

Agenda Item No: 7 **Report No:** 175/14
Report Title: Treasury Management
Report To: Audit and Standards Committee **Date:** 1 December 2014
Ward(s) Affected: All
Report By: John Magness, 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 484468

Purpose of Report:

To present details of recent Treasury Management activity along with a 2014/2015 mid-year report.

Officers Recommendation:

1. To note the Mid-year Treasury Management Report 2014/2015.
 2. To confirm to Cabinet that Treasury Management activity between 1 September and 31 October 2014 has been in accordance with the approved Treasury Strategy for that period.
 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.
- 2 **Mid-year Treasury Management Report 2014/2015**
 - 2.1 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.
 - 2.2 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 2014/2015 in advance of Cabinet, which received it on 20 November 2014 and recommended to Council that it should be approved when it meets on 3

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.

- 2.3** The Mid-year Report covers the period 1 April 2014 to 30 September 2014. It confirms that the key elements of the approved Treasury and Investment Strategy have been complied with during the first half of the year.
- 2.4** As noted in Section 3 of the Mid-Year Report, the Treasury and Investment Strategy outlines the considerations of using internal reserves and balances to fund the Council's Capital Financing Requirement (CFR) as an alternative to external long-term borrowing from, for example, the Government's Public Works Loans Board (PWLB).
- 2.5** The advantage of using internal reserves and balances is a reduction in investment risk. This option is particularly useful where positive balances are forecast over the medium term. If the interest rate for long-term borrowing is higher than the return on short-term investments, there is a net saving to be made. The disadvantage is that there is the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise.
- 2.6** The Council currently has external loans with a total value of £56.7m. The loan portfolio has remained unchanged since March 2012, when significant borrowing was required on the introduction by the Government of self-financing for housing. The portfolio includes a £5m PWLB variable rate loan with a maturity date in March 2022. The rate of interest on this loan is reviewed by the Government every six months (in September and March).
- 2.7** A review of the Council's position supports the repayment of the £5m PWLB variable rate loan in February/March 2015. This external borrowing would be replaced by utilising internal reserves and balances, reducing the amount held for investment and its associated risk. The unused level of these balances is currently estimated to be £14.6m at 31 March 2015.
- 2.8** Arlingclose, the Council's Treasury Advisors support this approach and (subject to market conditions not changing significantly and with the confirmation of the Cabinet Member for Corporate Services) the Director will arrange for repayment of the loan towards the next six monthly loan review date in March 2015.
- 2.9** Section 5 of the Mid-Year report highlights the limited number of investment counterparties which are available to officers when carrying out day to day treasury management activity and the need to extend the range of investments made within the remit of the current Strategy in response to banking reforms. A potential counterparty, which meets the Council's agreed lending criteria, which are subject to continual review by Arlingclose, is the Swedish bank, Svenska Handelsbanken. At the time of writing this report, Cabinet is expected to approve, at its meeting on 20 November 2014, that an account be opened with Svenska Handelsbanken, which will enable deposits to be made with that bank.

3 Treasury Management Activity

- 3.1 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.
- 3.2 The timetable for reporting Treasury Management activity in 2014/2015 is 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
1 December 2014	1 September to 31 October 2014
26 January 2015	1 November to 31 December 2014
16 March 2015	1 January to 28 February 2015

3.3 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 October 2014 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 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
220714	Barclays Bank plc	13 Aug 14	13 Aug 15	365	1,000,000	1.000	A1	F1
220914	Nationwide Building Society	01 Sep 14	02 Mar 15	182	1,000,000	0.640	A1	F1
221014	Nationwide Building Society	01 Sep 14	02 Feb 15	154	1,000,000	0.580	A1	F1
221614	Cornwall County Council	07 Oct 14	12 Feb 15	128	1,000,000	0.430	A1	F1
	Total				£5,000,000			

