Hackney

AGENDA ITEM 10

TREASURY MANAGEMENT ACTIVITY REPORT 2021/22 (1st Apr 2021 – 31st May 2021) **9th June 2021** **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 an update on treasury management activities over the period April to May 2021.

2. Recommendation(s)

There are no specific recommendations arising out of the report and the committee should note the contents.

3. Background

This report is the first of the treasury reports relating to the financial year 2021/22 for the Audit Committee. It sets out the background for treasury management activity from April 2021 to May 2021 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 2021. Whilst investment interest is not currently used to underpin the Council's base revenue budget, as in some other authorities, it does 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 continue to pay closer attention to cash flow given the current ongoing situation relating to Covid-19 and making sure there is enough liquid cash in order to cover the inevitable impact of additional expenditure and loss of income in the short to medium term.

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:** Headline GDP is estimated to have fallen in Q1 2021 by 1.5% quarter-on-quarter. School closures and a large fall in retail sales earlier in the quarter weighed on GDP growth. GDP was down 6.1% year-on-year.

- **Inflation:** There were few surprises in the April inflation data. The headline CPI rate increased as expected, driven primarily by weak baseline effects, notably in fuel and energy prices. While input and output price growth exceeded forecasts, retailers' ability to pass higher costs onto consumers in a sustained manner is limited, so while the CPI rate will continue to rise in the coming months, this will moderate towards year end as base effects strengthen.

- **Monetary Policy:** At its meeting on 6th May 2021, the MPC voted unanimously to maintain the Bank Rate at 0.1% and the stock of sterling non-financial investment-grade corporate bond purchases at £20 billion. The Committee voted by a majority of 8-1 for the Bank of England to continue with the existing programme of UK government bond purchases, maintaining the target stock at £875 billion. This leaves the total target stock of asset purchases at £895 billion.

8. Borrowing & Debt Activity

8.1 The Authority currently has £75.7m in external borrowing. This is made up of a single £2m London Energy Efficiency Fund (LEEF) loan from the European Investment Bank to fund housing regeneration, alongside £73.7m 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.

9. Investment Policy and Activity

9.1 The Council held average cash balances of £104 million during the reported period April 2021 to May 2021, compared to an average £115 million for the same period April 2020 to May 2020 last financial year.

Movement in Investment Balances 01/04/21 to 31/05/21

	Balance as at 01/04/2021 £'000	Average Rate of Interest %	Balance as at 31/05/2021 £'000	Average Rate of Interest %
Short term Investments	18,551	-	18,551	
Long term Investments	200	-	200	
AAA-rated Stable Net Asset Value Money Market Funds	22,700	-	58,049	
AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	13,000		13,000	
Housing Associations	15,000		15,000	
	69,451	**0.6**	**104,800**	**0.8**

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 placed two 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 Fitch has upgraded the long-term rating of Coventry Building Society to A from A-. There were no changes to the short-term, viability or support ratings. The outlook remains negative. Our treasury advisors continue to advise against clients making deposits with Coventry Building Society. S&P has revised the outlook for Transport for London to Stable from Negative. Long-term and Short-term ratings have been affirmed. Our treasury advisors remain comfortable with clients lending to Transport for London (TfL) for periods up to two years, in line with advice on other UK Local Authorities. Our treasury advisors also remains comfortable with clients making deposits with Nationwide Building Society for up to 35 days, as the results for 2020-21 showed a distinct improvement on the previous year, with higher profit, lower impairments and higher capital ratios. Unlike the main banking sector, these are Nationwide's second annual results issued during the COVID-19 pandemic, so it has been better able to judge impairment provisions than in April/May 2020 at the height of the pandemic.

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
30/04/2021	5.0	A+	4.6	A+
31/05/2021	5.1	A+	6.5	A

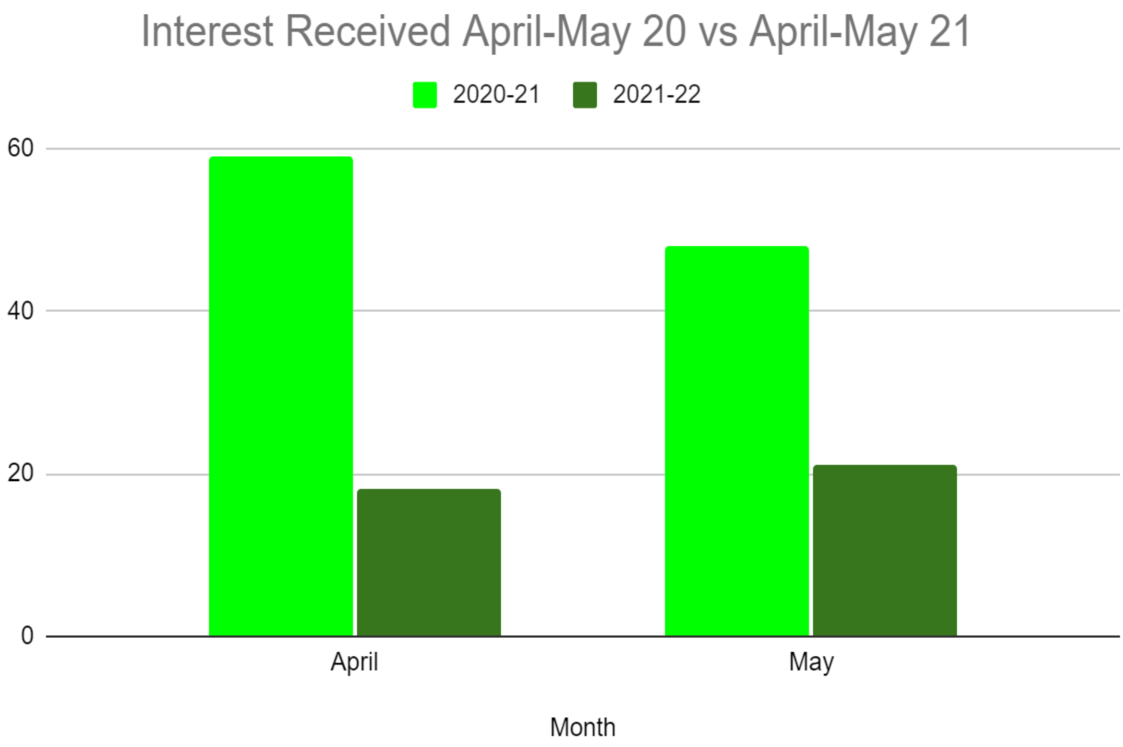
Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 27

