Non-Executive Report of the: **Audit Committee** **29 July 2021**	TOWER HAMLETS
Report of: Kevin Bartle, Interim Corporate Director, Resources	**Classification:** Unrestricted
Treasury Management Outturn Report for 2020-21	

Originating Officer(s)	Pearl Emovon – Interim Treasury 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 2020-21 were approved by Council on 19th February 2020, as required by the Local Government Act 2003. This report covers the period 1st April 2020 to 31st March 2021.
Investment returns fluctuate in line with the Bank of England base rate. The base rate has maintained at 0.10%	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 revised investment income budget for 2020-21 was £2.3m, with actual income received of £2.4m.	To date £76m has been invested in pooled funds. Equity markets fell very sharply at the end of 2019-20 due to the impact of Covid-19 on the economy, resulting in a significant fall in value of pooled funds. However, the value of pooled funds recovered from £69.4m back to the purchase price of £76m by the end of 2020-21.
From the benchmarking exercise a total return of 3.47% was achieved in 2020-21, which was 1.63% above the average for similar LAs, and 1.21% higher than the average return for all LAs.	The Sterling Overnight Index Average (SONIA) has replaced the London Interbank Bid Rate (LIBID) as the performance measure for the Council's investment returns. For 2020-21, SONIA was 0.05%. The investments portfolio returned 3.47% compared to -0.73% last financial year; this was also above the benchmarking average of 1.84%. More information on this can be found in section 3.6 of this report. The average credit worthiness of investments is A+ in line with the LA benchmarking average. The average credit score has improved from 3.65 (2019-20) to 4.54 (2020-21)

	however this is lower than the benchmarking average of 4.78.
Prudential Indicators (PI) and Treasury Management (TM) indicators have been fully complied with.	Over the reporting period, all treasury management (TM) activities were performed in accordance with the approved limits and the prudential indicators (PI) set out in the Council's Treasury Management Strategy Statement.

Recommendations:

Members are recommended to:

- note the contents of the treasury management activities and performance against targets for the year ending 31 March 2021.
- note the Council's investments as set out in Appendix 1. The balance as at 31 March 2021 was £273.9m.

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 (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 was 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 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 19th February 2020.

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

3.4.1 **Economic background:** The year 2020/21 was dominated by the coronavirus pandemic leading to various lockdowns. Many central banks cut interest rates at the start of the financial year as lockdowns drastically slowed down economic activities. The Bank of England cut Bank Rate to 0.1% with UK government providing a large range of fiscal stimulus including the furlough coronavirus job retention scheme.

Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare Products Regulatory Agency (HMRA) and over 31 million people had received their first dose by 31 March 2021. A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.

The Bank of England maintained Bank Rate at 0.1% throughout the year but extended Quantitative Easing. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

Inflation has remained low over the 12-month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target.

The US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4 after collapsing in Q2. This was as a result of three major pandemic relief stimulus packages. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and has remained at the same level. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which was in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a $2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020, increased the size of the asset purchase scheme and extended it until March 2022.

3.4.2 **Financial markets:** Monetary and fiscal stimulus helped provide support for equity markets which rose over the period. The FTSE indices performed reasonably well during the period April to November 2020. However, they remain lower than their pre-pandemic levels. Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early 2021, the improved economic outlook due to the new various stimulus packages together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.

1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

3.4.3 **Credit review:** Credit Default Swap spreads declined in 2020 after spiking in March to broadly pre-pandemic levels. Moody's downgrade of the UK sovereign rating to Aa3 with a stable outlook impacted a number of UK institutions, banks and local government. The vaccine approval and subsequent rollout programme have had a positive impact on financial services in general but there remains so much uncertainty around the extent of losses banks and building societies will suffer due to the economic slowdown resulting from the pandemic lockdowns and restrictions. The institutions and durations on the Authority's counterparty list recommended therefore remain under constant review. At the end of the period, no changes had been made to the names on the counterparty list or the recommended maximum duration of 35 days.

