TREASURY MANAGEMENT ACTIVITY REPORT 2016/17 (1st Jan 2017 – 31st March 2017) 20th April 2017 AUDIT COMMITTEE	Classification: Public
Ward(s) affected None	
Group Director Ian Williams, Group Director Finance & Corporate Resources	

1. Introduction

This report provides Members of the Audit Committee with a quarterly update on Treasury Management.

2. Recommendation(s)

The Audit Committee is recommended to:

- **Note the report**

3. Background

This report is the fourth of the treasury reports relating to the financial year 2016/17 for the Audit Committee. It sets out the background for treasury management activity from January 2017 to March 2017 and the action taken during this period.

4.1 Policy Context

Ensuring that the Treasury Management function is governed effectively means that it is essential for those charged with governance to review the operations of treasury management on a regular basis. This report forms part of the regular reporting cycle for Audit Committee, which includes reviewing the Annual Treasury Management Strategy, and enables the Committee to monitor treasury activity throughout the financial year.

4.2 Equality Impact Assessment

There are no equality impact issues arising from this report

4.3 Sustainability

There are no sustainability issues arising from this report

4.4 Consultations

No consultations have taken place in respect of this report.

4.5 Risk Assessment

There are no risks arising from this report as it sets out past events. Clearly though, the treasury management function is a significant area of potential risk for the Council, if the function is not properly carried out and monitored by those charged with responsibility for oversight of treasury management. Regular reporting on treasury management ensures that the Committee is kept informed.

5. Comments of the Group Director, Finance and Corporate Resources

There are no direct financial consequences arising from this report as it reflects the performance from January to March 2017. Whilst investment interest is not used to underpin the Council's base revenue budget, as in some other authorities, there will be an impact on the ability to fund additional discretionary expenditure and capital programmes. The information contained in this report will assist Members of this Committee in monitoring the treasury management activities and enable better understanding of such operations.

6. Comments of the Director Legal Services

The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for management of risk. In addition the Council within its Annual Treasury Management Strategy has agreed to comply with the CIPFA Code of Practice on Treasury Management. This report demonstrates that Treasury Management is meeting these requirements and adapting to changes as they arise.

7. Economic Highlights

- **Growth:** The third estimate of Q4 GDP published today by the ONS showed the UK economy expanded by 0.7% over the quarter and 1.9% year-on-year. The quarterly growth rate was unrevised from the previous estimate, whilst the yearly rate was revised downwards by 0.1 percentage points.

- **Inflation:** The Office for National Statistics' new main measure of inflation, the Consumer Price Index including owner occupiers housing costs (CPIH), rose by 2.3% in the year to February 2017, up from 1.9% in January. This figure was above market expectations of 2.2% and represents the highest CPIH rate since September 2013.

- **Monetary Policy:** At The Bank of England's Monetary Policy Committee today voted to maintain the official Bank Rate at 0.25% and the asset purchase programme at £435bn, with an additional corporate bond purchase programme of £10bn. The minutes noted that the MPC's February projections had been for a protracted period of above-target inflation coupled with only a modest degree of slack, and recent data had done little to change that assessment. The unemployment rate, at 4.7%, was only a little above the Committee's central estimate of the equilibrium rate of 4.5%.

The MPC's central outlook for the economy had depended in good part on three main judgements: that the lower level of sterling continued to boost consumer prices broadly as expected, and without adverse consequences for expectations of inflation further ahead; that regular pay growth did indeed remain modest, consistent with the Committee's assessment of the remaining degree of slack in the labour market; and that the hitherto resilient rates of household spending growth slowed as real income gains weakened, without a sufficient offset by other components of demand.

8. Borrowing & Debt Activity

8.1 The Authority currently has £88.6m in external borrowing. This is made up as a single £3.6m LEEF loan from the European Investment Bank to fund housing regeneration and £85m short-term borrowing from Local Authorities to fund the recent Hackney Walk deal.

8.2 Close analysis of Councils Capital Financing Requirement (CFR is an indicator of an overall need to borrow) as it is currently known indicates that further borrowing including borrowing proposed in the HRA business plan, will be required within the next three years.

