

Non-Executive Report of the:  <b>Audit Committee</b>  <b>01 December 2021</b>	 <b>TOWER HAMLETS</b>
<b>Report Of:</b> Kevin Bartle, Interim Corporate Director, Resources	<b>Classification:</b>  Unrestricted
<b>Treasury Management Mid-Year Report for 2021-22</b>	

Originating Officer(s)	Pearl Emovon – Interim Treasury Manager Miriam Adams – Interim Head of Pensions & Treasury
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 2021-22 were approved by Council on 4th March 2021 as required by the Local Government Act 2003. This report covers the period 1st April 2021 to 30th September 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 risk are therefore key to the Council's treasury management strategy.

**The revised investment income budget set for 2021-22 is £1.6m and we are broadly on target.**

To date £76m has been invested in pooled funds. Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period. FTSE 100 had more modest gains over the period and remains below its pre-crisis peak. The value of pooled funds is at par with its original value at £76m.

**From the Benchmarking exercise, a total return 0.72% was achieved for the reporting period, which was 0.41% above the average for similar LAs return and 0.63% lower than the average return for**

For this reporting period, the investments portfolio returned 1.72%. This was above the benchmarking average of 1.31%. More information on this can be found in section 3.6.

The average credit worthiness of investments has been maintained at A+ and the average credit score is 4.63 for this reporting period and this signifies a lower portfolio credit risk compared to the benchmarking average of 4.82.

## **all LAs.**

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### **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.

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## **Recommendations:**

Members are recommended to:

- note the contents of the treasury management activities and performance against targets for the half year ending 30 September 2021; and
- note the Council's investments as set out in Appendix 1. The balance outstanding as at 30 September 2021 was £328.20m.

## **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 in scrutinising officer decisions and monitoring 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 4th March 2021.

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

3.4.1 The economic recovery from coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period, over 48m people in the UK had received their first dose of the COVID-19 vaccine and almost 45 million their second

3.4.2 The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expects the UK economy to grow at a slower pace than was predicted in August as there were concerns that inflationary pressures may be more persistent. Bank expectations for GDP growth for the 3<sup>rd</sup> quarter to September were revised down to 2.1% from 2.9% due to a resurgence of demand, and disrupted factors of supply particularly due to the impact of Brexit in the UK. Annual inflation (CPI) rose to 3.2% in August, exceeding expectations for 2.9%. CPI is now expected to rise slightly above 4% in the last three months of 2021.

3.4.3 Government initiatives supporting the economy came to an end on 30<sup>th</sup> September 2021, with businesses being required to either take back the 1.6 million workers on the furlough scheme or make them redundant. The easing of restrictions boosted activity in the second quarter of the calendar year helping to push GDP up by 5.5%.

3.4.4 Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe. The 5-year UK benchmark gilt started the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% in September. Over the same period, 10-year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%. Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter

3.4.5 Over the period, Fitch and Moody's rating agencies revised upwards the outlook on a number of UK banks and building societies on the approved list of counterparties to stable due to better economic growth prospects in the UK. The successful vaccine rollout and improved economic outlook has enabled some institutions to reduce their provisions for bad loans. While there is still some uncertainty around the full extent of losses banks and building societies will suffer due to the pandemic-related economic slowdown, the sector is in a generally better position now compared to earlier this year and 2020.

3.4.6 At the end of the period, Arlingclose had completed its full review of its credit advice on unsecured deposits. The outcome of this review included the addition of NatWest Markets plc to the counterparty list together with the removal of the suspension of Handelsbanken plc and the maximum duration for some recommended bank

counterparties was extended from 35 days to 100 days. The counterparty list remains under constant review by Arlingclose.

3.4.7 The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and 6.6% in Q2 as recovery continued. The Federal Reserve maintained interest rate at between 0% and 0.25% over the period. The European Central Bank maintained its base rate at 0% and deposit rate at -0.5.

3.4.8 Arlingclose expects Bank Rate to rise in Q2 2022. Investors have priced in multiple rises in Bank Rate to 1% by 2024. Arlingclose however, believes that the rise will be of a lesser extent than expected by the markets. The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and 6.6% in Q2 as the recovery continued. The Federal Reserve maintained interest rate at between 0% and 0.25% over the period. The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.

