

Agenda Item No: 16

Report No: 86/16

Report Title: Treasury Management

Report To: Audit and Standards Committee Date: 20 June 2016

Ward(s) Affected: All

Report By: Alan Osborne, Director of Corporate Services

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Purpose of Report:

To present details of recent Treasury Management activity and the Annual Treasury Management Report 2015/2016.

Officers Recommendation:

1. To confirm to Cabinet that Treasury Management activity between 1 March and 31 May 2016 has been in accordance with the approved Treasury Strategy for that period.
 2. To review the Annual Treasury Management Report for 2015/2016.
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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.
- 2 The Treasury Strategy Statement also requires the Audit and Standards Committee 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 **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 2015/2016 is 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 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
20 June 2016	1 March to 31 May 2016

3.3 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 May 2016 and identifies the long-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 rating required for deposits made after 1 April 2016 are long term minimum A- (Fitch) (a minimum A rating applied in 2015/2016). All of the deposits met the necessary criteria.

[illegible]

3.4 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 March 2016, 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 £29.75m over this period. Further information is given in paragraph 3.9.

[illegible]

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 to 31 May 2016 was 0.54%, above the average bank base rate for the period of 0.50%. Those made during the period averaged 0.47%.

3.5 Use of Deposit 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 £2.087m generating interest of approximately £2,000.

	Balance at 31 May '16 £'000	Average balance £'000	Average interest rate %
Santander Business Reserve Account	Nil	1,054	0.30%
Lloyds Bank Corporate Account	644	1,033	0.40%

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 £3m in each fund, and at no time was this limit exceeded.

	Balance at 31 May '16 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	1,500	2,546	0.59%
Deutsche Managed Sterling Fund	1,000	2,761	0.57%

3.7 Purchase of Treasury Bills (T-Bills)

The table below shows the T-Bills held at 31 May 2016 and activity in the period. It is the Council's intention to hold T-Bills until maturity.

	Maturity Date .	Purchased in period	Purchase date	£'000	Disc %
Held at 31 May 2016					
UK Treasury Bill 0%	06 Jun16	✓	09 May 16	94	0.419
UK Treasury Bill 0%	06 Jun 16	✓	06 May 16	1,000	0.409
UK Treasury Bill 0%	20 Jun 16	✓	20 May 16	1,000	0.399
UK Treasury Bill 0%	20 Jun 16	✓	20 May 16	1,000	0.403
Matured since last report					
UK Treasury Bill 0%	07 Mar 16		7 Dec 15	1,000	0.481
UK Treasury Bill 0%	14 Mar 16		15 Feb 16	2,000	0.460
UK Treasury Bill 0%	14 Mar 16		15 Feb 16	2,000	0.440
UK Treasury Bill 0%	21 Mar 16		21 Sep 15	1,000	0.562
UK Treasury Bill 0%	21 Mar 16		21 Dec 15	1,000	0.466

	Maturity Date .	Purchased in period	Purchase date	£'000	Disc %
UK Treasury Bill 0%	29 Mar 16		28 Sep 15	1,000	0.565
UK Treasury Bill 0%	04 Apr 16		05 Oct 15	1,000	0.548
UK Treasury Bill 0%	18 Apr 16	✓	21 Mar 16	1,000	0.419
UK Treasury Bill 0%	03 May 16		02 Nov 15	1,000	0.555
UK Treasury Bill 0%	16 May 16	✓	18 Apr 16	1,000	0.403
UK Treasury Bill 0%	16 May 16	✓	18 Apr 16	1,000	0.394
UK Treasury Bill 0%	23 May 16	✓	25 Apr 16	1,000	0.404
UK Treasury Bill 0%	23 May 16	✓	25 Apr 16	1,000	0.394
UK Treasury Bill 0%	31 May 16	✓	03 May 16	1,000	0.397

The average discount (ie the gross return) achieved on T-Bills held in the period was 0.40%. Those purchased in the period also averaged 0.40%.

3.8 Purchase of Secured Investments

Given the risk and continued low returns from short-term unsecured bank investments, the Treasury Strategy for 2016/2017 enables the Council to diversify into more secure and/or higher yielding asset classes. The Council's Treasury Advisor, Arlingclose, reaffirmed the importance of diversification at a meeting with officers in early May 2016. Subsequently, £1m was invested in an AAA rated 'covered bond' issued by Abbey National, at an initial interest rate of 0.755%, maturing on 5 April 2017.

