

**Agenda Item No:** 8 **Report No:** 198/13  
**Report Title:** Treasury Management  
**Report To:** Audit and Standards Committee **Date:** 2 December 2013  
**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](mailto:steve.jump@lewes.gov.uk)  
**Tel No(s):** 01273 484043

---

**Purpose of Report:**

To present details of recent Treasury Management activity along with a 2013/2014 mid-year report.

**Officers Recommendation:**

1. To confirm to Cabinet that Treasury Management activity between 1 September and 31 October 2013 has been in accordance with the approved Treasury Strategy for that period.
  2. To note the Mid-year Treasury Management Report 2013/2014.
  3. To note the contents of this report.
- 

**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 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.
- 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 and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
2 December 2013	1 September 2013 to 31 October 2013
27 January 2014	1 November 2013 to 31 December 2013
17 March 2014	1 December 2014 to 28 February 2014

### 2.3 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 October 2013 (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 2013/2014 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
214213	Nationwide Building Society	12 Aug 13	12 Nov 13	92	1,000,000	0.44	A+	F1
215413	Cornwall County Council	28 Oct 13	28 Jan 14	92	1,000,000	0.31	** not applicable	
215713	Debt Management Office	29 Oct 13	04 Nov 13	06	3,500,000	0.25	** not applicable	
<b>Total</b>					<b>£5,500,000</b>			

\*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 2013, 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 £21.5m 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 September 2013 to 31 October 2013 was 0.38% which is lower than the average bank base rate for the period, 0.50%. Those **made** during the period also averaged 0.38%.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating	Short-term rating
214413	Neath Port Talbot CBC	20 Aug 13	04 Sep 13	15	2,000,000	0.280	** not applicable	
214513	Norwich City Council	23 Aug 13	09 Sep 13	17	3,000,000	0.290	** not applicable	
214813	Debt Management Office	09 Sep 13	12 Sep 13	03	2,000,000	0.250	** not applicable	
214913	Halton Borough Council	13 Sep 13	18 Sep 13	05	3,000,000	0.450	** not applicable	
215013	Woking Borough Council	19 Sep 13	30 Sep 13	11	1,500,000	0.280	** not applicable	
215213	Debt Management Office	01 Oct 13	07 Oct 13	06	1,500,000	0.250	** not applicable	
215313	Debt Management Office	01 Oct 13	18 Oct 13	17	1,500,000	0.250	** not applicable	
215513	Debt Management Office	15 Oct 13	18 Oct 13	03	1,500,000	0.250	** not applicable	
212113	Nationwide Building Society	19 Apr 13	21 Oct 13	185	2,000,000	0.520	A+	F1
214713	East Dunbartonshire Council	29 Aug 13	29 Oct 13	61	2,000,000	0.340	** not applicable	
215013	Woking Borough Council	30 Sep 13	31 Oct 13	31	1,500,000	0.280	** not applicable	
<b>Total</b>					<u>21,500,000</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 £3,510,656 generating interest of approximately £2,500.

	Balance at 31 Oct '13 £'000	Average balance £'000	Average interest rate %
Co-Operative Bank overnight account	0	0	Nominal
Santander Business Reserve Account	1,900	2,067	0.55
Bank of Scotland Corporate Deposit Account	900	1,443	0.40

Use of the Co-Operative Bank overnight account is explained in paragraph 2.10 below.

## 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 overleaf. 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 '13 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	0	566	0.52
Deutsche Managed Sterling Fund	100	577	0.48

## 2.7 Purchase of Treasury Bills (T-Bills)

The table overleaf shows the T-Bills held at 31 October 2013 and activity in the period. It is the Council's intention to hold both T-Bills until maturity.

	Purchased in period	Purchase date	£'000	Average return %
<b>Held at 31 October 2013</b>				
UK Treasury Bill 0% 09 Dec 2013	✓	10/06/13	2,000	0.360
UK Treasury Bill 0% 06 Jan 2014	✓	07/10/13	2,000	0.330
<b>Matured since last report</b>				
UK Treasury Bill 0% 23 Sep 2013		24/06/13	1,500	0.355

