Non-Executive Report of the: Audit Committee 21 March 2017	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	Classification: Unrestricted
Treasury Management Quarterly Update for Quarter Ended December 2016	

Originating Officer(s)	Bola Tobun - Investment & Treasury Manager
Wards affected	All wards

Summary

This report advises the Committee of the Council's borrowing and investment activities from the start of financial year 2016/17 to 31 December 2016. The Treasury Management Strategy Statement and the Treasury Prudential Indicators, for 2016/17 were approved by the Council on 24 February 2016 as required by the Local Government Act 2003.

The report provides information on the economic conditions prevailing in the third quarter of 2016/17. The report also provides a summary of the prudential indicators, treasury management indicators and a summary of the credit criteria adopted by the Corporate Director of Resources for the reporting year and the projected investment returns.

The Council earned an average return of 0.65% on its lending, outperforming the actual rolling average 7 day LIBID rate of 0.12%.

No long-term or short-term borrowing has been raised since the commencement of this financial year 2016/17 to reporting period.

Recommendations

Members are recommended to:

- note the contents of the treasury management activities and performance against targets for quarter ending 31 December 2016;
- note the Council's outstanding investments as set out in Appendix 1. The balance outstanding as at 31 December 2016 was £448.75m which includes £9.5m, pension fund, working capital cash;

1 REASONS FOR DECISIONS

1.1 This report updates on both the borrowing and investment decisions made by the Director of Resources under delegated authority in the context of prevailing economic conditions and considers Treasury Management performance measured against the benchmark 7 day LIBID rate.

1.2 Treasury management is defined as "the management of the council's investments and cash flows; its banking, money market and capital market transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

1.3 Legislation requires that regular reports be submitted to Council/Committee detailing the council's treasury management activities.

1.4 The regular reporting of treasury management activities should assist in ensuring that Members are able to scrutinise officer decisions and monitor progress on implementation of investment strategy as approved by Full Council.

2 ALTERNATIVE OPTIONS

2.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities.

2.2 If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, as there is a need to ensure that Members are kept informed about treasury management activities and for the Members to ensure that these activities are in line with the investment strategy approved by the Council.

2.3 Within reason, the Council can vary its treasury management strategy having regard to its own views about its appetite for risk in relation to the financial returns required.

3. BACKGROUND

3.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities and risks.

3.2 These reports are in addition to mid-year and annual treasury management outturn reports that should be presented to the Council midway through the financial year and at year end respectively.

3.3 TREASURY MANAGEMENT STRATEGY 2016/17

3.3.1 The Council's Treasury Management Strategy was approved on 24 February 2016 by Full Council. The Strategy comprehensively outlines how the treasury function would operate throughout the financial year 2016/17 including the limits and criteria for selecting institutions to be used for the investment of surplus cash and the council's policy on long-term borrowing and limits on debt.

3.3.2 The Council complied with the strategy from the onset to reporting period, 31 December 2016. And all investments were made to counterparties within the Council's approved lending list.

3.3.3 The Pension Fund cash awaiting investment has been invested in accordance with Council's Treasury Management Strategy agreed by Full council on the 24 February 2016, under the delegated authority of the Corporate Director of Resources and is being managed in-line with the agreed parameters. The Pensions Committee is updated on Pension Fund investment activity on a quarterly basis.

3.4 ECONOMIC COMMENTARY

3.4.1 The Bank of England (BoE) cut the bank rate for the first time since 2009 to 0.25% in August 2016, as the Monetary Policy Committee (MPC) voted unanimously in favour of a cut. It also expanded its Quantitative Easing (QE) programme by £60bn to £435bn; however three policymakers voted against the expansion. In addition, the BoE unveiled two new schemes: one to buy £10bn of high grade corporate bonds and the "Term Funding Scheme". This could be worth up to £100bn and is aimed at ensuring banks keep lending into the real economy even after rates have been cut. Both the Bank Rate and Quantitative Easing program were left unchanged in the February MPC meeting.

3.4.2 The February Inflation Report showed the BoE amended its growth forecast for the UK to reach 2% in 2017. Inflation forecasts are now expected to remain above the 2% target until 2020. The headline inflation figure, CPI, rose to 1.8% in January on an annual basis, whilst the monthly figure was recorded at -0.5%. The fall in sterling and higher global oil prices are the main contributors to this increase.

3.4.3 The preliminary estimate for Q4 GDP showed a rise of 0.6%, unchanged from the previous quarter. On the year, growth was 2.2% higher than a year ago.

3.4.4 The UK unemployment rate remained at 4.8% in Q4 2016, the unemployment figure was recorded at 1.597m. British wage growth, including bonuses, rose by 2.6% in December on an annual basis. Excluding bonuses, growth in average weekly earnings in December rose by 2.6% year-on-year.

3.4.5 Nationwide revealed house prices rose by 0.2% in January with the prospect of weaker employment growth and higher inflation likely to affect the growth rate in 2017. According to Halifax, house prices fell by 0.9% in January, the first monthly fall since shortly after the Brexit vote in June 2016. In the three months to January annual house price growth cooled to 5.7% from 6.5% in the three months to December.

US

3.4.6 The first estimate for Q4 GDP in the US was recorded at an annual growth rate of 1.9%, a fall from the 3.5% recorded in Q3. A plunge in shipments on food products pushed exports down but rising business investment suggests the economy will continue to expand.

