Public Pack

Audit Committee

Thursday, 10 October 2024 at 6.30 p.m.
Committee Room - Tower Hamlets Town Hall, 160 Whitechapel Road, London E1 1BJ

Supplemental Agenda

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Non-Executive Report of the: **Audit Committee** **Thursday 10th October 2024**	TOWER HAMLETS
Report of: Julie Lorraine Corporate Director, Resources	**Classification:** Open (Unrestricted)
Treasury Management Outturn Report for 2023-24	

Originating Officer(s)	Paul Audu, Head of Pensions and Treasury (Interim)
Wards affected	(All Wards);

Reason(s) for urgency

The report was not published five clear days in advance of the meeting. Therefore, before this item can be considered at this meeting, the Chair of the Committee would need to be satisfied that it is necessary to consider Treasury Management Outturn Report for 2023-24 at this meeting, the Committee may also take the view that it is important that there should not be an extended period without any member oversight.

Executive Summary

This report covers the period 1st April 2023 to 31 March 2024.

Investment returns fluctuate with the Bank of England base rate. Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023 and it has remained at this level.

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.

The average credit worthiness of investments is A+ in line with the local authority benchmark average of A+ while average credit score was 4.79 against a local authority average score of 4.82.

The Council undertook no new external borrowing during the year.

Recommendations:

The Audit Committee is recommended to:

1. Note the contents of the treasury management activities and performance against targets for the year ending 31 March 2024.

2. Note the Council's investments as set out in **Appendix 1**. The balance as at 31 March 2024 was £219.701m.

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 Council.

2. ALTERNATIVE OPTIONS

2.1 The Council is bound by legislation to have regard to the Treasury Management 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 was to deviate from those requirements, there would need to be justifiable reason for doing so.

3. DETAILS OF THE REPORT

3.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management Code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities and risks.

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

3.3 The Treasury Management Strategy Statement, Investment Strategy and Capital Strategy (incorporating the Minimum Revenue Provision Policy Statement) reports were included in the Budget pack that was presented to Council on 1st March 2023.

3.4 The Council has both borrowing and investments and is therefore exposed to financial risks including the loss of invested 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.

3.5 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 and treasury management.

ECONOMIC OUTLOOK

3.6 UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.4% in February but was still above the Bank of England's 2% target. The core measure of CPI, i.e. excluding food and energy, also slowed in February to 4.5% from 5.1% in January, a rate that had stubbornly persisted for three consecutive months.

3.7 Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023. Bank Rate was maintained at 5.25% through to March 2024. Although financial markets shifted their interest rate expectations downwards with expectations of a cut in June, the MPC's focus remained on assessing how long interest rates would need to be restrictive to control inflation over the medium term.

3.8 Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in the second half of 2024. The risks in the short-term are deemed to be to the downside, as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

Financial Markets

3.9 Sentiment in financial markets remained uncertain and bond yields continued to be volatile over the year. During the first half of the year, yields rose as interest rates continued to be pushed up in response to rising inflation. From October they started declining again before falling sharply in December, as falling inflation and dovish central bank attitudes caused financial markets to expect cuts in interest rates in 2024. When it emerged in January that inflation was stickier than expected and the BoE and the Federal Reserve were data dependent and not inclined to cut rates soon, yields rose once again, ending the period some 50+ bps higher than when it started.

3.10 Over the financial year, the 10-year UK benchmark gilt yield rose from 3.44% to peak at 4.75% in August, before then dropping to 3.44% in late December 2023 and rising again to 3.92% (28th March 2024). The Sterling Overnight Rate (SONIA) averaged 4.96% over the period to 31st March.

Credit Review

3.11 In the final quarter of the financial year, the rating agency Fitch revised the outlook on the UK sovereign rating to stable from negative, based on their assessment that the risks to the UK's public finances had decreased since its previous review in October 2022, the time of the mini-budget. S&P have also revised the UK sovereign outlook to stable.

TREASURY MANAGEMENT STRATEGY 2023-24

3.12 The 2023-24 Treasury Management Strategy Statement was approved on 1st March 2023 by Council. The Strategy comprehensively outlined how the treasury function would operate throughout the financial year 2023-24 including the limits and criteria for selecting institutions to be used for the investment surplus cash and the Council's policy on long-term borrowing and limits on debt.

3.13 The Council complied with the strategy throughout the reporting period and all investments were made to counterparties within the Council's approved lending list.

