Non-Executive Report of the: **Full Council** 16th September 2015	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	**Classification:** [Unrestricted or Exempt]
Treasury Management Strategy & Investment Strategy Outturn Report for 2014/15	

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

Summary

This report advises the council's treasury management activities for the financial year ended 31 March 2015 as required under the Local Government Act 2003.

The report details the treasury management outturn position based on the credit criteria adopted by the Corporate Director of Resources and the investment strategy for the financial year as approved by the Council and the investment returns.

The Council has complied with its legislative and regulatory requirements as set out in the legal comments at paragraph 5 of this report. The key actual prudential and treasury management indicators detailing the impact of capital expenditure activities during the year, with comparators are also addressed in this report.

The Corporate Director of Resources confirms:

- That all treasury management activities were executed by authorised officers within the parameters agreed by the Council.
- All investments were made to counterparties on the Council's approved lending list and within limit.
- No short-term or long-term borrowing was undertaken during the year to 31 March 2015.

Long term debt reduced from £89.564m to £88.893m as a result of loans maturing during the financial year.

The Council earned 0.73% on short term lending, outperforming the actual rolling average 7 Day LIBID rate of 0.35%.

The report had been seen by the Audit Committee to enable the Members of this committee to fulfil their scrutiny role of management function as per CIPFA's Treasury Management Code of Practice.

Recommendations

Members are recommended to:

- Note the Treasury Management activities and performance against targets for the twelve months to 31 March 2015.
- Note the Pension Fund investments balance (set out in section 3.8.2).
- Note the Council's investments as at 31 March 2015 (as in Appendix 1).
- Note the Council's investments with part nationalised banks as at 31 March 2015 (set out in section 3.21.9).
- Note the Prudential indicators outturn for 2014/15 (set out in Appendix 2).

1. REASONS FOR DECISIONS

1.1 This Council is required by Regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2014/15. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 The minimum reporting requirements stipulated by the Code are that Full Council should receive the following reports:

- an annual treasury strategy in advance of the year(Council;26 February 2014)
- a mid-year treasury update report (Council; 26 November 2014)
- an annual report following the year describing the activity compared to the strategy (this report)

1.3 In addition, the Audit Committee received treasury management activity update reports on 30 June 2014, 16 September 2014 and 21 July 2015.

1.4 The Code requires Members to review and scrutinise treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

1.5 The annual report on treasury management should assist Members in scrutinising officer decisions and checking that the investment strategy was implemented as approved by the Full Council.

2. ALTERNATIVE OPTIONS

2.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council should receive an annual report on treasury management activities.

2.2 If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that Members are kept informed about treasury management activities and to ensure that these activities are in line with the investment strategy approved by the Council.

3. DETAILS OF REPORT

3.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council should receive an annual report on treasury management activities.

3.2 The Council approved the Treasury Management Strategy Statement on 26 February 2014, which included the Investment Strategy, Minimum Revenue Provision and prudential indicators for 2014/15. These reports set out the parameters within which Treasury Management officers should operate when executing their roles. In line with the requirement of the Code, this report should assist Members in discharging their responsibilities relating to the review and scrutiny of Treasury Management policies and activities in 2014/15.

3.3 The Council complied with its legislative and regulatory requirements in 2014/15 and was not in breach of any of the prudential and treasury management indicators. The table below summarises the key indicators relating to capital expenditure activities in the year. A more detailed report of the indicators is attached as Appendix 2.

3.4 The Corporate Director of Resources also confirms that the Council did not undertake any external borrowing during the year, thus operating within the Authorised borrowing limit in the financial year.

3.5 This report summarises:

- The economy and interest rates
- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Debt activity;
- Summary of interest rate movements in the year; and
- Investment activity.

3.6 <u>THE ECONOMY AND INTEREST RATES</u>

3.6.1 The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%.

3.6.2 In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand.

3.6.3 During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro.

Fears also increased considerably that the ECB was going to do too little too late to ward off the threat of deflation and recession in the Eurozone.

3.6.4 In mid-October, financial markets had a major panic for about a week. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.

3.6.5 Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the EZ had been disproved.

3.6.6 Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election due in May 2015.

3.7. THE STRATEGY

3.7.1 The Annual Treasury Management Strategy and the Prudential Borrowing Indicators were approved by the Council on the 26 February 2014. This report provided commentary on the borrowing requirements and debt management arrangements for 2014/15, along with Annual Investment Strategy.

3.7.2 The expectation for interest rates within the strategy for 2014/15 anticipated low but rising Bank Rate (starting in quarter 1 of 2015), and gradual rises in medium and longer term fixed borrowing rates during 2014/15. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

3.7.3 The treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

3.7.4 The actual movement in gilt yields meant that PWLB rates saw little overall change during the first four months of the year but there was then a downward trend for the rest of the year with a partial reversal during February.

3.7.5 The Council has continued with its conservative approach of prioritising security and liquidity over yield, Investments would therefore continue to be dominated by low counterparty risk considerations though, this results in a high cost of carry as investment returns are relatively low compared to borrowing rates

3.8 TREASURY POSITION as at 31 March 2015

3.8.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting as detailed in section 3 of this report, and through officer activity as detailed in the Council's Treasury Management Practices Schedule. The treasury position at the start and end of 2014/15 was as follows:

Debt £m	31 March 2014 Principal	Rate/ Return	31 March 2015 Principal	Rate/ Return
Fixed Rate Funding:				
-PWLB	12.064	7.37%	11.393	7.37%
-Market	13.000	4.37%	13.000	4.37%
Total Fixed Rate Funding	25.064	5.81%	24.393	5.81%
Variable Rate Funding:				
-PWLB	0	0.00%	0	0.00%
-Market	64.500	4.32%	64.500	4.32%
Total Variable Rate Funding	64.500	4.32%	64.500	4.32%
Total debt	***89.564***	***4.73%***	***88.893***	***4.75%***
CFR	***220.720***		***245.513***	
Over/ (under) borrowing	***(131.156)***		***(156.620)***	

Investments: £m				
In house	292.450	0.82%	385.900	0.73%
External managers	0	0.00%	0	0.00%
Total investments	***292.450***	***0.82%***	***385.900***	***0.73%***

3.8.2 **Investment of Pension Fund Cash** – The investment outstanding as shown in the above table as at 31 March 2015 is £385.9m. Pension Fund cash balance of £35.8m is included in this balance and has been invested in accordance with Council's Treasury Management Strategy agreed by Full council on the 26 February 2014, under the delegated authority of the Corporate Director of Resources. The Pensions Committee is updated on Pension Fund investment activity on a quarterly basis.