3.5 TREASURY MANAGEMENT STRATEGY 2020-21

3.5.1 The Treasury Management Strategy Statement was approved on 19th February 2020 by Council. The Strategy comprehensively outlined how the treasury function would operate throughout the financial year 2020-21 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 At 31st March 2021, the Council had net investments of £202.4m arising from its revenue and capital income and expenditure, an increase on 2020 of £16.905m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31st March 2020 Restated* Actual £m	Movement over the Year £m	31st March 2021 Provisional** Actual £m
General Fund CFR	303.597	29.576	333.173
HRA CFR	108.394	24.885	133.279
Total CFR	**411.991**	**54.461**	**466.452**
Less: Other debt liabilities ***	(55.639)	2.353	(53.286)
Borrowing CFR:	**356.352**	**56.814**	**413.166**
Less: External borrowing	(72.289)	0.755	(71.534)
Internal borrowing	284.063	57.569	341.632
Usable reserves	(516.623)	(61.503)	(578.126)
Working capital	(25.190)	(12.216)	(37.406)
Investments	**257.750**	**16.150**	**273.900**
Net investments	**185.461**	**16.905**	**202.366**

* Restated for 2020-21 opening balances to reflect April 2021 audit committee 2019-20 statement of accounts and subject to completion of audit of accounts.

** 2020-21 closing figures are provisional and subject to the completion of the council's 2020-21 closure of accounts process and audit of accounts.

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

3.5.3 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. The balance sheet summary position at 31st March 2021 is shown in Table 1 above, with the treasury management position at 31st March 2021 shown in Table 2 below. The extent of internal borrowing which stood at £341.632m at the end of 2020-21, is the difference between the Borrowing CFR (£413.166m) and the level of external borrowing (£71.534m).

Table 2: Treasury Management Summary

	31.03.20 Balance £m	Movement over the Year £m	31.03.21 Balance £m	31.03.21 Rate %
Long-term borrowing	72.289	(0.755)	71.534	3.05
Short-term borrowing	-	-	-	-
Total borrowing	**72.289**	**(0.755)**	**71.534**	**3.05**
Long-term investments	66.000	5.000	71.000	
Short-term investments	105.000	2.000	107.000	

Cash and cash equivalents	86.750	9.150	95.900	
Total investments	**257.750**	**16.150**	**273.900**	**3.47**
Net investments	**185.461**	**16.905**	**202.366**	

The net investments figure (£202.366m) is the difference between the total of Usable reserves & working capital (£615.532m) and the Borrowing CFR (£413.166m). It is also the level of investments (£273.9m) less external borrowing (£71.534m).

Borrowing Update

In November 2020, the PWLB published its response to the consultation on 'Future Lending Terms'. From 26th November the margin on PWLB loans above gilt yields was reduced by 1% from 1.8% to 0.8% providing that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB loan facility except to refinance existing loans or externalise internal borrowing. As part of the borrowing process, authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the section 151 officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.

Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that the Authority unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties.

Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate.

Municipal Bonds Agency (MBA): The MBA revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020. In both instances, Lancashire County Council is the sole borrower and guarantor. A planned third bond issuance by Warrington Borough Council was withdrawn in early December after the reduction in PWLB borrowing rates.

If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.

UK Infrastructure Bank: In his March 2021 budget, the Chancellor confirmed that a UK Infrastructure Bank will be set up with £4bn in lending earmarked for local authorities from the summer of 2021. Loans will be available at gilt yield plus 0.60%, which is 0.20% lower than the PWLB certainty rate. A bidding process to access these loans is likely with a preference to projects likely to help the government meet its Net Zero emissions target. However, other "high value and complex economic infrastructure projects" may also be considered.

Borrowing Strategy for the year ending 31st March 2021

3.5.4 The Council held £71.534m of external loans at 31st March 2021 which is £0.755m lower than the 31st March 2020 position of £72.289m. The borrowing position as at 31st March 2021 is shown in Table 3 below.

Table 3: External Borrowing Position

	31.03.21 Balance £m	**31.03.21 Rate %**
Public Works Loan Board	54.034	2.64
Banks (fixed term)	17.500	4.34
Total external borrowing	**71.534**	**3.05**

3.5.5 The Council takes a low risk approach to its borrowing 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. No new borrowing was undertaken in keeping with these objectives in 2020-21.