3.4.7 In December 2016, the Fed raised interest rates to a range between 0.50%-0.75% after initially increasing them in December 2015 for the first time since 2006. This increase comes after positive rises in employment and labour market conditions. Non-farm payrolls rose by 227,000 in January, a rise from December's adjusted figure of 157,000. The unemployment rate increased to 4.8%.

EU

3.4.8 The flash estimate for Eurozone Q4 GDP showed quarterly growth remained unchanged at 0.4%. Q4 Annual growth fell to 1.7% from 1.8% recorded in Q3.

3.4.9 In its January meeting, the European Central Bank (ECB) stuck with the status quo keeping both its main refinancing rate and deposit rate steady at 0% and -0.40% respectively. The ECB announced their QE programme in January 2015 and began the programme in March 2015. They initially planned to inject €1.1trn into the economy by purchasing private and public assets worth €60bn per month, this was later expanded to €80bn per month. In its January 2017 meeting, the ECB decided to continue with its €80bn per month asset purchases until March 2017. From the 1st April 2017 the purchases would be reduced to €60bn per month and the period extended to December 2017 or beyond if necessary.

China

3.4.10 China's annual GDP grew faster than expected by an annual rate of 6.8% in Q4, as increased government spending and record level bank lending contributed to the rise as well as continued strong investment in the property sector. As a result, the economy expanded by 6.7% for 2016. The People's Bank of China temporarily lowered the reserve requirement ratio for the five biggest banks by 1% to 16% in January 2017.

3.4.11 In an attempt to boost its slowing economy, China surprised markets and devalued the Yuan after a run of poor economic data. It is intended to help combat the large falls seen in exports.

3.5 INTEREST RATE FORECAST

3.5.1 The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

UK Interest Rate Forecast

Bank Rate	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%
5yr PWLB Rate	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	1.42%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.42%	1.40%	1.60%	1.80%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	2.16%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.16%	2.20%	2.30%	2.40%	2.55%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	2.84%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.84%	2.75%	2.90%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate	NOW	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	2.60%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.60%	2.70%	2.80%	2.90%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

3.5.2 The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling after early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth.

3.5.3 During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

3.6 <u>Annual Investment Strategy</u>

3.6.1 The Treasury Management Strategy Statement (TMSS) for 2016/17, which includes the Annual Investment Strategy, it outlines the Council's investment priorities as being:

Security of capital;

Liquidity; and

Yield.

3.6.2 The Council aims to achieve the optimum return (yield) on investments equivalent with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

3.6.3 The approved limits within the Annual Investment Strategy were not breached for the reporting period, quarter ending 31st December 2016.

Investment performance for quarter ended 31 December 2016

Benchmark	Benchmark Return	LBTH Performance	Over/(Under) Performance
Full Year 2015/2016	0.35%	0.82%	0.47%
Quarter End June 2016	0.36%	0.78%	0.42%
Quarter End September 2016	0.20%	0.72%	0.52%
Quarter End December 2016	0.12%	0.65%	0.53%
2016/17 Year to Period	0.23%	0.65%	0.42%

3.6.4 As illustrated above, the Council outperformed the benchmark by 42bps for financial year to date. The Council's budgeted investment return of £2.7m for 2016/17 at 0.9% for £300m average balance. The performance to date is 0.65% with average balance of £448.75m. The cash balance is £148.75m more than the budgeted amount and the investment return to date is 25bps lower than the budgeted average investment return. This is due to the poor investment rates available due to global economic outlook and market sentiments.

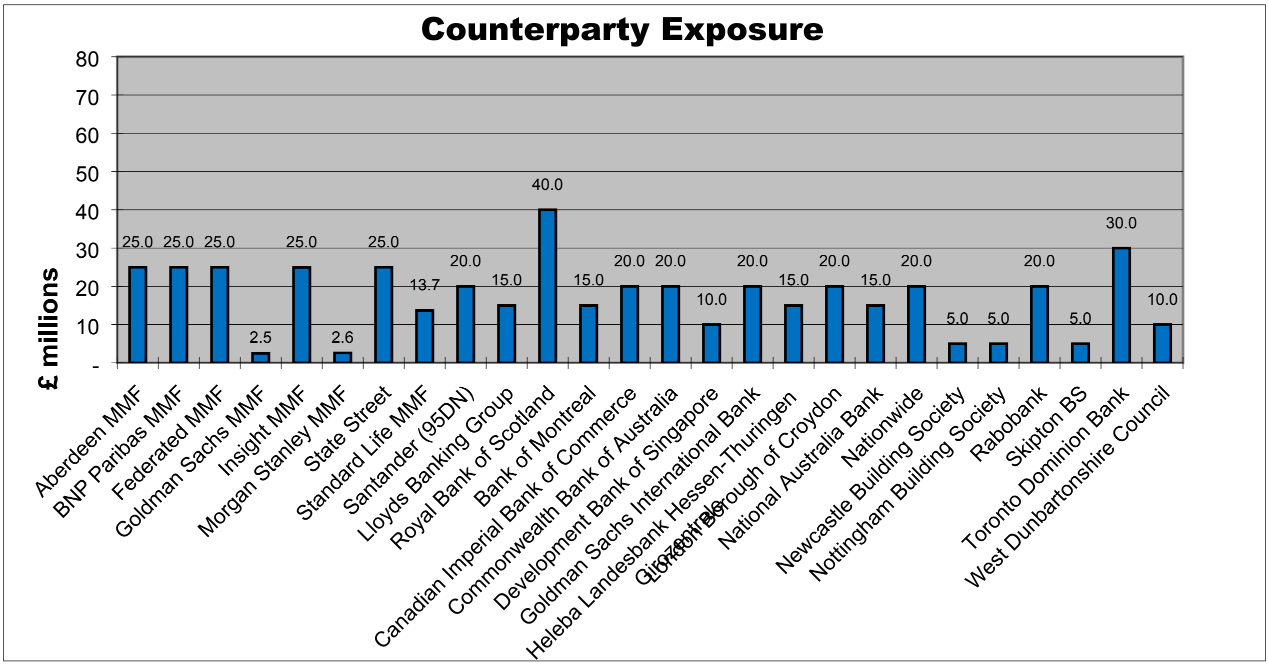
3.6.5 The level of funds available for investment purposes during the reporting period was £448.75m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme and the impending pension fund investment.

