



Treasury Management Update Report	
AUDIT COMMITTEE MEETING DATE 2019/20 19 June 2019	CLASSIFICATION: Open
WARD(S) AFFECTED 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 2019/20 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 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 2019/20. 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 Quarter 1 GDP published today by the ONS showed the UK economy expanded by 0.5% over the quarter and 1.8% year-on-year. Both the quarter's figure and the year-on-year figure met expectations.
- 6.2 **Inflation:** The Consumer Price Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 2.0% in April 2019, increasing from 1.8% in March 2019. The Consumer Price Index (CPI) 12-month rate was 2.1% in April 2019, up from 1.9% in March 2019.
- 6.3 **Labour Market:** The latest statistics released by the ONS for the three months to March 2019 show that the number of people in work remained broadly the same, the number of unemployed people fell a small amount but the number of people aged from 16 to 64 not working and not seeking or available to work increased across the period. The unemployment rate was 3.8%, the lowest since October to December 1974. The employment rate was 76.1%, the joint highest estimate since comparable records began in 1971. Nominal wages increased by 3.3% excluding bonuses and 3.2% including bonuses compared with a year earlier. Real wages excluding bonuses increased by 1.5% and including bonuses increased by 1.3% compared to a year earlier.

7. Borrowing & Debt Activity

- 7.1 The Authority currently has £137.8m in external borrowing. This is made up as a single LEEF loan from the European Investment Bank to fund housing regeneration £2.8m, £80m short-term borrowing from Local Authorities for day to day cash management and £55m long-term borrowing from the Public Works Loan Board (PWLb) in respect of the Council's capital programme.
- 7.2 The short term borrowing is from a number of other local authorities and will be repaid at various dates throughout the current financial year.

7.3 The PWLB long term borrowing is being used to finance part of the borrowing requirement within the Housing Revenue Account associated with the delivery of the housing capital programme, particularly in respect of regeneration. It will be repaid in equal instalments over a 25 year period. This new borrowing has been entered into in order to take advantage of the low rates currently available from PWLB, thereby locking these in and providing some certainty over financing costs for the future, whilst also taking account of the Council's current liquidity position.

8 Investment Policy and Activity

8.1 The Council held average cash balances of £147 million during the reported period, compared to an average £129 million for the same period last financial year.

Movement in Investment Balances 01/04/19 to 31/05/19

	Balance as at 01/04/2019 £'000	Average Rate of Interest %	Balance as at 31/05/2019 £'000	Average Rate of Interest %
Short Term Investments	32,375	-	30,320	-
Long Term Investments	6,500	-	3,500	-
Corporate Bonds	2,356	-	0	-
Housing Associations	35,000	-	30,000	-
AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	3,000	-	3,000	-
AAA-rated Stable Net Asset Value Money Market Funds	38,272	-	116,300	-
	117,503	1.22	183,120	1.00

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.

8.3 Clearly the level of investments will reduce throughout the year as the short term borrowing is repaid and the capital programme continues to be delivered.

9. Counterparty Update

9.1 S&P has upgraded RBS Group and subsidiaries, including National Westminster Bank PLC, Natwest Markets PLC, The Royal Bank of Scotland and Ulster Bank Ltd. The outlook remains Stable. Where strategies permit, Arlingclose remains comfortable with clients making deposits with National Westminster Bank, The Royal Bank of Scotland Plc & Ulster Bank Ltd for periods up to 100 days. Arlingclose continues to recommend against investment with Natwest Markets Plc.

9.2 Moody’s has affirmed the ratings for Goldman Sachs International Bank and revised the outlook to stable from negative. Where strategies permit, Arlingclose remains comfortable with clients making deposits with Goldman Sachs International Bank for a maximum of 100 days.

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

9.4 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
30/04/2019	5.1	A+	5.6	A
31/05/2019	5.0	A+	5.6	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

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

9.5 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.

