

REPORT TO: Audit Committee	DATE 18 March 2014	CLASSIFICATION Unrestricted	REPORT NO.
REPORT OF: Acting Corporate Director, Resources		Treasury Management Activity Update Report to 31 January 2014	
ORIGINATING OFFICER(S): Kevin Miles, Chief Accountant		Ward(s) Affected: N/A	

1. SUMMARY

- 1.1 This report advises the Committee of treasury management activity for the current financial year up to 31 January 2014 as required by the Local Government Act 2003.
- 1.2 The report details the current credit criteria adopted by the Corporate Director - Resources, the investment strategy for the current financial year and the projected investment returns.
- 1.3 The current average return on investment stands at 0.83%, and is on target to achieve budgeted cash return on assets of £2.545m.

2. DECISIONS REQUIRED

- 2.1 Members are recommended to note the contents of the treasury management activity report for period ending 31 January 2014.

3 REASONS FOR DECISIONS

- 3.1 The Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 require that regular reports be submitted to Council/Committee detailing the council's treasury management activities.
- 3.2 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.

4 ALTERNATIVE OPTIONS

- 4.1 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.
- 4.2 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, having regard to the need to ensure that Members are kept informed about treasury management activities and to ensure that these activities are in line with the investment strategy approved by the Council.

5 BACKGROUND

- 5.1 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.
- 5.2 These reports are in addition to the mid-year and annual treasury management activity reports that should be presented to Council midway through the financial year and at year end respectively.
- 5.3 This report details the current credit criteria/risk level adopted by the Service Head, Financial Services, Risk and Accountability, the investment strategy for the current financial year and the projected investment returns.

6. TREASURY MANAGEMENT STRATEGY 2013/14

- 6.1 The Treasury Management Strategy was approved on 27 February 2013 by Full Council. The Strategy comprehensively outlines how the treasury function is to operate over the financial year 2013-14 and it covered the following:

- Treasury limits in force which will limit the treasury risk and activities of the Council;
- Prudential and Treasury Indicator;
- The current treasury position;
- Prospects for interest rates;
- The borrowing strategy (including policy on borrowing in advance of need);
- Debt Rescheduling;
- The Investment Strategy;
- Credit Worthiness Policy;
- Policy on use of external service providers;
- The Minimum Revenue Provision (MRP) Strategy

7. TREASURY ACTIVITY FOR PERIOD 1 April 2013 to 31 January 2014

- 7.1 This section of the report gives an update on the market and sets out:
- The current credit criteria being operated by the Council.
 - The treasury investment strategy for the current financial year and the progress in implementing this.
 - The transactions undertaken in the period and the investment portfolio outstanding as at 31 January 2014.

8 MARKET UPDATE

- 8.1 In the UK, the economy continues to provide evidence that the recovery remains robust at the start of 2014. Although a weakening has been noted in some surveys, the levels are still indicative of a healthy GBP growth, with little concern in the markets. Business and consumer confidence have continued to improve. This is helped by ongoing improvement

in the labour market, falling inflation, and the strengthening housing market. The Bank of England (BOE) has continued to state that it is in no rush to raise interest rates and the fall in inflation should support the view that there is no need to change policy, which could dampen current levels of enthusiasm.

- 8.2 In Europe, the signs of a slight improvement in economic indicators, shows that the economic recovery gained a little momentum at the turn of the year. This was supported by a sharp fall in unemployment. The European Central Bank (ECB) however, remains under intense pressure to offer more policy support to the recovery.
- 8.3 The Federal Reserve policy meeting confirmed market thinking that further tapering of monthly asset purchasing programme would come into effect in February, setting the Central Bank on target to end additional quantitative easing purchases by the end of the third quarter.
- 8.4 As the month ended, there was a sell-off in equity markets and a move to safe haven investments, such as gilts. Concerns about the emerging market economies also saw a massive sell-off in the currencies.
- 8.5 As at the time of writing this report, the crisis in the Ukraine could potentially have a major impact on economic conditions. Officers will keep the situation under review.

9 **CREDIT CRITERIA**

- 9.1 The following credit criteria for investment counterparties were agreed by the Council in February 2013. The Council will continue to invest within the UK and its Government regardless of the country's sovereign rating.

