SURY MANAGEMENT ACTIVITY REPORT 2019/20 (1st Jan 2020 – 31st March 2020) **22nd April 2020** **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 2019/20 for the Audit Committee. It sets out the background for treasury management activity from January 2020 to March 2020 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 2020. 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.

Officers are paying even closer attention to cash flow given the current situation relating to Covid-19. This has resulted in a virtual drying up of short term cash available on the inter local authority market as LAs retain cash in order to cover the inevitable impact of additional expenditure and loss of income in the short to medium term. In order to ease the impact of this, we have taken a further £15m of medium term borrowing from PWLB replacing some of the internal borrowing previously utilised by the Housing Revenue Account.

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 Quarterly National Accounts by the ONS suggest that GDP was flat in Quarter 4 as the underlying momentum continues to slow. When compared to the same quarter a year ago, UK GDP increased by 1.1% to Q4 2019, unrevised from the first estimate.

- **Inflation:** The Consumer Price Index (CPI) 12-month rate was 1.7% in February 2020, down from 1.8% in January 2020. The Consumer Price Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 1.7% in February 2020, decreasing from 1.8% in January 2020. Core inflation increased to 1.7% from 1.6%.

- **Monetary Policy:** Following the reduction to base lending rates in order to help protect the economy from some effects of Covid-19, the Bank of England's Monetary Policy Committee (MPC) announced an unchanged Bank Rate of 0.1% and a continuation of £200bn of asset purchases (Gilts and investment grade corporate bonds) financed by the issuance of central bank reserves. The minutes of the meeting were largely a reflection of the precarious economic consequences of the COVID-19 pandemic. In that regard, economic growth will sharply reduce, unemployment will rise, earnings will deteriorate, business investment will fall and inflation will drop. The relatively rapid and significant steps taken by the Bank throughout March alongside the steps taken by the Government and the Chancellor of the Exchequer's fiscal package(s) are all designed to ensure that society and financial markets are protected in terms of their continuing functionality. The Bank is ready to move further. We do not expect further reductions in Bank Rate although a move to zero is quite possible, moreover an extension to the scale of asset purchases and potential direct purchase of Gilts from HM Treasury in a process known as Monetary Financing. Indeed the Bank has already said that it will keep under review the case for operations in the primary market (alongside existing secondary market operations). The MPC also stated that it will monitor closely the pass through to banks and building societies' lending rates of the recent reductions in Bank Rate. The economic consequences of COVID-19 are widespread and have resulted in severe volatility in financial markets but what is most obvious in the minutes – and understandably so – is the societal impact of the crisis and the effect it is having on all our lives. To that end, we hardly need reminding of what issues the MPC is wrestling with as we are all experiencing it day-by-day.

8. Borrowing & Debt Activity

8.1 The Authority currently has £125.4m in external borrowing. This is made up of a single £2.4m London Energy Efficiency Fund (LEEF) loan from the European Investment Bank to fund housing regeneration, along with £45m short term to cover liquid cash flow requirements and £78m long term 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. £15m was borrowed in March 2020 from PWLB on the new HRA lending rate which was made available to local authorities on 12th March 2020 as part of Spring Budget 2020, in order to ease cash flow issues arising from the impact of Covid-19 forward/additional expenditure and potential loss of income.

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, even without the impact of Covid-19, although this requirement will be continually monitored given the potential for the slowdown in the delivery of some aspects of the capital [programme, also arising from the current situation.

9. Investment Policy and Activity

9.1 The Council held average cash balances of £72 million during the reported period, compared to an average £111 million for the same period last financial year.

Movement in Investment Balances 01/01/20 to 31/03/20

	Balance as at 01/01/2020 £'000	**Average Rate of Interest %**	**Balance as at 31/03/2020 £'000**	**Average Rate of Interest %**
Short term Investments	35,424	-	28,354	
Long term Investments	3,500	-	3,500	
AAA-rated Stable Net Asset Value Money Market Funds	9,200	-	19,250	
AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	13,000		13,000	
Housing Associations	15,000		15,000	
	76,124	**1.2**	**79,104**	**0.74**

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 had already placed four long term investments with Housing Associations assisting both diversification and yield. However, the focus in the short to medium term will be on short term liquid investments in order that cash will be available to the authority as required during the Covid-19 crisis.

