Non-Executive Report of the: **Audit Committee** **14 November 2019**	TOWER HAMLETS
Report of: Neville Murton, Corporate Director, Resources	**Classification:** Unrestricted
Treasury Management Mid-Year Report for 2019/20	

Originating Officer(s)	Katherine Ball – Strategic Finance Manager
Wards affected	All Wards

Summary

This Report is produced in accordance with the CIPFA Treasury Management Code of Practice

The Treasury Management Strategy Statement and the Treasury Prudential Indicators, for 2019/20 were approved by Council on 19th February 2019 as required by the Local Government Act 2003. This report covers the period 1st April 2019 to 30th September 2019

Investment returns fluctuate in line with the bank of England base rate. Base rate is maintained at 0.75%.

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. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy. Risk includes interest rate fluctuations and change to inflation.

The investment income budget set for 2019/20 was £4m and we are broadly on target.

For the 2018/19 budget, £100m of investments were set aside for investment in pooled funds. To date, £76m has been invested. Equity markets fell very sharply over the 3 months to 31 December 2018 and investment in pooled funds was paused due to high market volatility.

From the Benchmarking exercise a total return of 1.60% was achieved for the reporting period, which was 0.46% above the average for similar LAs return and 0.38% higher than the average return for all LAs.

The 7 day London Interbank Bid Rate (LIBID) is the performance measure for the Council's investment returns and the return for year to date is 0.57%. For this reporting period, the investments portfolio returned 1.60%. This was better than the benchmarking average of 1.22%. More information on this can be found in section 3.6.

The credit worthiness of investments is maintained at –AA and the average credit score is 4.18 for this reporting period, signifying LBTH portfolio credit risk is lower than the benchmarking average.

Prudential Indicators (PI) and Treasury Management (TM) indicators have been fully complied with.	Over the reporting period, all treasury management (TM) activities have been carried out in accordance with the approved limits and the prudential indicators (PI) set out in the Council's Treasury Management Strategy statement.

Recommendations:

Members are recommended to:

- note the contents of the treasury management activities and performance against targets for half year ending 30 September 2019; and
- note the Council's investments as set out in Appendix 1. The balance outstanding as at 30 September 2019 was £307.250m

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 Full Council.

2. ALTERNATIVE OPTIONS

2.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities. If the Council were to deviate from those requirements, there would need to be justifiable reason for doing so.

3. DETAILS OF REPORT

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

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

3.3 The Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision reports were included in the Budget Pack that was presented to Full Council on 19 February 2019.

3.4 **ECONOMIC OUTLOOK AND INTEREST RATE FORECAST FROM ARLINGCLOSE**

3.4.1 The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slow-down in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.

3.4.2 There appears no near term resolution to the trade dispute between China and the US, a dispute that the US appears comfortable exacerbating further. With the 2020 presidential election a year away, Donald Trump is unlikely to change his stance.

3.4.3 Parliament appears to have frustrated UK Prime Minister Boris Johnson’s desire to exit the EU on 31st October. The probability of a no-deal EU exit in the immediate term has decreased, although a no-deal Brexit cannot be entirely ruled out for 2019 and the risk of this event remains for 2020. The risk of a general election in the near term has, however, increased.

3.4.4 UK economic growth has stalled despite a probable pick-up in growth in Q3 2019. The ONS reported a Q2 growth rate of -0.2%. The MPC has downgraded its growth forecasts for future years.

3.4.5 While the potential for divergent paths for UK monetary policy remain in the event of a withdrawal agreement, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy.

3.4.6 Inflation remains around target, albeit displaying a surprising decline in August 2019. The tight labour market risks medium-term domestically-driven inflationary pressure. Slower global growth should reduce the prospect of externally driven inflationary pressure, although political turmoil could push up oil prices.

3.4.7 Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

3.4.8 Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy.

3.4.9 Arlingclose judges that the risks are significantly weighted to the downside.

3.4.10 Gilt yields have fallen to historic lows. The risks to economic growth from global political uncertainty appear to have crystallised, dampening rate expectations and dragging yields lower.