3.14 At 31st March 2024, the Authority had net investments of £151m 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 balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31/3/2023 Actual £m	**31/3/2024 Actual £m**
General Fund CFR	418.005	416.777
HRA CFR	152.493	167.495
Total CFR	**570.498**	**584.272**
Less other debt liabilities (finance leases & PFI)	50.087	46.021
Borrowing CFR	**520.411**	**538.252**
External borrowing	68.709	68.709
Internal borrowing	451.702	469.543
less balance sheet resources	(689,652)	(689,244)
Net investments	**(237.950)**	**(219.701)**

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

3.16 The treasury management position at 31st March and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31/3/2023 Balance £m	**Movement £m**	**31/3/2024 Balance £m**	**31/3/2024 Rate %**

Long-term borrowing				
- PWLB	51.209	0	51.209	2.55
- Barclays	17.500	0	17.500	4.34
Total borrowing	**68.709**	**0**	**68.709**	**3.01**
Long-term investments	56.000	0	56.000	5.85
Short-term investments	50.000	-30.000	20.000	3.37
Cash and cash equivalents	131.950	11.751	143.701	5.01
Total investments	**237.950**	**-18.249**	**219.701**	**5.21**
Net investments	**169.241**	**-18.249**	**150.992**	

Borrowing

3.17 The Council held £68.709m of external loans at 31st March 2024, unchanged from 31st March 2023. The external borrowing position at 31 March 2024 is shown in Table 3 below.

Table 3: External Borrowing Position

	31.03.24 Balance £m	31.03.24 Rate %
Public Works Loan Board	51.209	2.55
Banks (fixed term)	17.500	4.34
Total borrowing	**68.709**	**3.01**

3.18 The Council takes a low-risk approach to its borrowing strategy as outlined in the treasury strategy. This means that the principal objective when borrowing, is 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 is to have flexibility to renegotiate loans should the Council's long-term plans change. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

3.19 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.

3.20 The Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Authority. It has no plans to do so in future.

3.21 Interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. On 31st December 2023, the PWLB certainty rates for maturity loans were 4.74% for 10-year loans, 5.18% for 20-year loans and 5.01% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

3.22 The continuing rise in gilt yields since early 2022 resulted in some of the Authority's PWLB loans being in or close to a discount position if repaid early. However, as the prepaid loans would need to be replaced by new loans at higher interest rates, this isn't a cost-effective option for the Council.

3.23 A new PWLB HRA rate which is 0.4% below the certainty rate was made available from 15th June 2023. This rate will now be available to June 2025. The discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans providing a window of opportunity for HRA-related borrowing.

Other Debt Activity

3.24 Although not classed as borrowing from a treasury management perspective, the Council holds £19.606m of PFI capital financing and £26.413m of finance leases at 31 March 2024.

Treasury Investment Activity

3.25 The CIPFA Treasury Management Code 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.

3.26 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, investment balances ranged between £220m and £294m due to timing differences between income and expenditure. The investment position at the year-end is shown in Table 4 below.

Table 4: Treasury Investment Position

	31/3/2023 Balance £m	Movement £m	31/3/2024 Balance £m	% of portfolio
UK Banks	1.000	0	1.000	0
Government (including local authorities)	20.000	-20.000	0	0
Overseas Banks	30.000	-30.000	0	0
Money Market Funds	110.950	31.751	142.701	65%

Pooled Investment Funds	76.000	0	76.000	35%
Total investments	**237.950**	**-18.249**	**219.701**	

Pooled Investment Funds breakdown

	31/3/2023 Balance £m	Movement £m	31/3/2024 Balance £m
Cash plus funds	20.000	0.0	20.000
Short-dated bond funds	18.000	0.0	18.000
Strategic bond funds	9.000	0.0	9.000
Equity Income funds	13.000	0.0	13.000
Property funds	5.000	0.0	5.000
Multi asset income funds	11.000	0.0	11.000
Total pooled investments	**76.000**	**0.0**	**76.000**

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

3.28 The Council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

3.29 Bank Rate increased by 1% over the period, from 4.25% at the beginning of April 2023 to 5.25% by the end March 2024. Short-term rates peaked at 5.7% for 3-month rates and 6.7% for 12-month rates during the period, although these rates subsequently began to decline towards the end of the period. Money Market Rates also rose and were around 5.25% at the end of March 2024.

Performance Report

3.30 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 5A, 5B and 5C below.