### Arlingclose's Economic Outlook for the remainder of 2021/22

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.15	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.15	0.15	0.15	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

## 3.5 TREASURY MANAGEMENT STRATEGY 2021-22

3.5.1 The Treasury Management Strategy Statement was approved on 4th March 2021 by Council. The Strategy comprehensively outlined how the treasury function would operate throughout the financial year 2021-22 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 30<sup>th</sup> September 2021 is shown in table 2 below.

**Table 2: Treasury Management Summary**

	31.03.21 Balance £m	Movement over the Year £m	30.09.21 Balance £m	30.09.21 Rate %
Long-term borrowing	71.534	-	71.534	3.05
Short-term borrowing	-	-	-	-

	<b>31.03.21 Balance £m</b>	<b>Movement over the Year £m</b>	<b>30.09.21 Balance £m</b>	<b>30.09.21 Rate %</b>
<b>Total Borrowing</b>	<b>71.534</b>		<b>71.534</b>	<b>3.12</b>
Long-term investments	71.000	0.000	71.000	
Short-term investments	107.000	(29.000)	78.000	
Cash and cash equivalents	95.900	83.300	179.200	
<b>Total investments</b>	<b>273.900</b>	<b>54.300</b>	<b>328.200</b>	<b>1.72</b>
<b>Net investments</b>	<b>202.366</b>	<b>54.300</b>	<b>256.666</b>	

### Borrowing Strategy during the period

3.5.4 The Council held £71.534m of external loans as at 30th September 2021.

**Table 3: Borrowing Position**

	<b>31.03.21 Balance £m</b>	<b>Movement £m</b>	<b>30.09.21 Balance £m</b>	<b>30.09.21 Rate %</b>	<b>30.09.21 WAM* years</b>
Public Works Loan Board	54.034	-	54.034	2.64	27
Banks (fixed-term)	17.500	-	17.500	4.34	57
<b>Total borrowing</b>	<b>71.534</b>	<b>-</b>	<b>71.534</b>	<b>3.05</b>	<b>34</b>

\*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.

### Borrowing Update

3.5.6 Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose for capital expenditure from the section 151 officer. Authorities planning to do so will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

3.5.7 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. Further changes to the CIPFA Prudential Code expected in December 2021 are likely to prohibit borrowing for the primary purpose of commercial return even where the source of borrowing is not the PWLB.

3.5.8 The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is fully able to access the PWLB.

#### **Revised PWLB Guidance**

HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an 'investment asset primarily for yield'. The principal aspects of the new guidance are:

- Capital expenditure incurred or committed to before 26th November 2020 is allowable even for an 'investment asset primarily for yield'.
- Capital plans should be submitted by local authorities via a DELTA return. These open for the new financial year on 1st March and remain open all year. Returns must be updated if there is a change of more than 10%.
- An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as service delivery.
- Further details on how local authorities purchasing investment assets primarily for yield can access the PWLB for the purposes of refinancing existing loans or externalising internal borrowing.
- Additional detail on the sanctions which can be imposed for inappropriate use of the PWLB loan. These can include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.

#### **Changes to PWLB Terms and Conditions from 8<sup>th</sup> September 2021**

The settlement time for a PWLB loan has been extended from two working days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.

3.5.9 **Municipal Bonds Agency (MBA):** The MBA is working to deliver a new short-term loan solution, available in the first instance to principal local authorities in England, allowing them access to short-dated, low rate, flexible debt. The minimum loan size is expected to be £25 million. Importantly, local authorities will borrow in their own name and will not cross guarantee any other authorities.

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 Banks:** £4bn has been earmarked for lending to local authorities by the UK Infrastructure Bank which is wholly owned and backed by HM Treasury. The availability of this lending to local authorities, for which there will be a bidding process, is yet to commence. Loans will be available for qualifying projects at gilt yields plus 0.6%, which is 0.2% lower than the PWLB Certainty Rate.

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

### Investment Activity

- 3.5.11 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.
- 3.5.12 The Council holds a significant amount of 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 £263m and £343m due to timing differences between income and expenditure. The investment position at this reporting period is shown in table 4 below.

