


Non-Executive Report of the:  <b>Audit Committee</b>  <b>Thursday, 23 November 2023</b>	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Julie Lorraine Corporate Director, Resources	<b>Classification:</b> Open (Unrestricted)
<b>Treasury Management Outturn Report for 2022-23</b>	

<b>Originating Officer(s)</b>	Miriam Adams, Interim Head of Pensions and Treasury
<b>Wards affected</b>	(All Wards);

### **REASONS FOR URGENCY:**

The attached reports were not published five clear days in advance of the meeting. Therefore, before the reports can be considered at this meeting, the Chair would need to be satisfied that it is necessary to consider the Treasury Management Reports. The delay has been in receiving report approvals. The Audit committee needs to approve these reports prior to the Council considering these reports at Budget Council.

### **Executive Summary**

This report covers the period 1<sup>st</sup> April 2022 to 31 March 2023. Investment returns fluctuate with the Bank of England base rate. The base rate at 31 March 2023 was 4.25% while current base rate is 5.25%.

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 AA- in line with the local authority benchmark average of A+ while average credit score was 4.36 against a local authority average score of 4.72.

### **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 2023.
2. Note the Council's investments as set out in Appendix 1. The balance as at 31 March 2023 was £237.950m.

## **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 2nd March 2022.
- 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 During the year, the war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession.
- 3.7 The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates during the year, even in the face of potential economic slowdowns in those regions. Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July 2022 and then 11.1% in October.
- 3.8 Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. RPI followed the same pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.
- 3.9 Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period.

### Financial Markets

- 3.10 Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy.
- 3.11 Over the period, the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe, the 10-year gilt yield rose from 1.16% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declines to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

### Credit Review

- 3.12 During the year, rating agency Fitch revised the outlook on the UK sovereign to negative from stable while Moody made the same revision to the UK sovereign.

## **TREASURY MANAGEMENT STRATEGY 2022-23**

- 3.13 The 2022-23 Treasury Management Strategy Statement was approved on 2<sup>nd</sup> March 2022 by Council. The Strategy comprehensively outlined how the treasury function would operate throughout the financial year 2022-23 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.

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 As at 31 March 2023, the Council had net investments of £169.241m arising from its revenue and capital income and expenditure, a decrease of on 2022 of £82.087m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while useable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in Table 1A below. The 2021/22 and 2022/23 Council accounts are nearing production. The figures for working capital have been calculated.

	31 <sup>st</sup> March 2022 Provisional** Actual £m	Movement over the Year £m	31 <sup>st</sup> March 2023 Provisional** Actual £m
CFR	381.63	21.558	403.188
HRA CFR	152.485	4.609	157.094
<b>Total CFR</b>	<b>534.115</b>	<b>26.167</b>	<b>560.282</b>
Less: Other debt liabilities *	-50.087	4.067	-46.02
<b>Borrowing CFR</b>	<b>484.028</b>	<b>30.234</b>	<b>514.262</b>
<i>Less: External borrowing</i>	-69.872	1.163	-68.709
<i>Internal borrowing</i>	414.156	31.397	445.553
Usable reserves	-676.242	29.98	-646.262
Working capital	583.286	-144.627	438.659
Investments	321.2	-83.25	237.95
<b>Net investments</b>	<b>251.328</b>	<b>-82.087</b>	<b>169.241</b>

\*\*closing balances from 2018/19 to 2022/23 are unaudited or audited yet to be signed off as applicable

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

Table 1B: Liability benchmark. Balance sheet resources have been calculated

Position at 31 March	31 <sup>st</sup> March 2022 Provisional**	Movement over the Year £m	31 <sup>st</sup> March 2023 Provisional**
	Actual £m		Actual £m
CFR	381.63	<b>21.558</b>	403.188
HRA CFR	152.485	<b>4.609</b>	157.094
<b>Total CFR</b>	<b>534.115</b>	<b>26.167</b>	<b>560.282</b>
Less: Other debt liabilities *	<b>-50.087</b>	<b>4.067</b>	<b>-46.02</b>
Borrowing CFR	484.028	30.234	514.262
External Borrowing	-69.872	1.163	-68.709
<b>Internal (over) borrowing</b>	<b>414.156</b>	<b>31.397</b>	<b>445.553</b>
Balance sheet resources	735.356	-51.853	683.503
Investments (new borrowing)	321.200	-83.250	237.950
Treasury Investments	321.200	-83.250	237.950
New borrowing	0	0	0
Net loans requirement	-251.328	82.087	-169.241
Liquidity allowance	56.000	0.000	56.000
<b>Liability benchmark</b>	<b>-195.328</b>	<b>82.087</b>	<b>-113.241</b>

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

The balance sheet summary position at 31 March 2023 is shown in Table 1 above, while the treasury management position at 31 March 2023 is shown in Table 2 below.