3.8.3 The majority of the pension fund assets are placed with and invested by appointed Pension Fund Managers; the council usually retains some Pension Fund cash balance in house, usually in the range of £5m to £10m to manage monthly cash flow activities. However the current larger amount of £35.8m is being held to facilitate an assets rebalancing. Over the course of the year officers in conjunction with pension fund advisers have been disinvesting from existing equity portfolios, that is crystallising some equity gains to rebalance into fixed income or fixed income asset like mandate, this process will be completed by allocating the cash to the appropriate manager/s to invest into fixed income assets by or before first half of 2015/16.

3.8.4 The maturity structure for the investment portfolio was as follows:

	31 March 2014 Actual £m	2014/15 Original Limits	31 March 2015 Actual £m
Under 1 year	277.45	100%	375.9
More than 1 year	15.00	25%	10.00
Total	**292.45**		**385.9**

3.8.5 The under-borrowed amount represents the element of the programme that is currently being funded from internally held resources. Although this reduces the need to borrow from external sources, it does not allow for additional borrowing over and above the CFR. The Council also repaid £0.67m of maturing PWLB loans, thereby reducing the overall debt outstanding from £89.6m to £88.9m as at 31 March 2015.

3.8.6 The maturity structure of the debt portfolio was as follows:

	31 March 2014 Actual £m	2014/15 Original Limits %	31 March 2015 Actual £m	31 March 2015 Actual %
Under 12 months	0.671	10%	0.365	0.4%
12 months and within 24 months	1.068	30%	1.889	2.1%
24 months and within 5 years	4.532	40%	4.770	5.4%
5 years and within 10 years	4.584	80%	3.205	3.6%
10 years and above	78.709	100%	76.663	88.5%

3.9 CAPITAL EXPENDITURE AND FINANCING 2014-15

3.9.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or

- If insufficient financing is available, or a decision is taken not to apply available resources, the capital expenditure will give rise to a borrowing need.

3.9.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m	2013/14 Actual	2014/15 Estimate	2014/15 Actual
Non-HRA capital expenditure	82.653	75.378	59.833
HRA capital expenditure	50.255	115.866	76.854
Total Capital Expenditure	132.908	191.244	136.687
Resources			
Capital Grants	87.391	110.200	86.846
Direct Revenue Financing	10.258	19.135	16.575
Major Repairs Allowance	11.799	26.462	9.940
Developers Contributions	7.740	6.263	7.839
Capital Receipts	14.701	15.789	8.548
Capital Expenditure (Financed from borrowing)	**(1.000)**	**(13.395)**	**(6.939)**

3.9.3 Actual capital expenditure was less than the estimated figure of £191.244m by £54.56m. This is not an underspent against the total programme; any resources not used in this reporting year will be used in future years of the programme.

3.10. OVERALL BORROWING NEED

3.10.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. This represents the 2014/15 unfinanced capital expenditure as set out in the above table, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.10.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies such as the Public Works Loan Board (PWLB) or the money markets, or utilising temporary cash resources within the Council.

3.10.3 The Council's non-Housing Revenue Accounts (HRA) underlying borrowing need is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR).

3.10.4 The Council's 2014/15 MRP Policy was approved as part of the Treasury Management Strategy Report for 2014/15 on 26 February 2014.

3.10.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. This includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need although no borrowing is actually required against these schemes as a borrowing facility is included in the contract.

General Fund CFR (£m)	**2013/14 Actual**	**2014/15 Estimate**	**2014/15 Actual**
Opening balance	156.174	151.045	**151.045**
Add unfinanced capital expenditure	1.019	102.088	**11.858**
Add PFI adjustment	39.410	39.410	**39.410**
Less MRP	(6.145)	(6.145)	**(6.142)**
Less PFI Adjustment	(39.410)	(38.473)	**(38.473)**
Closing balance	**151.045**	**247.925**	**157.698**
HRA CFR (£m)	**2013/14 Actual**	**2014/15 Estimate**	**2014/15 Actual**
Opening balance	69.675	69.675	**69.675**
Add unfinanced capital expenditure	0.000	0.000	**0.144**
Closing balance	69.675	**69.675**	**69.819**

3.11 **Net Borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term, the Council's external borrowing net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, not exceed the sum of CFR for 2014/15 plus the expected changes to the CFR in 2015/16 and 2016/17. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2014/15.

A summary of opening and closing CFR balances are also set out in table below.

£m	**2013/14 Actual**	**2014/15 Estimate**	**2014/15 Actual**
Non HRA CFR	**151.045**	247.925	**157.698**
HRA CFR	**69.675**	69.675	**69.819**
CFR (Total)	**220.720**	**317.600**	**227.517**

3.12 **The Authorised Limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2014/15 the Council has maintained gross borrowing within its authorised limit.

3.13 **Maximum Gross Borrowing** – this is the maximum outstanding debt owed by the Council at any time during the financial year.

