Non-Executive Report of the: **Audit Committee** **29 March 2018**	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	**Classification:** Unrestricted
Treasury Management Quarterly Update Report (October 2017 - December 2017)	

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

Summary

This Report is produced in accordance with the CIPFA Treasury Management Code of Practice. It covers the quarter ending December 2017	The report advises the Audit Committee of the Council's borrowing and investment activities for quarter ending 31st December 2017. The Treasury Management Strategy Statement and the Treasury Prudential Indicators, for 2017/18 were approved by the Council on 22nd February 2017 as required by the Local Government Act 2003. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the impact of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.
The Council in its 2018/19 budget setting report (Feb. 2018) approved proposals to increase the returns from its investments by £1.4m. An approach to delivering this increased return is set out in section 3.9 of this report.	This Report advises the Audit Committee of the work carried out in this area alongside our Treasury Management advisors and identifies a selection of pooled investment funds that we are proposing to invest in to generate these higher returns over the longer term in accordance with the investment strategy approved in February 2018 by the Full Council. The risk profile of these investments is an important consideration for the Committee since higher returns often implies higher levels of risk.
For the quarter to December 2017 an investment return of 0.57% has been achieved. The annual UK rate of Inflation (Consumer Price Index) in November 2017 was 3.1%	Previously the 7 day London Interbank Bid Rate (LIBID) has been used to measure performance of the Council's investment returns; for the same reporting quarter this rate was 0.27%. Given that the Council's has held significant cash holdings over a prolonged period this is no longer considered to be an appropriate performance measure. A comparison with the measure of UK inflation illustrates that the value of the

	Council's cash holdings is not keeping pace with inflation and therefore its capital value is eroding. The January 2018 rate of CPI inflation was 3%
There has been full compliance with Prudential Indicators (PI) and Treasury Management (TM) indicators.	Over the reporting period, all treasury management (TM) activities have been carried out in accordance with the approved limits and the prudential indicators (PI) set out in the Council's Treasury Management Strategy statement. No long-term or short-term borrowing has been raised since the commencement of this financial year 2017/18 to reporting period.

Recommendations:

Members are recommended to:

- note the contents of the treasury management activities and performance against targets for the quarter ending 31 December 2017;
- note the Council's investments as set out in Appendix 1. The balance outstanding as at 31 December 2017 was £467.8m which includes £40m, pension fund cash awaiting investment; and
- note the list of selected pooled funds officers are considering for longer term investment as set out in appendix 2, and approve the approach for this strategic portfolio detailed in section 3.9.

1. **REASONS FOR THE DECISIONS**

1.1 The Local Government Act 2003 and the Local Authorities (Capital Financing and Accounting) Regulations 2003 require that regular reports be submitted to the relevant Council Committee detailing the council's treasury management activities.

1.2 This report updates members on both the borrowing and investment decisions made by the Corporate Director, Resources under delegated authority in the context of prevailing economic conditions and considers the Council's Treasury Management performance.

1.3 The regular reporting of treasury management activities assists Members to scrutinise officer decisions and monitor progress on the implementation of its 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. If the Council were to deviate from those requirements, there would need to be some good reason for doing so.

2.2 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. DETAILS OF REPORT

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

3.3 The Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision reports were included in the Budget Pack that was presented to Full Council on 22 February 2017.

3.4 ECONOMIC COMMENTARY

3.4.1 The significant economic event for this period was the increase in the Bank Base Rate in November by 0.25% to 0.50%, making it the first increase by the Bank of England's Monetary Policy committee (MPC) to rates since July 2007. The vote to increase the Bank base Rate was 7-2, reflecting the MPC's growing concern that rising inflation had finally outweighed the risks to growth. The MPC has reiterated that it expects any future increases in Bank Base Rate to be at a gradual pace and limited in extent.

3.4.2 Commodity prices rose over the period with oil increasing to around US$67 a barrel from a low of US$42 in June 2017. The UK Consumer Price Inflation (CPI) index continued to rise with the data for November showing CPI at 3.1%, its highest since March 2012 as the fall in the value of sterling following the June 2016 referendum result continues to feed through into higher import prices.

