TREASURY MANAGEMENT ACTIVITY REPORT 2020/21 (April 2020 – May 2020) **10th June 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 first of the treasury reports relating to the financial year 2020/21 for the Audit Committee. It sets out the background for treasury management activity from April 2020 to May 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 the 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 April to May 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. All investments are being kept short term to retain the ability to convert into cash at short notice.

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 quarterly estimate of GDP by the ONS in Quarter 1 2020 is estimated to have fallen by 2.0%. When compared to the same quarter a year ago, UK GDP decreased by 1.6% to Q1 2020.

- **Inflation:** The Consumer Price Index (CPI) 12-month rate was 1.5% in March 2020, down from 1.7% in February 2020. The Consumer Price Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 1.5% in February 2020, also decreasing from 1.7% in February 2020. Core inflation decreased to 1.6% from 1.7%.

- **Monetary Policy:** In May 2020, the Bank of England voted to keep the Bank Rate at 0.1%. This was made in order to try and meet the target inflation of 2% whilst responding to economic and financial disruption caused by the COVID-19 pandemic. Measures put in place to slow the spread of COVID-19 continue to have a significant impact on the UK and many other countries around the world with economic data showing marked drops in global activity and increasing unemployment. Countries that have began to relax lockdown measures have seen tentative signs of recovery such as domestic spending increases in China. This is likely to be seen in other countries that similarly begin to relax Covid-related restrictions. The outlook for both the UK and the global economy is unusually uncertain and will depends on the evolution of the pandemic as well as the reaction of governments, households and businesses. The MPC's economic scenario for the UK incorporates a steep fall in UK GDP in the first half of 2020 as well as further increases to unemployment.

8. Borrowing & Debt Activity

8.1 The Authority currently has £125m 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 £77.6m 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.

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. As and when required borrowing will be done from PWLB in tranches on the new HRA lending rate which was made available to local authorities on 12th March 2020 as part of Spring Budget 2020.

9. Investment Policy and Activity

9.1 The Council held average cash balances of £115 million during the reported period, compared to an average £147 million for the same period last financial year.

<u>Movement in Investment Balances 01/04/20 to 31/05/20</u>

	Balance as at 01/04/2020 £'000	Average Rate of Interest %	Balance as at 31/05/2020 £'000	Average Rate of Interest %
Short term Investments	28,429	-	28,444	
Long term Investments	3,700	-	3,700	
AAA-rated Stable Net Asset Value Money Market Funds	19,250	-	48,750	

AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	13,000		13,000	
Housing Associations	15,000		15,000	
	79,379	**0.74**	**108,894**	**0.58**

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 two 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 Fitch has revised the Outlook on Lloyds Bank and Bank of Scotland to Negative, upgraded Lloyds Bank Corporate Markets, and placed Handels banken and Nordea Bank on ratings watch negative. Where strategies permit, Arlingclose, our treasury management advisor, remains comfortable with clients making deposits for up to 35 days with Lloyds Bank, Bank of Scotland, Handelsbanken and Nordea Bank. Existing deposits meeting our previous advice can be left to run to maturity. Fitch has placed the long-term AA- rating of Transport for London (TfL) on Rating Watch Negative. The short term F1+ rating has been affirmed. Fitch has downgraded Close Brothers to A-, placed Barclays and Rabobank on rating watch negative and revised the outlook on other UK banks and building societies to negative. Fitch has upgraded the long-term rating of Goldman Sachs International Bank, affirmed the other ratings, and revised the outlook to negative. Arlingclose remains comfortable with clients making deposits with Goldman Sachs International Bank for a period of up to 35 days. Arlingclose continues to be comfortable with clients lending to UK Local Authorities for periods of up to two years without further due diligence, where this is in line with approved strategies. Arlingclose has reduced its recommended duration on Transport for London bonds to two years, to bring it in line with UK Local Authorities.