3.14 **The Operational Boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

3.15 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

£m	**2014/15**
Authorised limit	328.925
Gross borrowing position	88.893
Operational boundary	308.985
Financing costs as a proportion of net revenue stream (Non-HRA)	2.33%
Financing costs as a proportion of net revenue stream (HRA)	3.89%

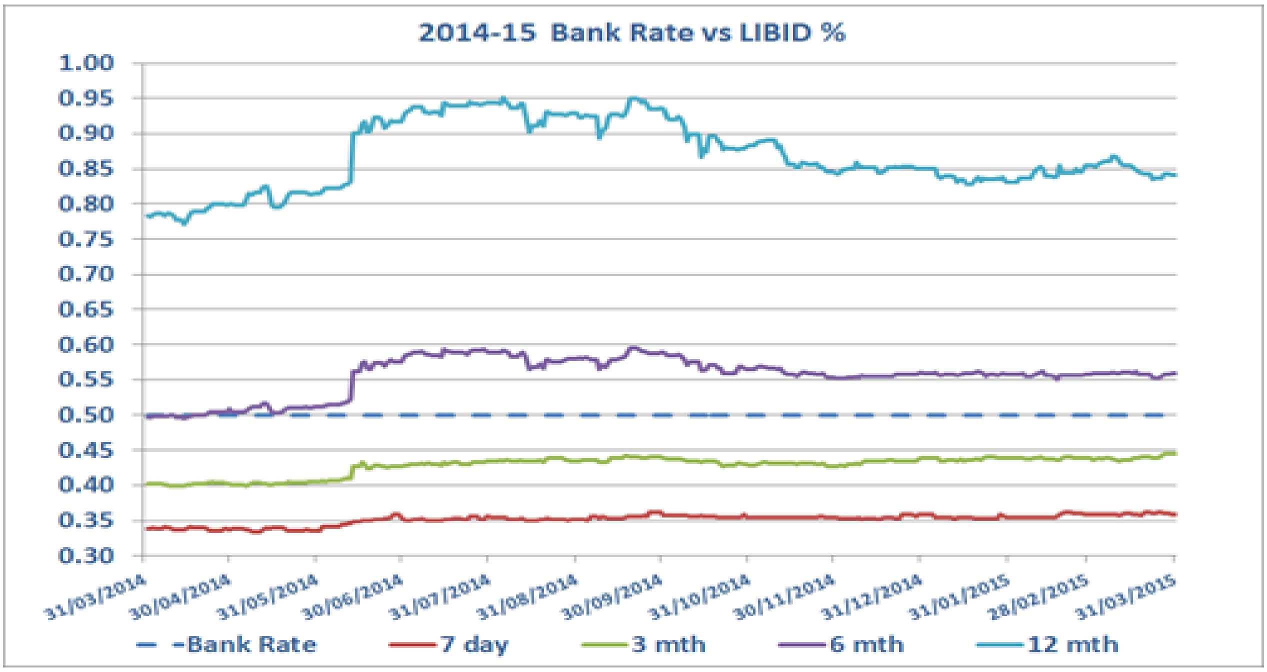
3.16. BORROWING OUTTURN

3.16.1 The Council did not undertake any external borrowing in 2014/15 due to investment concerns, both counterparty risk and low investment returns. Therefore capital financing needs were met by existing debt and internal borrowing.

3.16.2 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

3.17. INVESTMENT RATES

3.17.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.



3.17.2 The graph below illustrates that investment rates remained at historically low levels over the course of the financial year 2014/15.

Money market investment rates 2014/15

	7 day	1 month	3 month	6 month	1 year
1/4/14	0.338	0.362	0.402	0.497	0.783
31/3/15	0.358	0.378	0.445	0.559	0.841
High %	0.362	0.384	0.445	0.596	0.951
Low %	0.334	0.360	0.400	0.496	0.772
Average %	0.352	0.374	0.429	0.556	0.868
Spread %	0.028	0.024	0.045	0.100	0.180
High date	26/3/15	26/9/14	27/3/15	19/9/14	5/8/14
Low date	8/5/14	4/4/14	9/4/14	14/4/14	14/4/14

3.18 INVESTMENT OUTTURN

3.18.1 The Council's investment policy is governed by CLG guidance, which was implemented in line with the annual investment strategy approved by Full Council on 26 February 2014 and the revised investment strategy approved by Full Council on 26 November 2014. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented with additional market data (such as rating outlooks, credit default swaps, bank share prices etc.)

3.18.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

3.18.3 The Council held an outstanding balance of £385.9m as at 31 March 2015, and maintained an average balance of £376.3m of internally managed funds which earned an average rate of return of 0.73%. This compared favourably against the 7-day LIBID benchmark of 0.35%.

