TREASURY MANAGEMENT ACTIVITY REPORT 2018/19 (1st Jan 2019 – 31st March 2019) 10th April 2019 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 2018/19 for the Audit Committee. It sets out the background for treasury management activity from January 2019 to March 2019 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 2019. 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 first estimate of Q4 GDP published by the ONS showed the UK economy expanded by 0.2% over the quarter and 1.3% year-on-year. Both the quarter's figure and the year-on-year figure were below expectations.

- **Inflation:** The Consumer Price Index including owner occupiers housing costs (CPIH) 12-month rate was 1.8% in February 2019, remaining the same as in January 2019. The Consumer Prices Index (CPI) 12-month rate was 1.9%, an increase from 1.8% in January 2019.

- **Monetary Policy:** The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 20 March 2019, the MPC voted unanimously to maintain Bank Rate at 0.75%. 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. Shifting expectations about the potential nature and timing of the United Kingdom's withdrawal from the European Union have continued to generate volatility in UK asset prices, particularly the sterling exchange rate. Brexit uncertainties also continue to weigh on confidence and short-term economic activity, notably business investment. Employment growth has been strong, although survey indicators suggest that the outlook has softened. Most indicators of consumer spending are consistent with ongoing modest growth. As the Committee has previously noted, short-term economic data may provide less of a signal than usual about the medium-term growth outlook.

  The economic outlook will continue to depend significantly on the nature and timing of EU withdrawal, in particular: the new trading arrangements between the European Union and the United Kingdom; whether the transition to them is abrupt or smooth; and how households, businesses and financial markets respond. The appropriate path of monetary policy will depend on the balance of these effects on demand, supply and the exchange rate. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. The MPC judges at this month's meeting that the current stance of monetary policy is appropriate.

8. Borrowing & Debt Activity

8.1 The Authority currently has £82.8m in external borrowing. This is made up of a single LEEF loan from the European Investment Bank to fund housing regeneration £2.8m and £80m 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) indicates that further borrowing will be required.

9. Investment Policy and Activity

9.1 The Council held average cash balances of £111 million during the reported period, compared to an average £132 million for the same period last financial year.

Movement in Investment Balances 01/01/19 to 31/03/19

	Balance as at 01/01/2019 £'000	Average Rate of Interest %	Balance as at 31/03/2019 £'000	Average Rate of Interest %
Short term Investments	46,339	-	32,375	
Long term Investments	6,500	-	6,500	
AAA-rated Stable Net Asset Value Money Market Funds	22,848	-	38,272	
AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	3,000		3,000	
Corporate Bonds	2,356		2,356	
Housing Associations	35,000		35,000	
	116,043	**1.21**	**117,503**	**1.22**

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 Moody's has changed the outlook to positive from stable on Santander UK's long-term rating. Moody's has affirmed all other ratings including the long-term rating at Aa3, short term rating at P-1 and the baseline credit assessment (BCA) at a3. Arlingclose remains comfortable with clients making deposits with Santander UK plc for periods up to 6 months. Fitch has placed the UK AA sovereign long-term rating on Rating Watch Negative (RWN). The short-term F1+ rating has been affirmed. Arlingclose remains comfortable with clients investing in UK institutions as per our UK Counterparty Lists issued on 31st January 2019, UK local authorities for a maximum of 2 years (without further due diligence). Fitch has placed the London Borough of Wandsworth and Transport for London (TfL) on Rating Watch Negative (RWN). The short-term ratings of F1+ are unaffected. Arlinglcose remains comfortable with clients investing in UK institutions as per our UK Counterparty Lists issued on 31st January 2019, with TfL for a maximum of 5 years and UK local authorities for a maximum of 2 years (without further due diligence).