3.7 Investments Outstanding & Maturity Structure

3.7.1 The table below shows the amount of investments outstanding at the end of December 2016, split according to the financial sector.

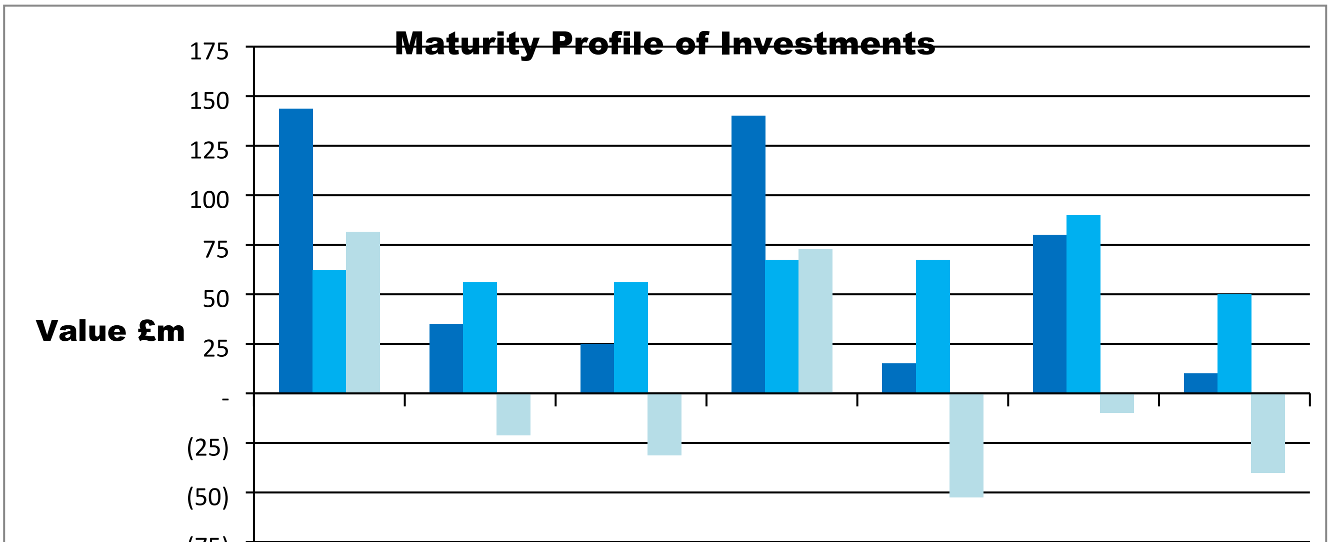
FINANCIAL SECTOR	**£m**	**%**
Banks in the UK	75.00	16.71
Building Societies in the UK	35.00	7.80
Banks in the Rest of the World	195.00	43.45
Money Market Funds	143.75	32.04
Investments Outstanding as at 30/12/2016	**448.75**	**100.00**

Chart 1 – Counterparty Exposure



3.7.2 The above Chart 1 shows the deposits outstanding with authorised counterparties as at 31 December 2016, of which 8.91% were with part-nationalised banks (RBS Groups).

3.7.3 Chart 2 above illustrates the maturity structure of deposits at 31 December 2016; we have £143.75m as overnight deposits, and this is essentially all Money Market Funds.



	O/Night	< 1 Month	1- 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	Over 12 Months
£m Portfolio Value	143.75	35.00	25.00	140.00	15.00	80.00	10.00
Portfolio Target £	62.19	56.09	56.09	67.31	67.31	89.75	50.00
Over/(Under)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

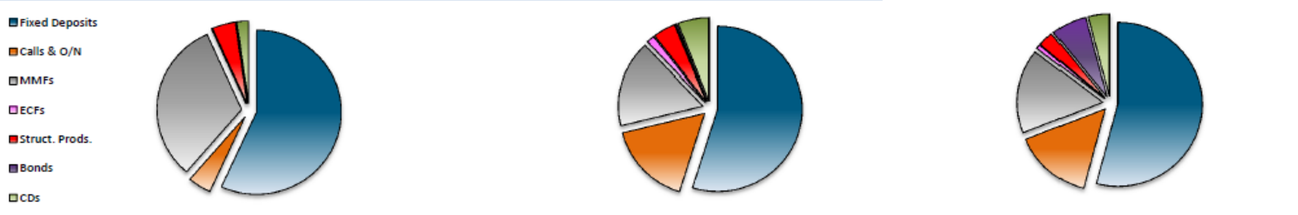
3.7.4 The Weighted Average Maturity (WAM) for outstanding investment (excluding MMF) is 187 days for the month of December and including MMF is 122 days. This is the average number of outstanding days to maturity of each deal from 31 December 2016.