Investment performance for 2014/15

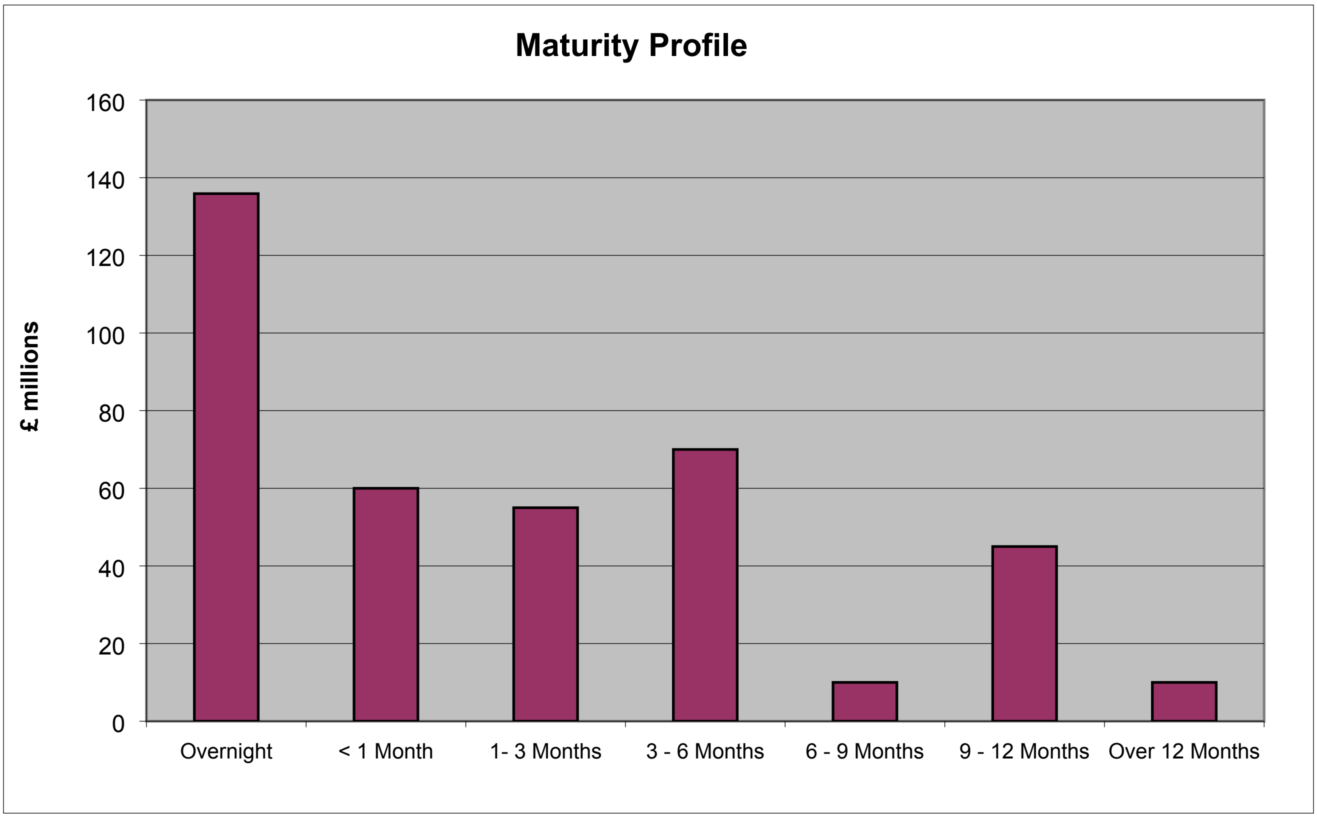
Benchmark	Benchmark Return	LBTH Performance	Over/(Under) Performance
Full Year 2013/2014	0.35%	0.82%	0.47%
Quarter 1	0.34%	0.69%	0.35%
Quarter 2	0.35%	0.73%	0.38%
Quarter 3	0.35%	0.77%	0.42%
Quarter 4	0.36%	0.72%	0.36%
Year to Period	0.35%	0.73%	0.38%

3.18.4 As illustrated above, the Council outperformed the benchmark by **38bps** for this financial year. The Council's budgeted investment return for 2014/15 is **£1.6m,** and performance for the year is **£1.1m** above budget, mainly due to massive increase of average cash balance for investment which was £226.3m above budgeted balance.

3.19 <u>Investments Outstanding & Maturity Structure</u>

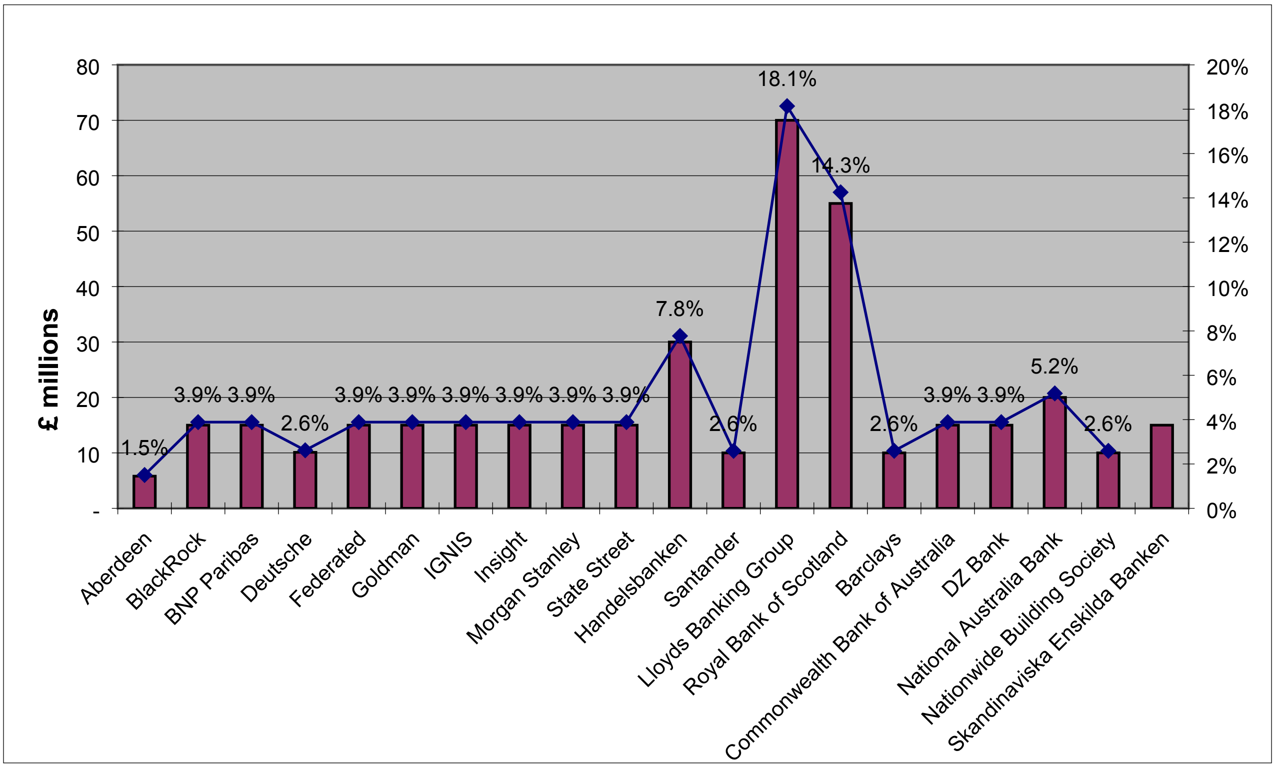
- At the end of March, we have 35.2% of outstanding investments of £385.9m as overnight money and 29.8% maturing within 3months, 18% maturing within 3-6 months, 2.6% maturing within 6-9 months, 11.7% maturing within 9-12 months and about 2.6% to mature after 12months.
- The Weighted Average Maturity (WAM) for outstanding investment portfolio is 98.1 days. This is the average number of outstanding days to maturity of each deal from 31st March 2015. The MMF balance has pulled the WAM down for the month of March.
- The chart below illustrates the maturity structure of deposits as at 31 March 2015; we have £135.9m as overnight deposits, and this basically Money Market Funds.