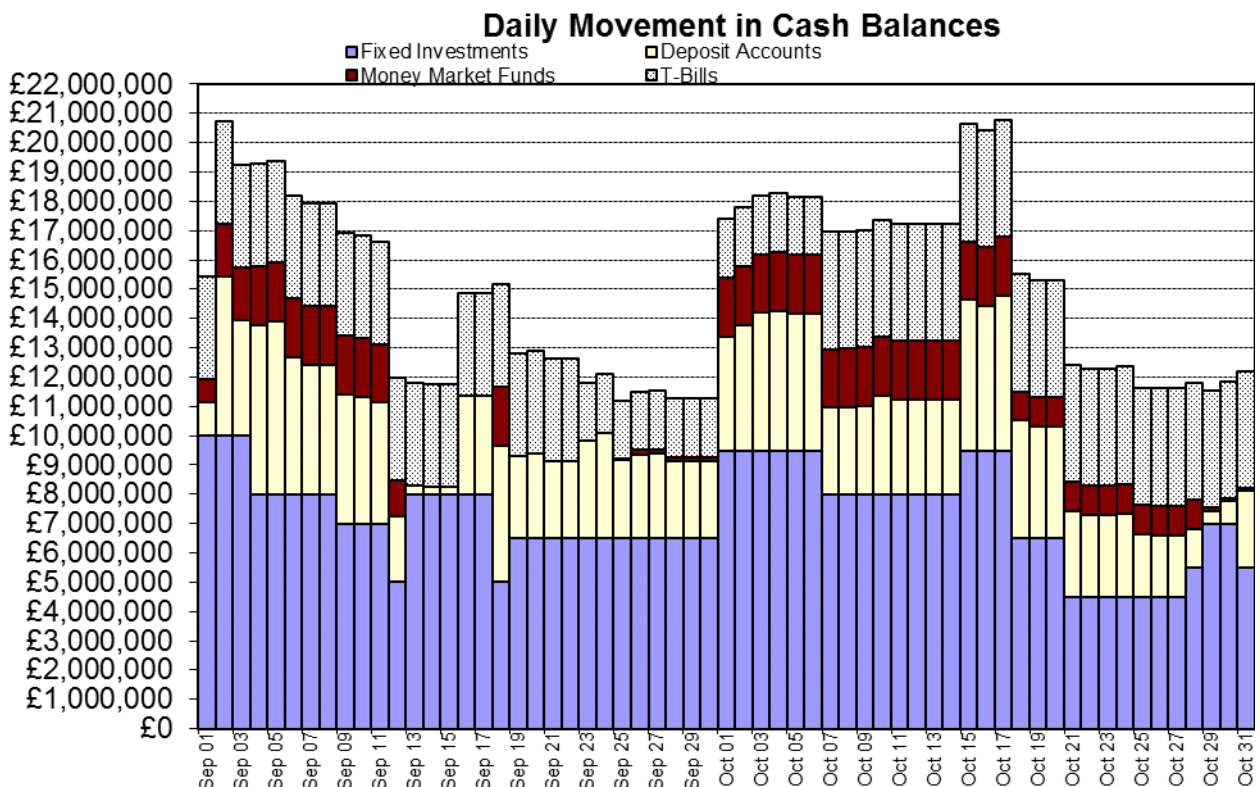
## 2.8 Landsbanki Islands hf (LBI)

In September 2013, the Council received a fourth distribution from the LBI winding-up board, with a value (following conversion of € and \$ amounts into £) of £52,000. This brings the total amount received to date to approximately £552,000.

At its meeting in July 2013, Cabinet authorised the Director of Finance to progress an opportunity to improve the Council's cash flow position provided the outcome represented fair value. This opportunity continues to be pursued.

## 2.9 Overall investment position

The chart below summarises the Council's investment position over the period 1 September 2013 to 31 October 2013. It shows the total sums invested each day as either Fixed Term deposits, T-Bills, amounts held in Deposit accounts or MMFs. It excludes the residual element of the Council's deposit with LBI.



## **2.10 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 (annual cost £2,500). 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.

In the period covered by this report, the Council had an average overdrawn balance of £0.245m with the Co-operative Bank.

## **3 Mid-year Treasury Management Report 2013/2014**

- 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 and Standards Committee does not have the opportunity to consider the Mid-year Report for 2013/2014 in advance of Cabinet, which received it on 18 November 2013 and recommended to Council that it should be approved when it meets on 4 December. However, it remains appropriate for the Audit and Standards 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 2013 to 30 September 2013. It confirms that the key elements of the approved Treasury and Investment Strategy have been complied with during the first half of the year.