The extent of internal borrowing which stood at £445.553m at the end of 2022-23, is the difference between the Borrowing CFR (£514.262m) and the level of external borrowing (£68.709m).

Table 2: Treasury Management Summary

	31.03.22 Balance £m	Movement over the Year £m	31.03.23 Balance £m	31.03.23 Rate %
Long-term borrowing	69.872	(1.163)	68.709	3.01
Short-term borrowing	-	-	-	-
<b>Total borrowing</b>	<b>69.872</b>	<b>(1.163)</b>	<b>68.709</b>	<b>3.01</b>
Long-term investments	56.000	0.000	56.000	
Short-term investments	40.000	(20.000)	20.000	
Cash and cash equivalents	225.200	(63.250)	161.950	
<b>Total investments</b>	<b>321.200</b>	<b>(83.250)</b>	<b>237.950</b>	<b>3.83</b>
<b>Net Investments</b>	<b>251.328</b>	<b>(82.087)</b>	<b>169.241</b>	

The net investment figure (£169.241m) is the level of investments (£237.950m) less external borrowing £68.709m).

### Borrowing Update

- 3.16 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 Council.
- 3.17 The Council was not planning to borrow to invest for commercial return and so is unaffected by the changes to the Prudential Code. The Council is not planning to purchase any investment assets primarily for yield.

### Borrowing Strategy for the year ending 31<sup>st</sup> March 2023

- 3.18 The Council held £68.709m of external loans at 31<sup>st</sup> March 2023 which is £1.163m lower than the 31 March 2022 position of £69.872m. The external borrowing position at 31 March 2023 is shown in Table 3 below.

Table 3: External Borrowing Position

	31.03.23 Balance £m	31.03.23 Rate %
Public Works Loan Board	51.209	2.55

Banks (fixed term)	<b>17.500</b>	<b>4.34</b>
<b>Total borrowing</b>	<b>68.709</b>	<b>3.01</b>

- 3.19 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 and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

- 3.20 The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% and 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. As at the time of writing this report, rates have now fallen from September peaks but remain volatile and well above recent historical norms.

The PWLB 10 year maturity rate stood at 4.33% at 31 March 2023, 20 years at 4.70% and 30 years at 4.66%.

- 3.21 No new borrowing was undertaken in keeping with these objectives in 2022-23.
- 3.22 The Council has an increasing CFR as demonstrated in table 1 due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account useable reserves and working capital.

#### Other Debt Activity

- 3.23 Although not classed as borrowing from a treasury management perspective, the Council also holds £19.607m of PFI capital financing and £26.413m of finance leases.

#### Treasury Investment Activity

- 3.24 The Council holds significant invested funds, representing S106 and CIL income, other income received in advance of expenditure plus balances and reserves held. These monies are temporarily invested in short-dated, liquid instruments such as Notice Accounts, Money Market Funds and fixed deposits. Investment balances during the year ranged between £210.75m and £357.7m. The investment position at the year-end is shown in Table 4 below.
- 3.25 CIPFA published a revised treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes on 20<sup>th</sup> December 2021. These

define treasury management investments as investments that arise from the organisation's cashflows 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 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.
- 3.27 In 2018, the Council diversified into strategic pooled (cash plus, bond, 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 are externally managed and £76m has been invested as shown in Table 4 below.

### Investment Outstanding & Maturity Structure

- 3.28 The table below shows investments outstanding at the end of March 2023, categorised according to the financial sector invested.

