

Agenda Item No: 7 **Report No:** 156/16

Report Title: Treasury Management

Report To: Audit and Standards Committee **Date:** 28 November 2016

Ward(s) Affected: All

Report By: Alan Osborne, Deputy Chief Executive

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Purpose of Report:

To present details of recent Treasury Management activity

Officers Recommendation:

1. To note the Mid-year Treasury Management Report 2015/2016.
 2. To confirm to Cabinet that Treasury Management activity between 1 September and 31 October 2016 has been in accordance with the approved Treasury Strategy for that period.
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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 2016/2017**
 - 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 2016/2017 in advance of Cabinet, which received it on 16 November 2016 and recommended to Council that it should be approved when it meets on 7 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 to 30 September 2016. It confirms that the key elements of the approved Treasury and Investment Strategy have been complied with during the first half of the year. Section 2 of the Mid-year Report provides a summary of performance against the key targets in the 2016/17 Strategy, with the remainder of the Report giving a more detailed explanation of borrowing and investment activity and the broader economic context within which officers have worked.

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 2016/2017 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
28 November 2016	1 September to 31 October 2016
16 January 2017	1 November to 31 December 2016
20 March 2017	1 January to 28 February 2017

- ### 3.3 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 October 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. All of the deposits met the necessary criteria.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
228716	Thurrock Borough Council	27/05/16	28/11/16	185	3,000,000	0.50	*
229716	Nationwide Building Society	06/06/16	06/12/16	183	1,000,000	0.71	A
230916	Nationwide Building Society	18/08/16	20/02/17	186	1,000,000	0.40	A
231316	Thurrock Borough Council	05/10/16	04/01/17	91	1,750,000	0.25	*
231716	Thurrock Borough Council	21/10/16	23/01/17	94	500,000	0.25	*
					7,250,000		

* UK Government body and therefore not subject to credit rating

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 September 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 £19.75m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
231016	Debt Management Office	01/09/16	05/09/16	4	2,000,000	0.15	*
231116	Debt Management Office	01/09/16	12/09/16	11	2,000,000	0.15	*
231216	Debt Management Office	15/09/16	19/09/16	4	3,000,000	0.15	*
229816	Thurrock Borough Council	01/07/16	05/10/16	96	1,750,000	0.71	*
231416	Coventry Building Society	03/10/16	10/10/16	7	2,000,000	0.19	A
231616	Debt Management Office	10/10/16	20/10/16	10	3,000,000	0.15	*
231816	Debt Management Office	17/10/16	20/10/16	3	3,000,000	0.15	*
231516	Coventry Building Society	10/10/16	24/10/16	14	2,000,000	0.20	A
231916	Coventry Building Society	24/10/16	31/10/16	7	1,000,000	0.19	A
Total					<u>19,750,000</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 and 31 October 2016 was 0.44%, above the average bank base rate for the period of 0.39%. Those made during the period averaged 0.30%.

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 £1.964m generating interest of approximately £400.

	Balance at 31 Oct '16 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	Nil	361	0.05%
Lloyds Bank Corporate Account	1,092	870	0.15%

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 overleaf. The approved Investment Strategy allows a maximum investment of £3m in each fund, and at no time was this limit exceeded.

	Balance at 31 Oct '16 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	3,000	3,000	0.44%
Deutsche Managed Sterling Fund	3,000	2,368	0.44%

3.7 Purchase of Treasury Bills (T-Bills)

The table below shows the T-Bills held at 31 October 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 October 2016					
UK Treasury Bill 0%	03 Jan 17		04 Jul 16	1,000	0.420
Matured since last report					
UK Treasury Bill 0%	10 Oct 16		11 Jul 16	1,000	0.380
UK Treasury Bill 0%	17 Oct 16		18 Jul 16	1,000	0.414

The average discount (ie the gross return) achieved on T-Bills held in the period was 0.41%. No T-Bills were purchased during the period.

3.8 Secured Investments

The investments below are 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)'.

Ref	Counterparty	Date From	Date To	Days	Principal £	Current Rate %	Long Term Rating
XS0769914218	Abbey National Treasury	12 May 16	05 Apr 17	328	1,000,000	0.681	AAA
XS113251472	Bank of Nova Scotia	22 Jul 16	02 Nov 17	414	2,000,000	0.567	AAA
					3,000,000		