9. Investment Policy and Activity

9.1 The Council held average cash balances of £169 million during the reported period, compared to an average £217 million for the same period last financial year.

Movement in Investment Balances 01/01/17 to 31/03/17

	Balance as at 01/01/2017 £'000	Average Rate of Interest %	Balance as at 31/03/2017 £'000	Average Rate of Interest %
Short term Deposits	70,619	-	41,104	
Long term Deposits	31,500	-	31,500	
AAA-rated Stable Net Asset Value Money Market Funds	33,745	-	36,660	
AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	8,000		3,000	
Corporate and Covered Bonds	24,713		19,999	
Housing Associations	15,000		15,000	
Financial Institutions without credit ratings	2,000		2,000	
	185,578	**0.84**	**149,263**	**0.83**

9.2 Due to the volatility of available creditworthy counterparties, longer term investments have been placed in highly rated UK Government institutions. Thus ensuring creditworthiness whilst increasing yield due to the duration of the deposits.

9.3 The Council has also placed three long term investments with Housing Associations assisting both diversification and yield.

9.4 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

9.5 The Council's specific policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

- security of the invested capital; liquidity of the invested capital; and,
- An optimum yield which is commensurate with security and liquidity.

10. Counterparty Update

10.1 Following the UK vote to leave Europe on the 23rd June 2016, there was a significant number of credit rating changes to reflect the uncertain resulting from the referendum result. Most notable, Fitch and S&P downgrading the UK Government (and all associated institutions such as Local Authorities) to AA. In addition, S&P also downgraded the European Union to AA.

10.2 Whilst the ongoing investment strategy remained cautious counterparty credit quality remains relatively strong, as can be demonstrated by the Credit Score Analysis summarised below:

<u>Credit Score Analysis</u>

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating Score	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating Score
31/01/2017	4.13	AA-	3.69	AA-
28/02/2017	4.09	AA-	3.66	AA-
31/03/2017	4.05	AA-	3.64	AA-

<u>Scoring:</u>
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 27
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

10.3 The Council continues to utilise AAAmmf/Aaa/AAAm rated Money Market Funds for its very short, liquidity-related surplus balances. This type of investment vehicle has continued to provide very good security and liquidity, although yield suffers as a result.

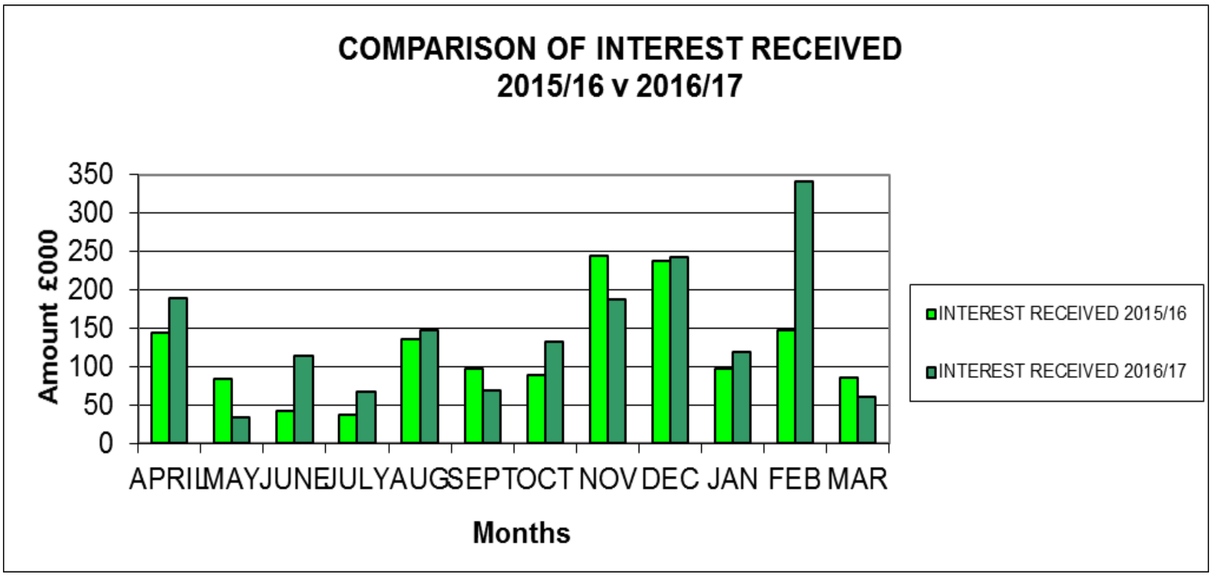
10.4 In light of legislative changes and bail-in risk for unsecured bank deposits, as set out in previous monitoring reports, the Council continues to invest in high quality corporate bonds. This investment vehicle offers good level of security and increases diversification for the Council's portfolio whilst achieving a reasonable yield.