Table 4: Outstanding Investments by Financial Sector

Financial Sector	31.03.22 Balance £m	Movement over the Year £m	31.03.23 Balance £m	% Portfolio
UK Banks	15.00	(14.00)	1.00	0.42
Government (incl. local authorities)	55.00	(35.00)	20.00	8.41
Overseas Banks	60.00	(30.00)	30.00	12.61
Money Market Funds	115.20	(4.25)	110.95	46.63
Pooled Investment Funds:	76.00	0.00	76.00	31.94
<i>Cash plus funds</i>	<i>20.00</i>	<i>0.00</i>	<i>20.00</i>	
<i>Short-dated bond funds</i>	<i>18.00</i>	<i>0.00</i>	<i>18.00</i>	
<i>Strategic bond funds</i>	<i>9.00</i>	<i>0.00</i>	<i>9.00</i>	
<i>Equity Income funds</i>	<i>13.00</i>	<i>0.00</i>	<i>13.00</i>	
<i>Property funds</i>	<i>5.00</i>	<i>0.00</i>	<i>5.00</i>	
<i>Multi asset income funds</i>	<i>11.00</i>	<i>0.00</i>	<i>11.00</i>	
<b>Total investments</b>	<b>321.20</b>	<b>(83.25)</b>	<b>237.95</b>	<b>100.00</b>



## Performance Report

3.29 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 2023 (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 2021/22	0.46%	0.58%	2.76%	0.87%	0.97%	-0.10%
Quarter 1	0.98%	0.68%	2.69%	1.29%	1.39%	-0.10%
Quarter 2	1.75%	0.89%	7.26%	2.85%	2.06%	0.79%
Quarter 3	2.70%	1.26%	3.27%	2.71%	2.93%	-0.22%
Quarter 4 2022/23	4.07%	1.88%	3.79%	3.83%	3.68%	0.15%

Table 5B: Externally Managed Funds Total Return Including Capital Gain/Loss Financial Year to 31 March 2023

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 2021/22	-1.41%	0.67%	0.90%	2.09%	-1.19%
Quarter 1	-2.24%	-5.81%	0.00%	1.75%	-1.75%
Quarter 2	-3.83%	-10.00%	0.42%	1.47%	-1.05%
Quarter 3	-2.36%	-9.39%	0.29%	1.39%	-1.10%
Quarter 4 2022/23	-1.07%	-7.18%	2.13%	1.64%	0.49%

Table 5C: 2022-23 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)
<b>Total borrowing</b>	<b>2.084</b>	<b>2.250</b>	
<b>Investments</b>	<b>5.697</b>	<b>2.270</b>	<b>3.427</b>

### Externally Managed Pooled Funds

3.30 £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.

3.31 Bonds had their worst year of performance in several decades, long-term government bonds had their worst year ever as central banks delivered larger interest rates hikes than initially expected and promised to combat inflation. As Bank Rates rapidly rose from very low levels, bond investors suffered large crystallised or unrealised losses from rising sovereign and corporate bond yields (i.e. falling prices) as well as from widening credit spreads as concern grew over the risk of defaults in a recessionary environment thereby impacting the values of Council’s investments in externally managed pooled funds.

UK and global equities remained volatile against a backdrop of high and sticky inflation, rapid policy rates tightening and increasing risk of recession.

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

3.32 The Council participates in a benchmarking club being 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 128 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		21 London & Metropolitan Average	128 Local Authorities (LAs) Average
	31.03.22	31.03.23		
Internal Investments	£245.20	162.0m	£77.40	£67.90
External Funds*	£75.70	£71.90	£9.50	£13.80
Average Credit Score	4.4	4.36	4.76	4.72
Average Credit Rating	AA-	AA-	A+	A+
Number of Counterparties & Funds	31	26	9	12
Proportion Exposed to Bail-in	59%	69%	64%	60%
Proportion Available within 7 days	39%	47%	63%	50%
Proportion Available within 100 days	78%	78%	80%	70%
Average Days to Maturity	38	8	37	13

Internal Investment Income Return	<b>0.46%</b>	<b>4.07%</b>	<b>3.79%</b>	<b>3.68%</b>
External Funds Income Return -Cash Plus Fund	0.58%	1.88%	1.76%	1.35%
External Funds - Income Return - Strategic Fund	2.76%	3.79%	3.71%	3.93%
<b>Total Investments - Total Return (Income Only)</b>	<b>0.87%</b>	<b>3.83%</b>	<b>3.70%</b>	<b>3.68%</b>