3.4.3 In the face of a struggling economy and Brexit-related uncertainty, the Council's treasury adviser - Arlingclose expects the Bank of England to take a very measured approach to any monetary policy tightening. Any increases in the Bank base rate will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

3.4.4 The Financial Times Share Index (FTSE) 100 continued to climb, reaching yet another record high of 7688 at the end of calendar year. Money markets rates, unsurprisingly, have increased over the quarter: 1-month, 3-month and 12-month LIBID rates have averaged 0.43%, 0.47% and 0.76% over the period October-December.

3.4.5 **Credit background:** Much of the activity by credit rating agencies during this quarter is related to the upcoming UK bank ringfencing which will take effect in 2018. Ringfencing requires the larger UK banks to separate their core retail banking activity from the rest of their business, resulting in two separate banks. In general, the agencies expect to give the ringfenced "retail" bank a higher credit rating than the non-ringfenced "investment" bank. In practice, this will only affect Barclays, HSBC, Lloyds and RBS as other UK banks and building societies either only conducts retail banking activities or have less than £25 billion of deposits covered by the Financial Services Compensation Scheme.

3.4.6 Barclays Bank plc was upgraded to A from A- by Standard & Poor's (S&P), after the bank announced its plans for its ringfenced bank, Barclays Bank UK plc, and the non-ringfenced bank, Barclays Bank plc. S&P also assigned preliminary ratings of 'A/A-1' to Barclays Bank UK plc.

3.4.7 In November S&P revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings. These reflect the agency's view that the institutions now show increased resilience, have made substantial progress in meeting regulatory capital requirements and are now better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019.

3.4.8 There have been no changes to Arlingclose's investment advice regarding banks and building societies during this quarter.

3.5 ECONOMIC OUTLOOK AND INTEREST RATE FORECAST

3.5.1 The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. The Bank of England's Monetary Policy Committee's decision to raise the Bank Base Rate is likely to reduce inflation, all other things remaining equal, but is likely to have negative effect on what was already a weak growth outlook.

3.5.2 Arlingclose's central case is for Bank Base Rate to remain at 0.50% over the period to March 2021, whilst introducing upside risks from September 2018, and downside risks from March 2019.

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

3.6 TREASURY MANAGEMENT STRATEGY 2017/18

3.6.1 The Council's Treasury Management Strategy was approved on 22 February 2017 by Council. The Strategy comprehensively outlines how the treasury function would operate throughout the financial year 2017/18 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. The Council complied with the strategy throughout the reporting period and all investments were made to counterparties within the Council's approved lending list.

3.6.2 The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The balance sheet summary position at 31 March 2017 is shown in Table 1 below, with the treasury management position as at 31st December 2017 shown in table 2 below. The difference between the Borrowing CFR (£245.4m) and the level of external borrowing (£85.9m) represents the extent of internal borrowing.

Table 1: Balance Sheet Summary

	31st March 2017 Actual £m
General Fund CFR	206.037
HRA CFR	75.666
Total CFR	**281.703**
Less: Other debt liabilities *	(36.304)
Borrowing CFR	**245.399**
Less: Usable reserves	(478.489)
Less: Working capital	(128.274)
Net (investments)	**(361.364)**

* finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

Table 2: Treasury Management Summary

	31.03.17 Balance £m	31.09.17 Balance £m	Movement over the Quarter £m	31.12.17 Balance £m	31.12.17 Rate %
Long-term borrowing	85.936	85.936	0.000	85.936	4.55
Short-term borrowing					
Total borrowing	**85.936**	**85.936**	**0.000**	**85.936**	**4.55**
Long-term investments	25.000	20.000	20.000	40.00	
Short-term investments	295.500	251.000	(28.000)	223.000	
Cash and cash equivalents	126.800	176.100	28.700	204.800	
Total investments	**447.300**	**447.100**	**20.700**	**467.800**	**0.57**
Net investments	***361.364***	***361.164***	***20.700***	***381.864***	

Borrowing Strategy during the quarter ending 31st December 2017

3.6.3 The Council held £85.936m of external loans at 31st December 2017 which is the same position as at 31st March 2017. No borrowing has been undertaken and no debt rescheduling opportunities have arisen during this financial year as the cost of premiums outweighs savings that could be made from the lower PWLB borrowing rates. The borrowing position as at 31st December is show in table 3 below.