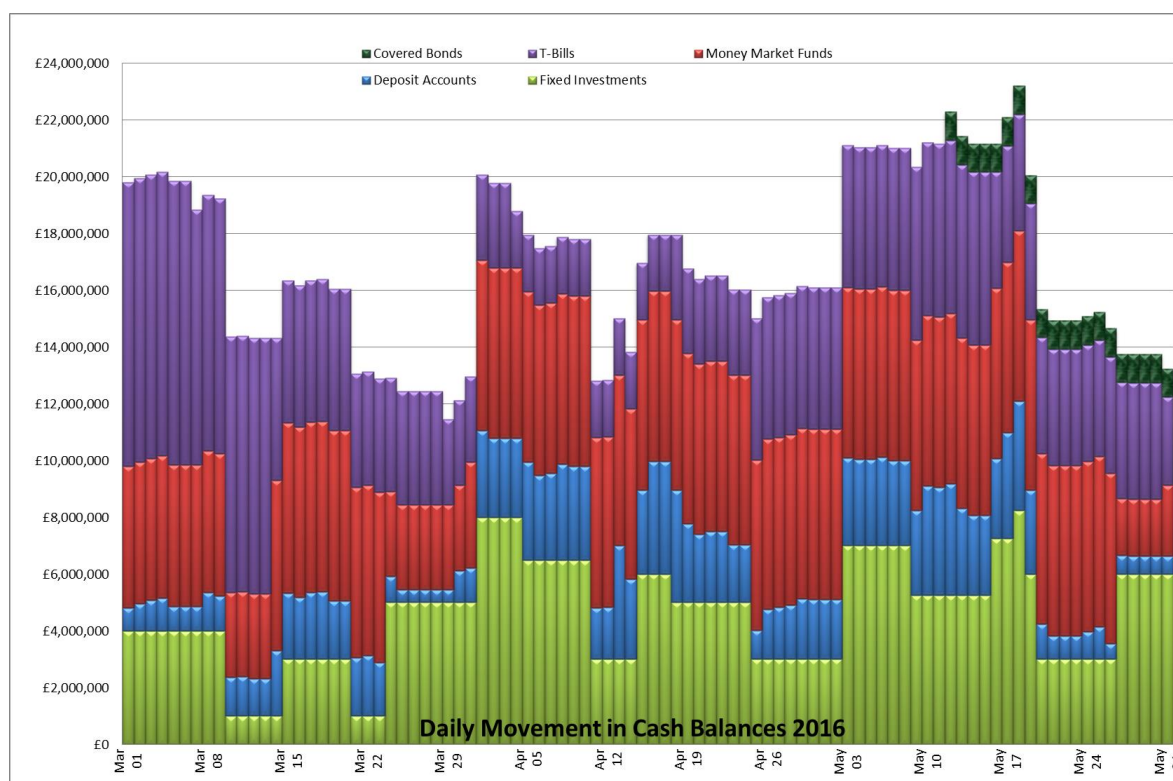
The investment is secured against the assets of the bank. The interest rate can vary, by reference to changes in the 3 month 'London Interbank Offered Rate (LIBOR)'. This provides a safeguard against any rise in interest rates before the investment matures.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
XS0769914218	Abbey National Treasury – FRN	12 May 16	05 Apr 17	328	<u>1,000,000</u>	0.755v	AAA
					<u>1,000,000</u>		

V = rate can vary

3.9 Overall investment position

The chart overleaf summarises the Council's investment position over the period 1 March to 31 May 2016. It shows the total sums invested each day as Fixed Term deposits, T-Bills, amounts held in Deposit accounts, MMFs and Covered Bonds.



3.10 Borrowing

No temporary borrowing has been undertaken and the current account with Lloyds Bank remained in credit throughout the period.

There has been no change to the Council's long term borrowing in the reporting period, which remains at £56.673m.

4 Appointment of Treasury Adviser

- 4.1 The Council appointed Arlingclose as its Treasury Adviser in 2012 following an open procurement. The agreement with Arlingclose was for an initial four-year term expiring on 30 June 2016, with the Council having the option to extend for a further year.
- 4.2 The Director of Corporate Services has exercised the option to extend this agreement, which will now come to an end on 30 June 2017. It is envisaged that in 2017 the Council will carry out a joint procurement exercise with Eastbourne Borough Council as part of the Joint Transformation Programme to appoint Treasury Advisor(s) for future years.

5 Annual Treasury Management Report

- 5.1 As well as reviewing details of Treasury transactions during the course of the year, the Audit and Standards Committee is 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.

- 5.2** The Annual Report is attached at Appendix 1 (to be circulated separately from the Agenda). It should be noted that this report has been drafted prior to the final closure of the Council's accounts and, as a result, some minor changes may be necessary. If so, the changes will be reported verbally at the meeting. Any comments that the Audit and Standards 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 4 July 2016.

Financial Implications

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

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** This is a routine report for which detailed Equality Analysis is not required to be undertaken.

Legal Implications

- 9** None arising from this report.

Appendix

Appendix 1: Annual Treasury Management Report 2015/2016 (to be circulated)

Background Papers

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