3.8 INVESTMENT BENCHMARKING CLUB

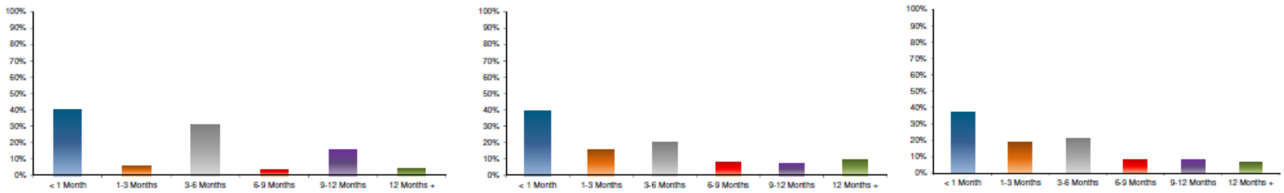
3.8.1 LBTH participates in a benchmarking club to enable officers to compare the Council's treasury management, investment returns against those of similar authorities. The model below shows the performance of benchmark club members given the various levels of risks taken as at 31 December 2016.

	London Borough Of Tower Hamlets	Benchmarking Group 2 (15)	London (22)
		Basic Portfolio Characteristics	
WARoR	0.65%	0.67%	0.60%
WAM	122	143	129
WATT	248	313	272
WA Credit Risk	3.01	3.28	3.11
Model WARoR	0.59%	0.66%	0.61%
Difference	0.06%	0.01%	-0.01%
Model Band	0.52% - 0.65%	0.60% - 0.72%	0.54% - 0.67%
Performance	Inline	Inline	Inline

Asset Breakdown



Maturity Profiles

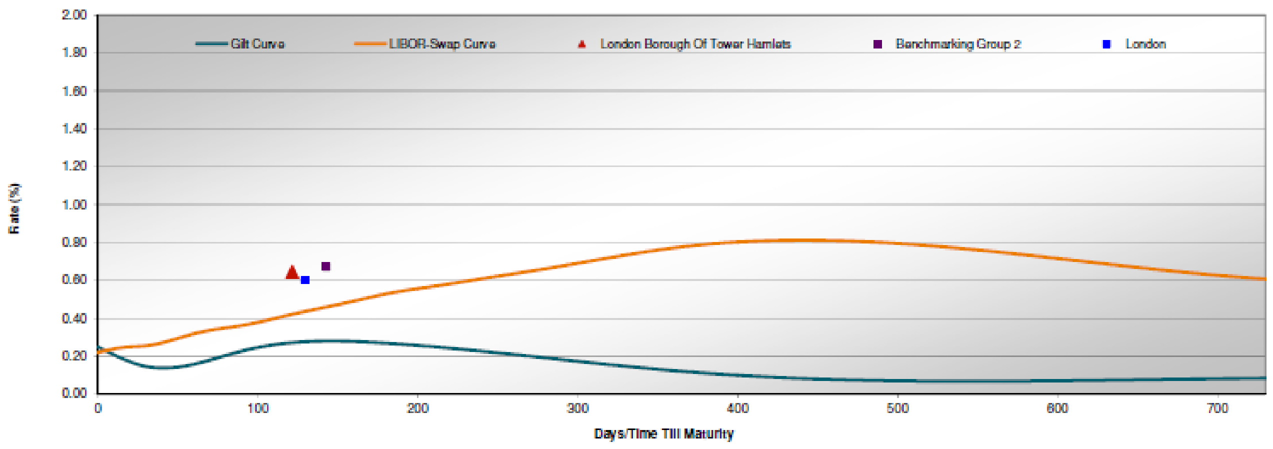


3.8.2 The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 15 local authorities. The weighted average rate of return (WARoR) for Tower Hamlets is 0.65% which is above the London group by 0.05% and below the benchmarking group by 0.02%.

3.8.3 The return of LBTH investment is equal with the Council's risk appetite as set out in the Investment Strategy. As the Council's investment portfolio lies between credit rating AA and AAA, that's taking moderate risk. Tower Hamlets performed slightly above the expected return given the council's portfolio risk profile, which is placing deposits with institutions with the sovereign rate of AAA.

London Borough Of Tower Hamlets

Returns Comparable Against the Risk-Free Rate and LIBOR Curve



	WARoR	WAM	WATT	WARisk	Gilt	LIBOR-Swap	Difference Gilt	Difference LIBOR-Swap	Model Bands	Performance
London Borough Of Tower Hamlets	0.65%	122	248	3.01	0.27%	0.42%	0.37%	0.22%	0.52% - 0.65%	Inline
Benchmarking Group 2	0.67%	143	313	3.28	0.28%	0.46%	0.39%	0.21%	0.60% - 0.72%	Inline
London	0.60%	129	272	3.11	0.28%	0.44%	0.33%	0.17%	0.54% - 0.67%	Inline

3.9 INVESTMENT STRATEGY UPDATE

3.9.1 Full Council approved the Investment Strategy on 24 February 2016. Officers continue to look for ways to maximise returns on cash balances within the constraints of the Investment Strategy. The Investment Strategy was developed based on an improving outlook in the money markets.