<u>Chart 1: Maturity of Investment Portfolio as at 31 March 2015</u>



- The chart below shows the deposits outstanding with authorised counterparties as at 31 March 2015, of which 32.4% were with part-nationalised banks (Lloyds and RBS Groups).

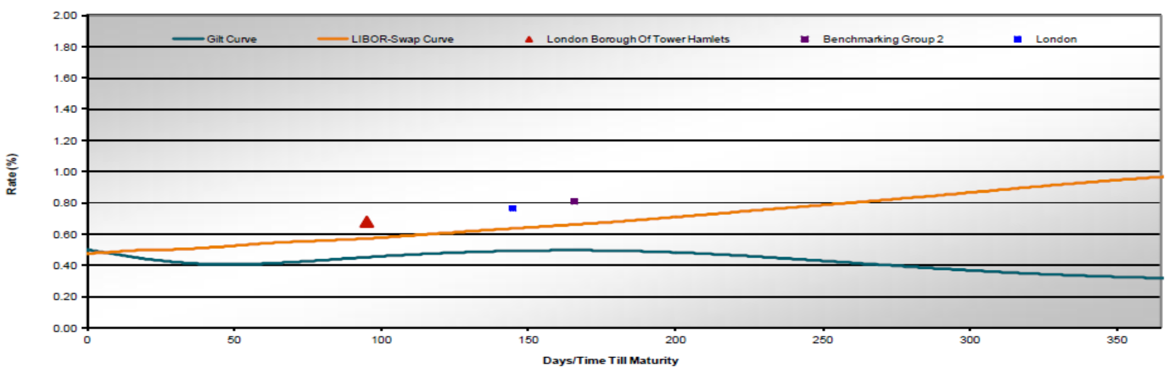
Chart 2: Counterparty Exposure as at 31 March 2015



3.20 INVESTMENT BENCHMARKING CLUB

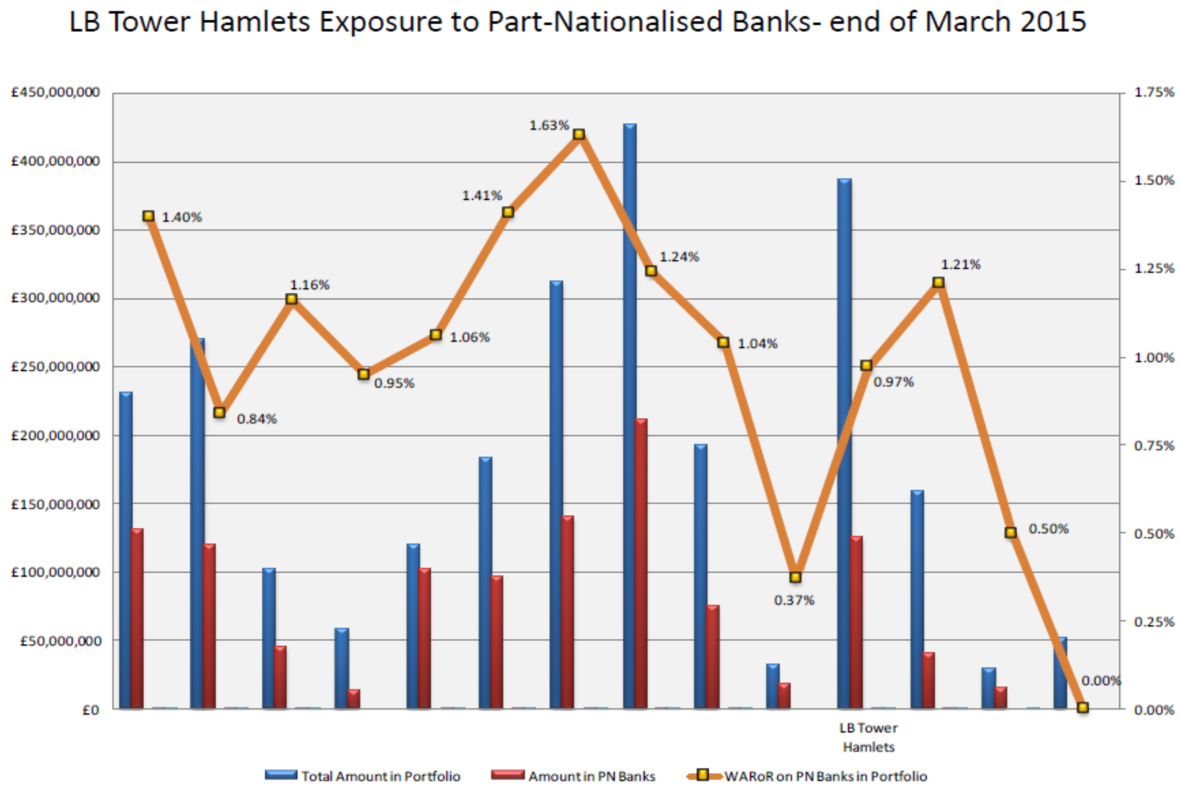
a. LBTH participates in a benchmarking club to enable officers to compare the Council’s treasury management /investment returns against those of similar authorities. The model below shows the performance of benchmark club members given the various levels of risks taken as at 31 March 2015. The model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

Returns Comparable Against the Risk-Free Rate and LIBOR Curve



							Difference		Model	
	WARoR	WAM	WATT	WARisk	Gilt	LIBOR-Swap	Gilt	LIBOR-Swap	Bands	Performance
London Borough Of Tower Hamlets	0.68%	95	210	2.7	0.45%	0.57%	0.23%	0.11%	0.67% - 0.78%	Inline
Benchmarking Group 2	0.81%	165	320	3.1	0.50%	0.66%	0.31%	0.15%	0.74% - 0.85%	Inline
London	0.77%	144	295	2.9	0.49%	0.64%	0.27%	0.13%	0.72% - 0.83%	Inline

b. The weighted average rate of return (WARoR) for LBTH is 0.68% compared to 0.81% for the group. The return on LBTH investment is commensurate with the Council’s risk appetite as set out in the Investment Strategy.



c. The above chart compares exposure to Part-Nationalised Banks (PNB) between club members as the Council currently has a significant amount of investment with PNBs. The chart shows that the Council's allocation to and returns from investment with PNBs is in line with other London boroughs as at 31 March 2015.

d. The chart also shows the deposits outstanding with authorised counterparties as at 31 March 2015, of which 32.4% were with part-nationalised banks (Lloyds and RBS Groups).