### Investments Outstanding & Maturity Structure

- 3.5.13 The table below shows the investments outstanding at the end of September 2021, split according to the financial sector.
- 3.5.14 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	31.03.21 Balance £m	Movement over the Year £m	30.09.21 Balance £m	% Portfolio
UK Banks	15.00	0.00	15.00	4.57
UK Building Societies	0.00	0.00	0.00	
Government (incl. local authorities)	112.00	(39.00)	73.00	22.24
Overseas Banks	0.00	15.00	15.00	4.57
Money Market Funds	70.90	78.30	149.20	45.46
Pooled Investment Funds:	76.00	0.00	76.00	23.16
<i>Cash plus funds</i>	<i>20.00</i>	<i>0.00</i>	<i>20.00</i>	
<i>Short-dated bond funds</i>	<i>18.00</i>	<i>0.00</i>	<i>18.00</i>	
<i>Strategic bond funds</i>	<i>9.00</i>	<i>0.00</i>	<i>9.00</i>	
<i>Equity Income funds</i>	<i>13.00</i>	<i>0.00</i>	<i>13.00</i>	
<i>Property funds</i>	<i>5.00</i>	<i>0.00</i>	<i>5.00</i>	
<i>Multi asset income funds</i>	<i>11.00</i>	<i>0.00</i>	<i>11.00</i>	
<b>Total investments</b>	<b>273.90</b>	<b>54.30</b>	<b>328.20</b>	

The objectives of the externally managed pooled funds are regular revenue income and long-term price stability, whilst short-term security and liquidity are lesser considerations.

## Performance Report

- 3.5.15 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 30<sup>th</sup> September 2020**

Period	LBTH Internal Return	External Fund Return	LBTH Total Return	Benchmark Total Return	Over/(Under) Performance
<b>Q4 2020/2021</b>	0.23%	2.61%	3.47%	1.84%	1.63%
<b>Quarter 1</b>	0.18%	3.71%	1.87%	1.30%	0.57%
<b>Mid-Year 2021/2022</b>	0.13%	3.47%	1.72%	1.31%	0.41%

- 3.5.16 In 2018-19, the Council invested in bond, equity, multi-asset and property funds (£76m) to increase the level of investment income generated, in line with approvals given in the Treasury Management Strategy and Medium-Term Financial Strategy (MTFS). The improved market sentiment in the past 6 months is reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the Authority's equity and multi-asset income funds in the Authority's portfolio. The prospect of higher inflation and rising bond yields resulted in muted bond performance. The risk profile of these investments was discussed with the Committee and since the objective is to achieve higher returns, there is the expectation and need to accept higher levels of risk (market volatility).
- 3.5.17 Ultra-low short-dated cash rates which have been a feature since March 2020 when Bank Rate was cut to 0.1% have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being close to zero even after some managers temporarily lowered their fees. At this stage, net negative returns are not the central case for most MMF managers over the short-term, and fee cuts or waivers should result in MMF net yields having a floor of zero, though the possibility cannot be ruled out. Deposit rates with the Debt Management Account Deposit Facility (DMADF) are also largely around zero.
- 3.5.18 In light of the pandemic crisis and the likelihood of unexpected calls on cash flow, the Council kept more cash available at very short notice than normal. Liquid cash was therefore diversified over a few counterparties and Money Market Funds to manage both credit and liquidity risks.

3.5.19 As the Council's externally managed funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down in months, quarters and even years; but with the confidence that over a three to five-year period, total returns will exceed cash interest rates.

3.5.20 Dividends and income received this financial year will ultimately depend on many factors including but not limited to, the duration of Covid-19 and the extent of its economic impact, the fund's sectoral asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral. The Council's budgeted investment income has therefore been revised to £1.6m, based on 80 basis points (0.80%) on an average cash balance of £200m. Investment income received year-to-date is £753k.

