Non-Executive Report of the: **Audit Committee** **28 June 2022**	TOWER HAMLETS
Report of: Kevin Bartle, Interim Corporate Director, Resources and Section 151 Officer	**Classification:** Unrestricted
Treasury Management Outturn Report for 2021-22	

Originating Officer(s)	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 31st March 2022.
Investment returns fluctuate in line with the Bank of England base rate. The base rate is currently 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 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 2021-22 was £2.3m, with actual income received of £1.9m.	To date £76m remains invested in pooled funds. Equity markets fell in March due to the impact of Ukraine/Russian conflict on the economy, resulting in a significant fall in value of pooled funds. However, the value of pooled funds remain lower than purchase price of £76m.
From the benchmarking exercise a total return of 0.97% was achieved in 2021-22, which was 0.09% above the average for similar London Boroughs and 0.10% less than the average return for all	The Sterling Overnight Index Average (SONIA) has replaced the London Interbank Bid Rate (LIBID) as the performance measure for the Council's investment returns. The average credit worthiness of investments is AA- in line with the LA benchmarking average. The average credit score was 4.40 a slight decrease from 2020/21 of 4.54 however this is at par with the benchmarking average of 4.39.

LAs.

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 2022.

- note the Council's investments as set out in Appendix 1. The balance as at 31 March 2022 was £321.2m.

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 4th March 2021.

3.4 ECONOMIC OUTLOOK AND INTEREST RATE FORECAST FROM ARLINGCLOSE

3.4.1 **Economic background:** The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that. UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised

1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

GDP growth in the euro zone increased by 0.3% in calendar Q4 2021 following a gain of 2.3% in the third quarter and 2.2% in the second. Headline inflation remains high, with CPI registering a record 7.5% year-on-year in March, the ninth successive month of rising inflation. Core CPI inflation was 3.0% y/y in March, was well above the European Central Bank's target of 'below, but close to 2%', putting further pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at a downwardly revised annualised rate of 6.9% in Q4 2021, a sharp in increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated it plan to reduce its asset purchase programme which could start by May 2022.

3.4.3 Financial markets: The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.
Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.
The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

3.4.3 **Credit review:** in the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of the period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Authority's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.
Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.
The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.
Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

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 At 31st March 2022, the Council had net investments of £251.328m arising from its revenue and capital income and expenditure, an increase on 2021 of £48.962m. 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 2021 Restated* Actual £m	Movement over the Year £m	31st March 2022 Provisional** Actual £m
General Fund CFR	332.128	41.14	373.268
HRA CFR	133.617	23.198	156.815
Total CFR	**465.745**	**64.338**	**530.083**
Less: Other debt liabilities ***	(56.357)	2.874	-53.483
Borrowing CFR:	**409.388**	**67.212**	**476.600**
Less: External borrowing	(71.534)	1.662	-69.872
Internal borrowing	337.854	68.874	406.728
Usable reserves	-628.700	-1.700	-630.400
Working capital	16.946	67.174	-97.528
Investments	**273.900**	**47.300**	**321.200**
Net investments	**202.366**	**48.962**	**251.328**

* Restated for 2021-22 opening balances to reflect April 2021 audit committee 2018/19 and 19-20 statement of accounts and subject to completion of audit of accounts.

** 2021-22 closing figures are provisional and subject to the completion of the council's 2021-22 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 2022 is shown in Table 1 above, with the treasury management position at 31st March 2022 shown in Table 2 below. The extent of internal borrowing which stood at £406.728m at the end of 2021-22, is the difference between the Borrowing CFR (£476.600m) and the level of external borrowing (£69.872m).

