

# Audit Committee

**Monday, 22 January 2024 at 6.30 p.m.  
Committee Room - Tower Hamlets Town Hall,  
160 Whitechapel Road, London E1 1BJ**

## Supplemental Agenda 3

### Tabled report – Item 4.4

#### 4.4 Treasury Management Report and Mid-Year Review (Pages 3 - 22)

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# Agenda Item 4.4

Non-Executive Report of the:  <b>Audit Committee</b>  22 January 2024	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Julie Lorraine, Corporate Director Resources	<b>Classification:</b> Unrestricted
<b>Treasury Management Mid-Year Report for 2023-24</b>	

<b>Originating Officer(s)</b>	Abdulrazak Kassim, Director of Finance, Procurement and Audit John Harrison, Interim Director of Finance, Procurement and Audit Paul Audu, Interim Head of Pensions & Treasury
<b>Wards affected</b>	All wards

## Executive Summary

- 1) 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 2023-24 were approved by Council on 1 March 2023 as required by the Local Government Act 2003. This report covers the period 1 April 2023 to 30 September 2023.
- 2) 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 and inflation. The successful identification, monitoring and control of risks are therefore key to the Council's treasury management strategy.
- 3) To date £76m has been invested in pooled funds. The value of pooled funds at 30 September is currently at a loss of £4.8m, however the Council continues to receive dividend income.
- 4) From the Benchmarking exercise, a total return of 5.14% was achieved for the reporting period. This was above the benchmark average of 4.34%.
- 5) Over the reporting period, all treasury management activities were performed in accordance with the approved limits and the prudential indicators (PI) set out in the Council's Treasury Management Strategy Statement.

## **Recommendations:**

It is recommended to Audit Committee to:

- 1) Note the contents of the treasury management activities and performance against targets for the half year ending 30 September 2023; and
- 2) Note the Council's investments as set out in Appendix 1. The balances outstanding at 30 September 2023 were £265.5m.

## **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 in scrutinizing officer decisions and monitoring progress on the implementation of its investment strategy as approved by Council.
- 1.4 This report includes the new requirement in the 2021 Prudential Code, mandatory from 1 April 2023, of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the Authority's normal quarterly revenue and capital monitoring report.

## **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 sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities. If the Council was to deviate from the requirements, there would need to be justifiable reason for doing so.

## **3 DETAILS OF THE REPORT**

### **Background to Treasury Management**

- 3.1 The Council's Treasury Management Strategy for 2023-24 was approved at the Council meeting of 1 March 2023. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested pooled funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains

central to the Council's treasury management strategy.

- 3.2 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve, as a minimum, treasury management semi-annual and annual outturn reports.
- 3.3 The 2021 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 1 March 2023.

### **External Context**

- 3.4 **Economic background:** UK inflation remained stubbornly high over much of the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.
- 3.5 Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.2%. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.
- 3.6 July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.
- 3.7 Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.
- 3.8 The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.
- 3.9 Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to

5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

- 3.10 Following the September MPC meeting, Arlingclose, the authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.
- 3.11 **Financial markets:** Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak. Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.
- 3.12 **Credit review:** Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.
- 3.13 Following the issue of a Section 114 notice, in September Arlingclose advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on Warrington Borough Council to a maximum of 100 days.
- 3.14 Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list. Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

### **Local Context**

- 3.15 On 31 March 2023, the Council had net investments of £237.950m 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. These factors are summarised in Table 1 below.

**Table 1: Balance Sheet Summary at 31 March 2023**

	<b>31.03.23 Actual</b>	<b>31.03.24 Estimate</b>

	£m	£m
General Fund CFR	404.222	403.653
HRA CFR	165.503	181.067
<b>Total CFR</b>	<b>569.725</b>	<b>584.720</b>
Less other debt liabilities (PFI and Leases)	46.020	41.286
<b>Borrowing CFR</b>	<b>523.705</b>	<b>543.434</b>
Less external borrowing	68.709	68.709
Internal borrowing	454.996	475.725
Less usable reserves	649.675	543.825
Less working capital	43.271	58.152
<b>Net investments</b>	<b>237.950</b>	<b>127.252</b>

- 3.16 The treasury management position on 30 September 2023 and the change over the six months is shown in Table 2 below.