Table 3: Borrowing Position

	30.12.17 Balance £m	30.12.17 Rate %	30.12.17 WAM* years
Public Works Loan Board	8.436	6.64	7.5
Banks (LOBO)	60.000	4.32	42.3
Banks (fixed-term)	17.500	4.34	60.0
Total borrowing	**85.936**	**4.55**	**42.5**

*Weighted average maturity

3.6.4 The Council takes a low risk approach to its borrowing strategy. This means that the principal objective when borrowing has been to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The secondary objective being to have flexibility to renegotiate loans should the Council's long-term plans change.

3.6.5 The Council continues to hold £60m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates. The Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during this reporting quarter or since the start of this financial year.

Investment Activity

3.6.6 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During this reporting quarter, the Council's investment balance ranged between £447m to £490m due to timing differences between income and expenditure. The investment position during the quarter is shown in table 4 below.

3.6.7 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Table 4: Investment Position

	31.03.17 Balance £m	30.09.17 Balance £m	Movement over the Quarter £m	30.12.17 Balance £m
Banks & building societies (unsecured)	240.000	235.000	(55.000)	180.000
Government (incl. local authorities)	165.500	166.000	84.000	250.000
Money Market Funds	41.800	46.100	(8.300)	37.800
Total investments	**447.300**	**447.100**	**20.700**	**467.800**

Performance Report

3.6.8 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 5 below. The Council's budgeted investment return for 2017/18 is **45bps** (0.45%) with average cash balance of £350m**,** the performance for the year to reporting period is **57bps** with average cash balance of £435m.

Table 5: Investment performance for financial year to 31st December 2017

Period	Benchmark Return	LBTH Performance	Over/(Under) Performance
Full Year 2016/2017	0.30%	0.63%	0.33%
Quarter 1	0.11%	0.42%	0.31%
Quarter 2	0.11%	0.53%	0.42%
Quarter 3	0.27%	0.57%	0.30%
2017/18 Year to Period	0.17%	0.57%	0.40%

Investments Outstanding & Maturity Structure

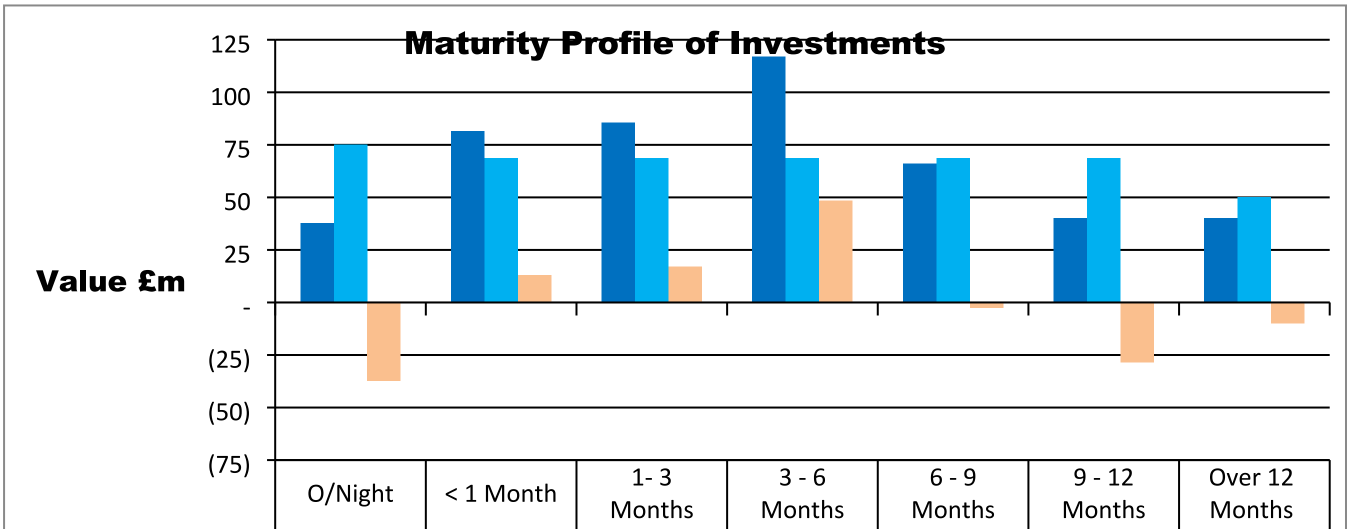
3.6.9 Table 6 below shows the amount of investments outstanding at the end of December 2017 split according to the financial sector.

