Non-Executive Report of the: **Audit Committee** **11 April 2019**	TOWER HAMLETS
Report of: Neville Murton, Corporate Director, Resources	**Classification:** Unrestricted
Treasury Management Quarterly Update Report (Oct 2018 - Dec 2018)	

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	The Treasury Management Strategy Statement and the Treasury Prudential Indicators, for 2018/19 were approved by the Council on 21st February 2018 as required by the Local Government Act 2003. This report covers the period 1st October 2018 to 31st December 2018
Investment returns fluctuate in line with the bank of England base rate. Base rate is maintained at 0.75%	The Council has substantial sums of money invested 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. Risk includes interest rate fluctuations and change to inflation.
The investment income budget set for 2018/19 was £4m and with income of £3.5m year to date.	For the 2018/19 budget, £100m of investments were set aside for investment in pooled funds. To date £76m has been invested received investment income of £785k to reporting period. Equity markets fell very sharply over the 3 months to 31 December 2018; hence the pooled funds investment exhibited a total capital loss of £2.5m as at 31st December 2018. The investment in pooled funds was paused due to high market volatility.
From Benchmarking exercise A total return of 0.71% was achieved for the reporting period, which was 0.14% below, the average for similar LA's return and 0.26% below average for All LA's return.	The 7 day London Interbank Bid Rate (LIBID) is the performance measure for the Council's investment returns and the return for year to date is 0.50%. For this reporting period, The investments portfolio returned 0.71%. This was below the benchmarking average of 0.85%. More information on this can be found in section 3.6. The credit worthiness of investments is maintained at –AA and the average credit score has improved from 3.99 to 3.86 for this reporting period, signifying LBTH

	portfolio credit risk is lower than that of the others.
Prudential Indicators (PI) and Treasury Management (TM) indicators have been fully complied with.	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. £30m long-term and £5m short-term borrowing were raised during the reporting period. The £60m LOBO loan was redeemed during this period.

Recommendations:

Members are recommended to:

- note the contents of the treasury management activities and performance against targets for quarter ending 31 December 2018; and
- note the Council's investments as set out in Appendix 1. The balance outstanding as at 31 December 2018 was £387.90m which includes £10m, pension fund cash awaiting investment.

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 justifiable reason for doing so.

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. 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.

3.3 The Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision reports were included in the Budget Pack that was presented to Full Council on 21 February 2018.

3.4 ECONOMIC OUTLOOK AND INTEREST RATE FORECAST FROM ARLINGCLOSE

3.4.1 Arlingclose projected outlook for the UK economy means, they maintain the significant downside risks to their interest rate forecast. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, GDP growth for Q3 2018 was also revised upwards from 0.6% Q-o-Q to 0.7% due to the warmer summer weather and one-off effects of the world cup. UK GDP was 1.4% in 2018, compared to 1.8% in 2017, and hasn't been lower since 2012.

3.4.2 Our treasury adviser view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.

3.4.3 Cost pressures were projected to ease but have risen more recently and are forecast to remain above the Bank's 2% target through most of the forecast period. The rising price of oil and tight labour market means inflation may remain above target for longer than expected. This means that strong real income growth is unlikely in the near future.

3.4.4 The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believe that MPC members consider both that:

1) Ultra-low interest rates result in other economic problems, and
2) Higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise and cuts are required.

3.4.5 The global economy appears to be slowing, particularly the Eurozone and China, where the effects of the trade war has been keenly felt. Despite slower growth, the European Central Bank is adopting a more strident tone in conditioning markets for the end of QE (Quantitative Easing), the timing of the first rate hike (2019) and their path thereafter. Meanwhile, European political issues, most recently with Italy, continue.

3.4.6 The US economy is expanding more rapidly. The Federal Reserve has tightened monetary policy by raising interest rates to the current 2% - 2.25% range; further rate hikes are likely, which will start to slow economic growth. Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

3.4.7 The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon. Arlingclose central case is for Bank Rate to rise twice in 2019. The risks are weighted to the downside.

