Non-Executive Report of the: **Audit Committee** **22 March 2016**	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	**Classification:** Unrestricted
Treasury Management Activities Report for Quarter Ending 31 January 2016	

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

Summary

This report advises the Committee of the council's borrowing and investment activities during 2015/16 to 31 January 2016. The Treasury Management Strategy Statement and the Treasury Prudential Indicators, for 2015/16 were approved by the council on 25 February 2015 as required by the Local Government Act 2003.

The report also provides information on the economic conditions prevailing in the third quarter of 2015/16. The report also provides a summary of the prudential indicators, treasury management indicators and a summary of the credit criteria adopted by the Corporate Director, Resources for the reporting year and the projected investment returns.

The Council earned an average return of 0.78% on its lending, outperforming the actual rolling average 7 day LIBID rate of 0.35%.

No long-term or short-term borrowing has been raised since the commencement of this financial year 2015/16 to reporting period.

Over the reporting period, all treasury management activities have been carried out in accordance with the approved limits and the prudential indicators set out in the Council's Treasury Management Strategy statement. The outturn report of the Treasury Management Strategy will be presented to the council at its September 2016 meeting.

Recommendations:

Members are recommended to:

- note the contents of the treasury management activities and performance against targets for quarter ending 31 January 2016
- note the Council's outstanding investments as set out in Appendix 1. The balance outstanding as at 31 January 2016 was £431.3m which includes £48.8m, pension fund cash awaiting investment.

1. REASONS FOR THE DECISIONS

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

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

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

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

2. ALTERNATIVE OPTIONS

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

2.2 If the council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, 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.

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

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

3.3 TREASURY MANAGEMENT STRATEGY 2015/16

3.3.1 The council's Treasury Management Strategy was approved on 25 February 2015 by Full Council. The Strategy comprehensively outlines how the treasury function would operate throughout the financial year 2015/16 including the limits and criteria for selecting institutions to be used for the investment of surplus cash and the council's policy on long-term borrowing and limits on debt.

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

3.3.3 The Pension Fund cash awaiting investment has been invested in accordance with council's Treasury Management Strategy agreed by Full council on the 25 February 2015, under the delegated authority of the Corporate Director, Resources and is being managed in-line with the agreed parameters. The Pensions Committee is updated on Pension Fund investment activity on a quarterly basis.

3.4 ECONOMIC COMMENTARY

3.4.1 The February Bank of England (BoE) Inflation Report highlighted that the Monetary Policy Committee (MPC) intends to focus policy on ensuring that growth and employment is sustained in order to meet the 2% inflation target. The outlook for inflation looks unlikely to surpass 1% in 2016, with CPI predicted to exceed 2% after 2 years, as drags from energy prices and cheap imports unwind. The MPC also stated that Bank Rate is likely to rise at a more gradual rate compared to recent cycles given the persistent headwinds weighing on the economy.

3.4.2 The MPC voted to keep interest rates at their record low of 0.5% in its February meeting. The vote was unanimous after Ian McCafferty dropped his call to raise rates. The Bank's decision was influenced by a darker global outlook amidst significant risks in emerging markets and the continuation of sharp falls in oil prices.

3.4.3 The headline inflation figure, the consumer price index (CPI), rose to 0.3% year-on-year in January; however the rate fell by 0.8% on the month. This was mainly a result of post-Christmas discounts and a drop in airfares.

3.4.4 The preliminary estimate for Q4 GDP 2015 revealed a small increase to 0.5% quarter-on-quarter from 0.4% in Q3. On the year, GDP fell to 1.9% in Q4 from 2.1% in Q3, the weakest end-of-year reading in nearly three years. This was due to the global economic slowdown adversely affecting the UK economy.

3.4.5 The UK unemployment rate remained at 5.1% in the three months to December, its lowest rate since mid-2005. British wage growth, including bonuses, rose by 1.9% in the three months to December, from November's upwardly revised figure of 2.1%. Excluding bonuses, growth in average weekly earnings in December picked up to 2%. With wage growth slowing, alongside a weaker outlook for inflation, expectations for the BoE to raise rates any time soon have also slowed.

3.4.6 House prices published by Nationwide in January fell short of expectations and slowed to an increase of 0.3% month-on-month after hitting an eight-month high of 0.8% in December. Year-on-year, house prices were 4.4% higher in January.

According to Halifax, in January, house prices increased by 9.7% on a yearly basis, and by 1.7% on a monthly basis.

US

3.4.7 The preliminary reading of Q4 GDP in the US revealed a slowdown to 0.7% at an annualised rate, from 2% in Q3. This was due to an inventory glut, a strengthening in the dollar and weak global demand affecting exports.