Table 6

FINANCIAL SECTOR	£m	%
Banks in the UK	55.00	11.76
Building Societies in the UK	20.00	4.28
Banks in the Rest of the World	105.00	22.44
Government & Local Authorities	250.00	57.44
Money Market Funds	37.80	8.08
Investments Outstanding as at 31/12/2017	**467.80**	**100.00**

3.6.10 Chart 1 below illustrates the maturity structure of deposits at 31st December 2017; we have £37.8m as overnight deposits, and this is predominantly Money Market Funds.

Chart 1 – Maturity of Investment Portfolio as at 31st December 2017



	O/Night	< 1 Month	1 - 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	Over 12 Months
£m Portfolio Value	37.80	81.50	85.50	117.00	66.00	40.00	40.00
Portfolio Target £	75.00	68.56	68.56	68.56	68.56	68.56	50.00

3.6.11 The Weighted Average Maturity (WAM) for outstanding investment portfolio is 155 days; this is the average number of outstanding days to maturity of each deal from 31st December 2017. This indicates a very low number of investments over 12 months. Para 3.4.4 indicated the range of returns against the LIBID benchmark for 1, 3 and 12 month durations. Based on our current structure the WAM of c5 months would suggest a return of closer to 0.76% should be achievable rather than the actual return of 0.57%.

3.6.12 Given the increasing risk and falling returns from short-term unsecured bank investments, the Council is looking to further diversify its investment portfolio into more secure and/or higher yielding asset classes. There is currently £200m that is available for longer-term investment and this will be moved from local authorities, bank and building society deposits into covered bonds, corporate bonds and also into pooled property/bond/equity funds. This action will diversify the investment risk and as a consequence, the average rate of return of investment will increase.

3.7 Investment Benchmarking

3.7.1 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 takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 150 local authorities. The progression of risk and return metrics are shown in table 5 and the charts below are extracts from Arlingclose's quarterly investment benchmarking report.

Table 5: Investment Benchmarking

	Tower Hamlets		**13 London & Metropolitan Average**	**150 Local Authorities (LAs) Average**
	30.09.2017	**31.12.2017**		
Internal Investments	£447.1m	£467.8m	£111.0m	£63.1m
External Funds	£0.0m	£0.0m	***£5.2m***	***£10.2m***
Average Credit Score	4.53	4.33	4.45	4.51
Average Credit Rating	A+	AA-	AA-	A+
Number of Counterparties & Funds	30	34	17	16
Proportion Exposed to Bail-in	38%	28%	56%	61%
Proportion Available within 7 days	24%	21%	40%	41%
Proportion Available within 100 days	52%	52%	69%	68%
Average Days to Maturity	149	155	100	41
Internal Investment Return	0.53%	0.57%	0.57%	0.54%
External Funds - Income Return			***1.33%***	***3.41%***
Total Investments - Total Return	**0.53%**	**0.57%**	**0.73%**	**1.14%**

3.7.2 It can be seen that as at 31st December LBTH investment portfolio was delivering just half the level of income (0.57%), compared to that of the average of 150 other LAs income (1.14%), whilst average of other London Boroughs and Metropolitan Boroughs generated income of 0.73%.

3.7.3 The reason why the Council is receiving investment income lower than the average other LAs is because they have external pooled fund investments generating an average income of 3.41% per annum. We are proposing to adopt this approach in order to generate the additional income proposed as part of the 2018/19 budget setting process. This is discussed further in section 3.9.

3.8 **Compliance Report**

3.8.1 All treasury management activities undertaken from the beginning of this financial year 2017/18 to the current reporting period complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

3.8.2 Compliance with the authorised limit and operational boundary for external debt is set out in table 8 below.

Table 8: Debt Limits

	2017/18 Forecast	30.09.17 Actual	31.12.17 Actual	2017/18 Operational Boundary	2017/18 Authorised Limit	Complied
Borrowing	90.833	85.936	85.936	245.299	265.256	✓
PFI & finance leases	34.957	34.957	34.957	34.957	35.000	✓
Total debt	**125.790**	**120.893**	**120.893**	**280.256**	**300.256**	✓

3.8.3 The Council measures and manages its exposures to treasury management risks using a range of indicators.

3.8.4 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating and credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.09.17 Actual	30.12.17 Actual	2017/18 Target	Complied
Portfolio average credit rating	A+	AA-	A-	✓