3.4.8 Gilt yields have remained at low levels. Arlingclose expect some upward movement from current levels based on our interest rate projections, the strength of the US economy and the ECB's forward guidance on higher rates. However, volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Sep-19	Mar-20	Sep-20	Mar-21	Sep-21
Official Bank Rate							
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.75	1.00	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75
3-mth money market rate							
Upside risk	0.10	0.10	0.10	0.20	0.20	0.20	0.20
Arlingclose Central Case	0.80	1.00	1.20	1.30	1.20	1.20	1.20
Downside risk	0.20	0.50	0.70	0.80	0.75	0.75	0.75
1-yr money market rate							
Upside risk	0.20	0.30	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.05	1.25	1.40	1.45	1.40	1.40	1.40
Downside risk	0.35	0.50	0.75	0.75	0.75	0.75	0.75
5-yr gilt yield							
Upside risk	0.15	0.20	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.15	1.20	1.35	1.40	1.35	1.30	1.30
Downside risk	0.30	0.35	0.50	0.60	0.60	0.60	0.60
10-yr gilt yield							
Upside risk	0.20	0.25	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.60	1.65	1.70	1.75	1.70	1.70	1.70
Downside risk	0.30	0.45	0.55	0.60	0.60	0.60	0.60
20-yr gilt yield							
Upside risk	0.20	0.25	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.90	1.95	2.00	2.00	2.00	2.00	2.00
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45
50-yr gilt yield							
Upside risk	0.20	0.25	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.80	1.85	1.90	1.90	1.90	1.90	1.90
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45

3.5 TREASURY MANAGEMENT STRATEGY 2018/19

3.5.1 The Treasury Management Strategy was approved on 21 February 2018 by Council. The Strategy comprehensively outlined how the treasury function would operate throughout the financial year 2018/19 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.

3.5.2 On 31st March 2018, the Council had net investments of £355.9m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The balance sheet summary position at 31st March 2018 and the forecast for 31st March 2019 are shown in Table 1 below.

Table 1: Balance Sheet Summary

	31st March 2018 Actual £m	Movement over the period £m	31st March 2019 Forecast £m
General Fund CFR	226.720	2.006	228.726
HRA CFR	83.915	17.985	101.900
Total CFR	**310.635**	**19.991**	**330.626**
Less: Other debt liabilities *	(34.957)	1.779	(33.178)
Borrowing CFR	**275.678**	**21.770**	**297.448**
External Borrowing	*84.966*	*(0.670)*	*84.296*
Internal Borrowing	*190.712*	*22.440*	*213.152*
Less: Usable reserves	(515.673)	26.859	(488.814)
Less: Working capital	(159.819)	0.385	(159.434)
Net (investments)	**(355.854)**	**5.054**	**(350.800)**

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

3.5.3 In table 1 above, the extent of internal borrowing which stood at £190.7m at the end of the financial year 2017/18 is the difference between the Borrowing CFR (£275.7m) and the level of external borrowing (£84.9m), with an increased forecast level for 31st March 2019. The General Fund CFR increased by £2m over the period this is due to expected £10m capital expenditure on temporary accommodation and public realm less prudential borrowing principal repaid and minimum revenue provision (MRP) charges for the year.