### 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 and investment returns against those of similar authorities. The model considers a combination of credit, duration and returns achieved over the duration. It also includes data from 129 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	129 Local Authorities (LAs) Average
	31.03.2021	30.09.2021		
Internal Investments	£197.90	£252.20	£99.40	£72.70
External Funds	£76.00	£76.00	£13.80	£15.30
Average Credit Score	4.54	4.74	4.83	4.69
Average Credit Rating	A+	A+	A+	A+
Number of Counterparties & Funds	37	34	11	13
Proportion Exposed to Bail-in	43%	65%	79%	69%
Proportion Available within 7 days	30%	48%	68%	56%
Proportion Available within 100 days	53%	69%	85%	75%
Average Days to Maturity	101	48	26	10
Internal Investment Return	<b>0.23%</b>	<b>0.13%</b>	<b>0.09%</b>	<b>0.08%</b>
External Funds - Income Return	2.61%	3.47%	4.07%	4.60%
<b>Total Investments - Total Return</b>	<b>3.47%</b>	<b>1.72%</b>	<b>1.31%</b>	<b>2.35%</b>

3.6.2 In the quarter to 30th September 2021, the LBTH investment portfolio returned 0.13% for internal investment management, outperforming the benchmarking average of

0.09% and the average return for 129 LAs of 0.08%, whilst total return on total investments was 1.72%, outperforming the average return for 15 London and Metropolitan Boroughs of 1.31% by 41bps (0.41%), though underperformed against the average return for 129 LAs with an average return of 2.35% by 63bps (0.63%).

3.6.3 Our investment portfolio average credit score of 4.74 is less than the benchmark average of 4.83, but higher than that of 129 LAs (4.69). This signifies that LBTH's portfolio credit risk is lower than the average score. Our investment portfolio credit worthiness was maintained at A+ and is in line with the benchmark average.

3.6.4 The proportion of the portfolio investments exposed to bail-in is 65%. This level is lower than the benchmark average of 79%. This means we have taken less bail-in risk on our investments compared to the benchmark. 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 at the end of September 2021 was 34, which is about 3 times more than the benchmark average of 11. This demonstrates the Council reduces the counterparty risk and concentration risk of the investment portfolio significantly through diversification, by investing with many quality institutions and local authorities. The lower average credit score compared to others also 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 2021-22 to 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**

	31.03.21 Actual £m	2021/22 Forecast £m	30.09.21 Actual £m	2021/22 Operational Boundary £m	2021/22 Authorised Limit £m	Complied ?
Borrowing	71.534	158.85	71.534	569.649	584.649	
PFI & finance leases	53.494	52.469	51.796	52.469	67.469	
<b>Total debt</b>	<b>125.028</b>	<b>211.319</b>	<b>123.330</b>	<b>622.118</b>	<b>652.118</b>	✓

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.

	31.03.21 Actual	30.09.21 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.

	31.03.21 Actual	31.09.21 Actual	2020/21 Target	Complied ?
Total cash available within 3 months	82.08	£183.8m	£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:

	31.03.21 Actual	30.09.21 Actual	Upper Limit	Lower Limit
	£m	£m	%	%
Under 12 months	1.662	1.662	50	0
12 months and within 24 months	1.163	1.163	50	0
24 months and within 5 years	-	-	60	0
5 years and within 10 years	-	-	75	0
10 years and within 20 years	-	-	100	0
20 years and within 30 years	-	-	100	0
30 years and within 40 years	1.209	1.209	100	0
40 years and within 50 years	67.500	67.500	100	0

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:

	2021/22 £m	2022/23 £m	2023/24 £m
Actual principal invested beyond year-end	15	0	0
Limit on principal invested beyond year-end	150	125	100
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. **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 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 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 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 local authorities' treasury issues.

## **6 COMMENTS OF THE CHIEF FINANCE OFFICER**

- 6.1 This report provides an update on Treasury Management activities from April 2021 to September 2021.
- 6.2 As at the 30th September 2021 the Council had an outstanding investments portfolio of £328.20m. The revised annual investment income budget is £1.6m 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 various CIPFA publications that amount to proper accountancy practices when carrying out capital finance functions.
- 7.3 This noting report of the Corporate Director of Resources advises the Committee of the Council's borrowing and investment activities for the half-year ending 30th September 2021 and is consistent with the key principles expressed in the Treasury Management Code. The Corporate Director of 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 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 2 2021-22  
and Treasury Management Mid-Year Report Template