3.4.8 In January 2016, the Fed kept interest rates unchanged at 0.25%-0.50% after raising them the previous month for the first time since 2006. The Fed's decision was anticipated after the recent plummet in world equities raised fears of a sudden global slowdown. However, the Fed kept an optimistic outlook of the U.S economy and stated it was "closely monitoring" economic and financial developments around the world.

3.4.9 Non-farm payrolls rose by less than expected, coming in at 151,000 in January, compared to December's revised figure of 262,000. The unemployment rate was 4.9% in January, the lowest its been for eight years.

EU

3.4.10 The first estimate of Q4 Eurozone GDP revealed that the currency area grew by 0.3% quarter-on-quarter, the same level of growth as Q3. This was mainly a result of a slowdown in industrial production in December. Year-on-year, the Eurozone grew by 1.5%. The main factor behind growth was greater household spending and increased inventories, which counterbalanced the negative effect experienced by trade.

3.4.11 Following the European Central Bank's (ECB) meeting in January, its interest rate remained unchanged at 0.05%. Previously, the ECB cut their deposit rates by 10bps to -0.30% in December. The ECB announced their Quantitative Easing (QE) programme in January 2015 and began the programme in March 2015. They initially planned to inject €1.1trn into the economy by purchasing private and public assets worth €60bn per month. In December 2015, this program was extended for an additional 6 months to March 2017 with €1.5trn now expected to be injected.

3.4.12 The decision to leave the cost of borrowing unchanged was widely expected after the ECB cut rates to rock-bottom levels a year ago and repeatedly said they had hit "the lower bound".

China

3.4.13 China's annual GDP growth slowed as expected to 6.8% in Q4 2015 from 6.9% in the previous quarter, the slowest pace of growth since the financial crisis. The People's Bank of China has lowered the reserve requirement ratio by a further 50bps to 17.5% in October 2015 and is under pressure cut rates further.

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

3.5 INTEREST RATE FORECAST

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

Capita Asset Services' Interest Rate View	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate Forecast	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%
3 month LIBID Forecast	0.50%	0.50%	0.50%	0.60%	0.80%	0.90%	1.00%	1.10%	1.30%	1.30%	1.60%	1.80%	1.90%
6 month LIBID Forecast	0.70%	0.70%	0.70%	0.80%	0.90%	1.00%	1.20%	1.40%	1.60%	1.70%	1.80%	2.00%	2.20%
12 month LIBID Forecast	1.00%	1.00%	1.00%	1.10%	1.20%	1.30%	1.50%	1.70%	1.90%	2.00%	2.10%	2.30%	2.40%

UK Interest Rate Forecast

Rate	NOW	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
a Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%
al Economics	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	-	-	-	-	-
WLB Rate	NOW	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
a Asset Services	1.59%	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%
al Economics	1.59%	2.10%	2.20%	2.50%	2.55%	2.80%	2.80%	3.05%	3.05%	-	-	-	-	-
PWLB Rate	NOW	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
a Asset Services	2.27%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.30%	3.40%	3.50%	3.60%
al Economics	2.27%	2.55%	2.55%	2.80%	2.80%	3.05%	3.05%	3.30%	3.30%	-	-	-	-	-
PWLB Rate	NOW	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
a Asset Services	3.13%	3.20%	3.20%	3.30%	3.30%	3.50%	3.50%	3.60%	3.60%	3.70%	3.70%	3.70%	3.80%	3.80%
al Economics	3.13%	2.85%	2.85%	3.10%	3.10%	3.30%	3.30%	3.45%	3.45%	-	-	-	-	-
PWLB Rate	NOW	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
a Asset Services	2.95%	3.00%	3.00%	3.10%	3.10%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.60%	3.70%	3.70%
al Economics	2.95%	2.90%	2.90%	3.15%	3.15%	3.35%	3.35%	3.50%	3.50%	-	-	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

3.5.2 Capita Asset Services undertook a review of its interest rate forecasts; this latest forecast includes a change in the timing of the first increase in Bank Rate to quarter 1 of 2017 from quarter 2 of 2016. With CPI inflation now likely to be at or near zero for most of early 2016, it is currently very difficult for the MPC to make a start on increasing Bank Rate. In addition, the Inflation Report forecast was also notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. Despite average weekly earnings excluding bonuses hitting 2.5% in quarter 3, this has subsided to 1.9% and is unlikely to provide ammunition for the MPC to take action to raise Bank Rate soon as labour productivity growth would mean that net labour unit costs are still only rising by less than 1% y/y.

3.5.3 The significant appreciation of Sterling against the Euro in 2015 has also acted to dampen UK growth while volatility in financial markets since the Inflation Report has resulted in volatility in equity and bond prices and bond yields (and therefore PWLB rates). But CPI inflation will start sharply increasing around mid-year 2016, once initial falls in fuel and commodity prices fall out of the 12 month calculation of inflation; this will cause the MPC to take a much keener interest in the forecasts for inflation over their 2-3 year time horizon from about mid-year.