3.5.6 PWLB funding margins have changed substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%, i.e. the PWLB HRA borrowing rate. The Council will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

Investment Activity

3.5.7 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the financial year, the Authority received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. These monies were temporarily invested in short-dated, liquid instruments such as Notice Accounts and Money Market Funds. Investment balances during the year ranged between £181m and £344m due to timing differences between income and expenditure. The investment position at the year-end is shown in Table 4 below.

3.5.8 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. In 2018, the Council diversified into more secure and/or higher yielding asset classes by allocating £100m for strategic pooled investments and £76m has been invested to date as shown in Table 4 below.

Investments Outstanding & Maturity Structure

3.5.9 The table below shows the amount of investments outstanding at the end of March 2021, categorised according to the financial sector.

Table 4: Outstanding Investments by Financial Sector

Financial Sector	31.03.20 Balance £m	Movement over the Year £m	31.03.21 Balance £m	% Portfolio
UK Banks	20.000	(5.000)	15.000	5.48
UK Building Societies	-	-	-	-
Government (incl. local authorities)	104.000	8.000	112.000	40.89
Oversea Banks	-	-	-	-
Money Market Funds	57.750	13.150	70.900	25.89
Pooled Investment Funds:	76.000	-	76.000	27.75
Cash plus funds	*20.000*	-	*20.000*	
Short-dated bond funds	*18.000*	-	*18.000*	
Strategic bond funds	*9.000*	-	*9.000*	
Equity Income funds	*13.000*	-	*13.000*	
Property funds	*5.000*	-	*5.000*	
Multi asset income funds	*11.000*	-	*11.000*	
Total investments	**257.750**	**16.150**	**273.900**	

Performance Report

3.5.10 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. The Council's original budgeted investment return for 2020-21 is 1.01% on an average cash balance of £228m**.**

3.5.11 Continued downward pressure on short-dated cash rate brought net returns on sterling low volatility net asset value money market funds (LVNAV MMFs) close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.

Deposit rates with the Debt Management Account Deposit Facility (DMADF) have continued to fall and are now largely around zero.

The return on Money Market Funds net of fees, which had fallen after Bank Rate was cut to 0.1% in March 2020, are now at or very close to zero; fund management companies have temporarily lowered or waived fees to avoid negative net returns.

3.5.12 **Externally Managed Pooled Funds:** £76m of the Authority's investments are invested in externally managed strategic pooled funds [bond, equity, multi-asset and property], where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of 3.47%, comprising a 2.61% income only return which is used to support services in year, and 9.31% of capital growth / (unrealised capital loss).

During the initial phase of the pandemic in March 2020, the sharp falls in corporate bond and equity markets had a negative impact on the value of the Council's pooled fund holdings and was reflected in the 31st March 2020 fund valuations with funds registering negative capital returns over a 12-month period. Since March 2020 there has been improvement in market sentiment which is reflected in an increase in capital values of these short-dated, strategic bond, equity and multi-asset income funds in the Authority's portfolio. The recovery in UK equities has lagged those of US and European markets.

Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authorities' Property Fund and the Columbia Threadneedle Property Fund was suspended by the fund in March 2020 and lifted in September. There was also a change to redemption terms for the CCLA Local Authorities Property Fund; from September 2020 investors are required to give at least 90 calendar days' notice for redemptions. The capital values of the property funds are shown in Table 4, above.

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 Authority'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 on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

Following the cut in Bank rate from 0.75% to 0.10% in March 2020, the Authority had expected to receive significantly lower income from its cash and short-dated money market investments, including money market funds in 2020-21, as rates on cash investments are close to zero percent. Income from most of the Authority's externally managed funds will also be lower than in 2019-20 and earlier years. Whilst the arrival and approval of vaccines against COVID-19 and the removal of Brexit uncertainty that had weighed on UK equities were encouraging developments, dividend and income distribution was dependent on company earnings in a very challenging and uncertain trading environment as well as enforced cuts or deferral required by regulatory authorities.

Table 5: Investment performance for financial year to 31st March 2021

Period	LBTH Internal Return	External Fund Return	LBTH Total Return	Benchmark Return	Over/(Under) Performance
Quarter 4 2019-20	0.87%	(4.90%)	(0.73%)	(0.41%)	(0.32%)
Quarter 1	0.56%	(1.03%)	0.07%	(0.02%)	0.09%
Quarter 2	0.60%	(0.09%)	(0.01%)	0.00%	(0.01%)
Quarter 3	0.27%	1.30%	0.60%	0.15%	0.45%
Quarter 4 2020-21	0.23%	11.92%	3.47%	1.84%	1.63%

Note: Q4 2019-20 performance was due to the pandemic.