Table 2: Treasury Management Summary

	31.03.21 Balance £m	Movement over the Year £m	31.03.22 Balance £m	31.03.22 Rate %
Long-term borrowing	71.534	(1.662)	69.872	3.03
Short-term borrowing	-	-	-	-

Total borrowing	**71.534**	**(1.662)**	**69.872**	**3.03**
Long-term investments	71.000	(15.000)	56.000	
Short-term investments	107.000	(67.000)	40.000	
Cash and cash equivalents	95.900	129.300	225.200	
Total investments	**273.900**	**47.300**	**321.200**	**0.87**
Net investments	**202.366**	**48.962**	**251.328**	

The net investments figure (£251.328m) is the level of investments (£321.2m) less external borrowing (£69.872m).

Borrowing Update

The Council was not planning to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code. PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields +80%. The Council will evaluate and pursue these lower cost solutions and opportunities with its treasury advisor as required.

The Council is not planning to purchase any investment assets primarily for yield.

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. 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. Initially, the bank liaised with local authorities via Public Works Loan Board. The new bill, introduced in May will allow the UK IB to directly lend to councils to fund projects in future. Currently the Council does not have projects that qualify for such projects.

Borrowing Strategy for the year ending 31st March 2022

3.5.4 The Council held £69.872m of external loans at 31st March 2022 which is £1.661m lower than the 31st March 2021 position of £71.534m. The borrowing position as at 31st March 2022 is shown in Table 3 below.

Table 3: External Borrowing Position

	31.03.22 Balance £m	31.03.22 Rate %
Public Works Loan Board Banks (fixed term)	52.372 17.500	2.59 4.34
Total external borrowing	**69.872**	**3.03**

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 2021-22.

3.5.6 The Council has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account useable reserves and working capital.

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 £280.2m and £367.3m due to timing differences between income and expenditure. The investment position at the year-end is shown in Table 4 below.

3.5.8 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cashflows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

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 2022, categorised according to the financial sector.

Table 4: Outstanding Investments by Financial Sector

Financial Sector	31.03.21 Balance £m	Movement over the Year £m	31.03.22 Balance £m	% Portfolio
UK Banks	15.000	0.00	15.000	4.67
UK Building Societies	-	-	-	
Government (incl. local authorities)	112.000	(57.000)	55.000	17.12
Oversea Banks	-	60.000	60.000	18.68
Money Market Funds	70.900	44.300	115.200	35.87
Pooled Investment Funds:	76.000	-	76.000	23.66
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	**273.900**	**47.300**	**321.200**	

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.

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) as a result of inflation and Russia/Ukraine conflict affects return on pooled fud investments even after some managers have temporarily lowered their fees. Further pressure on yield is expected and possible negative yield cannot be ruled out.

Deposit rates with the Debt Management Account Deposit Facility (DMADF) have now began to rise due to increase in Bank Rate.

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 0.87%, comprising a (1.41%) income only return and 0.67% of capital growth / (unrealised capital loss).

In the nine months to December improved market sentiment was reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the Authority's property, equity and multi-asset income funds in the Authority's portfolio. The prospect of higher inflation and rising bond yields did however result in muted bond fund performance. In the January- March quarter the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets.

In light of Russia's invasion, Arlingclose contacted the fund managers of our MMF, cash plus and strategic funds and confirmed no direct exposure to Russian or Belarusian assets had been identified. Indirect exposures were immaterial. It should be noted that that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within MMFs and other pooled funds cannot be identified easily or with any certainty as that level of granular detail is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.

The capital in the Authority's funds' capital values and income earned over the 12-month period 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. The Council invested £76m to date although market value fluctuates.

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 2021-22, as rates on cash investments were close to zero percent for most of the year although a budget of £2.3m was set actual return was £1.973m.

Bank of England recent rate rise in December 2021 from 0.10% to 0.25%, February 2022 from 0.25% to 0.5%, March 2022 0.50% to 0.75% and May 2022 from 0.75% to 1.0% has contributed to better return on new investments arranged.

Income from most of the Authority's externally managed funds was lower than in 2020/21 and earlier years due to the impact of inflation and ongoing Ukraine/Russia conflict.