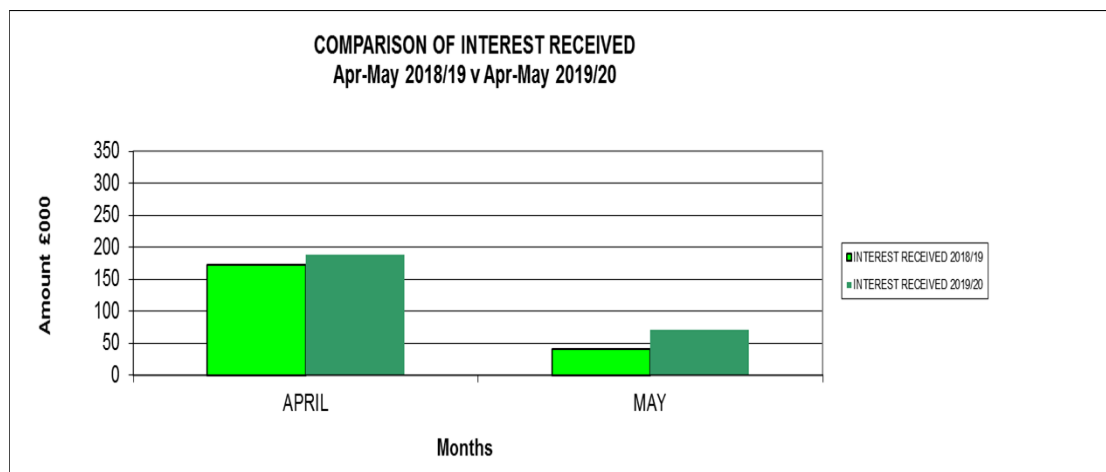
9.6 In light of legislative changes and bail-in risk for unsecured bank deposits, as set out in previous monitoring reports, the Council continues with high quality investments offering good level of security and increasing diversification for the Council's portfolio whilst achieving a reasonable yield.

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 currently and in past in highly rated UK Government institutions and Housing Associations, thus ensuring creditworthiness whilst increasing yield's through the duration of the deposits.

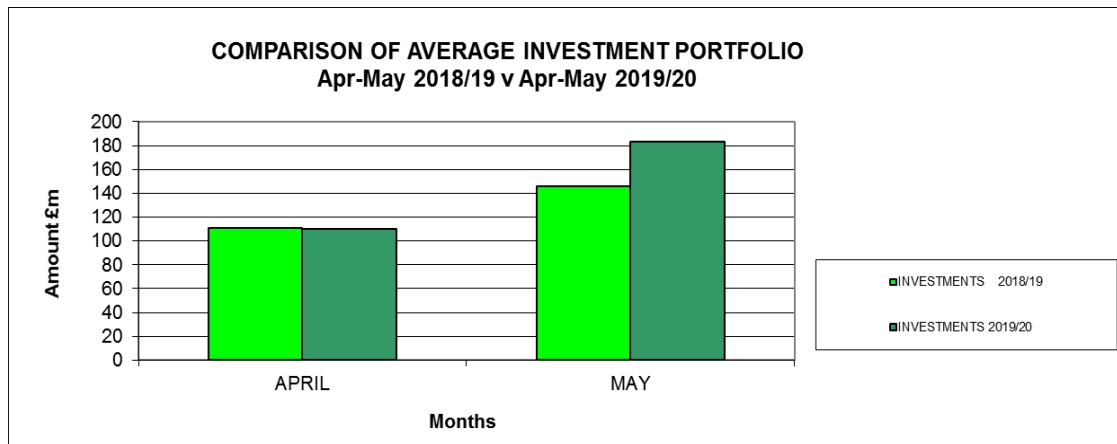
10.2 The graph below provides a comparison of interest earnings for April 19 and May 19 against the same period for 2018/19.

10.3 Average interest received for the period April to May 2019 was £130k compared to £107k for the same period last financial year.



11. Comparison of Investment Portfolio

11.1 Investment levels have increased to £183 million at the end of May in comparison to the end of May last year of £146 million. As set out earlier in the report, investments levels are expected to decrease throughout the year as short term borrowing is repaid.



12. BACKGROUND PAPERS

- 12.1 The Authority's Treasury Management Strategy for 2019/20 was approved by full Council on 28th January 2019 which can be accessed on the Council website:

<http://mginternet.hackney.gov.uk/ieListDocuments.aspx?CId=555&MId=4322&Ver=4>

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