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:

Credit Score Analysis

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
31/01/2019	4.9	A+	5.2	A+
28/02/2019	5.2	A+	5.9	A
31/03/2019	4.9	A+	4.7	A+

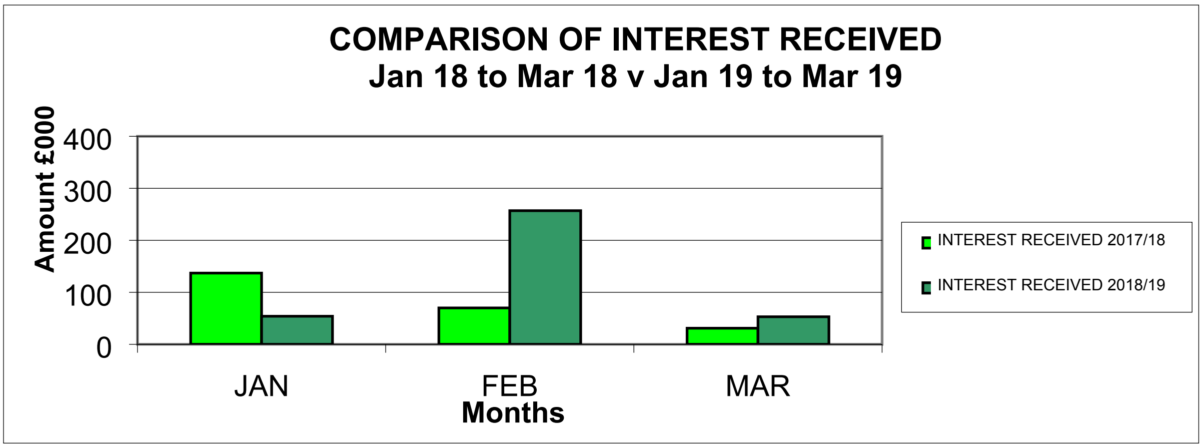
Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 27

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

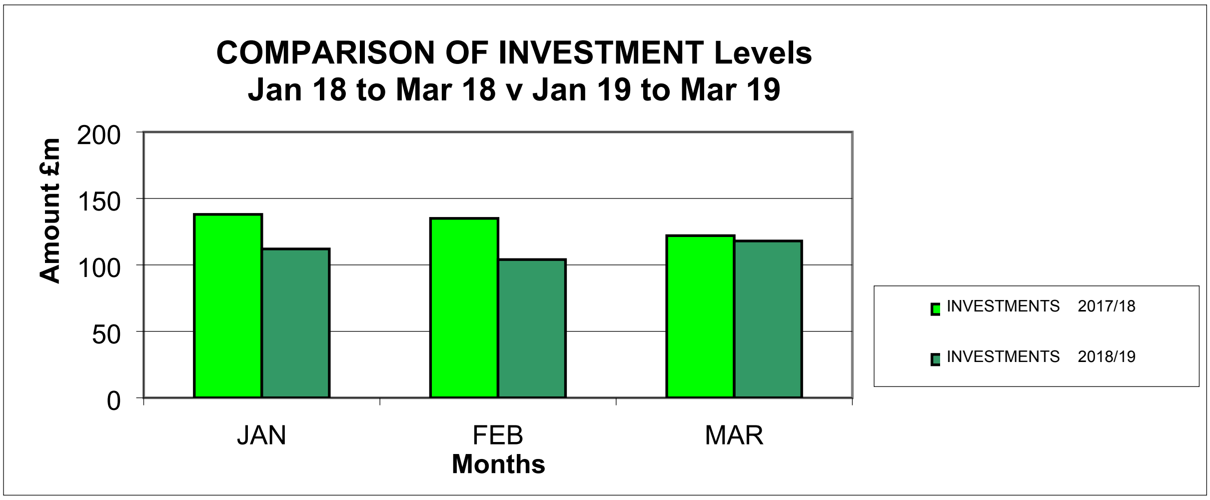
11.1 The Council continues to adopt a fairly cautious strategy in terms of investment counterparties and periods. Due to the volatility of available creditworthy counterparties, investments have been placed in highly rated UK Government institutions or corporate Bonds, thus ensuring creditworthiness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

11.2 The graph below provides a comparison of average interest earnings for 2018/19 against the same period for 2017/18. Average interest received for the period January to March 2019 was £121k compared to £79k for the same period last financial year.



12. Movement in Investment Portfolio

12.1 Investment levels have decreased to £118 million at the end of March in comparison to the end of March last year of £122 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 2018/19. 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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