3.5.4 The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when average disposable income is only just starting a significant recovery as a result of recent increases in the rate of wage inflation, though some consumers will not have seen that benefit come through for them.

3.6 INVESTMENT STRATEGY

3.6.1 The Treasury Management Strategy Statement (TMSS) for 2015/16, which includes the Annual Investment Strategy, it outlines the council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

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

3.6.3 The approved limits within the Annual Investment Strategy were not breached during the financial year to period ended 31st January 2016.

3.6.4 The portfolio Investment returns are likely to remain relatively low for the rest of 2015/16 and beyond.

3.6.5 Borrowing interest rates have been highly volatile during 2015 as alternating spells of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenomenally low levels, so far this year. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when the council will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.

3.6.6 There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

Investment performance for financial year to 31st January 2016

Benchmark	Benchmark Return	LBTH Performance	Over/(Under) Performance
Full Year 2014/2015	0.35%	0.73%	0.38%
Quarter 1 (Apr-Jun)	0.36%	0.76%	0.41%
Quarter 2 (Jul-Sep)	0.36%	0.78%	0.43%
Quarter 2 (Oct-Dec)	0.36%	0.79%	0.44%
Year to Date	0.36%	0.78%	0.43%

3.6.7 As illustrated above, the council outperformed the benchmark by **43bps** for financial year to date. The council's budgeted investment return for 2015/16 is **£2.45m,** and performance for the year to date is £0.44m above budget.

3.6.8 Investment rates available in the market have been broadly stable during the period and have continued at historically low levels as a result of the ultra-low Bank Rate. The average level of funds available for investment purposes during the reporting period was **£457.6m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

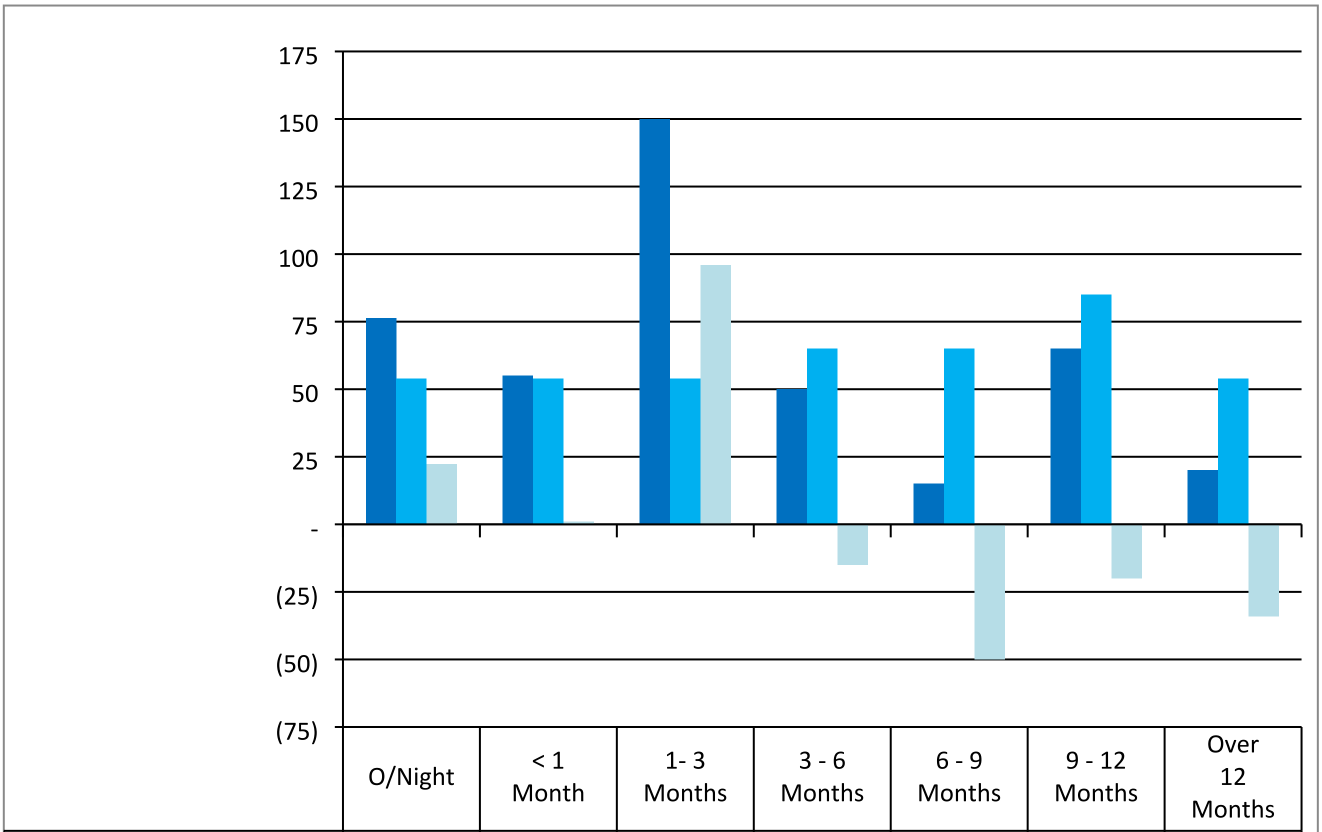
3.7 Investments Outstanding & Maturity Structure