11. Comparison of Interest Earnings

11.1 The Council continues to adopt a fairly cautious strategy in terms of investment counterparties and periods. Due to the volatility of available creditworthy counterparties, longer term investments have been placed in highly rated UK Government institutions or Covered (secured) Bonds, thus ensuring creditworthiness whilst increasing yield's through the duration of the deposits.

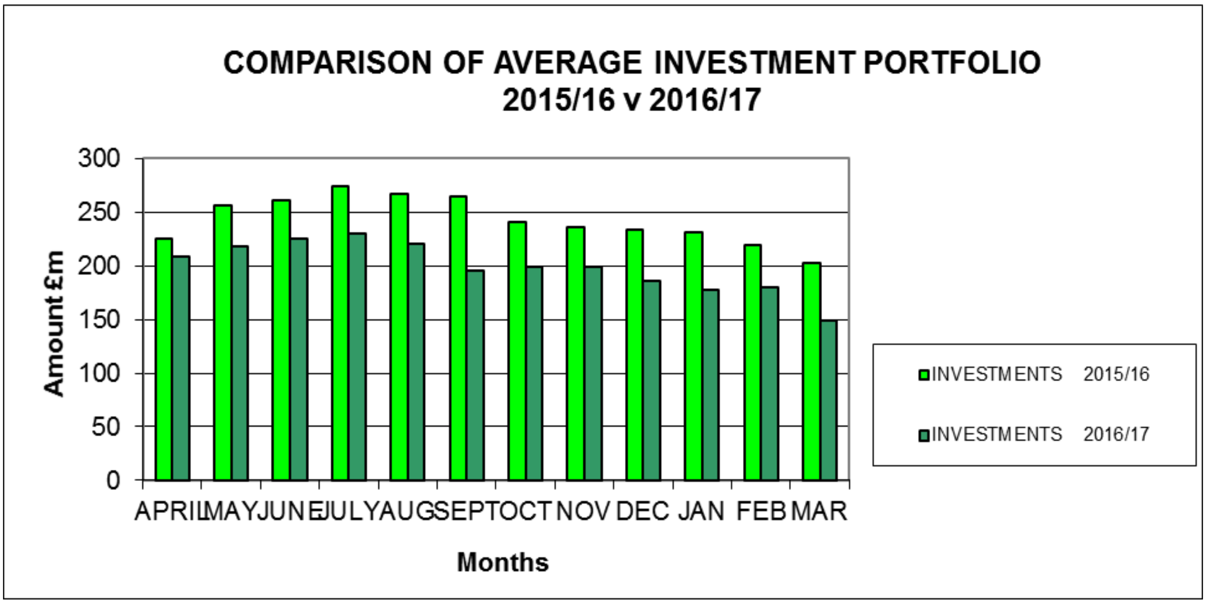
11.2 The graph below provides a comparison of interest earnings for 2016/17 against the same period for 2015/16. The graph highlights that the Council's longer term investment approach is paying dividends with high levels on interest received when taking into account the investment market environment.

Average interest received for the period January to March 2017 was £173k compared to £110k for the same period last financial year.



12. Movement in Investment Portfolio

12.1 Investment levels have decreased to £149 million at the end of March in comparison to the end of March last year of £202 million. The decrease in the investment balance year on year is the result of the continued approach of maintaining borrowing and investments below their underlying levels i.e. use of internal borrowing.



13. Summary

13.1 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the last quarter of the financial year 2016/17. As indicated in this report, a prudent approach has been taking in relation investment activity with priority being given to security and liquidity over yield.

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