3.8.5 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	30.09.17 Actual	30.12.17 Actual	2017/18 Target	Complied
Total cash available within [3] months	£176.10m	£119.3m	£75m	✓
Total sum borrowed in past [3] months without prior notice	nil	nil	nil	✓

3.8.6 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	30.12.17 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	£0.970m	10%	0%	✓
12 months and within 24 months	£1.673m	30%	0%	✓
24 months and within 5 years	£3.421m	40%	0%	✓
5 years and within 10 years	£1.163m	80%	0%	✓
10 years and above*	£78.709m	100%	0%	✓

*This includes £60m LOBO with maturity date over 60 years and it could be call for repayment within the next 6 months following the last interest payment date ,but there is a very slim chance of this happening hence it is included in this category

3.8.8 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2017/18	2018/19	2019/20
Actual principal invested beyond year end	£40m	£40m	£20m
Limit on principal invested beyond year end	£100m	£100m	£100m
Complied	✓	✓	✓

3.9 **<u>Strategic Investment Update</u>**

3.9.1 The Council's investment strategy was amended during 2016 to increase the scope to invest £100m for periods of longer than one year and up to 5 years. Given that returns from cash deposits and similar products are likely to remain low for many years to come, the advice of the Council's treasury adviser has been sought on long-term cash balances that we could actively invest in alternative asset classes. Pooled property, bond and equity funds which typically generate income returns of 3% to 7% and have the potential for capital appreciation.

3.9.2 Arlingclose has a Fund Suite which has a catalogue range of different (over 25) research pooled funds, which is being monitored by the advisers by meeting with the fund managers regularly to discuss their performance and strategies.

3.9.3 Further to the previous discussion officers had with the Committee at their last meeting in January 2018, officers have continued to work with the advisers to identify suitable funds for the Council's strategic portfolio (attached as Appendix 2), the funds were selected from the adviser's Fund Suite based on their risk characteristics and historic performance.

3.9.4 With the Council holding over £400m of investment balances at present, there is scope to invest £100m to £150m into these longer term investment funds. This is estimated to generate returns averaging between 2% and 3%, and so an additional £2.m to £4.5m of investment income might be possible. The budget proposal tasked officers with delivering an additional £1.4m from this approach.

3.9.5 As any capital gain on these funds will fluctuate (with the possibility of losses); it is also proposed to create a provision for capital losses from some of the investment returns above the £1.4m growth target. This will be applied over a five year investment time horizon to offset capital future losses arising from property and equity value falls.

3.9.6 The initial intention is to have these investment funds operational for the Council and then to rebalance having regard to guidance from the advisor and future reports to the Committee will highlight progress and performance of these funds separately. Note that the allocation to these funds will be reviewed and amended to lock in achieved returns. Investments such as property and equities (company shares) do not generate linear returns – there will be periods of over and under performance which will be managed through the medium term financial plan over the longer term. Property and equities have performed well in recent years and given that there is concern that equities in particular will continue to outperform without some losses at some point a cautious approach will be adopted initially in respect to equities.

4. COMMENTS OF THE CHIEF FINANCIAL OFFICER

4.1 This report provides an update on Treasury Management activities during quarter 3 of 2017/18 (October 2017-December 2017).

4.2 The Council held an outstanding internally managed investments portfolio of £467.8m as at 31st December 2017. This portfolio earned an average rate of return of 0.57%. However, inflation is currently eroding the value of this asset.

4.3 The Council has an investment income target of £2.525m for 2017/18 and current forecasts indicate that this will be achieved.

4.4 The Council is adopting a revised approach to its investment activities in line with approvals given in the 2018/19 Treasury management Strategy and its MTFS to increase the level of investment income it generates during 2018/19 and is taking steps to achieve this through the strategy detailed in section 3.9 above. Consequently a higher investment income target of £3.983m has been set for 2018/19.

5. LEGAL COMMENTS

5.1 The Local Government Act 2003 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 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 Local Government Act 2003.

5.3 This noting report of the Corporate Director, Resources advises the Committee of the Council's borrowing and investment activities for the quarter ending 31st December 2017 and is consistent with the key principles expressed in the Treasury Management Code. 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.

5.4 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).