3.7.1 The chart below illustrates the maturity structure of deposits as at 31 January 2016; we have £76.3m as overnight deposits, and this is basically all Money Market Funds.

3.7.2 The Weighted Average Maturity (WAM) for outstanding investment (excluding MMF) is 142 days for the month of January and 183 days for last month. This is the average number of outstanding days to maturity of each deal from 31 January 2016.

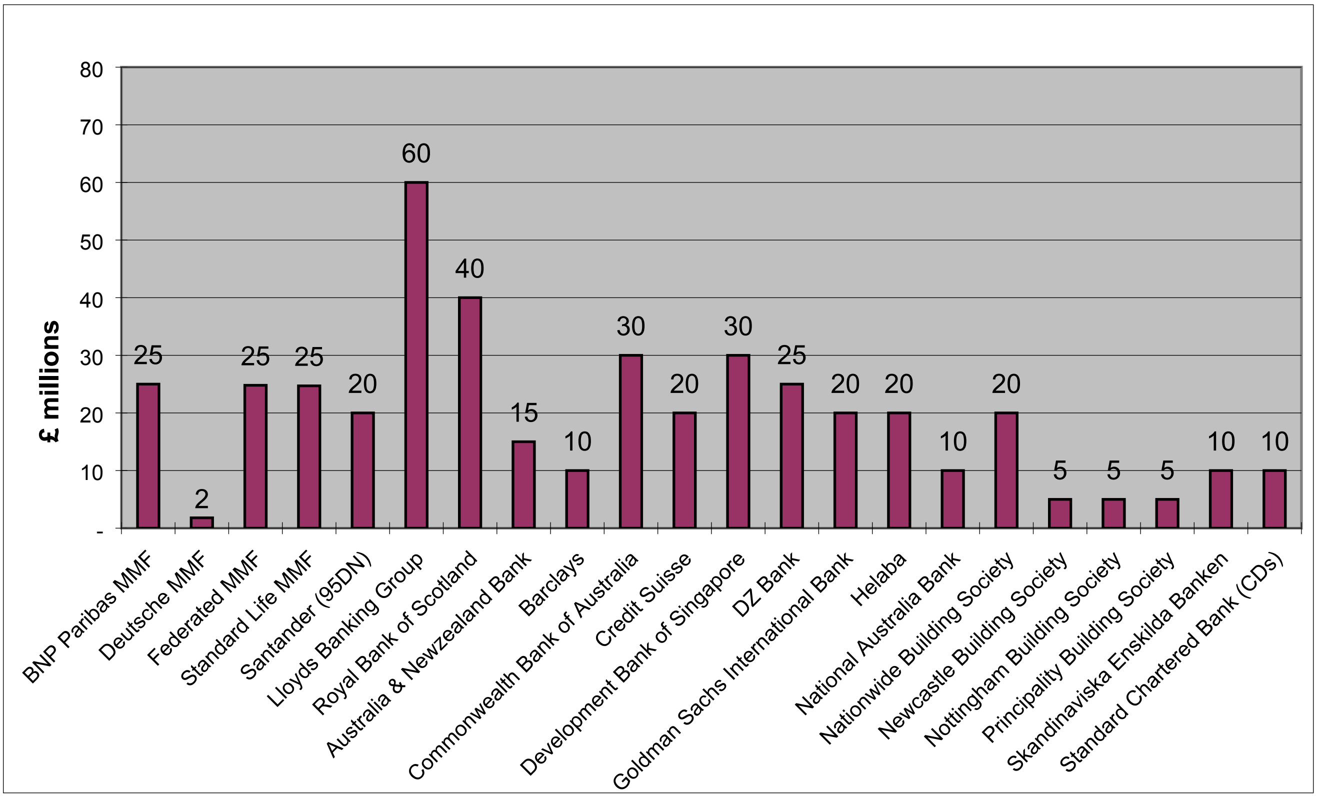
3.7.3 The outstanding investments of £431.3m include Pension Fund surplus cash of some £48.8m which is being invested and will continue to be invested in accordance with the Council's Treasury Management Strategy agreed by Full Council, under the delegated authority of the Corporate Director Resources to manage within agreed parameters. £45m of this surplus cash will be transferred to a fund manager before the end of this financial year.