3.9.2 Wholly or partly owned government banks offer significantly higher investment rates than the DMO, but have similar levels of security based on government guarantee of their credit quality. The Council already relies on this guarantee and invests with these banks, and the strategy is to continue to have £70m money limit for RBS. This should ensure that the Council continues to receive good returns on its cash balances and that the investment strategy is optimised to support the Council's efficiency programme.

3.10 DEBT PORTFOLIO

3.10.1 The Council's Treasury Management Strategy Report approved in February 2016 outlined the Council's long term borrowing strategy for the year.

3.10.2 The table below sets out the Council's debt as at the beginning of the financial year and as at 31 December 2016. During the financial year Barclays Bank waived the option of the two LOBO loans and they can now be both classified as fixed rate funding. Total debt outstanding is £87.274m, against revised estimated CFR of £261.679m for 2016/17, resulting in an under-borrowing of £174.4m.

3.10.3 No borrowing has been undertaken in this financial year to date. Also no debt rescheduling opportunities have arisen during this financial year to reporting period as the cost of premiums outweighs savings that could be made from the lower PWLB borrowing rates.

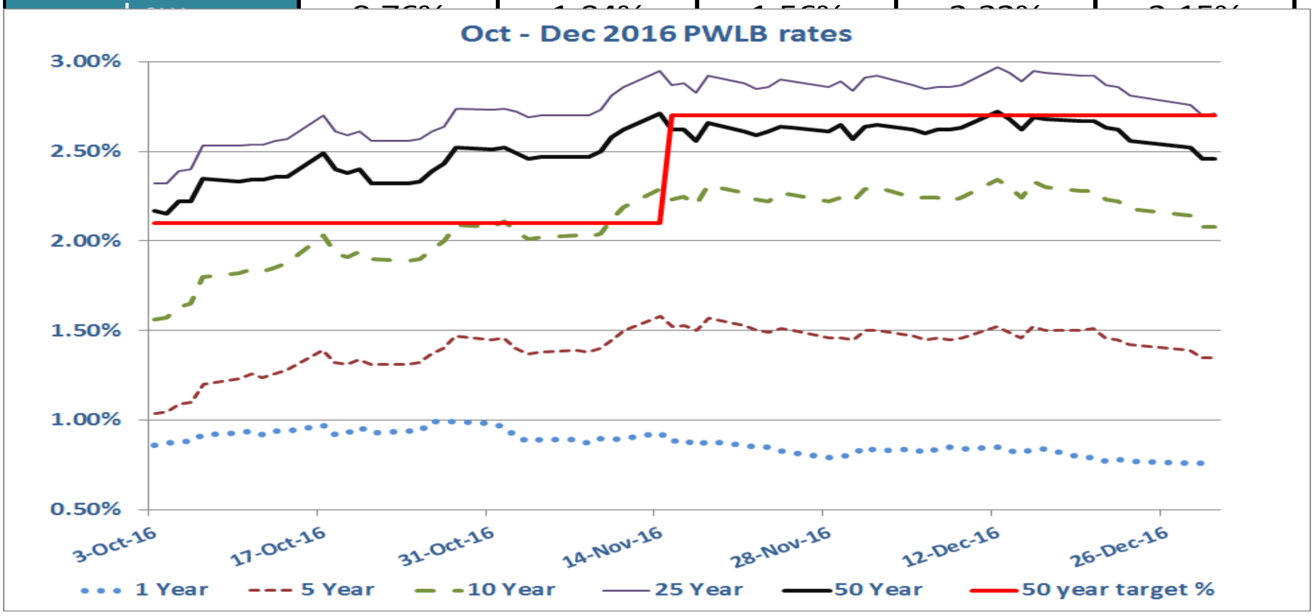
	31 March 2016 Principal £'000	Loans raised £'000	Loans repaid £'000	31 December 2016 Principal £'000
Fixed Rate Funding:				
-PWLB	10,325	-	0.000	9,774
-Market	13,000	4,500	-	17,500
Total Fixed Rate Funding	23,325	4,500	0.000	27,274
Variable Rate Funding:				
-PWLB	-	-		-
-Market	64,500	-	4,500	60,000
Total Variable Rate Funding	64,500	-	4,500	60,000
Total Debt	***87,825***	***4,500***	***4,500***	***87,274***
CFR	***226,488***	***-***	***-***	***261,679***
Over/ (under) borrowing	***(138,663)***	***-***	***-***	***(174,405)***

3.10.4 New Borrowing - As depicted in the graph(s) below, there has been significant volatility in PWLB rates during quarter 3 as rates rose from historically very low levels at the beginning of the quarter but then fell back somewhat towards the end of December.

3.10.5 During the quarter ended 31 December 2016, the 50 year PWLB target (certainty) rate for new long term borrowing started at 2.10% and ended at 2.70%.

PWLB certainty rates quarter ended 31 December 2016

	1 Year	5 Year	10 Year	25 Year	50 Year



3.10.6 No borrowing was undertaken during the quarter

3.10.7 **Debt Rescheduling** - Debt rescheduling opportunities have been limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010.

3.10.8 **Borrowing in advance of need** - This Council has not borrowed in advance of need since the beginning of this financial year to reporting quarter, 31 December 2016.