3.5.4 The Council's current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low.

3.5.5 The treasury management position as at 31st December 2018 shown in table 2 below.

Table 2: Treasury Management Summary

	31.03.18 Balance £m	30.09.18 Balance £m	Movement over the Quarter £m	31.12.18 Balance £m	31.12.18 Rate %
Long-term borrowing	84.966	84.296	(30.000)	54.296	3.57
Short-term borrowing	Nil	Nil	Nil	Nil	Nil
Total borrowing	**84.966**	**84.296**	**(30.000)**	**54.296**	**3.57**
Long-term investments	67.000	102.000	(29.000)	73.000	
Short-term investments	291.000	303.000	(62.000)	241.000	
Cash and cash equivalents	**82.820	42.620	31.280	73.900	
Total investments	**440.820**	**447.620**	**(59.720)**	**387.900**	**0.76**
Net investments	***355.854***	***350.800***		***350.800***	

**excluding pension fund balance of £24.8m as at 31/03/2018

Borrowing Strategy during the period

3.5.6 The Council held £54.296m of external loans at 31st December 2018 which is £30m lower than 31st March 2018 position of £84.966m. £30m PWLB borrowing was undertaken and a £60m LOBO debt rescheduling opportunities arose during this reporting report. The borrowing position as at 31st December 2018 is shown in table 3 below.

Table 3: Borrowing Position

	31.03.18 Balance £m	Movement £m	31.12.18 Balance £m	31.12.18 Rate %	31.12.18 WAM* years
Public Works Loan Board	7.466	30.000	30.796	3.20	41.9
Banks (LOBO)	60.000	(60.000)	00.000	0.00	0.0
Banks (fixed-term)	17.500	0.000	17.500	4.34	58.7
Total borrowing	**84.966**	**30.000**	**54.296**	**3.57**	**47.3**

*Weighted average maturity

3.5.7 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.

3.5.8 The Council redeemed £60m LOBO (Lender's Option Borrower's Option) loans with RBS, when an opportunity arose during the reporting period. This was the last LOBO loan held by the Council.

Investment Activity

3.5.9 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the reporting period, the Council's investment balance ranged between £440m to £380m due to timing differences between income and expenditure. The investment position at this reporting period is shown in table 4 below.

3.5.10 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.

Investments Outstanding & Maturity Structure

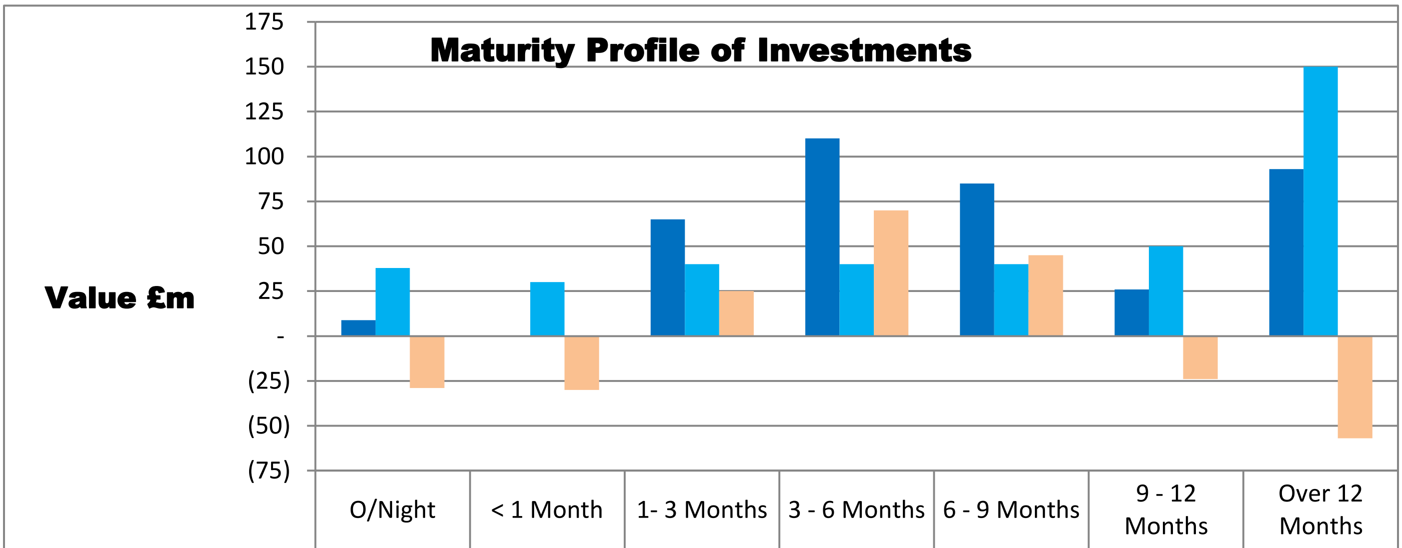
3.5.11 The table below shows the amount of investments outstanding at the end of December 2018 split according to the financial sector.