Maturity of Investment Portfolio as at 31 January 2016



	O/Night	< 1 Month	1- 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	Over 12 Months
£m Portfolio Value	76.30	55.00	150.00	50.00	15.00	65.00	20.00
Portfolio Target £	54.00	54.00	54.00	65.00	65.00	85.00	54.00

Counterparty Exposure as at 31 January 2016



3.7.4 The above graph shows the deposits outstanding with authorised counterparties as at 31st January 2016, of which 9.3% were with part-nationalised banks (RBS Groups). Lloyds banking group has been removed from part nationalised bank and this institution current credit ratings based on the council credit worthiness policy can only permit us to invest a monetary limit of £20m for a maximum time limit of 6 months. The council currently has £60m of investment outstanding with the group, as listed below:

Amount	Maturity	Amount	Maturity
£5m	Feb-16	£35m	Apr-16
£15m	Mar-16	£5m	Aug-16

3.7.5 The above investments were undertaken prior to the change, that is, they were transacted when the bank met the council's treasury adviser criteria for classifying the institution as a part nationalised bank with monetary limit of £70m and time limit of 2 years.

3.7.6 No more transactions are being carried out with Lloyd's group. All outstanding deposits are less than one year to maturity; the outstanding investments would be managed down to the council's monetary and time limits, which is currently £20m and 6 months duration. As of today, by the end of March 2016, the council would have £40m of outstanding investments with less than 5 months to maturity and by the end of April 2016 the council would only have £5m outstanding with less than 4 months to maturity.

3.8 DEBT PORTFOLIO

3.8.1 The council's Treasury Management Strategy Report approved in February 2015 outlined the council's long term borrowing strategy for the year.

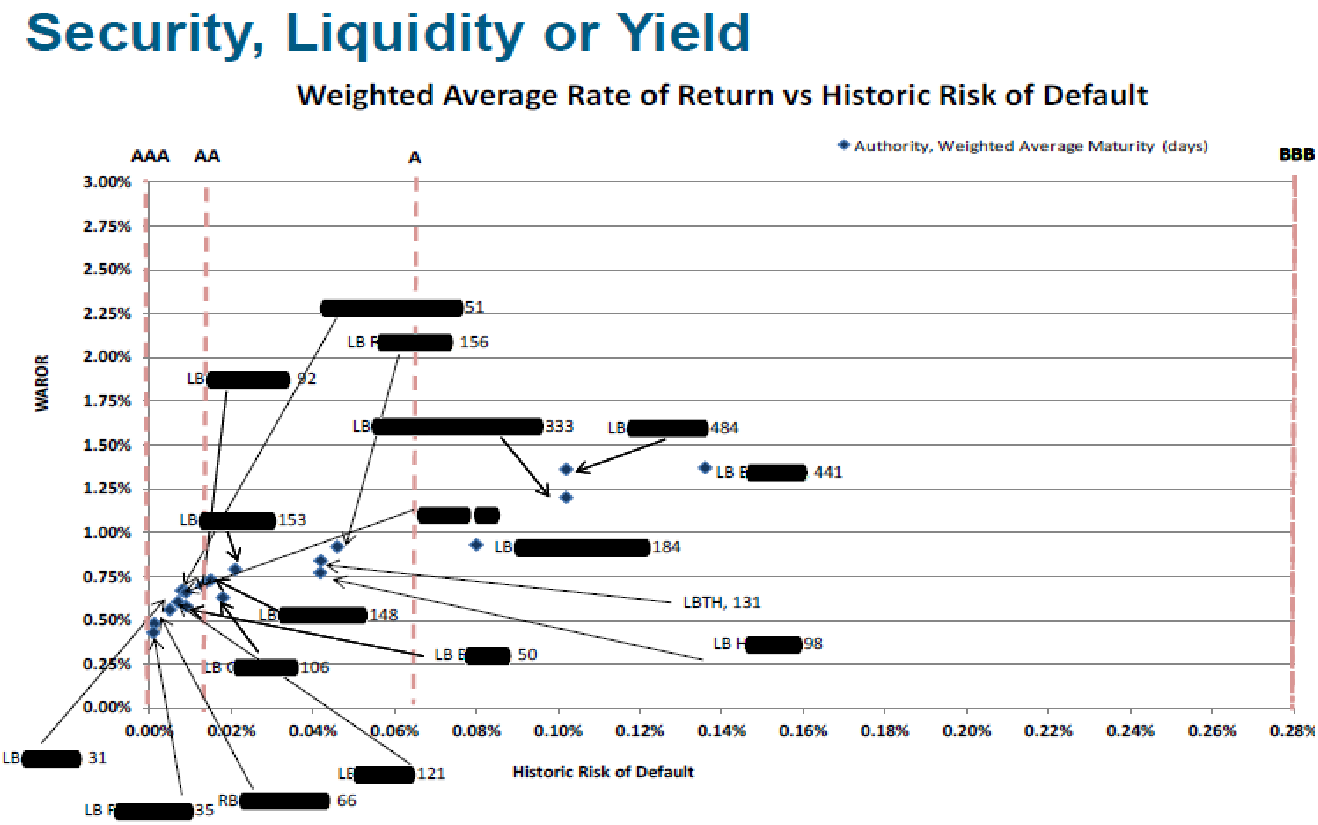
3.8.2 The table below sets out the council's debt as at the beginning of the financial year and as at 31 December 2015. The overall debt fell by £0.56m from £89.222m at the start of the year. Total debt outstanding, stands at £88.662m, against estimated CFR of £220.549m for 2015/16, resulting in an under-borrowing of £131.887m