**Table 2: Treasury Management Summary**

	31.03.23 Balance £m	Movement £m	30.09.23 balance £m	30.09.23 Rate %
Long-term borrowing	68.709	-	68.709	3.01
Short-term borrowing	-	-	-	
<b>Total Borrowing</b>	<b>68.709</b>	<b>0</b>	<b>68.709</b>	
Long-term investments	56.000	-	56.000	3.08
Short-term investments	20.000	-	20.000	4.64
Cash and cash equivalents	161.950	27.517	189.467	5.19
<b>Total investments</b>	<b>237.950</b>	<b>27.517</b>	<b>265.467</b>	<b>4.92</b>
<b>Net investments</b>	<b>169.241</b>	<b>27.517</b>	<b>196.758</b>	

### **Borrowing Update**

- 3.17 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.
- 3.18 The Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Council. It has no plans to do so in future.

### **Borrowing Strategy and Activity**

- 3.19 Although the Council has not borrowed in many years, however, should the Council decide to borrow, the Council's chief objective when borrowing would be to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
- 3.20 There was a substantial rise in the cost of both long and short-term borrowing over the last 18 months. Bank Rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. Bank Rate was 2% higher than at the end of September 2022. On 30 September 2023, the PWLB certainty rates for maturity loans were 5.26% for 10-year loans, 5.64% for 20-year loans and 5.43% for 50-year loans. Their equivalents on 31 March 2023 were 4.33%, 4.70% and 4.41% respectively.
- 3.21 A new PWLB HRA rate which is 0.4% below the certainty rate was made available from 15 June 2023. Initially available for a period of one year, but extended by another year in the Autumn Statement, this discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans.
- 3.22 At 30 September 2023, the Council held £68.7m of loans. Outstanding loans on 30 September are summarised in Table 3A below.

**Table 3A: Borrowing Position**

	31.03.23 balance £m	Movement £m	30.09.23 balance £m	30.09.23 rate %	30.09.23 WAM* years
Public Works Loan Board	51.209	-	51.209	2.55	44.7
Banks (fixed term)	17.500	-	17.500	4.34	54.0
<b>Total borrowing</b>	<b>68.709</b>		<b>68.709</b>		

\*\*Weighted average maturity

**Table 3B: Long-dated borrowing**

	Amount £m	Rate %	Period years
PWLB maturity loan 1	1.209	4.5	29.5
PWLB maturity loan 2	20.000	2.61	45.2
PWLB maturity loan 3	10.000	2.50	44.2
PWLB maturity loan 4	20.000	2.40	45.4
Market loan 1	4.500	4.25	54.0
Market loan 2	13.000	4.37	54.0
<b>Total borrowing</b>	<b>68.709</b>	<b>3.01</b>	<b>47.1</b>

- 3.23 There remains a strong argument for diversifying funding sources, particularly



if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

- 3.24 The UK Infrastructure Bank is one alternative source of funding which offers funding at gilt yields + 0.40% (0.40% below the PWLB certainty rate) and the possibility of more flexible funding structures than the PWLB. Funding from UKIB is generally only available for certain types of projects that meet its criteria of green energy, transport, digital, water and waste. The minimum loan size is £5 million.

### **Other Debt Activity**

- 3.25 Other debt liabilities, Private Finance Initiative and leases, stood at £43.6m on 30 September 2023, taking total debt to £112.309m. The Council did not raise any new capital finance for Private Finance Initiative and finance leases between April 2023 and September 2023.

### **Treasury Management Investment Activity**

- 3.26 The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.
- 3.27 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the half year, the Council's investment balances ranged between £249.0m and £300m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

**Table 4: Treasury Investment Position at 30 September by Financial Sector**

	<b>31.03.23 balance £m</b>	<b>Net movement £m</b>	<b>30.09.23 Balance £m</b>	<b>30.09.23 return %</b>
UK banks	1.00	-	1.00	1.03
Government (incl. local authorities)	20.00	84.16	104.16	5.10
Overseas Banks	30.00	-	30.00	5.36
Money Market Funds	110.95	-56.64	54.31	5.20
<b>Pooled Investment Funds:</b>				
<i>Cash plus funds</i>	20.00	-	20.00	5.38
<i>Short-dated bond funds</i>	18.00	-	18.00	6.48
<i>Strategic bond funds</i>	9.00	-	9.00	8.77
<i>Equity Income funds</i>	13.00	-	13.00	10.18
<i>Property funds</i>	5.00	-	5.00	8.85
<i>Multi asset income funds</i>	11.0	-	11.00	3.54
<b>Total investments (Market value)</b>	<b>237.95</b>	<b>27.52</b>	<b>265.47</b>	<b>5.14</b>