3.4 Fixed Term Deposits which have matured in the reporting period

The table overleaf shows the fixed term deposits which have matured since 1 September 2014, 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 £18.75m over this period. Further information is given in paragraph 3.8.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating	Short-term rating
220014	Barclays Bank plc	12 Jun 14	13 Oct 14	123	1,000,000	0.490	A+	F1
220314	Nationwide Building Society	01 Jul 14	01 Sep 14	62	1,000,000	0.450	A+	F1
220614	Debt Management Office	07 Aug 14	08 Sep 14	32	2,000,000	0.250	** not applicable	
221114	Debt Management Office	01 Sep 14	08 Sep 14	07	1,000,000	0.250	** not applicable	
221214	Debt Management Office	02 Sep 14	12 Sep 14	10	1,000,000	0.250	** not applicable	
221314	Debt Management Office	08 Sep 14	12 Sep 14	04	2,000,000	0.250	** not applicable	
221414	Debt Management Office	15 Sep 14	22 Sep 14	07	2,250,000	0.250	** not applicable	
221514	Debt Management Office	06 Oct 14	13 Oct 14	07	1,500,000	0.250	** not applicable	
221714	Debt Management Office	13 Oct 14	20 Sep 14	09	4,000,000	0.250	** not applicable	
221814	Debt Management Office	15 Oct 14	22 Sep 14	05	3,000,000	0.250	** not applicable	
Total					<u>18,750,000</u>			

*UK Government body and therefore not subject to credit rating

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 to 31 October 2014 was 0.51%, above the average bank base rate for the period of 0.50%. Those **made** during the period averaged 0.53%.

3.5 Use of Interest Bearing 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 £1,637,000 generating interest of approximately £1,250.

	Balance at 31 Oct '14 £'000	Average balance £'000	Average interest rate %
Co-Operative Bank Deposit Account	0	14	Nominal
Santander Business Reserve Account	250	1,637	0.40
Bank of Scotland Corporate Deposit Account	0	0	0
Lloyds Bank Corporate Account	2,518	1,965	0.40

Under the terms of its agreement with Lloyds Bank, the Council has a single account, which is interest bearing. This enables day to day treasury operations to be streamlined to a degree, with the account used as an alternative to the Co-Operative Bank Deposit Account and the Bank of Scotland Corporate Deposit Account, which has now been closed.

As noted in paragraph 2.9 above, Cabinet has been asked to approve at its meeting on 20 November 2014 the opening of an account with Svenska Handelsbanken.

3.6 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 '14 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	0	715	0.56
Deutsche Managed Sterling Fund	900	968	0.54

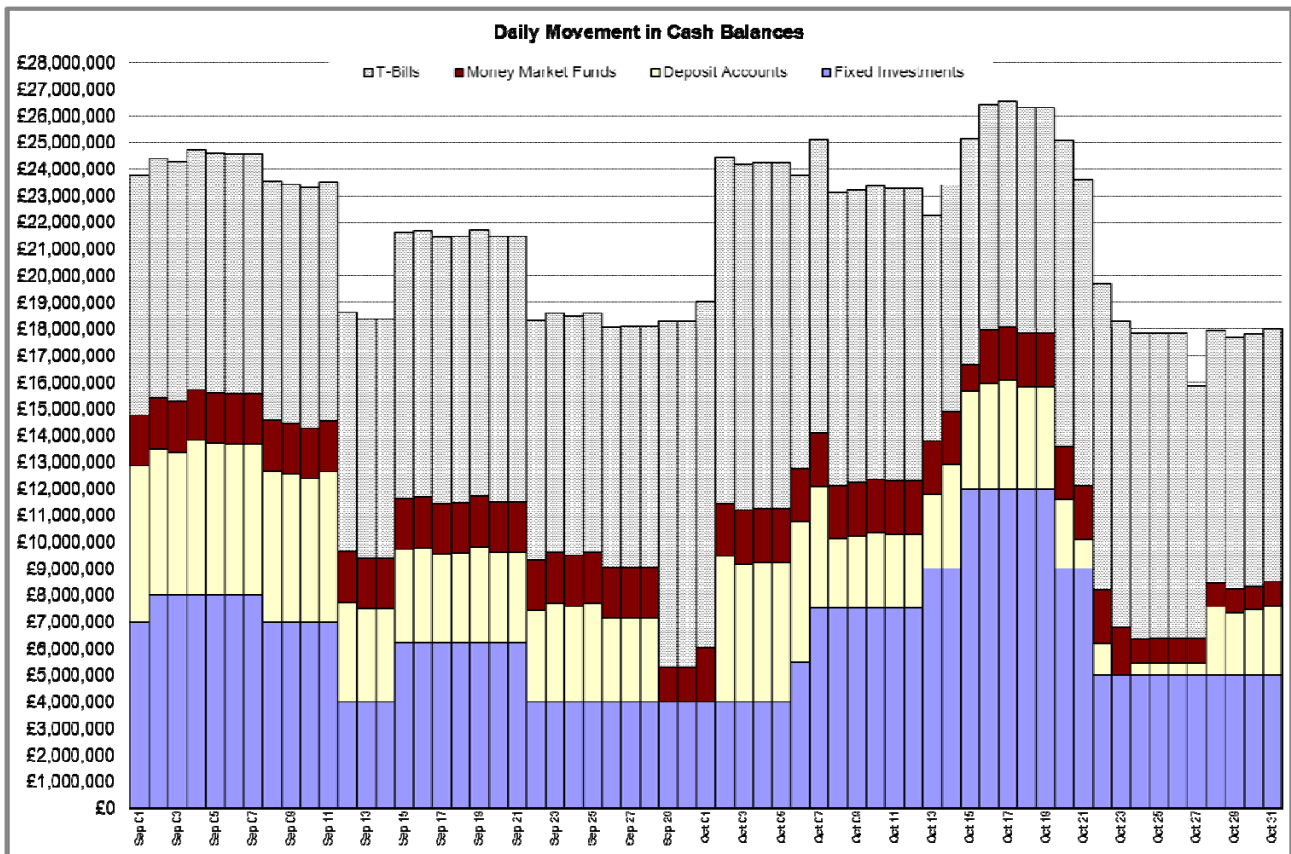
3.7 Purchase of Treasury Bills (T-Bills)