3.6 INVESTMENT BENCHMARKING

3.6.1 LBTH 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 128 local authorities. The progression of risk and return metrics are shown in Table 6 below.

Table 6: Investment Benchmarking

	Tower Hamlets		15 London & Metropolitan Average	128 Local Authorities (LAs) Average
	31.03.2020	31.03.2021		
Internal Investments	£181.8m	£197.90m	£81.60m	£74.30m
External Funds	£69.40m	£75.70m	£12.20m	£14.30m
Average Credit Score	3.65	4.54	4.78	4.63
Average Credit Rating	AA-	A+	A+	A+
Number of Counterparties & Funds	30	37	12	13
Proportion Exposed to Bail-in	40%	43%	69%	63%

	Tower Hamlets		15 London & Metropolitan Average	128 Local Authorities (LAs) Average
	31.03.2020	**31.03.2021**		
Proportion Available within 7 days	35%	30%	63%	51%
Proportion Available within 100 days	62%	53%	63%	51%
Average Days to Maturity	108	101	33	14
Internal Investment Return	**0.87%**	**0.23%**	**0.21%**	**0.15%**
External Funds - Income Return	2.75%	2.61%	3.36%	3.85%
Total Investments - Total Return	**-0.73%**	**3.47%**	**1.84%**	**2.26%**

3.6.2 It can be seen that as at 31st March 2021 LBTH investment portfolio delivered 0.23%, outperforming the benchmarking average of 0.21% and the average return for 128 LAs of 0.15%, whilst total return for total investments LBTH generated 3.47%, thereby outperforming by 1.63% against the average return for 15 London and Metropolitan Boroughs of 1.84%, and also outperforming by 1.21% against the average return for 128 LAs of 2.26%.

3.6.3 The total return in Table 6 shows that the externally managed investment returns had drastically improved from the March 2020 position. External pooled funds had a capital loss of £0.1m compared with a loss in capital value of £6.6m the previous year.

3.6.4 The investment portfolio's credit worthiness remains stable at A+. The proportion of investments exposed to bail-in marginally increased from 40% to 43%, though it remains less than the benchmark average of 69%. 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 31st March 2021 was 37, this was more than double the benchmarking average of 12. This shows the Council is managing the counterparty risk and concentration risk of the investments portfolio by investing with many quality grade institutions and local authorities.

3.7 COMPLIANCE REPORT

3.7.1 All treasury management activities undertaken from the beginning of the financial year 2020-21 to the current 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

	31.03.20 Actual £m	31.03.21 Actual £m	2020-21 Operational Boundary £m	2020-21 Authorised Limit £m	Complied
Borrowing	72.289	71.534	420.871	435.871	✓
PFI & finance leases	55.639	53.286	55.838	70.838	✓
Total debt	**127.928**	**124.820**	**476.709**	**506.709**	✓

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.

	31.03.20 Actual	31.03.21 Actual	2020-21 Target	Complied
Portfolio average credit rating	AA-	A+	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.

	31.03.20 Actual	31.03.21 Actual	2020-21 Target	Complied
Total cash available within 3 months	£156m	£82m	£50m	✓
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 as follows:

	31.03.20 Actual £m	31.03.21 Actual £m	Upper Limit	Lower Limit	Complied
Under 12 months	0.755	1.662	50%	0%	✓
12 months and within 24 months	1.662	1.163	50%	0%	✓
24 months and within 5 years	1.163	-	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%	✓

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.

3.9 **OTHER**

CIPFA consultations: In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.

In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, i.e. recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.

Proposed changes to the Treasury Management Code include requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

IFRS 16: The implementation of the new IFRS 16 Leases accounting standard has been delayed for a further year until 2022-23.

4. EQUALITIES IMPLICATIONS

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

5. OTHER STATUTORY IMPLICATIONS

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

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

Best Value Implications

The Treasury Management Strategy and Investment Strategy and the arrangements put in place to monitor them should ensure that the Council optimises the use of its monetary resources within the constraints placed on the Council by statute, appropriate management of risk and operational requirements.