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 at 31st December 2017

Appendix 2 – Initial Strategic Portfolio as at 31st December 2017 **(Confidential)**

Appendix 3 – Glossary

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

List of "Background Papers" used in the preparation of this report

Arlingclose LTD - Treasury Management Benchmarking Report and Quarter 3 2017/18 Report Template

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

Appendix 1: Investments Outstanding as at 31st December 2017

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Amundi MMF		**MMF**	12.80	
	BNP Paribas MMF		**MMF**	25.00	
	SUB TOTAL			**37.80**	
< 1 Month	London Borough of Croydon	22/09/2017	02/01/2018	10.00	0.35%
	London Borough of Hounslow	25/09/2017	02/01/2018	6.50	0.35%
	South Tyneside Metropolitan Borough Council	29/09/2017	02/01/2018	10.00	0.35%
	Tameside MBC	25/09/2017	03/01/2018	10.00	0.35%
	Merthyr Tydfil	25/10/2017	04/01/2018	5.00	0.35%
	Surrey County Council	05/10/2017	05/01/2018	20.00	0.35%
	Birmingham City Council	18/12/2017	18/01/2018	5.00	0.42%
	Kent County Council	14/09/2017	22/01/2018	10.00	0.30%
	Royal Bank of Scotland	30/01/2015	30/01/2018	5.00	1.20%
	SUB TOTAL			**81.50**	
1 - 3 Months	Glasgow City Council	27/10/2017	31/01/2018	15.00	0.40%
	Slough Borough Council	20/02/2017	19/02/2018	5.50	0.60%
	Kent County Council	14/09/2017	22/02/2018	10.00	0.32%
	West Dunbartonshire Council	27/10/2017	27/02/2018	6.00	0.42%
	Development Bank of Singapore	06/09/2017	06/03/2018	20.00	0.34%
	Skipton BS	23/03/2017	22/03/2018	5.00	0.78%
	Cambridgeshire County Council	28/09/2017	28/03/2018	10.00	0.50%
	Northamptonshire County Council	29/09/2017	29/03/2018	14.00	0.50%
	SUB TOTAL			**85.50**	
3 - 6 Months	Santander		CALL 95	20.00	0.60%
	Rushmoor Borough Council	21/12/2017	03/04/2018	12.00	0.53%
	Principality Building Society	06/04/2017	06/04/2018	5.00	0.78%
	North Lanarkshire Council	13/11/2017	13/04/2018	5.00	0.55%
	Toronto Dominion Bank	16/10/2017	16/04/2018	20.00	0.50%
	Newcastle Building Society	28/04/2017	27/04/2018	5.00	0.80%
	Royal Bank of Scotland	28/04/2017	30/04/2018	5.00	1.79%
	Nottingham Building Society	09/05/2017	08/05/2018	5.00	0.77%
	Commonwealth Bank of Australia	17/05/2017	16/05/2018	15.00	0.53%
	Australia & New Zealand Banking Group	17/05/2017	16/05/2018	10.00	0.52%
	Australia & New Zealand Banking Group	17/05/2017	16/05/2018	10.00	0.52%
	Royal Bank of Scotland	22/12/2016	22/06/2018	5.00	0.79%
	SUB TOTAL			**117.00**	
6 - 9 Months	Commonwealth Bank of Australia	03/07/2017	02/07/2018	10.00	0.52%
	Northamptonshire County Council	05/10/2017	05/07/2018	6.00	0.55%
	Royal Bank of Scotland	31/07/2017	31/07/2018	10.00	0.90%
	Royal Bank of Scotland	19/08/2017	19/08/2018	5.00	0.91%
	Glasgow City Council	21/12/2017	12/09/2018	5.00	0.65%
	Lancashire County Council	25/09/2017	24/09/2018	10.00	0.55%
	Royal Bank of Scotland	22/12/2016	24/09/2018	5.00	0.84%
	Enfield Council	25/09/2017	24/09/2018	15.00	0.55%
	SUB TOTAL			**66.00**	
9 - 12 Months	Southampton City Council	02/10/2017	01/10/2018	10.00	0.60%
	Rabobank	06/10/2017	05/10/2018	20.00	0.68%
	Lancashire County Council	06/10/2017	05/10/2018	10.00	0.58%
	SUB TOTAL			**40.00**	
> 12 Months	Bournemouth Borough Council	25/09/2017	25/09/2019	20.00	0.75%
	Thurrock Borough Council	08/11/2017	08/11/2019	20.00	1.05%
	SUB TOTAL			**40.00**	

Appendix 3 – 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 &	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target

RPI)	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 & Poors 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.