3.4.11 We expect gilt yields to remain at low levels for the foreseeable future and judge the risks to be weighted to the downside. Volatility will continue to offer longer-term borrowing opportunities.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
3-month money market rate													
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
1yr money market rate													
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**
Downside risk	0.30	0.50	0.55	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65
5yr gilt yield													
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45
Arlingclose Central Case	**0.35**	**0.40**	**0.45**	**0.45**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	0.35	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
10yr gilt yield													
Upside risk	0.20	0.20	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45
Arlingclose Central Case	**0.55**	**0.55**	**0.65**	**0.70**	**0.70**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	0.40	0.40	0.45	0.50	0.50	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
20yr gilt yield													
Upside risk	0.20	0.20	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45
Arlingclose Central Case	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**1.15**	**1.15**	**1.15**	**1.15**	**1.15**	**1.15**	**1.15**	**1.15**
Downside risk	0.45	0.50	0.55	0.60	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65
50yr gilt yield													
Upside risk	0.20	0.20	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45
Arlingclose Central Case	**0.90**	**0.95**	**1.00**	**1.05**	**1.10**	**1.10**	**1.10**	**1.10**	**1.10**	**1.10**	**1.10**	**1.10**	**1.10**
Downside risk	0.40	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60

3.5 TREASURY MANAGEMENT STRATEGY 2019/20

3.5.1 The Treasury Management Strategy was approved on 19th February 2019 by Council. The Strategy comprehensively outlined how the treasury function would operate throughout the financial year 2019/20 including the limits and criteria for selecting institutions to be used for the investment of surplus cash and the council's policy on long-term borrowing and limits on debt. The Council complied with the strategy throughout the reporting period and all investments were made to counterparties within the Council's approved lending list.

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

3.5.3 The treasury management position as at 30th September 2019 shown in table 2 below.

Table 2: Treasury Management Summary

	31.03.19 Balance £m	Movement over the Year £m	30.09.19 Balance £m	31.09.19 Rate %
Long-term borrowing	74.296	-	74.296	3.25
Short-term borrowing	-	-	-	-
Total borrowing	**74.296**	**-**	**74.296**	**3.25**
Long-term investments	73.000	8.000	81.000	
Short-term investments	273.500	(216.500)	57.000	

	31.03.19 Balance £m	Movement over the Year £m	30.09.19 Balance £m	31.09.19 Rate %
Cash and cash equivalents	36.650	132.600	169.250	
Total investments	**383.150**	**(75.900)**	**307.250**	**1.6**
Net investments	***308.854***	**(75.900)**	***232.954***	

Borrowing Strategy during the period

3.5.4 The Council held £74.296m of external loans at 30th September 2019.

Table 3: Borrowing Position

	31.03.19 Balance £m	Movement £m	30.09.19 Balance £m	30.09.19 Rate %	30.09.19 WAM* years
Public Works Loan Board	56.796	-	56.796	2.92	44.9
Banks (fixed-term)	17.500	-	17.500	4.34	58.0
Total borrowing	**74.296**	**-**	**74.296**	**3.25**	**13.9**

*Weighted average maturity

3.5.5 The Council takes a low risk approach to its borrowing strategy. This means that the principal objective when borrowing has been 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 being to have flexibility to renegotiate loans should the Council's long-term plans change.

3.5.6 The Council redeemed £60m of its LOBO (Lender's Option Borrower's Option) loans during 2018/19 and partly re-financed this through Public Works Loans Board (PWLB) loans.

PWLB Rate Increase

3.5.7 On October 9th 2019 the Treasury increased the interest rate for the Public Works Loan Board (PWLB) by one percentage point.

3.5.8 In a letter to council finance directors the Treasury's Local Government & Reform team said the decision to increase the interest rate was taken because "some local authorities have substantially increased their use of the PWLB in recent months, as the cost of borrowing has fallen to record lows." The letter said the government will monitor the impact of the change and keep its rates policy under review.