3.21 INVESTMENT STRATEGY UPDATE

1. Full Council approved the Investment Strategy on 26 February 2014, amendments to this strategy was included in the Mid-Year Treasury Management Strategy Report that was approved by the full Council 26 November 2014. This was mainly due to the advice received from the Council's treasury adviser that rating assumptions were to be restructured by the three main rating agencies in order to remove the implied sovereign support embedded in the creditworthiness of an institution. The agencies are primarily reacting to the European regulatory changes which aim at ensuring the resolvability of banks without government support (e.g., resolution regimes and recovery and resolution plans).

2. The rating agencies had started implementing these changes in accordance to countries regulatory changes. As a matter of fact Fitch rating agency reassessed their overall methodology and stopped using Financial Strength Rating (FSR) and Support Ratings in computing credit worthiness of institutions. Therefore the Council's basis of formulating counter party template is now void

of Viability, Financial Strength Rating (FSR) and Support benchmarks, as these factors are now basically irrelevant.

3. Partly owned government banks offer significantly higher rates than the DMO, but have similar levels of security based on government guarantee of their credit quality. Officers are working in conjunction with the Council's treasury adviser in monitoring this group risk parameters in order to take appropriate action by deleting from counter party list or altering time and money limits of the organisation to reflect credit worthiness.
4. There have been reports that the Government will start divesting from these banks, The Council's treasury adviser is confident that the recent Government divestment from these groups had no bearing on their current views of the banks and they will continue to keep clients informed of developments on this front and any related updates to their views on both Lloyds Banking Group and Royal Bank of Scotland Group.
5. Barclays bank was downgraded in June 2015 and the Council had lent funds to the bank prior to the change, maturities are 17th September 2015 and 5th April 2016. The investments are shorter than one year, so the short term ratings do meet the stated criteria, but the long term rating, from S&P only, was lowered to A- with a stable outlook, which suggests that there is no risk of any downgrade in the near term. This change is not a reflection of a worsening position of the bank but the re-assessment of the manner in which the agency treats sovereign support. This has been applied to all UK institutions and is not unique to Barclays.
6. The current institutions the Council can currently lend to, is as set in Appendix 3.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

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

5. LEGAL COMMENTS

5.1 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.

5.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the Local Government Act 2003. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.

5.3 It is a key principle of the Treasury Management Code that an authority should put in place "comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities". Treasury management activities cover the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is consistent with the key principles expressed in the Treasury Management Code for the Council to review performance against the strategies and policies it has adopted.

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

5.5 When discharging its treasury management functions, 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. Information is contained in section 15 of the report relevant to these considerations.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 Interest on the Council's cash flow has historically contributed significantly towards the budget. This Council's ability to deliver its various functions, to meet its Community Plan targets and to do so in accordance with its obligations under the Equality Act 2010 may thus be enhanced by sound treasury management.

7. BEST VALUE (BV) IMPLICATIONS

7.1 Assessment of value for money is achieved through:
- Monitoring against benchmarks
- Operating within budget

7.2 For example, investment returns exceeded the LIBID benchmark up to the end of March 2015 and the treasury function operated within budget for financial year 2014/15.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

9. RISK MANAGEMENT IMPLICATIONS

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

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report
[None]

Appendices
Appendix 1: Investments Outstanding as at 31st March 2015
Appendix 2: Prudential and Treasury Indicators
Appendix 3: Counterparty List for London Borough of Tower Hamlets
Appendix 4: Glossary

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

Capita Treasury Advisory Services - Investment Reports & Benchmarking club report

Officer contact details for documents:

[Bola Tobun Ext. 4733 Mulberry Place, 3rd Floor]