The table overleaf shows the T-Bills held at 31 October 2014 and activity in the period. It is the Council's intention to hold T-Bills until maturity.

	Purchased in period	Purchase date	£'000	Discount %
Held at 31 October 2014				
UK Treasury Bill 0% 03 Nov 2014		04/08/14	2,000	0.420
UK Treasury Bill 0% 10 Nov 2014		11/08/14	2,000	0.410
UK Treasury Bill 0% 30 Mar 2015	√	29/09/14	2,000	0.570
UK Treasury Bill 0% 10 Nov 2014	√	13/10/14	491	0.360
UK Treasury Bill 0% 17 Nov 2014	√	20/10/14	3,000	0.350
Matured since last report				
UK Treasury Bill 0% 22 Sep 2014		23/06/14	995	0.420
UK Treasury Bill 0% 06 Oct 2014		07/07/14	2,000	0.459
UK Treasury Bill 0% 01 Sep 2014		04/08/14	1,000	0.350
UK Treasury Bill 0% 01 Sep 2014		04/08/14	1,000	0.330
UK Treasury Bill 0% 15 Sep 2014		18/08/14	2,000	0.330
UK Treasury Bill 0% 13 Oct 2014	√	15/09/14	2,000	0.400
UK Treasury Bill 0% 13 Oct 2014	√	15/09/14	1,000	0.420
UK Treasury Bill 0% 27 Oct 2014	√	29/09/14	1,000	0.420
UK Treasury Bill 0% 27 Oct 2014	√	29/09/14	1,000	0.400

3.8 Overall investment position

The chart overleaf summarises the Council's investment position over the period 1 September to 31 October 2014. It shows the total sums invested each day as either Fixed Term deposits, T-Bills, amounts held in Interest bearing accounts or MMF's.



3.9 Borrowing

There has been no change to the Council's long term borrowing in the reporting period, which remains at £56.673m. As noted in paragraph 2.7 above, a review of the Council's position supports the repayment of a £5m PWLB loan in February/March 2015.

No temporary borrowing has been undertaken. In the period covered by this report, the Council had an average overdrawn balance of £0.338m on its Co-operative Bank current account.

3.10 Council's Banking Arrangements

The transfer of the Council's business from the Co-operative Bank to Lloyds Bank has been completed, with all payments that we make and all income collected from council taxpayers, business ratepayers and tenants now passing through our new account. The Council is the first among the Sussex district and borough councils which jointly procured the services of Lloyds Bank to complete the change. The Co-operative Bank account will remain open until the end of the year for any residual incoming payments.

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 November 2014. 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 November 2014. There are no implications for equality.

Legal Implications

- 8 None arising from this report.

Background Papers - Treasury Strategy Statement

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

Appendix 1 – Mid-Year Treasury Management Report 2014/2015