	31 March 2015 Principal	Loans raised	Loans repaid	31 December 2015 Principal
	£'000	£'000	£'000	£'000
Fixed Rate Funding:				
-PWLB	11,722	-	0.560	11,162
-Market	13,000	-	-	13,000
Total Fixed Rate Funding	24,722		0.560	24,162
Variable Rate Funding:				
-PWLB	-	-		-
-Market	64,500	-	-	64,500
Total Variable Rate Funding	64,500	-	-	64,500
Total Debt	***89,222***	***-***	***0.560***	***88,662***
CFR	***227,517***	***-***	***-***	***220,549***
Over/ (under) borrowing	***(138,295)***	***-***	***-***	***(131,887)***

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

3.9 INVESTMENT BENCHMARKING CLUB

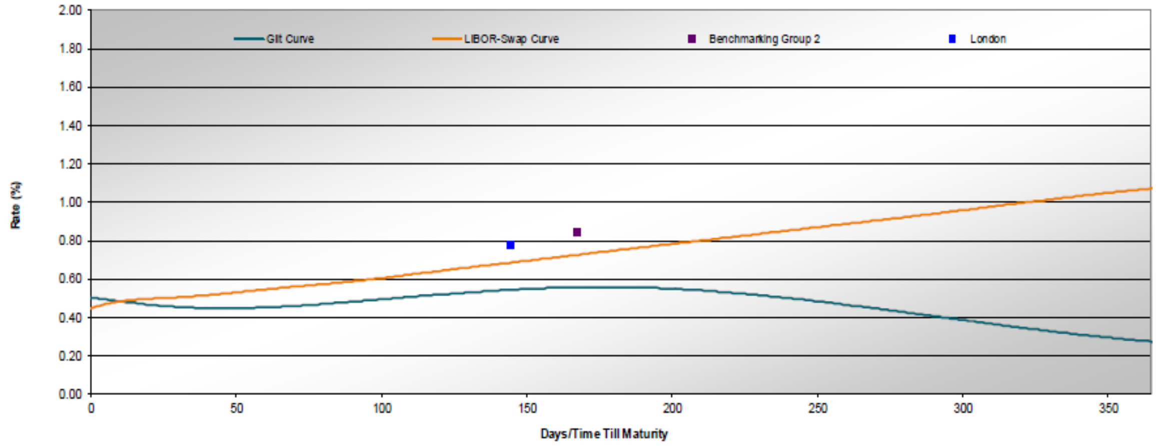
3.9.1 LBTH participates in a benchmarking club to enable officers to compare the council's treasury management / investment returns against those of similar authorities. The model below shows the performance of benchmark club members given the various levels of risks taken as at 31 December 2015. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 20 local authorities. Tower Hamlets lies close to the expected return given the council's portfolio risk profile, which is placing deposits with institutions with the sovereign rate of AAA.



3.9.3 The above chart shows the credit quality range of investments held as at 31st December 2015 by club members. The council's investment portfolio for this period exhibits characteristics of investments held to be of investment credit quality of AA to A.

3.9.4 The weighted average rate of return (WARoR) for Tower Hamlets as shown below was 0.84%, in-line with the average group performance as shown below. The return on LBTH investment is commensurate with the council's risk appetite as set out in the Investment Strategy.