Appendix 1
Investments Outstanding as at 31st March 2015

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Aberdeen		MMF	5.80	0.40%
	Blackrock		MMF	15.00	0.43%
	BNP Paribas		MMF	15.00	0.46%
	Deutsche		MMF	10.10	0.46%
	Federated		MMF	15.00	0.45%
	Goldman		MMF	15.00	0.43%
	IGNIS		MMF	15.00	0.47%
	Insight		MMF	15.00	0.45%
	Morgan Stanley		MMF	15.00	0.43%
	State Street		MMF	15.00	0.43%
	SUB TOTAL			**135.90**	
< 1 Month	Lloyds Banking Group	07/10/2014	07/04/2015	5.00	0.70%
	Lloyds Banking Group	11/04/2014	10/04/2015	5.00	0.95%
	Lloyds Banking Group	11/07/2014	13/04/2015	10.00	0.80%
	Nationwide Building Society	13/10/2014	13/04/2015	5.00	0.66%
	Lloyds Banking Group	15/04/2014	15/04/2015	5.00	0.95%
	Royal Bank of Scotland	16/04/2013	16/04/2015	5.00	0.88%
	Royal Bank of Scotland	16/04/2014	16/04/2015	5.00	0.67%
	Nationwide Building Society	16/10/2014	16/04/2015	5.00	0.66%
	Lloyds Banking Group	17/07//2014	17/04/2015	5.00	0.80%
	Skandinaviska Enskilda Banken	29/04/2014	29/04/2015	5.00	0.71%
	Lloyds Banking Group	29/10/2014	29/04/2015	5.00	0.70%
1 - 3 Months	Santander		Call - 95N	10.00	1.10%
	Handelsbanken		Call - 35N	30.00	0.45%
	National Australia Bank	06/11/2014	06/05/2015	5.00	0.55%
	DZ Bank	26/08/2014	26/05/2015	5.00	0.86%
	Skandinaviska Enskilda Banken	17/11/2014	29/05/2015	5.00	0.58%
3 - 6 Months	National Australia Bank	07/07/2014	07/07/2015	5.00	0.64%
	Royal Bank of Scotland	15/07/2014	15/07/2015	20.00	0.97%
	Commonwealth Bank of Australia	15/07/2014	15/07/2015	5.00	0.83%
	Commonwealth Bank of Australia	17/07/2014	17/07/2015	5.00	0.82%
	Commonwealth Bank of Australia	12/08/2014	12/08/2015	5.00	0.81%
	Lloyds Banking Group	13/02/2015	13/08/2015	5.00	0.70%
	DZ Bank	26/08/2014	26/08/2015	5.00	0.98%
	DZ Bank	26/02/2015	26/08/2015	5.00	0.59%
	Barclays	17/03/2015	17/09/2015	10.00	0.63%
	Skandinaviska Enskilda Banken	26/03/2015	25/09/2015	5.00	0.60%
6 - 9 Months	Lloyds Banking Group	13/11/2014	13/11/2015	5.00	1.00%
9 - 12 Months	Lloyds Banking Group	04/12/2014	04/12/2015	5.00	1.00%
	Lloyds Banking Group	04/02/2015	04/02/2016	5.00	1.00%
	National Australia Bank	16/02/2015	16/02/2016	10.00	0.61% *
	Royal Bank of Scotland	27/02/2013	26/02/2016	10.00	1.15%
	Lloyds Banking Group	04/03/2015	04/03/2016	5.00	1.00%
	Lloyds Banking Group	05/03/2015	07/03/2016	10.00	1.00%
	Royal Bank of Scotland	20/03/2014	20/03/2016	5.00	1.25%
> 12 Months	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74% *
	Royal Bank of Scotland	30/01/2015	30/01/2018	5.00	1.20% *
	SUB TOTAL			**250.00**	
	TOTAL			**385.90**	

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

Appendix 2: Prudential and Treasury Indicators

Prudential Indicators	**2013/14**	**2014/15**	**2014/15**	**2014/15**	**2015/16**	**2016/17**
Extract from Estimate and rent setting reports	**Actual**	**Original Estimate**	**Revised Estimate**	**Actual**	**Estimate**	**Estimate**
	£m	£m	£m	£m	£m	£m
Capital Expenditure						
Non – HRA	82.653	67.153	75.378	59.833	44.417	22.449
HRA	50.255	99.760	115.866	76.854	127.555	94.794
TOTAL	**132.908**	**166.913**	**191.244**	**136.687**	**171.972**	**117.243**
Ratio of Financing Costs To Net Revenue Stream						
Non – HRA	2.29%	3.51%	2.63%	2.33%	2.74%	2.92%
HRA	3.70%	3.69%	4.01%	3.89%	5.40%	8.24%
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Gross Debt and Capital Financing Requirement						
Gross Debt (including PFI)	128.974	141.060	136.788	127.366	171.395	226.238
Capital Financing Requirement	220.720	317.600	267.727	227.517	305.356	362.910
Over/(Under) Borrowing	(91.746)	(176.540)	(130.939)	(100.151)	(133.961)	(136.672)
In Year Capital Financing Requirement						
Non – HRA	0.000	57.470	7.597	6.653	4.790	1.033
HRA	0.000	0.000	0.000	0.144	32.838	56.521
TOTAL	**0.000**	**57.470**	**7.597**	**6.797**	**37.628**	**57.554**
Capital Financing Requirement as at 31 March						
Non - HRA	151.045	247.925	198.052	157.698	202.842	203.875
HRA	69.675	69.675	69.675	69.819	102.514	159.035
TOTAL	**220.720**	**317.600**	**267.727**	**227.517**	**305.356**	**362.910**
Incremental Impact of Financing Costs (£)						
Increase in Council Tax (band D) per annum	0.000	0.908	1.325	0.000	2.520	2.446
Increase in average housing rent per week	0.000	0.000	0.000	0.000	7.804	4.404

Treasury Management Indicators	2013/14	2014/15	2014/15	2014/15	2015/16	2016/17
	Actual	**Original Estimate**	**Revised Estimate**	**Actual**	**Estimate**	**Estimate**
	£m	£m	£m	£m	£m	£m
Authorised Limit For External Debt -						
Borrowing & Other long term liabilities	245.720	308.985	294.287	294.287	293.323	292.118
Headroom	20.000	20.000	20.000	20.000	20.000	20.000
TOTAL	**265.720**	**328.985**	**314.287**	**314.287**	**313.323**	**312.118**
Operational Boundary For External Debt -						
Borrowing	206.310	270.513	255.815	255.815	255.815	255.815
Other long term liabilities	39.410	38.472	38.472	38.472	37.508	36.303
TOTAL	**245.720**	**308.985**	**294.287**	**294.287**	**293.323**	**292.118**
Gross Borrowing(including PFI)	**129.990**	**141.060**	**135.900**	**127.366**	**171.395**	**226.238**
HRA Debt Limit*	**184.381**	**192.000**	**192.000**	**192.000**	**192.000**	**192.000**
Upper Limit For Fixed Interest Rate Exposure						
Net principal re fixed rate borrowing / investments	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Upper Limit For Variable Rate Exposure						
Net interest payable on variable rate borrowing / investments	**90/25%**	**90/25%**	**90/25%**	**90/25%**	**90/25%**	**90/25%**
Upper limit for total principal sums invested for over 364 days (per maturity date)	**£20m**	**£20m**	**£20m**	**£50m**	**£50m**	**£50m**

Maturity structure of debt portfolio	Original Limits (2014/15)	Actual (2014/15)
under 12 months	10%	0.4%
12 months and within 24 mths	30%	2.1%
24 months and within 5 years	40%	5.4%
5 years and within 10 years	80%	3.6%
10 years and above	100%	88.5%