3.11 **Compliance with Treasury and Prudential Limits**

3.11.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

3.11.2 During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Appendix 3.

4 <u>COMMENTS OF THE CHIEF FINANCIAL OFFICER (s151 Officer)</u>

4.1 This report fulfils the requirement to report performance of the Investment and Treasury activities to the Audit Committee and the returns received on investments to the end of December (Quarter 3), the performance of 0.65% exceeds the benchmark of 7 days LIBID rate of 0.12% and that of 6 Month LIBID rate of 0.49% but underperformed 13 Month LIBID rate of 0.72%.

4.2 The Council's budgeted investment return of £2.7m for 2016/17 at 0.9% for £300m average balance. The performance to date is 0.65% with average balance of £448.75m; on that basis a full year return of c£2.9m is anticipated although clearly performance in the final quarter of the year will be key. The cash balance is £148.75m more than the budgeted amount and the investment return to date is 25bps lower than the budgeted average investment return. This is due to the poor investment rates available due to global economic outlook and market sentiments, the current achievable rate for a one year deposit is 0.55%.

5. <u>LEGAL COMMENTS</u>

5.1 The Local Government Act 2003 ('the 2003 Act') provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.

5.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the 2003 Act. If after having regard to the

Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.

5.3 It is a key principle of the Treasury Management Code that an authority should put in place "comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities". Treasury management activities cover the management of the council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is consistent with the key principles expressed in the Treasury Management Code for the council to adopt the strategies and policies proposed in the report.

5.4 The report proposes that the treasury management strategy will incorporate prudential indicators. The 2003 Regulations also requires the Council to have regard to the CIPFA publication "Prudential Code for Capital Finance in Local Authorities" ("the Prudential Code") when carrying out its duty under the Act to determine an affordable borrowing limit. The Prudential Code specifies a minimum level of prudential indicators required to ensure affordability, sustainability and prudence. The report properly brings forward these matters for determination by the council. If after having regard to the Prudential Code the council wished not to follow it, there would need to be some good reason for such deviation.

5.5 The Local Government Act 2000 and regulations made thereunder provide that adoption of a plan or strategy for control of a local authority's borrowing, investments or capital expenditure, or for determining the authority's minimum revenue provision, is a matter that should not be the sole responsibility of the authority's executive and, accordingly, it is appropriate for the Cabinet to agree these matters and for them to then be considered by Council.

5.6 The report sets out the recommendations of the Corporate Director, Resources in relation to the council's minimum revenue provision, treasury management strategy and its annual investment strategy. The Corporate Director, Resources has responsibility for overseeing the proper administration of the council's financial affairs, as required by section 151 of the Local Government Act 1972 and is the appropriate officer to advise in relation to these matters.

5.7 When considering its approach to the treasury management matters set out in the report, the council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector equality duty). A proportionate level of equality analysis is required and there is information relevant to this in section 6 of the report.

6 **ONE TOWER HAMLETS CONSIDERATIONS**

6.1 Capital investment will contribute to achievement of the corporate objectives, including all those relating to equalities and achieving One Tower Hamlets. Establishing the statutory policy statements required facilitates the capital investments and ensures that it is prudent.

7. BEST VALUE (BV) IMPLICATIONS

7.1 The Treasury Management Strategy and Investment Strategy and the arrangements put in place to monitor them should ensure that the council optimises the use of its monetary resources within the constraints placed on the council by statute, appropriate management of risk and operational requirements.

7.2 Assessment of value for money is achieved through:

- Monitoring against benchmarks
- Operating within budget

8 **SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

8.1 There are no sustainable actions for a greener environment implication.

9 **RISK MANAGEMENT IMPLICATIONS**

9.1 There is inevitably a degree of risk inherent in all treasury activity.

9.2 The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.

9.3 Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the council.

9.4 The council is ultimately responsible for risk management in relation to its treasury activities. However, in determining the risk and appropriate controls to put in place the council has obtained independent advice from Capita Treasury Services who specialise in Council treasury issues.

10 **CRIME AND DISORDER REDUCTION IMPLICATIONS**

10.1 There are no any crime and disorder reduction implications arising from this report.

APPENDICES

Appendix 1 – Investments Outstanding as at 31 December 2016

Appendix 2 – Approved countries for investments

Appendix 3 – The prudential and treasury Indicators

Appendix 4 – Glossary

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

Brief description of "background papers"	Name and telephone number of holder and address where open to inspection.
	Bola Tobun, x4733, Mulberry Place