- 3.28 Both the CIFA Code and government guidance require the Council to invest its funds prudently and to consider the security and liquidity of its treasury investments before seeking the optimum return rate, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 3.29 Bank Rate increased by 1% from 4.25% at the beginning of April to 5.25% by the end of September. Short-dated cash rates rose commensurately, with 3-month rates rising to around 5.25% and 12-month rates to nearly 6%. The rates on DMADF deposits also rose, ranging between 4.8% and 5.4% by the end of September. The return on the Council's Money Market Funds ranged between 4.6% and 4.9% at the end of September.
- 3.30 The progression of risk and return metrics are shown in the progression of risk and return metrics in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

**Table 5: Investment Benchmarking – treasury investments managed in-house**

Period	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity days	Rate of Return %
31.03.2023	4.36	AA-	69%	35	2.13
30.06.2023	4.11	AA-	39%	84	4.82
30.09.2023	3.94	AA-	29%	54	5.14
Similar Las	4.50	A+	65%	49	4.34
All Las	4.47	AA-	59%	49	3.66

- 3.31 **Externally Managed Pooled Funds:** £76.0m of the Authority's investments is invested in externally managed cash plus funds and strategic pooled funds investing in bonds, equity, multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total unrealised loss of £300k and £4.6m since purchase but delivered 2.3% and 0.4% capital returns and 3.1% and 4.5% income return over the year to 30 September 2023 respectively.
- 3.32 Financial market conditions were volatile during the six-month period. Global bond yields rose and remained elevated as it became apparent that policymakers were looking to keep rates high for some time amid persistently higher core inflation and tight labour markets.
- 3.33 Because these funds have no defined maturity date, but are available for withdrawal after a notice period, the Council's treasury adviser is currently in support of these investments being held by the Council on the understanding that strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns should exceed cash interest rates.

3.34 Income returns in the first six months of 2023-24 were above budgeted. The Authority has budgeted £2m income from these investments in 2023-24. Income earned up to 30 September was £5.9m.

### **Non-Treasury Investments**

3.35 The definition of investments in CIPFA’s revised 2021 Treasury Management Code covers all the financial assets an authority may hold as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

3.36 Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also broadens the definition of investments to include all such assets held partially or wholly for financial return.

3.37 The Council held the following non-treasury investments which were made for service purposes (the Council does not invest for commercial purposes):

- shareholding in subsidiaries £6m
- loans to subsidiaries £2.175m

### **Treasury Performance**

3.38 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 6 below.

**Table 6: Forecast Performance at 30 September 2023**

	<b>Actual £m</b>	<b>Budget £m</b>	<b>Over/ under</b>	<b>Actual %</b>
PWLB Interest Payable	1.325	1.490	-0.165	63.58%
Market Loan Interest Payable	0.759	0.760	0.000	36.42%
<b>Total borrowing Interest</b>	<b>2.084</b>	<b>2.250</b>	<b>-0.165</b>	<b>100.00%</b>
Money Market Funds	0.955	2.270	0.498	34.50%
Pooled Funds	1.001			36.16%
Fixed Deposits	0.719			25.98%
Call Accounts	0.093			3.36%
<b>Total treasury investments income</b>	<b>2.768</b>	<b>2.270</b>	<b>0.480</b>	<b>100.00%</b>

	<b>Tower Hamlets</b>		<b>16 London &amp; Mets</b>	<b>121 Local authorities</b>
	<b>31.03.23</b>	<b>30.09.23</b>	<b>Average</b>	<b>Average</b>

<b>Security</b>				
Average Credit Score	4.40	3.90	4.50	4.47
Average Credit Rating	AA-	AA-	A+	AA-
Number of Counterparties & Funds	31	22	13	13
Proportion Exposed to Bail-in	59%	29%	65%	59%
Proportion Available within 7 days	39%	21%	64%	50%
Proportion Available within 100 days	78%	76%	85%	70%
Average Days to Maturity	38	42	29	13
Total Investments - Total Return	0.87%	5.14%	4.34%	3.66%

### **Compliance**

- 3.39 The Corporate Director Resources reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy Compliance with specific investment limits is demonstrated in table 7 below.
- 3.40 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

**Table 7: Debt Limits**

	<b>31.03.23 actual £m</b>	<b>31.03.24 forecast £m</b>	<b>30.09.23 actual £m</b>	<b>2023-24 Operational Boundary £m</b>	<b>2023-24 Authorised Limit £m</b>	<b>Complied (Y/N)</b>
Borrowing	68.709	68.709	68.709	555.161	585.161	✓
PFI & finance leases	46.020	41.286	41.286	41.286	41.286	✓
<b>Total debt</b>	<b>114.729</b>	<b>108.995</b>	<b>109.995</b>	<b>596.447</b>	<b>626.447</b>	