3.5.9 Our Treasury advisers, Arlingclose, have provided a funding update in which they set out that it is probable that local authorities will in future wish to investigate other sources of long-term borrowing, as, given the increase in PWLB rates, it is likely that there is now cheaper borrowing available to local authorities than PWLB.

3.5.10 One likely consequence is that if the Council decides to borrow from non PWLB sources it will face a more onerous and lengthy administrative process compared to arranging borrowing through the PWLB; local authorities will have to go through a rigorous process with much more disclosure and explanation, as private investors will look to scrutinise the credit worthiness of potential borrowers

3.5.11 The Council will work closely with Arlingclose in future to understand the implications for the Council and its borrowing need.

Investment Activity

3.5.12 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Council's investment balance ranged between £307m to £383m due to timing differences between income and expenditure. The investment position at this reporting period is shown in table 4 below.

3.5.13 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.

Investments Outstanding & Maturity Structure

3.5.14 The table below shows the amount of investments outstanding at the end of September 2019 split according to the financial sector.

3.5.15 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. Given the increasing risk and falling returns from short-term unsecured bank investments, the Council has diversified into more secure and/or higher yielding asset classes by allocating £100m for strategic pooled investments and currently £76m has been invested as shown in Table 4 below.

Table 4 Outstanding Investments by Financial Sector

Financial Sector	31.03.19 Balance £m	Movement over the Year £m	30.09.19 Balance £m	% Portfolio
UK Banks	25.000	15.000	40.000	13.0
UK Building Societies	-	-	-	-
Government (incl. local authorities)	145.500	(57.500)	88.000	28.6
Oversea Banks	100.000	(80.000)	20.000	6.5
Money Market Funds	36.650	46.600	83.250	27.1
Pooled Investment Funds:	76.000	-	76.000	24.7
Cash plus funds	*20.000*	-	*20.000*	
Short-dated bond funds	*18.000*	-	*18.000*	
Strategic bond funds	*9.000*	-	*5.000*	
Equity Income funds	*13.000*	-	*6.000*	
Property funds	*5.000*	-	*5.000*	
Multi asset income funds	*11.000*	-	*11.000*	
Total investments	**383.150**	**(75.900)**	**307.250**	

Performance Report

3.5.16 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 5 below.

Table 5: Investment performance for financial year to 30th September 2019

Period	LBTH Performance	Benchmark Return	Over/(Under) Performance
Full Year 2018/19	1.16%	1.24%	(0.08%)
Quarter 1	1.41%	1.23%	0.18%
Mid-Year 2019/20	**1.60%**	**1.14%**	**0.46%**

3.5.17 The Council's budgeted investment return for 2019/20 is **110 basis points** (1.10%) with average cash balance of £400m. This is based on placing £100m in pooled investments during 2018/19. There was a delay in placing these investments because of investment market sentiment over historically expensive investment values.

3.5.18 £76m was invested in pooled funds during 2018/19. The funds will be in place to deliver the full year savings target in 2019/20 onwards, however due to the nature of the funds, returns will fluctuate from year to year. The risk profile of these investments is an important consideration for the Committee, in order to achieve higher returns, there can be a need to accept higher levels of risk.

3.5.19 The investment performance for the reporting period is **160bps** with an average cash balance of £340m.

3.6 Investment Benchmarking

3.6.1 LBTH participates in a benchmarking club being run by Arlingclose to enable officers to compare the Council's treasury management / investment returns against those of similar authorities. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 139 local authorities. The progression of risk and return metrics are shown in Table 6 below.