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
30/04/2020	4.6	A+	6.2	A
31/05/2020	4.7	A+	6.2	A

Scoring:

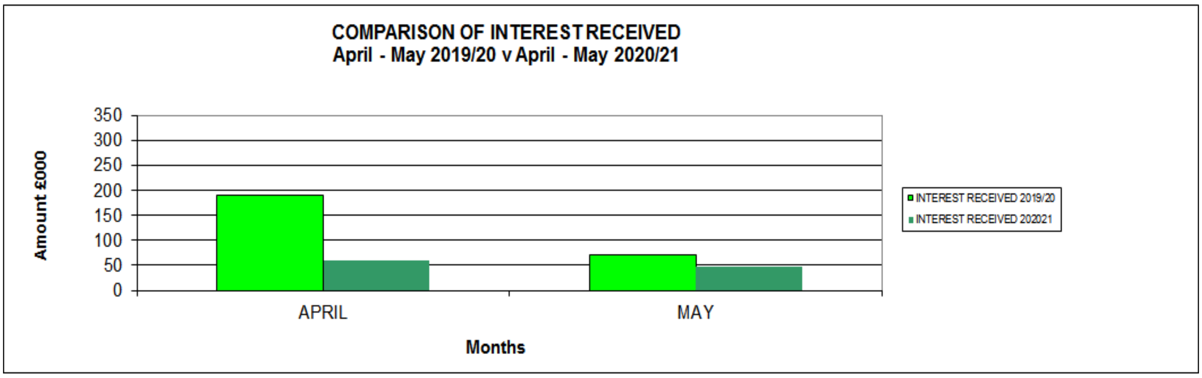
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 27

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

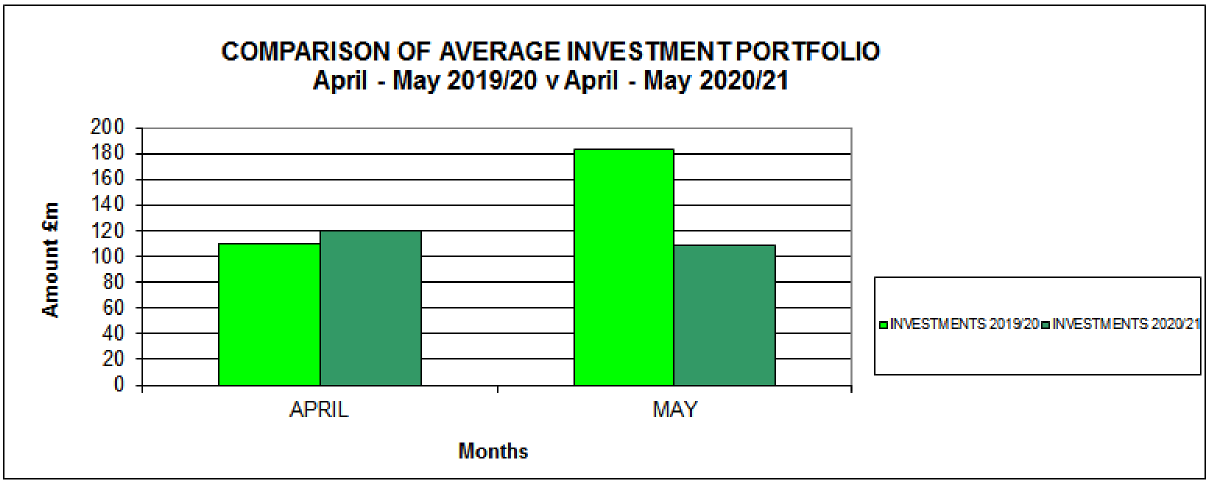
11.1 The Council continues to adopt a fairly cautious strategy in terms of investment counterparties and periods. Due to the volatility of available creditworthy counterparties, investments have been placed in highly rated UK Government institutions or corporate Bonds, thus ensuring creditworthiness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

11.2 The graph below provides a comparison of average interest earnings for 2020/21 against the same period for 2019/20. Average interest received for the period April to May 2020 was £54k compared to £130k for the same period last financial year. This is a reflection of the lower average balances available Thor investment as well as lower interest rates being available.



12. Movement in Investment Portfolio

12.1 Investment levels have decreased to £109 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 and due to normal cash flow movements.



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 first two months of the financial year 2020/21. 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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