Returns Comparable Against the Risk-Free Rate and LIBOR Curve



	WARoR	WAM	WATT	WARisk	Gilt	LIBOR-Swap	Difference Gilt	Difference LIBOR-Swap	Model Bands	Performance
Benchmarking Group 2	0.84%	168	328	3.6	0.56%	0.72%	0.28%	0.11%	0.74% - 0.85%	Inline
London	0.77%	144	278	3.4	0.54%	0.68%	0.23%	0.09%	0.68% - 0.80%	Inline

Summary Positions – December 2015

	London Borough [redacted]	London Borough [redacted]	London Borough [redacted]	London Borough [redacted]	London Borough [redacted]	London Borough [redacted]	London Borough [redacted]	London Borough [redacted]
WARoR	1.20%	1.37%	0.63%	0.79%	0.56%	0.77%	0.73%	0.70%
WA Risk	3.4	3.2	3.2	3.7	3.3	3.8	2.3	3.5
WAM	333	441	106	153	31	98	148	92
WA Tot. Time	544	815	191	328	90	288	324	181
Performance	Above	Above	Inline	Inline	Inline	Below	Inline	Inline

	London Borough [redacted]	London Borough [redacted]	London Borough [redacted]	London Borough of Tower Hamlets	London Borough [redacted]	[redacted]	[redacted]
WARoR	1.36%	0.92%	0.43%	0.84%	0.93%	0.67%	0.66%
WA Risk	3.1	4.5	2.4	3.9	4.7	4.5	4.0
WAM	484	156	35	131	184	73	51
WA Tot. Time	927	307	57	285	382	133	65
Performance	Inline	Above	Below	Inline	Inline	Inline	Above

1	1.25	1.5	2	3	4	5	6	7
60 months			24 Months	12 Months	12 Months	6 Months	100 Days	0 Months

1	*Highest credit quality ratings e.g. Gilts, Treasury Bills and MMFs*
1.25	*Enhanced Money Market Funds*
1.5	*Enhanced Money Market Funds*
2	*High credit rated institutions*
3	*Part Nationalised Banks e.g. RBS Group*
4	
5	
6	
7	*Weaker credit rated institutions*

3.10 INVESTMENT UPDATE

3.10.1 Full Council approved the Investment Strategy on 25 February 2015. Officers continue to look for ways to maximise returns on cash balances within the constraints of the Investment Strategy. The Investment Strategy was developed based on an improving outlook in the money markets.

3.10.2 The councils have deposit of £100m outstanding with the part nationalised banking groups (Royal Bank of Scotland (£40m) and Lloyds banking group £60) and the challenge ahead will be to address the decline in the Government holding in Lloyds Banking Group and the impact that this could have on the counterparty limit that the council currently applies to this entity.

3.10.3The council treasury adviser (Capita) has removed Lloyds group from part nationalised classification as the Government stakes have been reduced to less than 15%. However based on Lloyds banking group current credit ratings the monetary and time limits that applied to this establishment based on the council credit worthiness policy are a monetary limit of £20m and a maximum time limit of 6 months. The council currently has £60m of investment outstanding with the group. No more transactions are being carried out with the group. All deposits are less than one year to maturity; these investments would now be managed down to the council’s current monetary and time limits for the institution.

3.10.4 Barclays Bank S&P Long Term rating was lowered to A- which leaves it one notch below that set in the council's Investment Strategy for 2015/16. The outlook is Stable, which suggests that there is no risk of a further downgrade in the near term. This should offer comfort to the council that the bank is not an immediate risk. We have been advised by Capita that this change is not a reflection of a worsening position of the bank, but the re-assessment of the manner in which the agency treats sovereign support. This is being applied to all UK and global institutions and is not unique to Barclays. The council's remaining investment with the bank matures on 5th April 2016. This was undertaken prior to this change; deal was transacted when the bank met the council's criteria.

3.10.11Investments over 1 year is standing at £20m and were all invested with Royal Bank of Scotland for two years duration.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The comments of the Corporate Director, Resources are incorporated in the report.

5. LEGAL COMMENTS

5.1 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.

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

5.3 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.

6. ONE TOWER HAMLETS CONSIDERATIONS

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

7. BEST VALUE (BV) IMPLICATIONS

7.1 Assessment of value for money is achieved through:

- Monitoring against benchmarks
- Operating within budget

7.2 For example, investment returns exceeded the LIBID benchmark up to January 2016 and the treasury function operated within budget year to reporting period.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There are no Sustainable Actions for A Greener Environment implications.

9. RISK MANAGEMENT IMPLICATIONS

9.1 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.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents
Linked Report

- NONE

Appendices

- Appendix 1 - Investments Outstanding as at 31st January 2016.

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
List any background documents not already in the public domain including officer contact information.

- Capita January 2016 Investment Portfolio Analysis Report

Officer contact details for documents:

- Bola Tobun Ext. 4733
- Mulberry Place, 3rd Floor.