Table 6: Investment Benchmarking

	Tower Hamlets		**12 London & Metropolitan Average**	**139 Local Authorities (LAs) Average**
	31 March 2019	**30 Sept 2019**		
Internal Investments	£307.2m	£231.3m	£67.9m	£65.2m
External Funds	**£75.2m**	**£75.8m**	***£13.7m***	***£12.8m***
Average Credit Score	3.96	4.18	4.46	4.28
Average Credit Rating	AA-	AA-	AA-	AA-
Number of Counterparties & Funds	38	29	11	14
Proportion Exposed to Bail-in	20%	53%	72%	62%

	Tower Hamlets		12 London & Metropolitan Average	139 Local Authorities (LAs) Average
	31 March 2019	30 Sept 2019		
Proportion Available within 7 days	12%	30%	61%	42%
Proportion Available within 100 days	51%	62%	74%	68%
Average Days to Maturity	108	106	92	28
Internal Investment Return	***0.97%***	***0.94%***	***0.87%***	***0.83%***
External Funds - Income Return	**1.97%**	**2.94%**	***3.11%***	***3.68%***
Total Investments - Total Return	**1.16%**	**1.60%**	**1.14%**	**1.22%**

3.6.2 As at 30th September 2019 LBTH investment portfolio delivered 0.94% for internal investment management, outperforming the benchmarking average of 0.87% and also the average return for 139 LAs of 0.83%, whilst for total return for total investments LBTH generated 1.60% outperforming the average return for 12 London Boroughs and Metropolitan Boroughs with return of 1.14% by 46bps, and outperforming the average return for 139 LAs with an average return of 1.22% by 38bps.

3.6.3 Our investment portfolio credit scores are better than the benchmark average of 4.46, signifying that LBTH's portfolio credit risk is lower than that of the others. As a consequence our investment portfolio credit worthiness was maintained at AA-, in line with the benchmark average.

3.6.4 The proportion of the portfolio investments exposed to bail-in is 53%, this level is significantly lower than the benchmark average of 72%. This means we have taken less bail-in risk on our investors compared to the others. Bail-in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings.

3.6.5 It can also be seen from the above table that the number of counterparties the Council had as at 30th September was 29. The number of counterparties the Council had investments with during the period is more than double the benchmarking average of 11. This demonstrates the Council reduces the counterparty risk and concentration risk of the investments portfolio significantly by investing with many quality institutions and local authorities. The lower average credit score compared to others reflects the lower risk of lending to Local Authorities.

3.7 Compliance Report

3.7.1 All treasury management activities undertaken from the beginning of the financial year 2019/20 to the this reporting period complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

3.7.2 Compliance with the authorised limit and operational boundary for external debt is set out in Table 7 below.

Table 7: Debt Limits

	31.03.19 Actual £m	2019/20 Forecast £m	2019/20 Operational Boundary	2019/20 Authorised Limit	Complied

			£m	£m	
Borrowing	74.296	207.893	389.224	399.224	✓
PFI & finance leases	61.181	58.650	57.266	67.266	✓
Total debt	**135.477**	**266.543**	**446.490**	**466.490**	✓

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

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

	31.03.19 Actual	30.09.19 Actual	2019/20 Target	Complied
Portfolio average credit rating	AA-	AA-	A	✓

3.7.5 **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.

	31.03.19 Actual	30.09.19 Actual	2019/20 Target	Complied
Total cash available within [3] months	£124.15m	£169.25m	£100m	✓
Total sum borrowed in past [3] months without prior notice	Nil	Nil	Nil	✓

3.7.6 **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:

	30.09.19 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	£1.004m	10%	0%	✓
12 months and within 24 months	£0.755m	30%	0%	✓
24 months and within 5 years	£2.825m	40%	0%	✓
5 years and within 10 years	-	80%	0%	✓
10 years and above	£68.709m	100%	0%	✓

3.7.7 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2019/20
Actual principal invested beyond year end	£101m
Limit on principal invested beyond year end	£150m

Complied	✓

3.8 **Non-Treasury Investments**

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

3.8.2 The Council currently does not have such investments.

4. <u>EQUALITIES IMPLICATIONS</u>

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

5. <u>OTHER STATUTORY IMPLICATIONS</u>

5.1 This section of the report is used to highlight further specific statutory implications that are wither 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

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.

5.2 Assessment of value for money is achieved through:

- Monitoring against benchmarks
- Operating within budget

Risk Management

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

The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.