3.5.12 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. Given the increasing risk and falling returns from short-term unsecured bank investments, the Council has diversified into more secure and/or higher yielding asset classes by allocating £100m for strategic pooled investments and currently £76m has been invested as shown in table 4 below.

Table 4 Outstanding Investments by Financial Sector

Financial Sector	31.03.18 Balance £m	Movement over the Year £m	31.12.18 Balance £m	% Portfolio
UK Banks	50.000	(25.000)	25.000	6.44
UK Building Societies	15.000	(15.000)	0.000	0.00
Government (incl. local authorities)	278.000	(100.000)	178.000	45.89
Oversea Banks	85.000	15.000	100.000	25.79
Money Market Funds	12.820	(3.92)	8.900	2.29
Pooled Investment Funds:	0.000	76.000	76.000	19.59
Cash plus funds	*0.000*	*20.000*	*20.000*	
Short-dated bond funds	*0.000*	*18.000*	*18.000*	
Strategic bond funds	*0.000*	*9.000*	*9.000*	
Equity Income funds	*0.000*	*13.000*	*13.000*	
Property funds	*0.000*	*5.000*	*5.000*	
Multi asset income funds	*0.000*	*11.000*	*11.000*	
Total investments	**440.820**	**(52.920)**	**387.900**	

Chart 1 – Maturity of Investment Portfolio as at 31st December 2018



	O/Night	< 1 Month	1- 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	Over 12 Months
£m Portfolio Value	8.90	-	65.00	110.00	85.00	26.00	93.00
Portfolio Target £	37.90	30.00	40.00	40.00	40.00	50.00	150.00
Over/(Under) Target £	(29.00)	(30.00)	25.00	70.00	45.00	(24.00)	(57.00)
Portfolio Position %	2.29%	0.00%	16.76%	28.36%	21.91%	6.70%	23.98%

3.5.13 Chart 1 above illustrates the maturity structure of deposits as at 31st December 2018; we have £8.9m as overnight deposits and this is predominantly invested in Money Market Funds.

3.5.14 The Council's £76m of externally managed pooled bond, equity and property funds generated an average total return of -0.62%, comprising a 2.77% income return which is used to support services in year, and -3.44% of capital growth, hence the external managed pooled funds stood at £73.5m. These funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives is regularly reviewed.

3.5.15 It is worth noting that capital gain on the pooled investment funds will fluctuate (with the possibility of losses); hence a provision for capital losses from investment returns above the £1.4m growth target would be created. This will be applied over a five year investment time horizon to offset capital future losses arising from property and equity value falls. As at 31st December 2018, total pooled funds exhibited total capital loss of £2.5m.

3.5.16 MHCLG consulted on statutory overrides relating to the IFRS 9 Financial Instruments accounting standard from 2018/19. The consultation recognised that the requirement in IFRS 9 for certain investments to be accounted for as fair value through profit and loss may introduce "more income statement volatility" which may impact on budget calculations. The consultation proposed a time-limited statutory override and sought views whether it should be applied only to pooled property funds. The Council responded to the consultation which closed on 28th September and the outcome of the consultation is awaited whilst fair value adjustments might create more volatility, the investments have been chosen to provide higher returns over the long term.

