TREASURY MANAGEMENT
ACTIVITY REPORT 2017/18 (1st Jan 2018 – 31st March 2018)

AUDIT COMMITTEE **18th April 2018**	**CLASSIFICATION:** **Open** **If exempt, the reason will be listed in the main body of this report.**

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 2017/18 for the Audit Committee. It sets out the background for treasury management activity from January 2018 to March 2018 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 2018. 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 by the ONS showed the UK economy expanded by 0.4% over the quarter and 1.4% year-on-year. Both estimates were in line with market expectations.

- **Inflation:** The Office for National Statistics' new main measure of inflation, the Consumer Price Index including owner occupiers housing costs (CPIH) 12-month rate was 2.5% in February 2018, 0.2% lower than January 2018. The Consumer Prices Index (CPI) 12-month rate was 2.7%, 0.3% lower than January 2018.

- **Monetary Policy:** At its meeting ending on 21 March 2018, the MPC voted by a majority of 7-2 to maintain Bank Rate at 0.5%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.

In the MPC's most recent projections, set out in the February Inflation Report, GDP was expected to grow by around 1.75% per year on average over the forecast period. While modest by historical standards, that growth rate was expected to exceed the diminished rate of supply growth of the economy, which was projected to be around 1.5% per year. As a result, a small margin of excess demand was projected to emerge by early 2020 and build thereafter. That pushed up on domestic costs, although CPI inflation fell back gradually as the effects of sterling's past depreciation faded. Inflation remained above the 2% target in the second and third years of the MPC's central projection.

As in February, the best collective judgement of the MPC remains that, given the prospect of excess demand over the forecast period, an ongoing tightening of monetary policy over the forecast period will be appropriate to return inflation sustainably to its target at a more conventional horizon. All members agree that any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent.

In light of these considerations, seven members thought that the current policy stance remained appropriate to balance the demands of the MPC's remit.

8. Borrowing & Debt Activity

8.1 The Authority currently has £33.2m in external borrowing. This is made up of a single LEEF loan from the European Investment Bank to fund housing regeneration £3.2m and £30m short-term borrowing from Local Authorities.

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 £132 million during the reported period, compared to an average £168 million for the same period last financial year.

Movement in Investment Balances 01/01/18 to 31/03/18

	Balance as at 01/01/2018 £'000	Average Rate of Interest %	Balance as at 31/03/2018 £'000	Average Rate of Interest %
Short term Investments	45,214	-	51,215	
Long term Investments	12,500	-	6,500	
AAA-rated Stable Net Asset Value Money Market Funds	37,350	-	25,350	
AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	3,000		3,000	
Covered Bonds	5,703		3,602	
Corporate Bonds	7,463		6,961	
Housing Associations	25,000		25,000	
	136,230	**0.88**	**121,628**	**0.95**

9.2 Due to the volatility of available creditworthy counterparties, 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 four 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 Arlingclose increased the credit rating threshold in treasury management strategy template for the 2018/19 financial year to A-, which brings it back to the level we had in 2014/15, before the rating agencies removed government support from their bank credit ratings. From 1st April 2018, Royal Bank of Scotland plc (RBS) and National Westminster Bank plc (NatWest) will no longer meet this threshold criteria due to their BBB+ ratings from Fitch and S&P, and both banks are therefore being suspended from Arlingclose's advised counterparty list for unsecured investments. Arlingclose advises clients against placing new unsecured investments with Royal Bank of Scotland or National Westminster Bank. The Council has no investments with either of these organisations. S&P has downgraded Transport for London (TfL) to AA- from AA and affirmed the short-term rating at A-1+. The outlook is stable.