Appendix A: Investments Outstanding as at 31 December 2016

Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Aberdeen MMF		**MMF**	25.00	
	BNP Paribas MMF		**MMF**	25.00	
	Goldman Sachs MMF		**MMF**	2.50	
	Federated MMF		**MMF**	25.00	
	Insight MMF		**MMF**	24.95	
	Morgan Stanley MMF		**MMF**	2.60	
	State Street		**MMF**	25.00	
	Standard Life MMF		**MMF**	13.70	
	Aberdeen MMF		**MMF**	25.00	
	SUB TOTAL			**148.705**	
<1 Month	Bank of Montreal	06/04/2016	06/01/2017	10.00	0.75%
	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74%
	National Australia Bank	12/04/2016	12/01/2017	10.00	0.74%
	National Australia Bank	19/04/2016	19/01/2017	5.00	0.75%
	Bank of Montreal	19/04/2016	19/01/2017	5.00	0.74%
	SUB TOTAL			**35.00**	
1 - 3 Months	Commonwealth Bank of Australia	23/02/2016	21/02/2017	5.00	0.90%
	Heleba Landesbank Hessen-Thüringen	26/02/2016	27/02/2017	5.00	0.92%
	Commonwealth Bank of Australia	14/03/2016	14/03/2017	10.00	0.92%
	Skipton BS	23/03/2016	23/03/2017	5.00	1.02%
	SUB TOTAL			**25.00**	
3 - 6 Months	Santander (95DN)		Call - 95N	20.00	1.10%
	Nationwide	12/04/2016	12/04/2017	5.00	0.95%
	Lloyds Banking Group	14/04/2016	13/04/2017	5.00	1.05%
	Lloyds Banking Group	15/04/2016	13/04/2017	5.00	1.05%
	Nationwide	15/04/2016	13/04/2017	10.00	0.97%
	Nationwide	22/04/2016	21/04/2017	5.00	0.95%
	Rabobank	26/10/2016	26/04/2017	10.00	0.52%
	Newcastle Building Society	28/04/2016	28/04/2017	5.00	1.15%
	Lloyds Banking Group	29/04/2016	28/04/2017	5.00	1.05%
	Royal Bank of Scotland	05/05/2015	05/05/2017	5.00	1.45%
	Royal Bank of Scotland	08/05/2015	08/05/2017	5.00	1.45%
	Nottingham Building Society	09/05/2016	09/05/2017	5.00	1.03%
	Commonwealth Bank of Australia	12/05/2016	12/05/2017	5.00	0.99%
	Development Bank of Singapore	22/11/2016	22/05/2017	10.00	0.45%
	Heleba Landesbank Hessen-Thüringen	03/05/2016	03/06/2017	10.00	1.01%
	West Dunbartonshire Council	23/12/2016	23/06/2017	10.00	0.45%
	London Borough of Croydon	23/12/2016	23/06/2017	20.00	0.45%
	SUB TOTAL			**140.00**	
6 - 9 Months	Toronto Dominion Bank	16/08/2016	15/08/2017	10.00	0.61%
	Royal Bank of Scotland	19/08/2016	19/08/2017	5.00	0.86%
	SUB TOTAL			**15.00**	
9 - 12 Months	Toronto Dominion Bank	13/10/2016	12/10/2017	10.00	0.59%
	Canadian Imperial Bank of Commerce	17/10/2016	16/10/2017	10.00	0.63%
	Canadian Imperial Bank of Commerce	17/10/2016	16/10/2017	10.00	0.63%
	Toronto Dominion Bank	17/10/2016	16/10/2017	10.00	0.61%
	Goldman Sachs International Bank	24/10/2016	24/10/2017	10.00	0.90%
	Rabobank	26/10/2016	25/10/2017	10.00	0.66%
	Goldman Sachs International Bank	14/11/2016	14/11/2017	10.00	0.93%
	Royal Bank of Scotland	22/12/2016	22/06/2018	5.00	0.79%
	Royal Bank of Scotland	22/12/2016	24/09/2018	5.00	0.84%

Maturity	Counterparty	From	Maturity	Amount £m	Rate
	SUB TOTAL			**80.00**	
> 12 Months	Royal Bank of Scotland	30/01/2015	30/01/2018	5.00	1.20%
	Royal Bank of Scotland	30/04/2015	30/04/2018	5.00	0.90%
	SUB TOTAL			**10.00**	
	GRAND TOTAL			**448.75**	

APPENDIX 2: Sovereign rating of countries for investments

Based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- Qatar
- France
- U.K.

AA-

- Belgium

Appendix 3: Prudential and Treasury Indicators

Prudential Indicators	**2015/16**	**2016/17**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Extract from Estimate and rent setting reports	**Actual**	**Original Estimate**	**Projected Outturn**	**Estimate**	**Estimate**	**Estimate**
	£m	£m	£m	£m	£m	£m
Capital Expenditure						
Non – HRA	26.620	89.475	46.572	74.178	56.997	34.900
HRA	66.359	138.315	89.345	77.720	83.444	0.000
TOTAL	**92.979**	**227.790**	**135.917**	**151.898**	**140.441**	**34.900**
Ratio of Financing Costs to Net Revenue Stream						
Non – HRA	0.84%	1.09%	0.82%	0.79%	0.92%	1.02%
HRA	4.02%	5.94%	5.23%	6.12%	10.30%	10.77%
	£m	£m	£m	£m	£m	£m
Gross Debt and Capital Financing Requirement						
Gross Debt	124.492	133.361	130.943	132.527	205.243	198.466
Capital Financing Requirement	262.588	287.173	264.408	259.993	325.921	324.008
Over/(Under) Borrowing	(138.096)	(153.812)	(133.465)	(127.466)	(120.678)	(125.541)
In Year Capital Financing Requirement						
HRA	5.908		0.355	1.500	6.750	6.750
Non – HRA	(6.980)	21.804	10.237	2.821	67.876	0.000
TOTAL	**(1.072)**	**21.804**	**10.592**	**4.321**	**74.626**	**6.750**
Capital Financing Requirement as at 31 March						
Non - HRA	187.005	192.310	181.143	176.459	177.063	177.699
HRA	75.583	94.864	83.266	83.533	148.858	146.309
TOTAL	**262.588**	**287.173**	**264.408**	**259.993**	**325.921**	**324.008**
Incremental Impact of Financing Costs (£)						
Increase in Council Tax (band D) per annum	24.055	24.458	29.224	32.537	31.224	30.074