Performance Report

Period	LBTH Internal Return	External Fund Return	LBTH Total Return	Benchmark Return	Over/(Under) Performance
Full Year 2017/18	0.78%	0.00%	0.78%	0.36%	0.42%
Quarter 1	0.72%	0.00%	0.72%	0.46%	0.26%
Quarter 2	0.88%	1.17%	1.01%	0.55%	0.46%
Quarter 3	0.96%	-0.62%	0.71%	0.59%	0.12%
Year to Period 2018/19	**0.85%**	**0.18%**	**0.81%**	**0.53%**	**0.28%**

3.5.17 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.

Table 5: Investment performance for financial year to 31st December 2018

3.5.18 The Council's budgeted investment return for 2018/19 is **115 basis points** (1.15%) with average cash balance of £350m. This is based on placing £100m in pooled investments during 2018/19. There was a delay in placing these investments because of investment market sentiment over historically expensive investment values.

3.5.19 £76m was invested in pooled funds as at 31st December 2018 with a further £24m on hold due to severe market volatility and accidental changes to pooled funds investment regulation by the Government. It is worth noting that due to the nature of these funds, returns will fluctuate from year to year. The risk profile of these investments was discussed with the Committee as this is important, in order to achieve expected higher returns, there is the expectation and need to accept higher levels of risk (market volatility).

3.5.20 The investment performance for the reporting period is **71bps** with average cash balance of £400m. Investment income of £3.5m has been generated, in the year to the current reporting period

3.6 Investment Benchmarking

3.6.1 LBTH participates in a benchmarking club being run by Arlingclose 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 135 local authorities. The progression of risk and return metrics are shown in table 6 below.

Table 6: Investment Benchmarking

	Tower Hamlets			**13 London & Metropolitan Average**	**148 Local Authorities (LAs) Average**
	31 March 2018	**30Sep 2018**	**31 Dec 2018**		
Internal Investments	£464.8m	£382.00m	£387.90m	£107.9m	£57.1m
External Funds	**£0.0m**	**£65.00m**	**£76.00m**	***£3.9m***	***£10.2m***
Average Credit Score	4.28	3.99	3.86	4.28	4.24
Average Credit Rating	AA-	AA-	AA-	AA-	AA-
Number of Counterparties & Funds	37	37	38	15	15
Proportion Exposed to Bail-in	26%	26%	11%	54%	58%
Proportion Available within 7 days	16%	21%	5%	5%	49%
Proportion Available within 100 days	54%	28%	32%	77%	68%
Average Days to Maturity	161	208	183	102	34
Internal Investment Return	***0.68%***	***0.88%***	***0.96%***	***0.87%***	***0.81%***
External Funds - Income Return	**0.0%**	**1.17%**	**-0.62%**	***0.92%***	***1.17%***
Total Investments - Total Return	**0.68%**	**1.01%**	**0.71%**	**0.85%**	**0.97%**

3.6.2 As at 31st December 2018 LBTH investment portfolio delivered 0.96% for internal investment management, outperforming the benchmarking average of 0.87% and also the average return for 148 LAs with 0.81%, whilst for total return for total investments LBTH generated 0.71% underperforming the average return for 12 London Boroughs and Metropolitan Boroughs with return of 0.85% by 14bps also underperforming the average return for 148 LAs with return of 0.97% by 26ps.

3.6.3 It can be seen from the above table 6 that the external managed investment returns had deteriorated this is due to severe fall in Equity markets over the 3 months to 31 December 2018. With the external pooled funds exhibiting capital loss of some £2.5m hence the valuation of the portfolio was £73.5m instead of the invested amount of £76m.

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3.6.4 Further improvement on the Council investment portfolio credit score from 3.99 to 3.86 over the quarter. This is far better than the benchmark average, signifying LBTH portfolio credit risk is lower than that of the others. As a consequence our investment portfolio credit worthiness also improved from A+ to AA-.

3.6.5 The proportion of the portfolio investments exposed to bail-in is 11% further improvement over the quarter. This means we have taken far less bail-in risk on our investors compared to the others. Bail-in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings.