**Table 8: Investment Limits at 30 September 2023**

## Treasury Management Indicators

Counterparty	Amount £m	Counter Party Limit	Sector Limit	Complied
Invesco MMF	8.00	30.000	Unlimited	✓
Federated MMF	25.000	30.000		✓
CCLA PSDF MMF	0.007	30.000		✓
Aviva MMF	21.300	30.000		✓
<b>SUB TOTAL (MMF)</b>	<b>54.307</b>			
Santander	1.000	15.000		✓
DBS Bank	15.000	15.000		✓
Australia & New Zealand Banking Group	15.000	15.000		✓
<b>SUB TOTAL (BANKS)</b>	<b>31.000</b>			
DMO	104.16	Unlimited	Unlimited	✓
<b>SUB TOTAL (DMO)</b>	<b>104.16</b>			
Payden & Rygel Sterling Reserve Fund (POOLED)	10.000	30.000	150.000	✓
Royal London Enhanced Cash Plus (POOLED)	10.000	30.000		✓
CCLA LAMIT Property Fund (POOLED)	5.000	30.000		✓
CCLA Diversified Income Fund (POOLED)	5.000	30.000		✓
Payden Absolute Return Bond Fund (POOLED)	10.000	30.000		✓
Columbia Threadneedle Global Equity Income Fund Z (POOLED)	3.000	30.000		✓
Columbia Threadneedle Strategic Bond Fund Z (POOLED)	5.000	30.000		✓
Columbia Threadneedle Sterling Short-Dated Corporate Bond Fund (POOLED)	8.000	30.000		✓
Investec Fund Series I Diversified Income (POOLED)	6.000	30.000		✓
Schroder Income Maximiser Fund (POOLED)	3.000	30.000		✓
M & G Global Dividend Fund (POOLED)	2.000	30.000		✓
M & G Optimal Income Fund (POOLED)	2.000	30.000		✓
M & G UK Income Distribution Fund (POOLED)	3.000	30.000		✓
M & G Strategic Corporate Bond Fund (POOLED)	4.000	30.000		✓
<b>SUB TOTAL (POOLED)</b>	<b>76.000</b>			
<b>TOTAL</b>	<b>265.467</b>			

3.41 The Council measures and manages its exposure to treasury management risks using the following indicators.

3.42 Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average 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.

	31.03.23 Actual	30.09.23 Actual	2023.24 Target	Complied (Y/N)
Portfolio average credit	AA-	AA-	AA-	✓

- 3.1 Liquidity: The Authority 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. The Council can borrow each period without giving prior notice as long as its within its CFR.

	<b>31.03.23 Actual</b>	<b>30.09.23 Actual</b>	<b>2023.24 Target</b>	<b>Complied (Y/N)</b>
Total cash available within 3 months	225.200	96.300	50.000	✓
Total sum borrowed in past 3 months without prior notice	nil	nil	nil	✓

- 3.2 Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	<b>31.03.23 Actual</b>	<b>30.09.23 Actual</b>	<b>30.09.23 %</b>	<b>Upper Limit</b>	<b>Complied (Y/N)</b>
Under 12 months	-	-	-	50%	✓
12 months and within 24 months	-	-	-	50%	✓
24 months and within 5 years	-	-	-	60%	✓
5 years and within 10 years	-	-	-	75%	✓
10 years and within 20 years	-	-	-	100%	✓
20 years and within 30 years	-	-	-	100%	✓
30 years and within 40 years	1.209	1.209	1.76%	100%	✓
40 years and above	67.500	67.500	98.24%	100%	✓
<b>Total Borrowing</b>	<b>68.709</b>	<b>68.709</b>	<b>100.00%</b>		

- 3.3 Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Authority'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:

	2023-24	2024-25	2025-26
Actual principal invested beyond year end	£76m	£76m	£76m
Limit on principal invested beyond year end	£150m	£150m	£150m
Complied	✓	✓	✓

### **Arlingclose's Economic Outlook for the remainder of 2023-24**

- 3.4 The Council's treasury management adviser expects Bank Rate to rise further during the remainder of 2022/23 and to reach 4.25% by around the first quarter of the financial year 2023/24. Gilt yields are expected to remain broadly steady over the medium term, although with continued volatility across shorter time periods.

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00

## **4. EQUALITIES IMPLICATIONS**

- 4.1 There are no equality implications directly arising from this report.

