

<b>Treasury Management Update Report</b>	
<b>AUDIT COMMITTEE MEETING DATE</b> 2018/19  21 June 2018	<b>CLASSIFICATION:</b>  Open
<b>WARD(S) AFFECTED</b>  All Wards	
Ian Williams, Group Director Finance and Corporate Resources	

## **1. INTRODUCTION AND PURPOSE**

- 1.1 This report provides members of the Audit Committee with the latest update on treasury management activity covering the first 2 months of the 2018/19 financial year.

## **2. RECOMMENDATION(S)**

**The Audit Committee is recommended to:**

- Note the report

### **3. BACKGROUND**

#### **3.1 Policy Context**

Treasury management and ensuring that the 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 sets out the the first of the in-year quarterly updates for the current financial year.

#### **3.2 Equality Impact Assessment**

There are no equality impact issues arising from this report.

#### **3.3 Sustainability**

There are no sustainability issues arising from this report.

#### **3.4 Consultations**

No consultations are required in respect of this report.

#### **3.5 Risk Assessment**

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

### **4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES**

There are no direct financial consequences arising from this report as it reflects past performance through the first two months of 2018/19. 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.

### **5. COMMENTS OF THE DIRECTOR OF LEGAL**

- 5.1 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.

5.2 There are no immediate legal implications arising from the report.

## 6. Economic Highlights

6.1 **Growth:** The first estimate of Q1 GDP published by the ONS showed the UK economy expanded by 0.1% over the quarter and 1.2% year-on-year. The quarter figure was below market expectations, while the year-on-year figure met expectations.

6.2 **Inflation:** The Consumer Price Index including owner occupiers housing costs (CPIH) 12-month rate was 2.2% in April 2018, 0.1% lower than March 2018. The rate has fallen to its lowest since January 2017. The Consumer Prices Index (CPI) 12-month rate was 2.4%, 0.1% lower than March 2018.

6.3 **Labour Market:** The latest statistics released by the ONS for the three months to March 2018 show that the number of people in work increased and the number of unemployed people decreased. The number of people aged from 16 to 64 not working and not seeking or available to work has also decreased across the period. The unemployment rate fell to 4.2% down from 4.6% a year earlier and lowest since 1975. The employment rate was 75.6%, up from 74.8% for a year earlier and the highest since comparable records began in 1971. Nominal wages including bonuses increased by 2.6% and wages excluding bonuses increased by 2.9%. Real wages excluding bonuses increased by 0.4% and including bonuses was unchanged compared to a year earlier.

## 7. Borrowing & Debt Activity

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

## 8 Investment Policy and Activity

8.1 The Council held average cash balances of £129 million during the reported period, compared to an average £179 million for the same period last financial year. However, cash balances over the two month period April 1 to May 31 increased by £24.3 million, largely reflecting receipt of grants early in the year ahead of expenditure being incurred.

Movement in Investment Balances 01/04/18 to 31/05/18

	<b>Balance as at 01/04/2018 £'000</b>	<b>Average Rate of Interest %</b>	<b>Balance as at 31/05/2018 £'000</b>	<b>Average Rate of Interest %</b>
Short Term Investments	51,211	-	44,226	-
Long Term Investments	6,500	-	6,500	-
Covered Bonds	0	-	0	-
Corporate Bonds	10,563	-	6,853	-
Housing Associations	25,000	-	25,000	-
Investments in VNAV MMF's (Money Market Funds)	3,000	-	3,000	-
Investments in CNAV MMF's (Money Market Funds)	25,350	-	60,350	-
	<b>121,624</b>	<b>0.95</b>	<b>145,929</b>	<b>0.87</b>

8.2 Due to the volatility of available creditworthy counterparties, longer term investments have been placed in highly rated UK Government institutions, thus ensuring creditworthiness of investments.

## **9. Counterparty Update**

9.1 S&P has upgraded the long-term ratings of Royal Bank of Scotland plc, National Westminster Bank plc and Ulster Bank Limited to A- from BBB+, affirmed the short-term ratings at A-2 and maintained a positive outlook. The outlook on NatWest Markets plc has also been revised to positive from stable. Arlingclose, the Council's Treasury Management Advisors, continue to advise clients against making deposits with Royal Bank of Scotland, National Westminster Bank, NatWest Markets or Ulster Bank. They remain comfortable, however, with clients using any of these banks for operational banking purposes, providing balances are kept to a minimum.