Table 5A: Investment Performance for Financial Year to 31 March 2024 (Income Return)

Period	LBTH internal Return	External Fund Return (Cash Plus & Short Bond Fund)	External Fund Return (Strategic Funds)	LBTH Total Return	Benchmark Return (LA average)	Over/Under Performance
Quarter 4 2022/23	4.07%	1.88%	3.79%	2.13%	1.64%	0%
Quarter 1	4.82%	2.48%	4.24%	3.51%	2.34%	0%
Quarter 2	5.19%	3.12%	4.51%	5.14%	3.66%	0%
Quarter 3	5.30%	3.93%	4.65%	5.11%	4.95%	0%
Quarter 4 2023/24	5.21%	4.12%	4.69%	5.74%	5.03%	0.52%

Table 5B: Externally Managed Funds Total Return Including Capital Gain/Loss Financial Year to 31 March 2024

Period	External Fund Return (Cash Plus & Short Bond Fund)	External Fund Return (Strategic Funds)	LBTH Externally Managed Investments Total Return	Benchmark Return (LA average)	Over/Under Performance
Quarter 4 2022/23	-1.07%	-7.18%	-8.24%	-11.98%	0%
Quarter 1	-0.73%	-4.24%	-4.97%	-12.13%	0%
Quarter 2	2.25%	0.39%	2.64%	-6.54%	0%
Quarter 3	1.29%	-0.30%	0.99%	0.05%	0%
Quarter 4 2023/24	1.81%	2.38%	4.19%	0.20%	0.52%

Table 5C: 2023-24 Budgeted Interest against actuals

	Actual	**Budget**	**Over/Under**
	£m	**£m**	**£m**
PWLB	1.325	1.490	-0.165
Market Loans	0.759	0.760	-0.001
Total borrowing	**2.084**	**2.250**	
Investments *	6.530	2.000	4.530

* gross investment income was £12.560m

Externally Managed Pooled Funds

3.31 £76m of the Council's investments are invested in externally managed strategic pooled funds (bond, equity, multi-asset and property), 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 return of 5.74%, comprising a 4.98% income return which is used to support services in year, and 4.19% of unrealised capital growth.

3.32 2023/24 was characterised by significant volatility in bond markets. Adjusting to central banks' intention of keeping policy rates unchanged amid persistently higher core inflation, tight labour markets and resilient growth, global bond yields rose (i.e. bond prices fell). The first quarter of 2024 proved more difficult for government bonds as stubborn inflation led fixed income markets to question if the expectation of the number of rate cuts over 2024 and the accompanying fall in yields had been overdone. UK and global equities were buoyed by healthy corporate earnings, resilient economic data and moderating inflation and the view central banks had reached the peak of their rate tightening cycles.

3.33 As 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 medium to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down in months, quarters and even years; but with the confidence that over a three -to five-year period total returns will exceed cash interest rates.

INVESTMENT BENCHMARKING

3.34 The Council participates in a benchmarking club run by Arlingclose to enable officers compare the Council's treasury management and investment returns against those of similar authorities. The model considers a combination of credit duration and returns achieved over the duration, and it includes data from 120 to 126 local authorities at any one time. The progression of risk and return metrics are shown in Table 6 below.

Table 6: Investment benchmarking

	Tower Hamlets		20 London & Metropolitan Average	126 Local Authorities (LAs) Average
	31.03.23	31.03.24		
Internal Investments	£78.70m	£143.7m	£68.9m	£51.8m
External Funds*	£71.90m	£73.6m	£9.4m	£12.1m
Average Credit Score	4.26	4.79	4.80	4.82
Average Credit Rating	AA-	A+	A+	A+
Number of Counterparties & Funds	21	24	11	11
Proportion Exposed to Bail-in	36%	100%	72%	61%
Proportion Available within 7 days	19%	66%	69%	50%

Proportion Available within 100 days	65%	75%	77%	66%
Average Days to Maturity	15	1	23	9
Internal Investment Income Return	**3.47%**	**5.21%**	**5.19%**	**5.17%**
External Funds Income Return - Cash Plus Fund	1.88%	4.12%	4.12%	4.22%
External Funds - Income Return - Strategic Fund	3.71%	4.69%	4.89%	5.07%
Total Investments - Total Return (Income Only)	**3.35%**	**4.98%**	**5.10%**	**5.10%**

- Externally managed investments market values in table above include unrealised profit

COMPLIANCE REPORT

3.35 All treasury management activities undertaken during the financial year 2023-24 complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

Sector	Counterparty limit	Actual	Sector limit	Complied? Yes/No
The UK Government	Unlimited	none	n/a	✓
Local authorities & other government entities	£25m	none	Unlimited	✓
Secured investments	£25m	none	Unlimited	✓
Banks (unsecured)	£15m	none	Unlimited	✓
Building societies (unsecured)	£15m	none	£30m	✓
Registered providers (unsecured)	£15m	none	£75m	✓
Money market funds	£30m	£25m	Unlimited	✓
Strategic pooled funds	£30m	£10m	£150m	✓
Real estate investment trusts	£35m	none	£75m	✓
Other investments	£15m	none	£30m	✓