3.6.6 It can also be seen from the above table that the number of counterparties the Council had as at 31st December was 38, similar number of counter party held as at 30th September 2018. The number of counterparties the Council had investments with during the period is more than double the benchmarking average of 15. This demonstrates the Council reduces the counterparty risk and concentration risk of the investments portfolio significantly by investing with many quality institutions and local authorities. The lower average credit score compared to others reflects the lower risk of lending to Local Authorities.

3.7 Compliance Report

3.7.1 All treasury management activities undertaken from the beginning of the financial year 2018/19 to the this reporting period complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

3.7.2 Compliance with the authorised limit and operational boundary for external debt is set out in table 7 below.

Table 7: Debt Limits

	31.03.18 Actual £m	**2018/19 Forecast £m**	**2018/19 Operational Boundary £m**	**2018/19 Authorised Limit £m**	**Complied**
Borrowing	84.966	95.000	297.150	307.150	✓
PFI & finance leases	34.957	40.000	33.415	43.415	✓
Total debt	**119.923**	**135.000**	**330.565**	**350.565**	✓

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

3.7.4 **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.

	31.03.18 Actual	30.12.18 Actual	2018/19 Target	Complied
Portfolio average credit rating	AA-	AA-	A-	✓

3.7.5 **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.

	31.03.18 Actual	31.12.18 Actual	2018/19 Target	Complied
Total cash available within [3] months	£176.10m	£8.9m	£75m	✓
Total sum borrowed in past [3] months without prior notice	Nil	nil	Nil	✓

3.7.6 **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:

	30.12.18 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	£0.669m	10%	0%	✓
12 months and within 24 months	£1.004m	30%	0%	✓
24 months and within 5 years	£1.004m	40%	0%	✓
5 years and within 10 years	£3.580m	80%	0%	✓
10 years and above*	£48.709m	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

3.7.7 **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:

	2018/19	2019/20	2020/21
Actual principal invested beyond year end	£103	£103m	£70m
Limit on principal invested beyond year end	£150m	£150m	£150m
Complied	✓	✓	✓

3.8 Non-Treasury Investments

3.8.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. For English Authorities: This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

4. **COMMENTS OF THE CHIEF FINANCIAL OFFICER**

4.1 This report provides an update on Treasury Management activities from April 2018 to December 2018.

4.2 The Council adopted a new 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 for 2018/19.

4.3 As at the 31st December 2018 the Council held an outstanding investments portfolio of £387.94m and total investment income generated to reporting period was £3.5m. The annual investment income budget is £4m and current estimates indicate that this is achievable.

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 half-year ending 30th September 2018 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 2018

Appendix 2 – 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 for Quarter 3 2018/19 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 2018