**Brief description of “background papers’**

**Name and telephone number of holder and address, where open to inspection**

*Pearl Emovon, x0997, Mulberry Place*

*Miriam Adams, x 4248, Mulberry Place*

## Appendix 1: Investments as at 30<sup>th</sup> September 2021

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
<b>Overnight</b>	Aberdeen MMF		On demand	23.700	
	Aviva MMF		On demand	24.000	
	BNP Paribas MMF		On demand	8.700	
	BlackRock MMF		On demand	14.300	
	CCLA (PSDF)		On demand	6.000	
	Deutsche MMF		On demand	25.000	
	Federated MMF		On demand	22.500	
	Morgan Stanley MMF		On demand	25.000	
	<b>SUB TOTAL</b>			<b>149.200</b>	
<b>&lt; 1 Month</b>			0.000		
	<b>SUB TOTAL</b>		<b>0.000</b>		
<b>1 - 3 Months</b>	Santander			15.000	0.25%
	Australia & New Zealand Bank	20/10/2021	24/11/2021	15.000	0.04%
	Payden & Rygel Sterling Reserve Fund (POOLED)			10.000	
	Royal London Enhanced Cash Plus (POOLED)			10.000	
	<b>SUB TOTAL</b>			<b>50.000</b>	
<b>3 - 6 Months</b>	Aberdeen City Council	15/07/2021	17/01/2022	<b>5.000</b>	0.04%
	Ashford Borough Council	21/04/2021	21/10/2021	<b>5.000</b>	0.05%
	Lancashire County CC	28/04/2021	27/04/2022	<b>5.000</b>	0.05%
	<b>SUB TOTAL</b>			<b>15.000</b>	
<b>9 - 12 Months</b>	Cambridgeshire County Council	28/04/2021	27/04/2022	10.000	0.18%
	Liverpool Council	07/01/2021	06/01/2022	10.000	0.35%
	Liverpool Council	21/06/2021	21/06/2022	5.000	0.15%
	Mid Suffolk District Council	14/12/2020	10/12/2021	8.000	0.25%
	Plymouth City Council	07/07/2021	06/07/2022	5.000	0.10%
	Wokingham Borough Council	26/02/2021	22/02/2022	5.000	0.14%
	<b>SUB TOTAL</b>			<b>43.000</b>	
<b>&gt; 12 Months</b>	CCLA LAMIT Property Fund (POOLED)			5.000	
	CCLA Diversified Income Fund (POOLED)			5.000	
	Payden Absolute Return Bond Fund (POOLED)			10.000	
	Columbia Threadneedle Global Equity Income Fund Z (POOLED)			3.000	
	Columbia Threadneedle Strategic Bond Fund Z (POOLED)			5.000	
	Columbia Threadneedle Sterling Short-Dated Corporate Bond Fund (POOLED)			8.000	
	Investec Fund Series I Diversified Income (POOLED)			6.000	
	Schroder Income Maximiser Fund (POOLED)			3.000	
	M & G Global Dividend Fund (POOLED)			2.000	
	M & G Optimal Income Fund (POOLED)			2.000	

	M & G UK Income Distribution Fund (POOLED)			3.000	
	M & G Strategic Corporate Bond Fund (POOLED)			4.000	
	Middlesbrough Council	26/01/2018	27/01/2022	10.000	1.35%
	Doncaster Metropolitan Borough Council	13/11/2020	14/11/2022	5.000	0.60%
	<b>SUB TOTAL</b>			<b>71.000</b>	
	<b>GRAND TOTAL</b>			<b>328.200</b>	

## **Appendix 2 – Glossary**

Asset Life	How long an asset, e.g. a Council building is likely to last.
Bail-in	A bail-in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings rather than the government or taxpayers
Bail-out	A bailout is a colloquial term for the provision of financial help to a corporation or country which otherwise would be on the brink of failure or bankruptcy.
Borrowing Portfolio	A list of loans held by the Council.
Borrowing Requirements	The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
CIPFA Code of Practice on Treasury Management	A professional code of Practice which regulates treasury management activities.
Capital Financing Requirement (CFR)	Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.
Certificates of Deposits	A certificate of deposit (CD) is a time deposit, a financial product. CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank." They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years) and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.
Commercial paper	Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds
Counterparties	Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMF.
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Covered bonds	A covered bond is a corporate bond with one important enhancement: recourse to a pool of assets that secures or "covers" the bond if the originator (usually a financial institution) becomes insolvent. These assets act as additional credit cover; they do not have any bearing on the contractual cash flow to the investor, as is the case with Securitized assets.
Consumer Prices Index & Retail	The main inflation rate used in the UK is the CPI. The

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.
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; they are instead, 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.