3.36 Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

	31.03.23 Actual £m	2023/24 Forecast £m	31.03.24 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied
Borrowing	68.709	111.261	68.709	555.161	585.161	✓
PFI & finance leases	50.087	49.059	46.021	41.286	41.286	✓
Total debt	**118.796**	**160.320**	**114.730**	**596.447**	**626.447**	✓

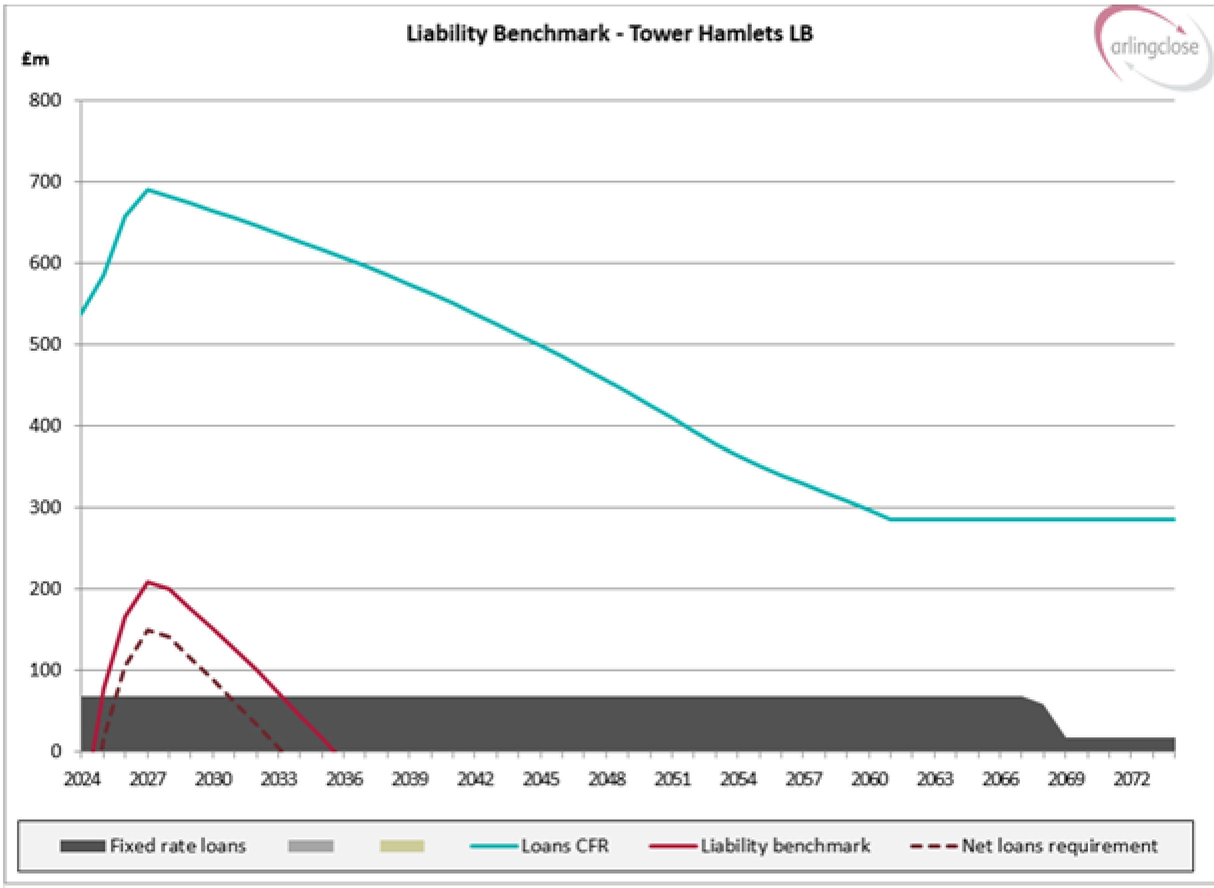
Treasury Management Prudential Indicators

3.37 As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

3.38 ***Liability Benchmark***: This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £60m required to manage day-to-day cash flow.