## **5. OTHER STATUTORY IMPLICATIONS**

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications include:

- Best Value implications
- Consultations
- Environmental (including air quality)
- Risk management
- Crime Reduction
- Safeguarding
- Data protection/ Privacy Impact Assessment

### **5.2 Best Value Implications**

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.

Assessment of value for money is achieved through:

- Monitoring against benchmarks
- Operating within budget

### **5.3 Risk Management**

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

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.

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

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 Arlingclose who specialise in local authorities' treasury issues.

## **6 COMMENTS OF THE CHIEF FINANCE OFFICER**

6.1 This report provides an update on Treasury Management activities from April 2023 to September 2023.

6.2 As at 30th September 2023 the Council had an outstanding investments portfolio of £265.5m. The annual investment income budget is £2.0m and current estimates indicate that this will be exceeded.

## **7. LEGAL COMMENTS**

7.1 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.

7.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to consider the various CIPFA publications that amount to proper accountancy practices when carrying out capital finance functions.

7.3 This noting report of the Corporate Director of Resources advises the



Committee of the Council's borrowing and investment activities for the half-year ending 30th September 2023 and is consistent with the key principles expressed in the Treasury Management Code. The Corporate Director of 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.

- 7.4 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).

## **APPENDICES**

Appendix 1 – Investments Outstanding at 30th September 2023

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 and Quarter 2 2023-24 and Treasury Management Mid-Year Report Template

#### **Officer contact details for documents:**

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## Investments as at 30 September 2023

Time to Maturity	Counterparty	From	Maturity	Amount	Rate
				£m	
Overnight	Invesco MMF		On demand	8.000	5.32%
	Federated MMF		On demand	25.000	5.35%
	Aviva MMF		On demand	21.300	5.31%
	CCLA MMF		On demand	0.007	5.12%
	Santander		On demand	1.000	1.03%
	<b>SUB TOTAL</b>			<b>55.307</b>	
< 1 Month	DBS	18/09/2023	18/10/2023	15	5.34%
	ANZ Bank	18/09/2023	18/10/2023	15	5.38%
	DMO	26/06/2023	26/10/2023	10	5.20%
	<b>SUB TOTAL</b>			<b>40</b>	
1 to 3 Months	DMO	05/06/2023	05/12/2023	20	4.80%
	DMO	05/06/2023	05/12/2023	9.16	4.80%
	DMO	07/06/2023	07/12/2023	20	4.80%
	DMO	26/06/2023	27/11/2023	10	5.30%
	DMO	05/09/2023	06/11/2023	10	530.00%
	<b>SUB TOTAL</b>			<b>69.16</b>	
3 to 6 Months	DMO	05/07/2023	05/01/2024	15	5.46%
	DMO	23/08/2023	23/02/2024	10	5.52%
	<b>SUB TOTAL</b>			<b>25</b>	
6 to 9 Months					
	<b>SUB TOTAL</b>			<b>0</b>	
9 to 12 Months	Payden & Rygel Sterling Reserve Fund (POOLED)			10.000	5.03%
	Royal London Enhanced Cash Plus (POOLED)			10.000	5.72%
	<b>SUB TOTAL</b>			<b>20.000</b>	
> 12 Months	CCLA - DIVERSIFIED INCOME FUND			5.000	2.61%
	CCLA – LAMIT PROPERTY FUND			5.000	-14.32%
	M&G GLOBAL DIVIDEND FUND			2.000	7.80%
	M&G OPTIMAL INCOME FUND			2.000	11.79%
	M&G STRATEGIC CORPORATE BOND FUND			4.000	10.39%
	M&G UK INCOME DISTRIBUTION FUND			3.000	8.84%
	NINETY ONE (INVESTEC) DIVERSIFIED INCOME FUND			6.000	4.38%
	PAYDEN ABSOLUTE RETURN BOND FUND			10.000	5.21%
	SCHRODER INCOME MAXIMISER FUND			3.000	20.76%
	THREADNEEDLE GLOBAL EQUITY INCOME FUND			3.000	5.89%
	THREADNEEDLE STERLING SHORT-DATED CORPORATE BOND FUND			8.000	7.99%
THREADNEEDLE STRATEGIC BOND FUND			5.000	6.54%	
	<b>SUB TOTAL</b>			<b>56.000</b>	
	<b>GRAND TOTAL</b>			<b>265.467</b>	

<b>Appendix 2 – Glossary</b>	
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 & Retail Prices Index (CPI & RPI)	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.
Credit Default Swap (CDS)	A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.
Credit watch	Variety of special programs offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.
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.
SONIA	Sterling Overnight Indexed Average
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 is 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; they are instead, 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.

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