Assessment of value for money is achieved through:

- Monitoring against benchmarks
- Operating within budget

Risk Management

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

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

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

6.1 This report provides an update on Treasury Management activities for the 2020-21 financial year.

6.2 The Council held an investment portfolio of £273.9m at 31st March 2021. This portfolio earned an income only average rate of return of 0.89% and a total return on investments (including capital gains & losses) of 3.47%.

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 had a revised investment income target of £2.3m for 2020-21 and generated investment income of £2.4m.

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 year ending 31st March 2021 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 31st March 2021

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 4 2020-21 and Treasury Management Outturn Report Template

Name and telephone number of holder and address where open to inspection
Pearl Emovon, x0997, Mulberry Place

Appendix 1: Investments Outstanding at 31st March 2021

Time to Maturity	Counterparty	Start Date	Maturity Date	Amount £m	Rate
Overnight	Aberdeen MMF		On demand	19.000	
	Aviva MMF		On demand	10.100	
	Federated MMF		On demand	22.300	
	Invesco MMF		On demand	0.200	
	Morgan Stanley MMF		On demand	19.300	
	SUB TOTAL			**70.900**	
< 1 Month	NIL			0.000	
	SUB TOTAL			**0.000**	
1 - 3 Months	Santander		35-day notice account	15.000	0.25%
	Payden & Rygel Sterling Reserve Fund (POOLED)			10.000	
	Royal London Enhanced Cash Plus (POOLED)			10.000	
	SUB TOTAL			**35.000**	
3 - 6 Months	Southwark Borough Council	31/03/2021	30/06/2021	10.000	0.06%
	SUB TOTAL			**10.000**	
6 - 9 Months	Birmingham City Council	23/10/2020	23/04/2021	5.000	0.15%
	Eastleigh Borough Council	15/12/2020	15/06/2021	5.000	0.10%
	Maidstone Borough Council	20/11/2020	20/05/2021	4.000	0.10%
	Aberdeen City Council	15/12/2020	15/07/2021	5.000	0.15%
	Luton Borough Council	03/12/2020	03/06/2021	10.000	0.10%
	Trafford Council	21/01/2021	21/07/2021	5.000	0.07%
	SUB TOTAL			**34.000**	
9 - 12 Months	Dumfries & Galloway Council (last leg of structured deal)	20/08/2020	20/08/2021	5.000	1.50%
	Guildford Borough Council	10/07/2020	28/05/2020	5.000	0.30%
	Slough Borough Council	14/08/2020	13/08/2021	5.000	0.35%
	Police & Crime Commissioner for West Mercia	28/09/2020	12/07/2021	10.000	0.30%
	Liverpool City Council	07/01/2021	06/01/2021	10.000	0.35%
	Monmouthshire County Council	21/12/2020	21/09/2021	5.000	0.18%
	Mid Suffolk District Council	14/12/2020	10/12/2021	8.000	0.25%
	Wokingham Borough Council	26/02/2021	25/02/2022	5.000	0.14%
	SUB TOTAL			**53.000**	
> 12 Months	CCLA Lamit Property Fund (POOLED)			5.000	
	CCLA Diversified Income Fund (POOLED)			5.000	
	Payden Absolute Return Bond Fund (POOLED)			10.000	
	Columbia Threadneedle Global Equity Income Fund Z (POOLED)			3.000	
	Columbia Threadneedle Strategic Bond Fund Z (POOLED)			5.000	
	Columbia Threadneedle Sterling Short-Dated Corporate Bond Fund (POOLED)			8.000	
	Investec Fund Series I Diversified Income (POOLED)			6.000	
	Schroder Income Maximiser Fund (POOLED)			3.000	
	M & G Global Dividend Fund (POOLED)			2.000	
	M & G Optimal Income Fund (POOLED)			2.000	

	M & G UK Income Distribution Fund (POOLED)			3.000	
	M & G Strategic Corporate Bond Fund (POOLED)			4.000	
	Middlesbrough Council	27/01/2020	27/01/2022	10.000	1.35%
	Doncaster Metropolitan Borough Council	13/11/2020	14/11/2022	5.000	0.60%
	SUB TOTAL			**71.000**	
	GRAND TOTAL			**273.900**	

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.