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

The Council is ultimately responsible for risk management in relation to its treasury activities. However, in determining the risk and appropriate controls to put in place the Council has obtained independent advice from Arlingclose who specialise in Council treasury issues.

6 COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 This report provides an update on Treasury Management activities from April 2019 to September 2019.

6.2 The Council adopted a new approach to its investment activities in line with approvals given in the 2019/20 Treasury Management Strategy and its Medium Term Financial Strategy to increase the level of investment income it generates for 2019/20.

6.3 As at the 30th September 2019 the Council held an outstanding investments portfolio of £307.25m. The annual investment income budget is £4m and current estimates indicate that this is achievable.

7. LEGAL COMMENTS

7.1 The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.

7.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to 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 half-year ending 30th September 2018 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).

APPENDICES

Appendix 1 – Investments Outstanding at 30th September 2019

Appendix 2 – Glossary

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report

Arlingclose LTD - Treasury Management Benchmarking Report and Quarter 3 2019/20 and Treasury Management Mid-Year Report Template

Brief description of "background papers'
Name and telephone number of holder and address where open to inspection
Katherine Ball, x0997, Mulberry Place

Appendix 1: Investments Outstanding as at 30th September 2019

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Amundi MMF		**MMF**	25.000	0.73%
	Aberdeen MMF		**MMF**	25.000	0.74%
	Federated MMF		**MMF**	25.000	0.74%
	Aviva MMF		**MMF**	8.250	0.72%
	SUB TOTAL			**82.250**	
Long Term	CCLA Diversified Income Fund		**POOLED**	5.000	
	CCLA Local Authorities Property Fund		**POOLED**	5.000	
	Payden & Rygel Absolute Return Bond Funds		**POOLED**	10.000	
	Threadneedle Global Equity Income Fund		**POOLED**	3.000	
	Threadneedle Strategic Bond Fund		**POOLED**	5.000	
	Threadneedle Sterling Short-Dated Corporate Bond Fund		**POOLED**	8.000	
	Investec, Diversified Income Fund		**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**	
< 1 Month	Newry, Mourne and Down District Council	25/10/2018	25/10/2019	6.000	1.15%
	SUB TOTAL			**6.000**	
1 - 3 Months	Payden & Rygel Sterling Reserve Fund (POOLED)		**POOLED**	10.000	
	Royal London Enhanced Cash Plus Y (POOLED)		**POOLED**	10.000	
	Thurrock Borough Council	08/11/2017	08/11/2019	20.000	1.05%
	Wrexham County Borough Council	03/06/2019	03/21/2019	20.000	0.90%
	Australia & New Zealand Banking Group	04/06/2018	04/12/2019	20.000	0.98%
	SUB TOTAL			**80.000**	
3 - 6 Months	Santander	00/01/1900	CALL 95	20.000	
	Middlesbrough Council	26/01/2018	27/01/2020	10.000	1.08%
	East Ayrshire Council	12/03/2019	12/03/2020	5.000	1.20%
	Isle of Wight Council	07/02/2018	07/02/2020	2.000	1.05%
	SUB TOTAL			**37.000**	
6 - 9 Months	Lloyds TSB Bank	10/06/2019	10/06/2020	20.000	1.25%
	SUB TOTAL			**20.000**	
> 12 Months	Lancashire County Council	10/05/2019	10/11/2020	20.000	1.30%
	Dumfries & Galloway	20/08/2018	20/08/2021	5.000	1.20%
	SUB TOTAL			**25.000**	
	TOTAL			**307.250**	

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 MMFs.
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 programmes 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 is normally the cheapest source of long term borrowing for LAs.
Quantitative Easing (QE)	Quantitative easing (QE), also known as large-scale asset purchases, is an expansionary monetary policy whereby a central bank buys predetermined amounts of government bonds or other financial assets in order to stimulate the economy.
Specified Investments	Investments that meet the Council’s high credit quality criteria and are 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.