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
31/01/2018	4.64	A+	4.46	AA-
28/02/2018	4.63	A+	4.45	A+
31/03/2018	4.77	A+	4.49	AA-

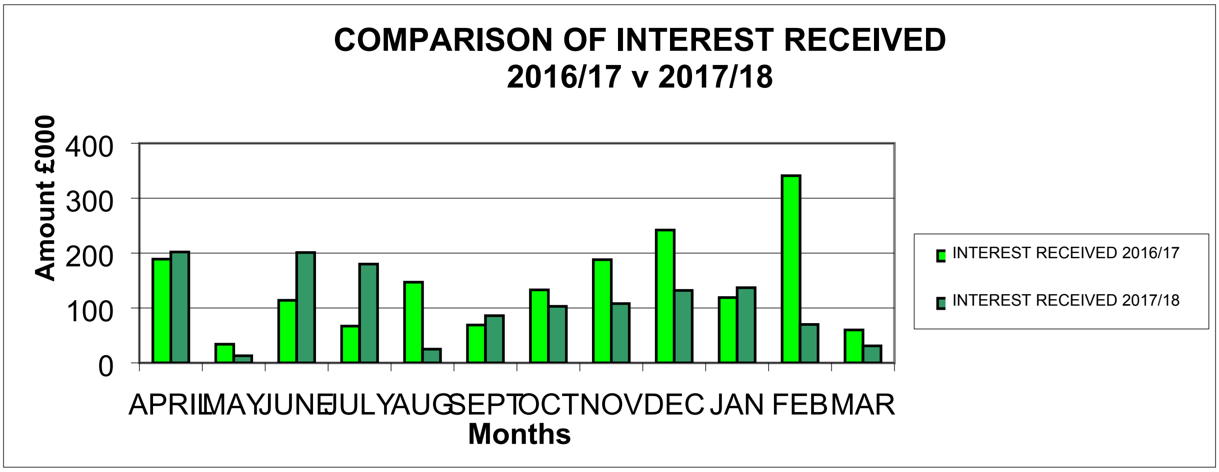
Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 27

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.

11. Comparison of Interest Earnings

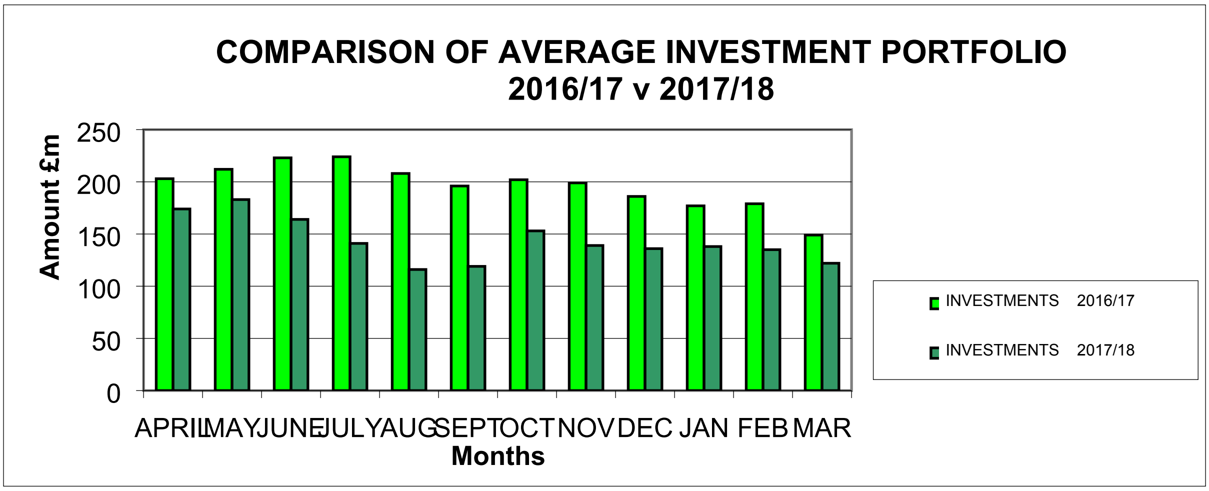
11.1 The Council continues to adopt a fairly cautious strategy in terms of investment counterparties and periods. Due to the volatility of available creditworthy counterparties, investments have been placed in highly rated UK Government institutions or Covered (secured) Bonds, thus ensuring creditworthiness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

11.2 The graph below provides a comparison of interest earnings for 2017/18 against the same period for 2016/17. Average interest received for the period January to March 2018 was £79k compared to £173k for the same period last financial year.



12. Movement in Investment Portfolio

12.1 Investment levels have decreased to £122 million at the end of March in comparison to the end of March last year of £149 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 2017/18. 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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