## **4 Co-operative Bank**

- 4.1** At its last meeting, the Audit and Standards Committee asked for a report back on the credit rating of the Co-operative Bank, compared with others which are active in the corporate market, details of its appointment as the Council's banker, and a summary of the daily movements in funds through the account. On 4 November 2013, the Co-operative Group announced its recapitalisation plan for the Co-operative Bank plc, the results of which are expected to be announced on 12 December 2013. On 5 November 2013, the Co-operative Bank announced that, even if the recapitalisation plan is successful, it will stop providing banking services to local authorities, when current contracts come to an end.
- 4.2** The Council re-appointed the Co-operative Bank following an open tender exercise in 2012. Two other banks submitted tenders, with the Co-operative Bank 'scoring' the highest in terms of both price and quality. The Co-operative Bank was appointed for a four year term from October 2012, with the Council holding an option to extend by a further year.
- 4.3** In East Sussex, Hastings Borough Council, Eastbourne Borough Council and Wealden District Council also hold contracts with the Co-operative Bank, scheduled

to end on 31 March 2015. An option currently being explored is for all four authorities to engage in a joint tender exercise to appoint a common bank with effect from 1 April 2015 at the latest. A joint procurement exercise will be more efficient and is considered likely to produce a more favourable response than would be the case if each authority were to tender individually. The Co-operative Bank has indicated that they will not seek to hold any authority to its existing contractual term.

- 4.4** The table below sets out the long-term and short-term credit ratings of banks which are active in the corporate market:

	Long-term	Short-term
Co-operative Bank plc	B	B
Barclays Bank plc	A	F1
National Westminster Bank plc	A	F1
Santander uk plc	A	F1
Royal Bank of Scotland Group	A	F1
Lloyds Bank plc	A	F1
HSBC plc	AA-	F1+
Bank of Scotland	A	F1

- 4.5** As requested, the table below sets out the balance on the current account at intervals during each day of October 2013.

Date	Before 8am £	Mid-day £	Close £
01 Oct 2013	not recorded	not recorded	- 46,898.28
02 Oct 2013	163,059.86	- 126,096.53	- 86,744.04
03 Oct 2013	- 382,428.55	- 65,511.45	- 47,959.81
04 Oct 2013	- 217,481.34	- 203,568.84	-170,987.82
07 Oct 2013	- 1,257,588.20	- 1,861,171.52	-122,229.19
08 Oct 2013	- 117,768.55	- 116,691.87	- 90,419.85
09 Oct 2013	- 45,167.21	- 36,207.36	- 14,252.32
10 Oct 2013	59,682.95	- 185,948.18	-169,704.07
11 Oct 2013	- 270,431.31	- 175,947.05	-163,560.12
14 Oct 2013	- 94,808.92	- 90,775.08	- 68,053.57
15 Oct 2013	3,007,704.92	- 286,602.44	-271,341.41
16 Oct 2013	- 277,446.89	not recorded	-178,361.92
17 Oct 2013	31,363.59	- 214,767.23	-205,104.23
18 Oct 2013	- 2,508,521.39	not recorded	-402,168.90
21 Oct 2013	- 2,886,800.33	- 217,560.61	not recorded
22 Oct 2013	- 286,733.18	- 529,156.74	-212,369.38
23 Oct 2013	- 173,939.15	- 156,157.14	-151,261.72
24 Oct 2013	- 101,012.97	- 96,249.15	- 88,549.48
25 Oct 2013	- 1,042,967.99	- 1,039,828.85	-105,236.37
28 Oct 2013	21,338.14	- 976,006.67	-207,862.46
29 Oct 2013	- 210,417.46	- 143,083.26	- 63,622.59
30 Oct 2013	95,282.96	- 147,773.92	-119,541.44
31 Oct 2013	339,138.07	- 163,342.55	-130,342.22

Direct Debits (1<sup>st</sup> of each month) and Bacs payments (15<sup>th</sup> of each month) are received in the bank account prior to office opening, whereas other large receipts to the account (eg the return of deposits) are dealt with at the bank's discretion and could be made at any time between 08:30 and 17:00. All monies that the Council is committed to pay (Precept payments to East Sussex County Council, etc) are set up in advance to ensure they are dealt with by the bank at the start of the day, whereas investments are usually finalised/transmitted by 10:30.

### **Financial Implications**

5 All relevant implications are referred to in the above paragraphs.

### **Sustainability Implications**

6 The Sustainability Screening process for this Report took place in November 2013. There are no implications for sustainability.

### **Risk Management Implications**

7 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**

8 The Equality Screening process for this Report took place in November 2013. There are no implications for equality.

### **Legal Implications**

9 None arising from this report.

### **Appendix 1 – Mid-year Treasury Management Report 2013/2014**

### **Background Papers - Treasury Strategy Statement 2013/2014**

<http://www.lewes.gov.uk/council/20987.asp>