9.2 Moody's has confirmed the long-term rating of HSBC Bank plc, concluding the review for downgrade initiated in February 2018. The baseline credit assessment has been downgraded and the outlook is stable. Arlingclose remains comfortable with clients making deposits with HSBC Bank plc for periods up to 6 months, where this is in line with approved strategies.

9.3 Arlingclose aims to expand the list of covered instruments available to their clients. They believe by doing so, clients will have access to a wider range of alternatives to traditional bank deposits, which are exposed to a bail-in. Officers will continue to monitor and consider investment opportunities in accordance with the approved Treasury Management Strategy.

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

9.5 Credit Score Analysis

<b>Date</b>	<b>Value Weighted Average – Credit Risk Score</b>	<b>Value Weighted Average – Credit Rating Score</b>	<b>Time Weighted Average – Credit Risk Score</b>	<b>Time Weighted Average – Credit Rating Score</b>
30/04/2018	4.9	A+	4.5	A+
31/05/2018	4.9	A+	4.5	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*

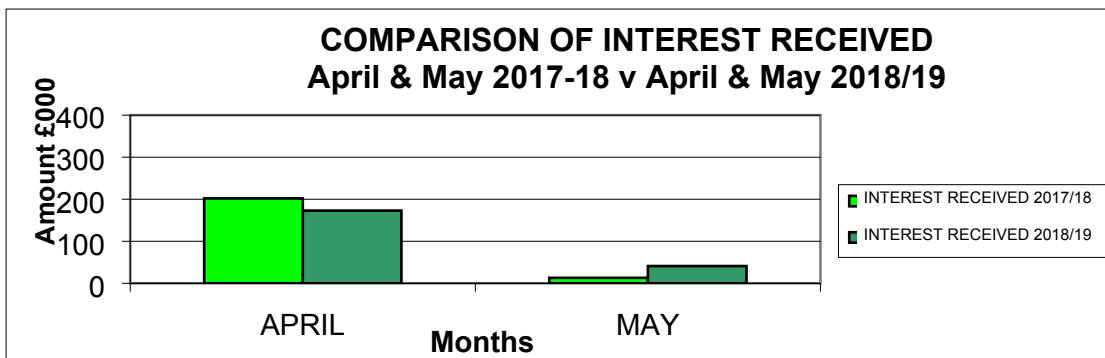
*-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security*

9.6 The Council continues to utilise AAmmf/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.

9.7 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.

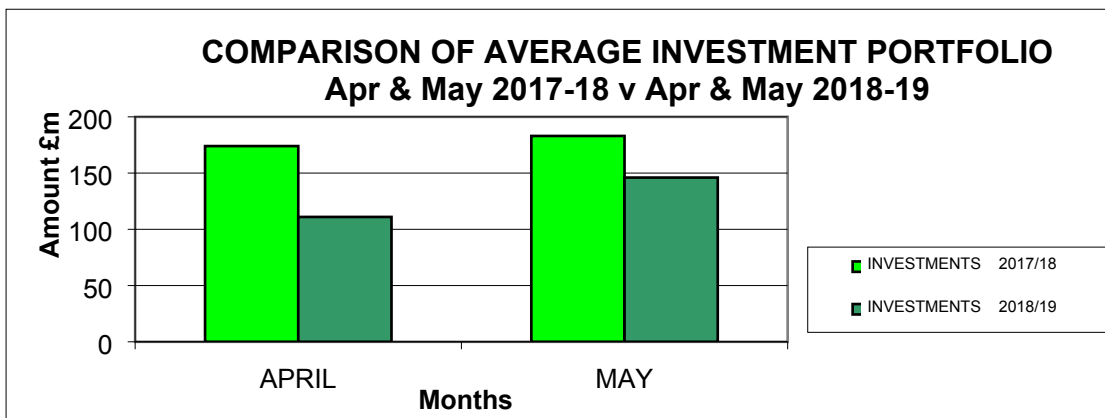
**10. Comparison of Interest Earnings**

- 10.1 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.
- 10.2 The graph below provides a comparison of interest earnings for April 18 and May 18 against the same period for 2017/18.
- 10.3 Average interest received for the period April to May 2018 was £107k compared to £108k for the same period last financial year.



**11. Comparison of Investment Portfolio**

- 11.1 Investment levels have decreased to £146 million at the end of May in comparison to the end of May last year of £183 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 to finance the Council's capital programme.



## 12. BACKGROUND PAPERS

- 12.1 The Authority's Treasury Management Strategy for 2018/19 was approved by full Council on 21<sup>st</sup> February 2018 which can be accessed on the Council website:

<http://mginternet.hackney.gov.uk/ieListDocuments.aspx?CId=112&MId=4008>

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