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

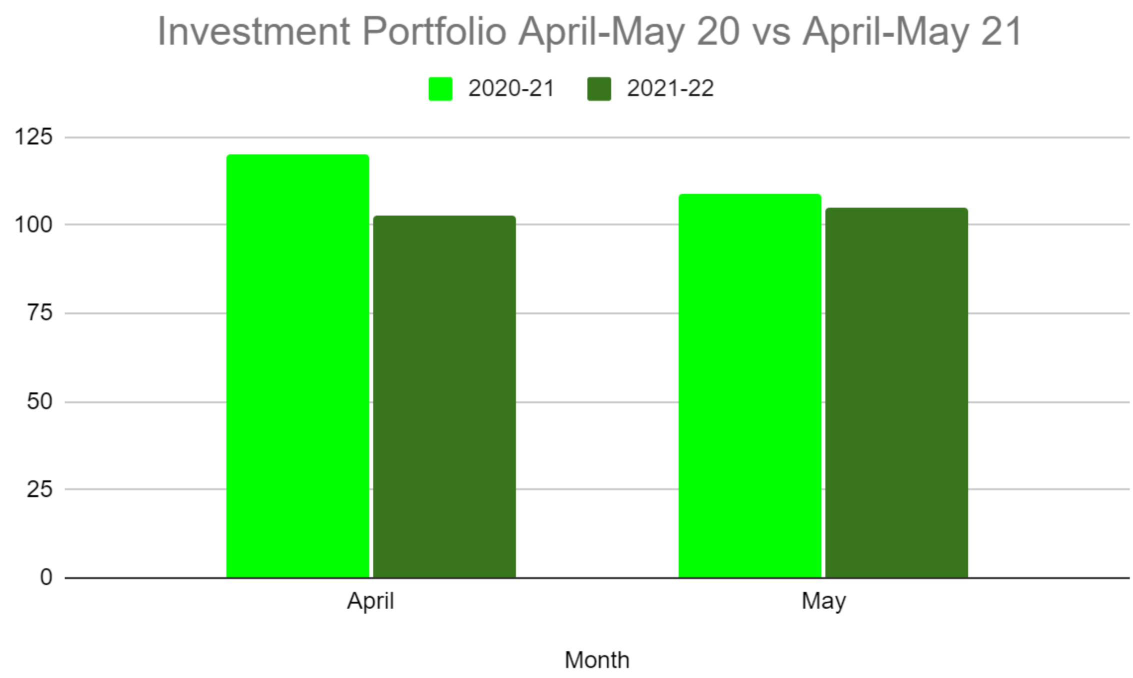
11.1 The Council continues to adopt a fairly cautious strategy in terms of investment counterparties and periods. Due to the volatility of available creditworthy counterparties, investments have been placed in highly rated UK Government institutions, thus ensuring creditworthiness whilst increasing yield's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

11.2 The graph below provides a comparison of average interest earnings for 2021/22 against the same period for 2020/21. Average interest received for the period April to May 2021 was £20k compared to £54k for the same period last financial year. The decrease in average interest received is due to ongoing rock bottom interest rates as a result of an unusual set of circumstances created by the coronavirus pandemic.



12. Movement in Investment Portfolio

12.1 Investment levels are at £105 million at the end of May in comparison to the end of May last year of £109 million. Investment balance is more or less same as previous year with slight reduction linked with cash flow management and councils continued approach of maintaining borrowing at minimum level.



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 2021/22. As indicated in this report, a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

Report Author	Pradeep Waddon, 020 8356 2757 pradeep.waddon@hackney.gov.uk
Comments of the Director, Financial Management, Finance and Corporate Resources	Jackie Moylan, 020 8356 3032 jackie.moylan@hackney.gov.uk
Comments of the Director of Legal	Dawn Carter-McDonald, 020 8356 4817 Dawn.carter-mcdonald@hackney.gov.uk