarily, the Santander Business Reserve Account was brought back as available for use on 1 November 2012 – the Council's Treasury Adviser, Arlingclose, supports the use of this bank for deposits of up to 3 months' duration.

	Balance at 31 Oct '12 £'000	Average balance £'000	Average interest rate %
Co-Operative Bank overnight account	173	292	nominal
Santander Business Reserve Account	Nil	Nil	0.80
Bank of Scotland Corporate Deposit Account	1,500	1,307	0.80

2.6 Use of Money Market Funds

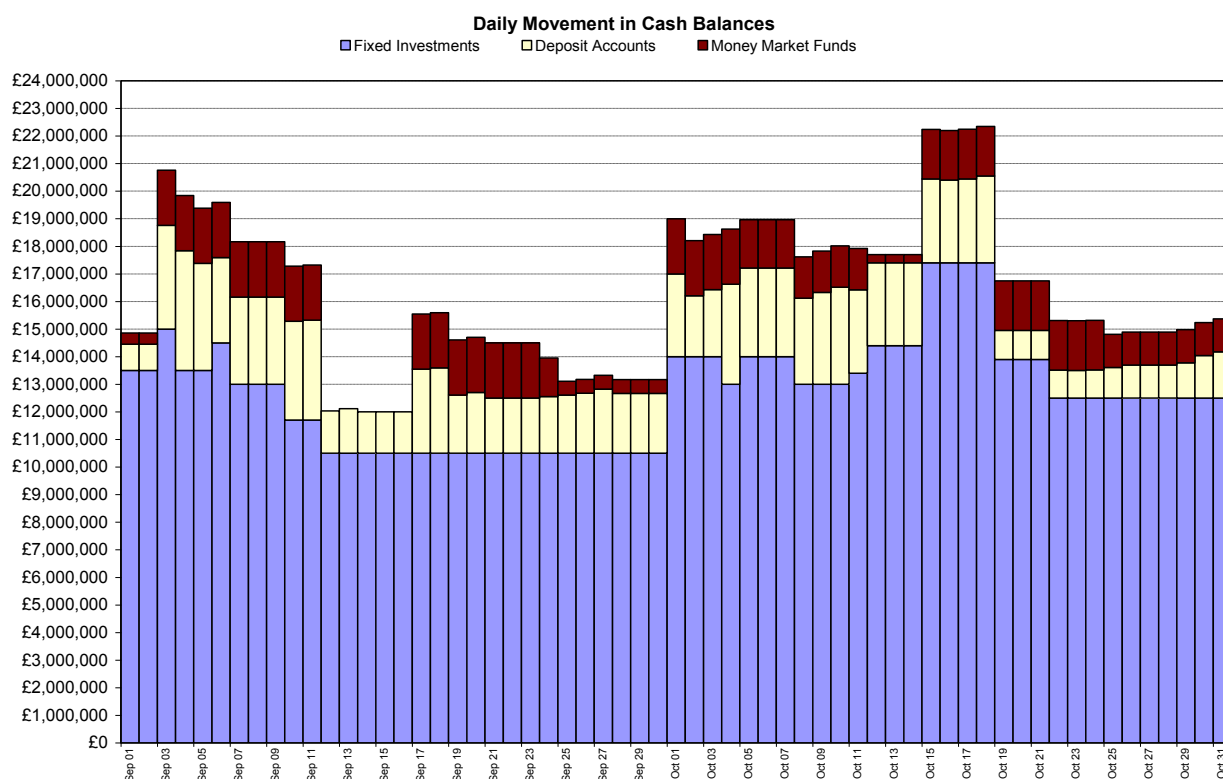
Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £1m in each fund, and at no time was this limit exceeded.

	Balance at 31 Oct '12 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	600	797	0.45
Deutsche Managed Sterling Fund	600	792	0.45

2.7 Overall investment position

The chart overleaf summarises the Council's investment position over the period 1 September to 31 October 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 Landsbanki

On 5 October 2012, the Landsbanki Winding-up Board made a third distribution to creditors, including a payment of £60,500 to the Council. Combined with the distributions made in December 2011 and May 2012, the Council has now received total repayments of just under £500,000. The Council expects to recover approximately 100% of its deposit but the precise amount will vary according to foreign exchange fluctuations.

2.9 Borrowing

There has been no change to the Council's long term borrowing in the reporting period, which remains at £56.673m. No temporary borrowing has been undertaken. The Council's banking contract gives access to a £1m overdraft facility. This is used as a tool of the Treasury Management operations given that it can be cheaper to use the overdraft than to pay the bank transaction charges associated with withdrawing amounts from the deposit accounts or Money Market Funds to cover overnight current account shortfalls. The Council's bank account was overdrawn on four occasions, each of which was predetermined and agreed as part of day to day cash management.

3 Mid-year Treasury Management Report 2012/2013

3.1 As well as reviewing details of Treasury transactions during the course of the year, the Audit and Standards Committee (and Cabinet) is also required to review a formal Mid-year summary report. Council then considers this report in accordance

with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

- 3.2** The timing of the Committee/Council meeting cycle has meant that the Audit Committee has not had the opportunity to consider the Mid-year Report for 2012/2013 in advance of Cabinet, which received it on 20 November 2012 and recommended to Council that it should be approved when it meets on 5 December. However, it remains appropriate for the Audit Committee to consider this report, attached at Appendix 1, with any comments being passed on to Council when it meets.
- 3.3** The Mid-year Report covers the period 1 April 2012 to 30 September 2012. It confirms that the key elements of the approved Treasury and Investment Strategy have been complied with during the first half of the year.

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 September 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 September 2012. There are no implications for equality.

Background Papers

Treasury Strategy Statement 2012/2013

http://www.lewes.gov.uk/Files/201213_treasury_strategy.pdf

Appendix

Appendix 1 Mid-year Treasury Management Report 2012/2013