	31/03/23 Actual £m	**31/03/24 Actual £m**	**31/03/25 Forecast £m**	**31/03/26 Forecast £m**
Loans CFR	520.411	538.252	585.062	657.884
Less balance sheet resources	(689,652)	(689,244)	(568.902)	(552.402)
Net loans requirement	(169.241)	(150.992)	16.160	105.482
Plus liquidity allowance	60.000	60.000	60.000	60.000
Liability benchmark	**(109.241)**	**(90.992)**	**76.160**	**165.482**
Existing borrowing	**68.709**	**68.709**	**68.709**	**68.709**

3.39 Following on from the medium-term forecast above, the long-term liability benchmark assumes no further capital expenditure funded by borrowing, and expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



3.40 ***Security***: The Council has adopted a voluntary measure to 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, AAA+=2, etc.) and taking the average arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.03.23 Actual	31.03.24 Actual	2023-24 Target	Complied
Portfolio average credit rating	AA-	A+	A	✓

3.41 ***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.

	31.03.23 Actual £m	31.03.24 Actual £m	2023-24 Target £m	Complied
Total cash available within 3 months	161.950	143.701	30.000	✓
Total sum borrowed in past 3 months without prior notice	nil	nil	nil	✓

3.42 ***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 as follows:

	30.03.23 Actual £m	**31.03.24 Actual £m**	**Upper Limit %**	**Lower Limit %**	**Complied**
Under 12 months	-	-	50	0	✓
12 months and within 24 months	-	-	50	0	✓
24 months and within 5 years	-	-	60	0	✓
5 years and within 10 years	-	-	75	0	✓
10 years and within 20 years	-	-	100	0	✓
20 years and within 30 years	-	-	100	0	✓
30 years and within 40 years	1.209	1.209	100	0	✓
40 years and within 50 years	67.500	67.500	100	0	✓

NON-TREASURY INVESTMENTS

3.43 The definition of investments in CIPFA's revised 2021 Treasury Management Code 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 DLUHC's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

3.44 The Council currently does not have such investments.

4. EQUALITIES IMPLICATIONS

4.1 There are no equalities 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 may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

Best Value Implications

5.2 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

Risk Management

5.3 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.

5.4 Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by 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 for the 2023-24 financial year.

6.2 The Council held an investment portfolio of £219.701m at 31st March 2024. This portfolio earned an income return of 4.98% and a total return on investments (including capital gains and losses) of 5.74%.

6.3 The Council's approach to investment activities includes the use of pooled fund investments to increase the level of investment income generated, in line with approvals given in the Treasury Management Strategy. The Council's income target for 2023-24 was £2.0m while net investment income was £6.5m.

7. COMMENTS OF LEGAL SERVICES

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 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.

7.3 This noting report of the Corporate Director, Resources advises the Committee of the Council's borrowing and investment activities for the year ending 31st March 2024 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.

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).

Linked Reports, Appendices and Background Documents

Linked Report
- NONE

Appendices
- Appendix 1 - Investments Outstanding at 31st March 2024
- Appendix 2 - Glossary

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.
- NONE

Officer contact details for documents:
Paul Audu, Head of Pensions and Treasury (Interim)
Email: Paul.Audu@towerhamlets.gov.uk

Appendix 1: Investments Outstanding at 31st March 2024

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Aberdeen MMF		On demand	21.750	
	Aviva MMF		On demand	21.750	
	BlackRock MMF		On demand	12.751	
	BNP Parabas MMF		On demand	10.200	
	Deutsche MMF		On demand	21.750	
	Federated MMF		On demand	21.750	
	Insight MMF		On demand	21.750	
	Invesco MMF		On demand	7.000	
	CCLA MMF		On demand	4.000	
	SUB TOTAL			**142.701**	
< 1 Month					
	SUB TOTAL			**0**	
1 - 3 months	Santander			1.000	
	Payden & Rygel Sterling Reserve Fund (POOLED)			10.000	
	Royal London Enhanced Cash Plus (POOLED)			10.000	
	SUB TOTAL			**21.000**	
> 12 Months	CCLA Lamit Property Fund (POOLED)			5.000	
	CCLA Diversified Income Fund (POOLED)			5.000	
	Payden Absolute Return Bond Fund (POOLED)			10.000	
	Columbia Threadneedle Global Equity Income Fund Z (POOLED)			3.000	
	Columbia Threadneedle Strategic Bond Fund Z (POOLED)			5.000	
	Columbia Threadneedle Sterling Short-Dated Corporate Bond Fund (POOLED)			8.000	
	Investec Fund Series I Diversified Income (POOLED)			6.000	
	Schroder Income Maximiser Fund (POOLED)			3.000	
	M & G Global Dividend Fund (POOLED)			2.000	
	M & G Optimal Income Fund (POOLED)			2.000	
	M & G UK Income Distribution Fund (POOLED)			3.000	
	M & G Strategic Corporate Bond Fund (POOLED)			4.000	
	SUB TOTAL			**56.000**	
	GRAND TOTAL			**219.701**	

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 & 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; 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.