Treasury Management Indicators	**2015/16**	**2016/17**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Original Estimate**	**Projected Outturn**	**Estimate**	**Estimate**	**Estimate**
Increase in average housing rent per week	5.615	2.855	2.123	1.458	6.397	0.923

	£m	£m	£m	£m	£m	£m
Authorised Limit For External Debt -						
Borrowing & Other long term liabilities	287.588	312.173	289.408	284.993	350.921	349.008
Headroom	20.000	20.000	20.000	20.000	20.000	20.000
TOTAL	**307.588**	**332.173**	**309.408**	**304.993**	**370.921**	**369.008**
Operational Boundary For External Debt -						
Borrowing	87.825	274.664	251.899	248.689	315.964	315.593
Other long term liabilities	38.472	37.509	37.509	36.304	34.957	33.415
TOTAL	**126.297**	**312.173**	**289.408**	**284.993**	**350.921**	**349.008**
Gross Borrowing	**124.492**	**133.361**	**130.943**	**132.527**	**205.243**	**198.466**
HRA Debt Limit*	**184.381**	**192.000**	**192.000**	**192.000**	**192.000**	**192.000**
Upper Limit For Fixed Interest Rate Exposure						
Net principal re fixed rate borrowing / investments	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Upper Limit For Variable Rate Exposure Net interest payable on variable rate borrowing / investments	**20%**	**20%**	**20%**	**20%**	**20%**	**20%**
Upper limit for total principal sums invested for over 12 months (per maturity date)	**£50m**	**£50m**	**£100m**	**£100m**	**£100m**	**£100m**

Appendix 4 - GLOSSARY

Asset Life	How long an asset, e.g. a Council building is likely to last.
Borrowing Portfolio	A list of loans held by the council.
Borrowing Requirements	The principal amount the council requires to borrow to finance capital expenditure and loan redemptions.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
CIPFA Code of Practice on Treasury Management	A professional code of Practice which regulates treasury management activities.
Capital Financing Requirement (CFR)	Capital Financing Requirement- a measure of the council's underlying need to borrow to fund capital expenditure.
Certificates of Deposits	A certificate of deposit (CD) is a time deposit, a financial product. CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank." They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years) and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.
Commercial paper	Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds
Counterparties	Organisations or Institutions the council lends money to e.g. Banks; Local Authorities and MMF.
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Covered bonds	A covered bond is a corporate bond with one important enhancement: recourse to a pool of assets that secures or "covers" the bond if the originator (usually a financial institution) becomes insolvent. These assets act as additional credit cover; they do not have any bearing on the contractual cash flow to the investor, as is the case with Securitized assets.

Consumer Prices Index & Retail Prices Index (CPI & RPI)	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.
Credit Default Swap (CDS)	A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.
Credit watch	Variety of special programs offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poor's that indicate the financial strength and other factors of a bank or similar Institution.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office (DMO)	The DMO is an agency of the HM Treasury which is responsible for carrying out the Government's Debt Management Policy.
Debt Rescheduling	The refinancing of loans at different terms and rates to the original loan.
Depreciation Method	The spread of the cost of an asset over its useful life.
Gilt	Gilt-edged securities are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are known as gilt-edged securities, or gilts for short. Today the term is used in the United Kingdom as well as some Commonwealth nations, such as South Africa and India. However, when reference is made to "gilts", what is generally meant is "UK gilts," unless otherwise specified.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
The International Monetary Fund (IMF)	Is an intergovernmental organisation which states its aims as to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.
Impaired investment	An investment that has had a reduction in value to reflect changes that could impact significantly on the benefits

	expected from it.
LIBID	The London Interbank Bid Rate – it is the interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Market Loans	Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.
Money Market Fund (MMF)	A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.
Monetary Policy Committee (MPC)	Committee designated by the Bank of England, whose main role is to regulate interest rates.
Minimum Revenue Provision (MRP)	This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.
Non Specified Investments	Investments deemed to have a greater element of risk such as investments for longer than one year
Premium	Cost of early repayment of loan to PWLB to compensate for any losses that they may incur
Prudential Indicators	Set of rules providing local authorities borrowing for funding capital projects under a professional code of practice developed by CIPFA and providing measures of affordability and prudence reflecting the council's Capital Expenditure, Debt and Treasury Management.
PWLB	Public Works Loan Board, a statutory body whose function is to lend money to Local Authorities (LAs) and other prescribed bodies. The PWLB normally are the cheapest source of long term borrowing for LAs.
Specified Investments	Investments that meet the council's high credit quality criteria and repayable within 12 months.
Supranational bonds	Supranational bonds are issued by institutions that represent a number of countries, not just one. Thus, organisations that issue such bonds tend to be the World Bank or the European Investment Bank. The issuance of these bonds are for the purpose of promoting economic development
Treasury bills (or T-bills)	Treasury bills (or T-bills) mature in one year or less. Like zero-coupon bonds, they do not pay interest prior to maturity; instead they are sold at a discount of the par value to create a positive yield to maturity. Many regard Treasury bills as the least risky investment available.
Unrated institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unsupported Borrowing	Borrowing where costs are wholly financed by the council.