Appendix 3
Counterparty List for London Borough of Tower Hamlets

	FITCH RATINGS		MOODYS RATINGS		S&P RATINGS	
Name	**Short Term**	**Long Term**	**Short Term**	**Long Term**	**Short Term**	**Long Term**
United Kingdom (Sovereign Rating)	F1+	AA+		Aa1	A-1+	AAA
Royal Bank of Scotland	F2	BBB+	P-2	A3	A-2	BBB+
Co-operative Bank plc	B	B	NP	Caa2		
Lloyds Bank Plc	F1	A+	P-1	A1	A-1	A
HSBC Bank plc	F1+	AA-	P-1	Aa2	A-1+	AA-
Nationwide Building Society	F1	A	P-1	A1	A-1	A
National Westminster Bank	F2	BBB+	P-2	A3	A-2	BBB+
Bank of Scotland Plc	F1	A+	P-1	A1	A-1	A
Santander UK Plc	F1	A	P-1	A1	A-1	A
Citibank International Plc	F1	A	P-1	A1	A-1	A
UBS Ltd	F1	A	P-1	A2	A-1	A
Standard Chartered Bank	F1+	AA-	P-1	Aa2	A-1	A+
Merrill Lynch International	F1	A			A-1	A
Ulster Bank Ltd	F2	BBB+	P-2	A3	A-2	BBB
Goldman Sachs International Bank	F1	A	P-1	A1	A-1	A
Morgan Stanley & Co. International PLC			P-1	A1	A-1	A
Close Brothers Limited	F1	A	P-1	Aa3		
Coventry Building Society	F1	A	P-1	A2		
Cumberland Building Society						
Nottingham Building Society			P-2	Baa1		
Principality Building Society	F2	BBB+	P-3	Baa3		
Progressive Building Society						
Skipton Building Society	F2	BBB+	P-2	Baa2		
West Bromwich Building Society	(Withdrawn)		NP	B1		
Yorkshire Building Society	F1	A-	P-2	A3	(Withdrawn)	
Leeds Building Society	F1	A-	P-1	A2		
Newcastle Building Society	B	BB+				
Australia (Sovereign Rating)	F1+	AAA		Aaa	A-1+	AAA
Australia and New Zealand Banking Group	F1+	AA-	P-1	Aa2	A-1+	AA-
Commonwealth Bank of Australia	F1+	AA-	P-1	Aa2	A-1+	AA-
National Australia Bank Limited	F1+	AA-	P-1	Aa2	A-1+	AA-
Westpac Banking Corporation	F1+	AA-	P-1	Aa2	A-1+	AA-
Macquarie Bank Limited	F1	A	P-1	A2	A-1	A
Canada (Sovereign Rating)	F1+	AAA	(P)P-1	Aaa	A-1+	AAA
Bank of Montreal	F1+	AA-	P-1	Aa3	A-1	A+
Bank of Nova Scotia	F1+	AA-	P-1	Aa2	A-1	A+
National Bank of Canada	F1	A+	P-1	Aa3	A-1	A

Royal Bank of Canada	F1+	AA	P-1	Aa3	A-1+	AA-
Canadian Imperial Bank of Commerce	F1+	AA-	P-1	Aa3	A-1	A+
Toronto-Dominion Bank	F1+	AA-	P-1	Aa1	A-1+	AA-
Denmark (Sovereign Rating)	F1+	AAA	P-1	Aaa	A-1+	AAA
Danske Bank	F1	A	P-1	A2	A-1	A
Germany (Sovereign Rating)	F1+	AAA		Aaa	A-1+	AAA
Landesbank Berlin AG	(Withdrawn)	(Withdrawn)	P-1	A1		
Landesbank Hessen-Thuringen Girozentrale	F1+	A+	P-1	A1	A-1	A
Landwirtschaftliche Rentenbank	F1+	AAA	P-1	Aaa	A-1+	AAA
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	F1+	AA-	P-1	Aa2	A-1+	AA-
Ireland (Sovereign Rating)	F1	A-	P-2	Baa1	A-1	A+
Luxembourg (Sovereign Rating)	F1+	AAA		Aaa	A-1+	AAA
BGL BNP Paribas SA	F1	A+	P-1	A1	A-1	A+
Banque et Caisse d'Epargne de l'Etat			P-1	Aa2	A-1+	AA+
Clearstream Banking	F1+	AA			A-1+	AA
Norway (Sovereign)	F1+	AAA		Aaa	A-1+	AAA
Nordea Bank AB	F1+	AA-	P-1	Aa3	A-1+	AA-
DnB Bank	(Withdrawn)	(Withdrawn)	P-1	Aa2	A-1	A+
Singapore (Sovereign Rating)	F1+	AAA		Aaa	A-1+	AAA
United Overseas Bank Limited	F1+	AA-	P-1	Aa1	A-1+	AA-
DBS Bank Ltd.	F1+	AA-	P-1	Aa1	A-1+	AA-
Oversea-Chinese Banking Corp	F1+	AA-	P-1	Aa1	A-1+	AA-
Sweden (Sovereign Rating)	F1+	AAA	P-1	Aaa	A-1+	AAA
Svenska Handelsbanken	F1+	AA-	P-1	Aa2	A-1+	AA-
Skandinaviska Enskilda Banken	F1	A+	P-1	Aa3	A-1	A+
Swedbank AB	F1	A+	P-1	Aa3	A-1	A+
Switzerland (Sovereign Rating)	F1+	AAA		Aaa	A-1+	AAA
Credit Suisse AG	F1	A	P-1	Aa3	A-1	A
UBS AG	F1	A	P-1	A1	A-1	A
Other						
DMO						
Local Authorities						
Money Market Funds						

Appendix 4

Glossary

Asset Life	How long an asset, e.g. a Council building is likely to last.
Borrowing Portfolio	A list of loans held by the Council.
Borrowing Requirements	The principal amount the Council requires borrowing 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 &	The main inflation rate used in the UK is the CPI. The

Retail Prices Index (CPI & RPI)	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.
Creditworthiness	How highly rated an institution is according to its credit rating.
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.
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 are 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.