Institution	Minimum Credit Criteria	High	Use	Limit
Debt Management Office (DMO) Deposit Facility	Not applicable		In-house	£100m*
Term deposits – Other Local Authorities	Not applicable		In-house	£10m**
Term deposits – banks and building societies	Short-term F1+, Long-term AA- Sovereign rating AAA		In-house	£30m
Institutions with Government guarantee on ALL deposits by high credit rated (sovereign rating) countries.	Sovereign rating		In-house	£30m
UK Government Gilts	Long Term AAA		In-house	£20m
Institutions with UK Government support.	Sovereign rating		In-house	£30m
Institutions that are owned/part owned by the UK Government	Sovereign rating		In-house	Lesser of £70m or 40% of portfolio
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)				
Money Market Funds	AAA rated		In-house	£15m

*Although limit has been set at £100m for the DMO, in reality there is no restriction on placement with the UK Government

** The group limit for local authorities has been set at £100m.

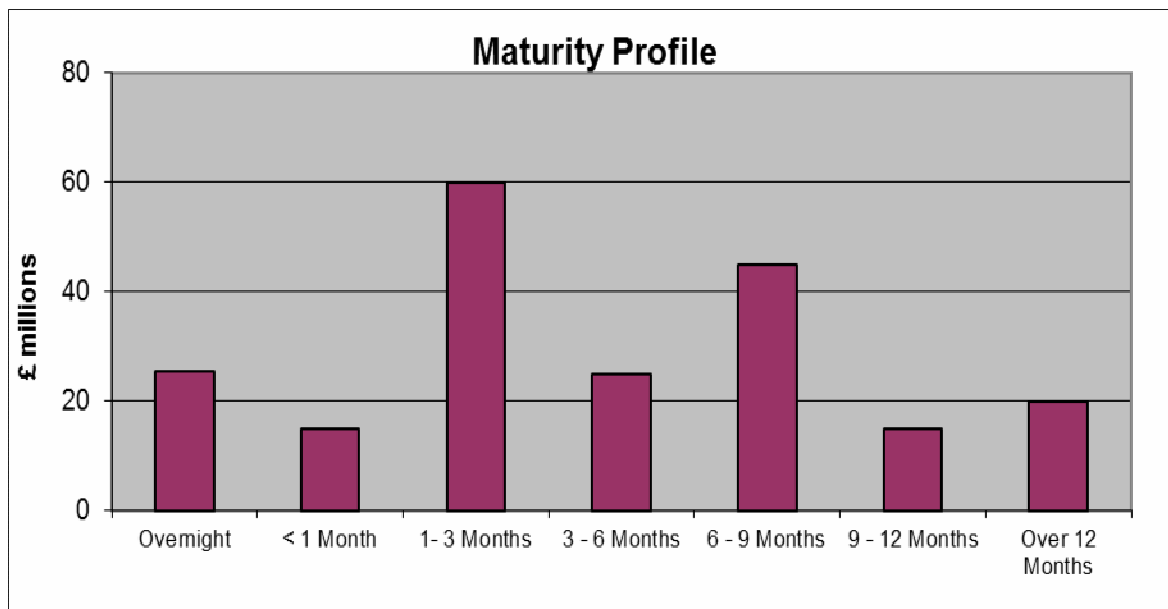
10 INVESTMENT STRATEGY

- 10.1 Capita provides cash management services to the Council, but the Council retains control of the credit criteria and the investments, so Capita's role is purely advisory.
- 10.2 In addition to providing cash management services, Capita also provides treasury consultancy/advisory service to the Council.
- 10.3 Capita's current interest rate projections are that base rate will remain static at 0.50% with limited changes in Bank Base Rate before 2015. Although the outlook for interest rate is below expectation, budgeted return on investment is expected to be achieved this financial year due to higher than expected levels of cash balances.
- 10.4 The Council's bankers, the Co-operative Bank Plc. are used as depositors of last resort for investment of additional funds received after treasury transactions have been completed and the money markets have closed.
- 10.5 The current investment portfolio, within the constraints of the Councils credit criteria and liquidity requirement, together with the maturity profile of the portfolio is as set out below.