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 In light of the developing coronavirus situation and the volatility in global financial markets, Arlingclose has cut duration advice on deposits at all the banks and building societies on the counterparty list to 35 days. This remains under Arlingclose constant review. Arlingclose is now only comfortable with their clients making bank deposits for periods up to 35 days. No banks have been removed from their counterparty list. Existing deposits meeting their previous advice can be left to run to maturity. As per Arlingclose, clients should hold additional liquid cash for unexpected outflows and this should be diversified over several counterparties and/or money market funds in case of operational difficulties. Arlingclose is now only comfortable with their clients making deposits for up to 35 days with all non-UK banks on their counterparty list. CCLA has suspended redemptions and subscriptions in the Local Authorities' Property Fund as well as its property funds for charities for the March 2020 dealing day due to material uncertainty in the values of their property holdings. This was on advice from the valuer that an accurate fund price cannot be calculated and CCLA's duty to treat customers fairly. The suspension will be kept under review and will be lifted when market conditions permit. Fitch downgraded the United Kingdom sovereign rating to AA- from AA. The outlook remains negative. Arlingclose remains comfortable with their clients making investments of unlimited amounts for up to 50 years with the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts.

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
31/01/2020	4.9	A+	4.6	A+
29/02/2020	5.1	A+	6.2	A
31/03/2020	5.0	A+	5.9	A

Scoring:

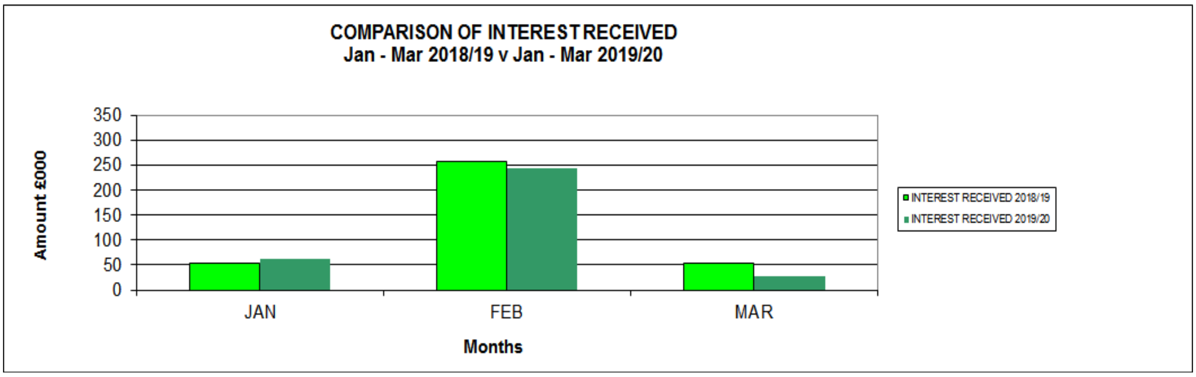
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 27

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

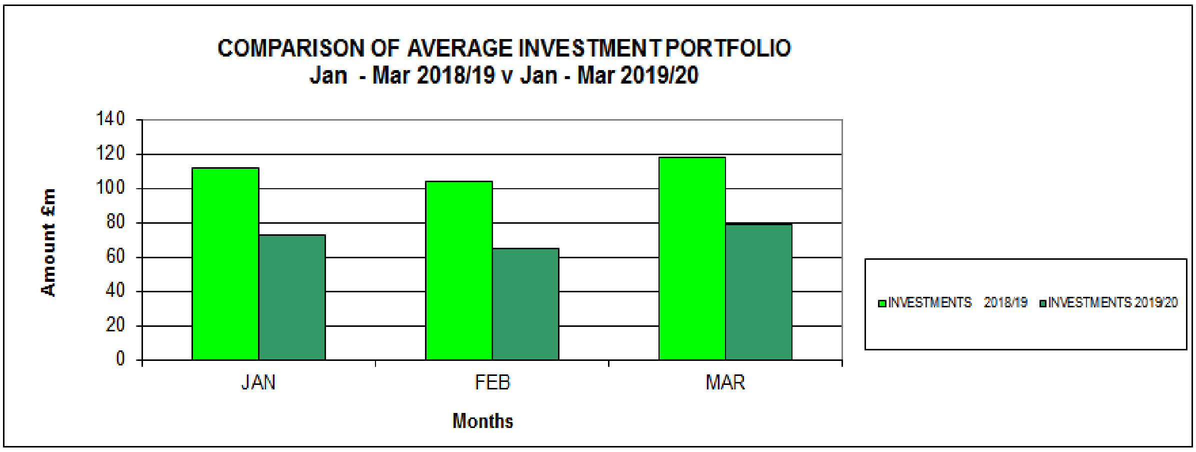
11.1 The Council continues to adopt a fairly cautious strategy in terms of investment counterparties and periods. Due to the volatility of available creditworthy counterparties, investments have been placed in highly rated UK Government institutions or corporate Bonds, thus ensuring creditworthiness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

11.2 The graph below provides a comparison of average interest earnings for 2019/20 against the same period for 2018/19. Average interest received for the period January to March 2020 was £111k compared to £121k for the same period last financial year.



12. Movement in Investment Portfolio

12.1 Investment levels have decreased to £79 million at the end of March in comparison to the end of March last year of £118 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 2019/20. 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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