Appendix 1
Investments Outstanding as at 31 January 2016

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	BNP Paribas MMF		**MMF**	25.00	
	Deutsche MMF		**MMF**	1.80	
	Federated MMF		**MMF**	24.80	
	Standard Life MMF		**MMF**	24.70	
	SUB TOTAL			**76.30**	
< 1 Month	Commonwealth Bank of Australia	03/09/2015	03/02/2016	5.00	0.58%
	Lloyds Banking Group	04/02/2015	04/02/2016	5.00	1.00%
	Development Bank of Singapore	10/08/2015	10/02/2016	10.00	0.61%
	National Australia Bank	16/02/2015	16/02/2016	10.00	0.61%
	Development Bank of Singapore	17/08/2015	17/02/2016	5.00	0.61%
	Royal Bank of Scotland	27/02/2013	26/02/2016	10.00	1.15%
	Helaba	26/05/2015	26/02/2016	5.00	0.86%
	DZ Bank	26/08/2015	26/02/2016	5.00	0.66%
	SUB TOTAL			**55.00**	
1 - 3 Months	Commonwealth Bank of Australia	03/09/2015	03/03/2016	5.00	0.62%
	Lloyds Banking Group	04/03/2015	04/03/2016	5.00	1.00%
	Lloyds Banking Group	05/03/2015	07/03/2016	10.00	1.00%
	Australia & New Zealand Bank	14/12/2015	14/03/2016	10.00	0.52%
	Commonwealth Bank of Australia	14/09/2015	14/03/2016	10.00	0.64%
	Royal Bank of Scotland	20/03/2014	20/03/2016	5.00	1.25%
	Standard Chartered Bank (CDs)	01/04/2015	30/03/2016	10.00	0.86%
	Development Bank of Singapore	04/01/2016	04/04/2016	10.00	0.60%
	Development Bank of Singapore	06/01/2016	06/04/2016	5.00	0.60%
	Lloyds Banking Group	07/04/2015	07/04/2016	5.00	1.00%
	Lloyds Banking Group	10/04/2015	08/04/2016	5.00	1.00%
	Lloyds Banking Group	13/04/2015	12/04/2016	5.00	1.00%
	Nationwide Building Society	13/04/2015	12/04/2016	10.00	0.90%
	Australia & New Zealand Bank	13/01/2016	13/04/2016	5.00	0.52%
	Lloyds Banking Group	15/04/2015	14/04/2016	5.00	1.00%
	Nationwide Building Society	16/04/2015	15/04/2016	5.00	0.90%
	Barclays	16/04/2015	15/04/2016	10.00	0.92%
	Lloyds Banking Group	17/04/2015	15/04/2016	10.00	1.00%
	Nationwide Building Society	24/04/2015	22/04/2016	5.00	0.90%
	Nottingham Building Society	29/04/2015	28/04/2016	5.00	1.00%
	Newcastle Building Society	29/04/2015	28/04/2016	5.00	1.10%
	Lloyds Banking Group	29/04/2015	29/04/2016	5.00	1.00%
	SUB TOTAL			**150.00**	
3 - 6 Months	Santander (95DN)		Call - 95N	20.00	1.10%
	Helaba	01/05/2015	03/05/2016	10.00	0.94%
	DZ Bank	04/01/2016	04/05/2016	10.00	0.60%
	DZ Bank	04/01/2016	04/07/2016	10.00	0.69%
	SUB TOTAL			**50.00**	
6 - 9 Months	Commonwealth Bank of Australia	05/08/2015	05/08/2016	5.00	0.84%
	Lloyds Banking Group	13/08/2015	12/08/2016	5.00	1.00%
	Skandinaviska Enskilda Banken	05/10/2015	05/10/2016	5.00	0.92%
	SUB TOTAL			**15.00**	
9 - 12 Months	Goldman Sachs International Bank	23/10/2015	24/10/2016	10.00	1.00%
	Helaba	12/11/2015	11/11/2016	5.00	1.04%
	Principality Building Society	11/11/2015	11/11/2016	5.00	1.08%
	Goldman Sachs International Bank	12/11/2015	14/11/2016	10.00	0.95%
	Credit Suisse	20/11/2015	18/11/2016	10.00	1.03%
	Credit Suisse	25/11/2015	25/11/2016	10.00	1.00%
	Skandinaviska Enskilda Banken	07/12/2015	07/12/2016	5.00	0.85%
	Commonwealth Bank of Australia	15/12/2015	15/12/2016	5.00	0.91%
	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74%
	SUB TOTAL			**65.00**	
> 12 Months	Royal Bank of Scotland**	05/05/2015	05/05/2017	5.00	1.42%
	Royal Bank of Scotland**	08/05/2015	08/05/2017	5.00	1.42%

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
	Royal Bank of Scotland	30/01/2015	30/01/2018	5.00	1.20%
	Royal Bank of Scotland	30/04/2015	30/04/2018	5.00	0.90%
	SUB TOTAL			**20.00**	
	TOTAL			**431.30**	

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

** This is certificate of Deposits