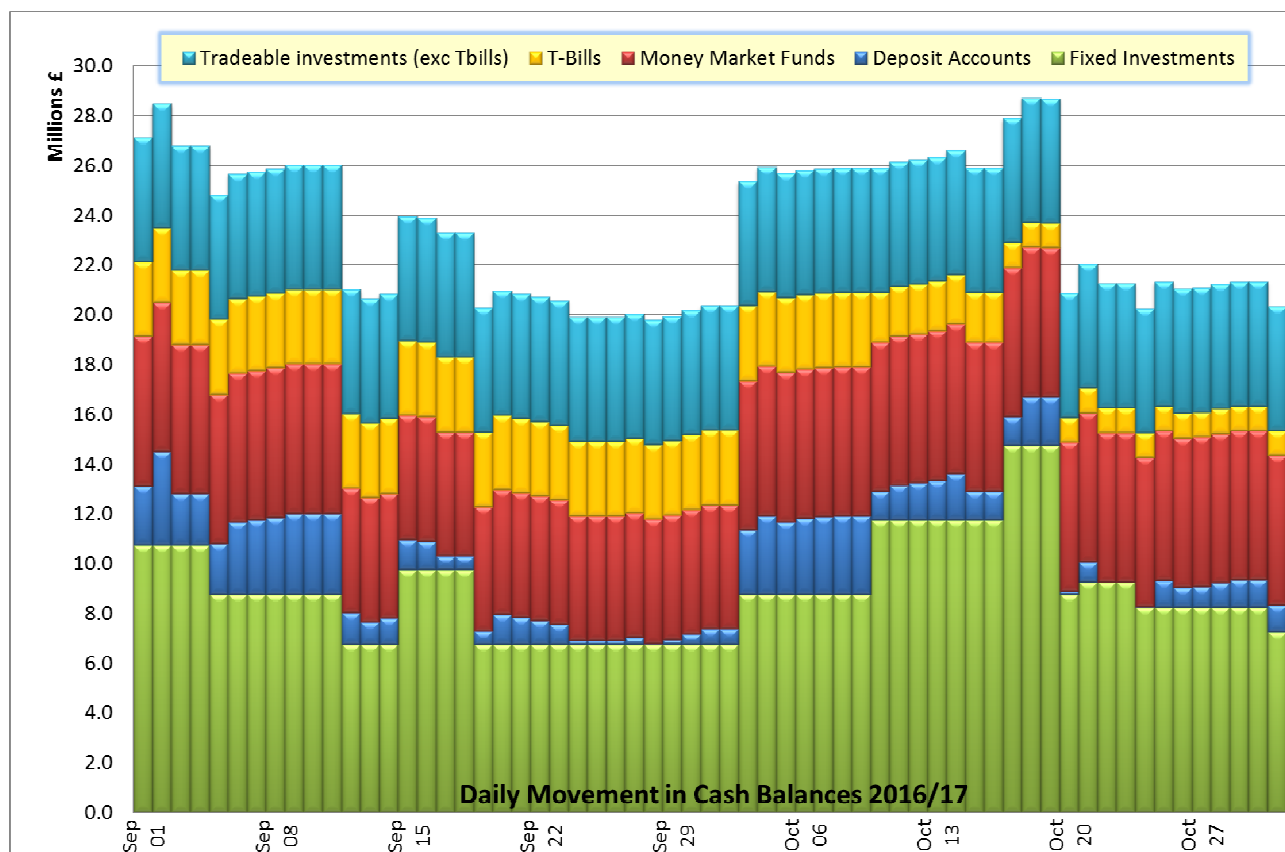
3.9 Certificates of Deposit (CDs)

During the period the following CD was held. CDs are fixed term, tradeable deposits. The intention is to keep the CD until maturity

Ref	Counterparty	Date From	Date To	Days	Principal £	Current Rate %	Long Term Rating
32264	Rabobank	16 Aug 16	16 Dec 16	122	2,000,000	0.36%	AAA
					2,000,000		

3.10 Overall investment position

The chart below summarises the Council's investment position over the period 1 September to 31 October 2016. It shows the total sums invested each day as Fixed Term deposits, T-Bills, amounts held in Deposit accounts, MMFs and Tradeable Investments.



3.11 Custody Accounts

Investments in Treasury Bills, bonds, certificates of deposits and other tradeable instruments are held securely in Custody accounts in the Council's name. Without custody accounts, which are available from banks and other specialist firms, the Council could not access a significant range of investments meaning that its ability to diversify the portfolio is significantly affected.

Currently the Council has two custody accounts in place. One of these accounts is provided by a supplier which is no longer recommended for use by Arlingclose, the Council's treasury adviser. In order to maintain the opportunity for investment in these instruments, another custody account is to be opened with an alternative supplier. Cabinet have been recommended to approve this action, as required by the Council's Financial Procedure Rules.

3.12 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 in the total value of the Council's long term borrowing in the reporting period, which remains at £56.673m.

Within the portfolio of loans is a £5m loan from Barclays Bank plc, advanced in April 2004 with a maturity date in April 2054. As reported to the last meeting of the Audit and Standards Committee, Barclays have waived their right to increase the interest rate on the loan at four-yearly intervals, with the effect that the interest rate is now fixed at the current level, 4.5%. A premium, estimated at £4.5m would be payable to Barclays if the Council were to repay this loan now. This would not be cost-effective – the additional cost to the Council compared with letting this loan run to maturity is estimated to be £1.6m.

Financial Implications

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

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

Legal Implications

- 7 None arising from this report.

Background Papers

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

Appendix

Mid-year Treasury Management Report 2016/2017