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
	BNP Paribas MMF		**MMF**	4.55	0.66%
	Deutsche MMF		**MMF**	4.35	0.56%
	SUB TOTAL			**8.90***	
Long Term	CCLA Diversified Income Fund	30/07/2018	**POOLED**	5.00	3.07%+
	CCLA Local Authorities Property Fund	31/07/2018	**POOLED**	5.00	4.75%+
	Payden & Rygel Absolute Return Bond Funds	31/07/2018	**POOLED**	10.00	2.05%+
	Payden Rygel Sterling Reserve Fund	31/07/2018	**POOLED**	10.00	0.72%+
	Threadneedle Global Equity Income Fund	01/08/2018	**POOLED**	3.00	3.38%+
	Threadneedle Strategic Bond Fund	01/08/2018	**POOLED**	5.00	3.44%+
	Threadneedle Sterling Short-Dated Corporate Bond Fund	01/08/2018	**POOLED**	8.00	1.75%+
	Investec, Diversified Income Fund	09/08/2018	**POOLED**	6.00	4.07%+
	Royal London Enhanced Cash Plus	15/08/2018	**POOLED**	10.00	1.05%+
	Schroder Income Maximiser Fund	15/08/2018	**POOLED**	3.00	7.43%+
	M&G Global Dividend Fund	31/10/2018	**POOLED**	2.00	
	M&G Optimal Income Fund	31/10/2018	**POOLED**	2.00	
	M&G UK Income Distribution Fund	31/10/2018	**POOLED**	3.00	
	M&G Strategic Corporate Bond Fund	31/10/2018	**POOLED**	4.00	
	SUB TOTAL			**76.00**	
< 1 Month	Isle of Wight Council	07/02/2018	06/02/2019	3.00	0.77%
	Australia & New Zealand Banking Group	06/08/2018	06/02/2019	10.00	1.00%
	London Borough of Ealing	20/02/2018	19/02/2019	10.00	0.85%
	Monmouthshire County Council	23/02/2018	22/02/2019	5.00	0.85%
	Coventry City Council	26/02/2018	26/02/2019	10.00	1.00%
	Cambridgeshire County Council	27/02/2018	27/02/2019	10.00	0.85%
	Blackpool Council	16/03/2018	15/03/2019	17.00	0.85%
	SUB TOTAL			**65.00**	
1 - 3 Months	Santander	00/01/1900	CALL 95	20.00	0.65%
	Development Bank of Singapore	10/10/2018	10/04/2019	10.00	0.95%
	Commonwealth Bank of Australia	23/05/2018	22/05/2019	20.00	0.95%
	Australia & New Zealand Banking Group	23/05/2018	22/05/2019	20.00	0.95%
	Wrexham County Borough Council	03/09/2018	03/06/2019	20.00	1.05%
	Toronto Dominion Bank	05/07/2018	03/07/2019	20.00	0.95%
	SUB TOTAL			**110.00**	
3 - 6 Months	Canadian Imperial Bank of Commerce	12/07/2018	11/07/2019	10.00	0.95%
	Bank of Montreal	12/07/2018	12/07/2019	10.00	0.96%
	The Royal Bank of Scotland PLC	19/08/2018	19/08/2019	5.00	0.96%
	Birmingham City Council	28/08/2018	27/08/2019	20.00	1.08%
	Bournemouth Borough Council	25/09/2017	25/09/2019	20.00	0.75%
	Surrey County Council	26/09/2018	25/09/2019	20.00	1.15%
	SUB TOTAL			**85.00**	
6 - 9 Months	Newry, Mourne and Down District Council	25/10/2018	25/10/2019	6.00	1.15%
	Thurrock Borough Council	08/11/2017	08/11/2019	20.00	1.05%
	SUB TOTAL			**26.00**	
> 12 Months	Middlesbrough Council	26/01/2018	27/01/2020	10.00	1.08%
	Isle of Wight Council	07/02/2018	07/02/2020	2.00	1.05%
	Dumfries & Galloway	20/08/2018	20/08/2021	5.00	1.20%
	SUB TOTAL			**27.00**	
	TOTAL			**387.90**	

* MMF balance includes £10m of Pension Fund cash awaiting investments. Returns shown are the month of August 2018.
+ Long Term funds have not been in place long enough to show a meaningful return – as a guide the rates shown are for the year to June 2018 prior to the Council investing.

Appendix 2 – Glossary

Asset Life	How long an asset, e.g. a Council building is likely to last.
Bail-in	A bail-in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings rather than the government or taxpayers.
Bail-out	A bailout is a colloquial term for the provision of financial help to a corporation or country which otherwise would be on the brink of failure or bankruptcy.
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	The main inflation rate used in the UK is the CPI. The

& Retail Prices Index (CPI & RPI)	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 programmes 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.
Quantitative Easing (QE)	Quantitative easing (QE), also known as large-scale asset purchases, is an expansionary monetary policy whereby a central bank buys predetermined amounts of government bonds or other financial assets in order to stimulate the economy.
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.