Investment Portfolio as at 31 January 2014

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Santander		Call	10.00	1.10%
	Svenska Handelsbanken		Call	15.40	0.55%
	SUB TOTAL			25.40	
< 1 Month	OCBC	04/11/2013	04/02/2013	5.00	0.45%
	OCBC	12/08/2013	12/02/2014	5.00	0.40%
	Lloyds Banking Group	13/02/2013	13/02/2014	5.00	1.10%
>1 - 3 Months	Lloyds Banking Group	04/03/2013	04/03/2014	5.00	1.10%
	Lloyds Banking Group	04/12/2013	04/03/2014	5.00	0.70%
	Barclays	05/09/2013	05/03/2014	10.00	0.53%
	Lloyds Banking Group	11/04/2013	11/04/2014	5.00	1.10%
	Nationwide Building Society	11/10/2013	11/04/2014	5.00	0.53%
	Lloyds Banking Group	15/04/2013	15/04/2014	5.00	1.10%
	Royal Bank of Scotland	16/04/2013	16/04/2014	5.00	0.73%
	Nationwide Building Society	16/10/2013	16/04/2014	5.00	0.53%
	OCBC	17/10/2013	17/04/2014	10.00	0.45%
	Deutsche Bank	29/10/2013	29/04/2014	5.00	0.50%
>3 - 6 Months	Lloyds Banking Group	04/06/2013	04/06/2014	5.00	1.05%
	Royal Bank of Scotland	12/06/2013	12/06/2014	5.00	0.65%
	Lloyds Banking Group	04/04/2013	04/07/2014	10.00	1.01%
	Lloyds Banking Group	11/10/2013	11/07/2014	5.00	0.83%
>6 - 9 Months	National Australia Bank	18/09/2013	18/09/2014	10.00	0.58%
	National Australia Bank	03/10/2013	03/10/2014	10.00	0.58%
	Lloyds Banking Group	07/10/2013	07/10/2014	5.00	0.98%
	Royal Bank of Scotland	09/10/2013	09/10/2014	10.00	0.59%
	Lloyds Banking Group	29/10/2013	29/10/2014	5.00	0.98%
	Lloyds Banking Group	13/11/2013	13/11/2014	5.00	0.98%
>9 - 12 Months	Lloyds Banking Group	04/12/2013	04/12/2014	5.00	0.98%
	Royal Bank of Scotland	09/07/2013	09/01/2015	5.00	0.95%
	Royal Bank of Scotland	27/01/2012	27/01/2015	5.00	3.35%
> 12 Months	Royal Bank of Scotland	16/04/2013	16/04/2015	5.00	0.88%
	Royal Bank of Scotland	28/02/2013	26/02/2016	10.00	1.90% *
	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74% *
	SUB TOTAL			180.00	
	TOTAL			205.40	

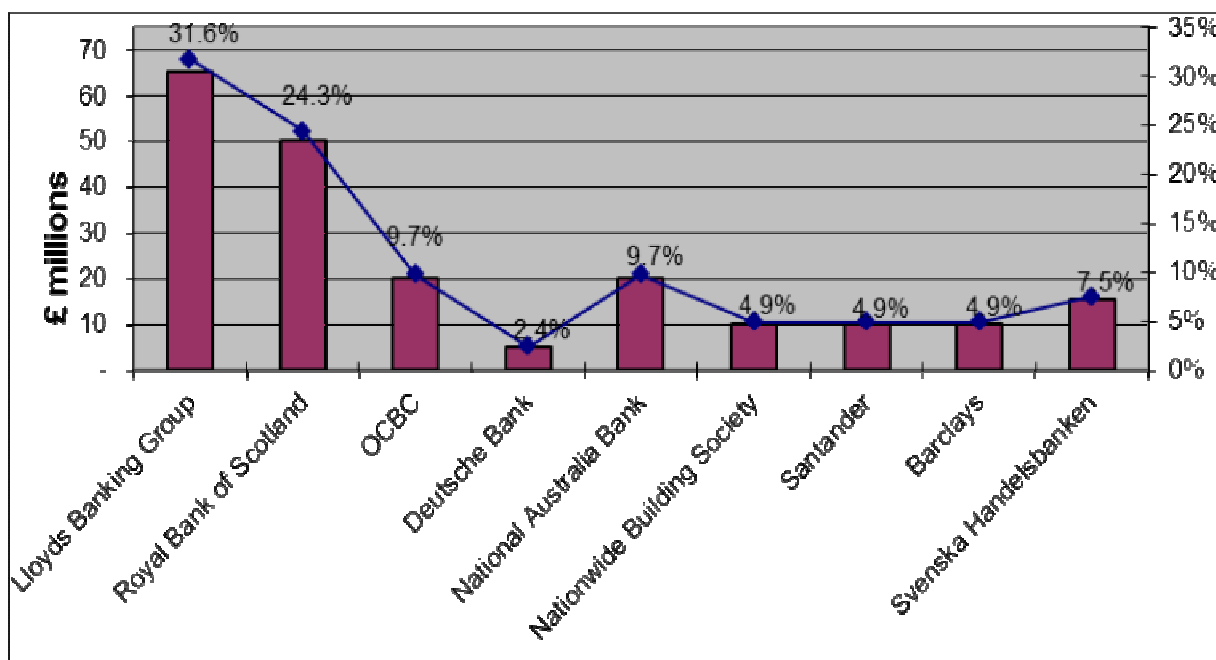
* This is a structured deal, the terms of which could change during its tenor.