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

## COMPLIANCE REPORT

3.33 All treasury management activities undertaken from the beginning of the financial year 2022-23 to the current reporting period complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Debt Limits

	<b>31.03.22 Restated Actual £m</b>	<b>2022/23 Forecast £m</b>	<b>31.03.23 Actual £m</b>	<b>2022/23 Operational Boundary £m</b>	<b>2022/23 Authorised Limit £m</b>	<b>Complied</b>
Borrowing	69.872	68.709	68.709	568.665	608.665	
PFI & finance leases	50.087	117.768	46.021	49.059	49.059	
<b>Total debt</b>	<b>119.959</b>	<b>186.477</b>	<b>114.730</b>	<b>617.724</b>	<b>657.724</b>	✓

3.34 Table 8 below shows 2022-23 treasury management approved investment limits.

Table 8: Investment Limits

<b>Sector</b>	<b>Counterparty limit</b>	<b>Actual</b>	<b>Sector limit</b>	<b>Complied? Yes/No</b>
The UK Government	Unlimited	£37.7m	n/a	✓
Local authorities & other government entities ( <i>subject to checks on their balance sheet position depending on duration</i> )	£30m	£15m	Unlimited	✓
Secured investments *	£30m	none	Unlimited	✓
Banks (unsecured) *	£15m	£15m	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	£30m	none	£75m	✓
Other investments *	£15m	none	£30m	✓

### Treasury Management Indicators

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

3.36 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.

	31.03.22 Actual	31.03.23 Actual	2022-23 Target	Complied
Portfolio average credit rating	AA-	AA-	A-	✓

3.37 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.

	31.03.22 Actual	31.03.23 Actual	2022-23 Target	Complied
Total cash available within 3 months	225.20m	£161.95m	£50m	✓
Total sum borrowed in past 3 months without prior notice	nil	nil	nil	✓

3.38 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:

	30.03.22 Actual £m	31.03.23 Actual £m	Upper Limit %	Lower Limit %	Complied
Under 12 months	1.163		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**

- 3.39 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.
- 3.40 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 2022-23 financial year.
- 6.2 The Council held an investment portfolio of £237.950m at 31<sup>st</sup> March 2023. This portfolio earned an income only average rate of return of 3.83% and a total return on investments (including capital gains and losses) of 2.13%.
- 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 of 2022-23 was £2.27m while generated investment income was £5.7m.

## **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 31<sup>st</sup>

March 2023 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).

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## **Linked Reports, Appendices and Background Documents**

### **Linked Report**

- List any linked reports
- 
- State NONE if none.

### **Appendices**

- Appendix 1 - Investments Outstanding at 31<sup>st</sup> March 2023
- 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.

- These must be sent to Democratic Services with the report
- State NONE if none.

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

Miriam Adams, Interim Head of Pensions and Treasury

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## Appendix 1: Investments Outstanding at 31<sup>st</sup> March 2023

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
<b>Overnight</b>	Aberdeen MMF		On demand	0.200	
	Aviva MMF		On demand	25.000	
	Insight MMF		On demand	16.800	
	BlackRock MMF		On demand	25.000	
	Morgan Stanley MMF		On demand	14.700	
	Deutsche MMF		On demand	25.000	
	Federated MMF		On demand	1.450	
	CCLA MMF		On demand	2.800	
	<b>SUB TOTAL</b>			<b>110.950</b>	
<b>&lt; 1 Month</b>	Development Bank of Singapore	09/01/2023	11/04/2023	10.000	3.88%
	Australia & New Zealand Banking Group	09/01/2023	11/04/2023	15.000	4.07%
	<b>SUB TOTAL</b>			<b>25.000</b>	
<b>1 - 3 Months</b>	Santander			1.000	
	Payden & Rygel Sterling Reserve Fund (POOLED)			10.000	
	Royal London Enhanced Cash Plus (POOLED)			10.000	
	Development Bank of Singapore	13/02/2023	15/05/2023	5.000	4.08%
	DMADF	31/03/2023	02/05/2023	20.000	4.06%
	<b>SUB TOTAL</b>			<b>46.000</b>	
<b>&gt; 12 Months</b>	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	
	<b>SUB TOTAL</b>			<b>56.000</b>	
	<b>GRAND TOTAL</b>			<b>237.950</b>	



## 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.