10.6 The amount in overnight instruments is money market fund deposits which, though technically classed as overnight investments, are in reality used as longer term investment vehicles. This allows the Council to maintain liquidity whilst still being able to secure reasonable returns on its assets.

10.7 The Council's exposure to any one counterparty/Group is represented by the chart below including exposure as a percentage of total assets invested as at 31 January 2014.

Counterparty Exposure



INVESTMENT RETURNS

- 11.1 Investment returns since inception of the cash management arrangement with Capita has been consistently above the portfolio benchmark and the 7 day London Interbank Bid Rate (LIBID).
- 11.2 Low rates of return on the Money Market Funds (MMFs) and longer term investments (which have now matured and are being replaced with lower rate investments), have resulted in a decline in the rate of return of the fund. Our latest counterparty credit rating list is attached at Appendix 2.
- 11.3 Notwithstanding these constraints, the portfolio has outperformed the 7 day LIBID, which currently stands at an average of 0.36%, by 0.47%.
- 11.4 The budgeted investment return for 2013/14 is £2.545m. It is expected that this target will be achieved. The table below details performance of investments.

Period	LBTH Performance	7 Day LIBID	(Under)/Out Performance
Full Year 2012/13	1.24%	0.64%	0.60%
Quarter 1 2013/14	0.86%	0.36%	0.50%
Quarter 2 2013/14	0.81%	0.36%	0.45%
Quarter 3 2013/14	0.81%	0.35%	0.46%
January 2014	0.83%	0.34%	0.49%
Average for 2013/14	0.83%	0.36%	0.47%

12. DEBT PORTFOLIO

- 12.1 There has been no new borrowing this financial year to date. Current debt portfolio stands at £90.4m.

13. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 13.1. The comments of the Chief Financial Officer have been incorporated into the report.

14. LEGAL COMMENTS

- 14.1 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. 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.

- 14.2 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. 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.
- 14.3 The Treasury Management Code requires as a minimum that there be a practice of regular reporting on treasury management activities and risks to the responsible committee and that these should be scrutinised by that committee. Under the Council's Constitution, the audit committee has the functions of monitoring the Council's risk management arrangements and making arrangements for the proper administration of the Council's affairs.

15. ONE TOWER HAMLETS CONSIDERATIONS

- 15.1 Interest on the Council's cash flow has historically contributed significantly towards the budget.

16. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 16.1 There are no Sustainable Actions for A Greener Environment implications.

17. RISK MANAGEMENT IMPLICATIONS

- 17.1 Any form of investment inevitably involves a degree of risk. To minimise risk the investment strategy has restricted exposure of council cash balances to UK backed banks or institutions with the highest short term rating or strong long term rating.

18. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 18.1 There are no crime and disorder reduction implications arising from this report.

19. EFFICIENCY STATEMENT

- 19.1 Monitoring and reporting of treasury management activities ensures 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.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

January 2014 Investment Portfolio Analysis Report

***Name and telephone number of holder
And address where open to inspection***

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