Table 5: Investment performance for financial year to 31st March 2022

Period	LBTH Internal Return	External Fund Return (Cash Plus & Short Bond Fund)	External Fund Return (Strategic Funds)	LBTH Total Return	Benchmark Return	Over/(Under) Performance
Quarter 4 2020/21	0.23%	1.99%	15.54%	3.37%	2.26%	1.11%
Quarter 1	0.18%	0.63%	3.09%	0.71%	0.82%	-0.11%
Quarter 2	0.13%	0.60%	2.87%	0.63%	0.78%	-0.15%
Quarter 3	0.18%	0.57%	2.52%	0.62%	0.66%	-0.04%
Quarter 4 2021/22	0.46%	0.58%	7.76%	0.87%	0.97%	-0.10%

Note: Q4 2021/22 improved performance has been due to rate rise.

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

Table 6: Investment Benchmarking

	Tower Hamlets		17 London & Metropolitan Average	122 Local Authorities (LAs) Average
	31.03.2021	31.03.2022		
Internal Investments	£197.90m	£245.20m	£101.80m	£81.80m
External Funds*	£76.00m	£76.00m	£13.00m	£15.20m
Average Credit Score	4.54	4.40	4.38	4.39
Average Credit Rating	A+	AA-	AA-	AA-

	Tower Hamlets		17 London & Metropolitan Average	122 Local Authorities (LAs) Average
	31.03.2021	31.03.2022		
Number of Counterparties & Funds	37	31	14	14
Proportion Exposed to Bail-in	43%	59%	62%	60%
Proportion Available within 7 days	30%	39%	62%	53%
Proportion Available within 100 days	53%	78%	79%	72%
Average Days to Maturity	101	38	40	14
Internal Investment Return	**0.23%**	**0.46%**	**0.49%**	**0.46%**
External Funds – Cash Plus Funds Return	1.99%	0.58%	0.52%	0.37%
External Funds – Strategic Funds	15.4%	2.76%	3.36	3.89
Total Investments - Total Return	**3.47%**	**0.87%**	**0.78%**	**0.97%**

* external fund value shown above is shown at cost not market value.

3.6.2 It can be seen that as at 31st March 2022, LBTH investment portfolio delivered 0.46%, underperforming the benchmarking average of 0.49% but performing at par with the average return for 122 LAs of 0.46.

3.6.3 The total return in Table 6 shows that the externally managed investment returns had drastically reduced from the March 2020 position due to the Ukraine/Russia conflict.

3.6.4 The investment portfolio's credit worthiness improved from A+ remains to AA- in March 2022. The proportion of investments exposed to bail-in marginally increased from 43% to 59%, though it remains less than the benchmark average of 60%. 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 2022 was 31, this was more than double the benchmarking average of 14. 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 2021-22 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.

<u>Table 7: Debt Limits</u>

	31.03.21 Actual £m	31.03.22 Actual £m	2021-22 Operational Boundary £m	2021-22 Authorised Limit £m	Complied
Borrowing	71.534	69.872	569.649	599.649	✓
PFI & finance leases	56.357	53.483	52.469	52.469	✓
Total debt	**127.891**	**123.355**	**622.118**	**652.118**	✓

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	31.03.22 Actual	2021-22 Target	Complied
Portfolio average credit rating	A+	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.

	31.03.21 Actual	31.03.22 Actual	2021-22 Target	Complied
Total cash available within 3 months	£95.9m	£225.2m	£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:

	31.03.21 Actual £m	31.03.22 Actual £m	Upper Limit	Lower Limit	Complied
Under 12 months	1.662	1.163	50%	0%	✓
12 months and within 24 months	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%	✓

3.8 NON-TREASURY INVESTMENTS

3.8.1 The definition of investments in CIPFA's revised 2021 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. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made 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 or wholly for financial return.

3.8.2 A full list of the Council's non-treasury investments is available in the Treasury Management Strategy.

3.9 OTHER

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance: In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield 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.

CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

IFRS 16: The implementation of the new IFRS 16 Leases accounting standard has been delayed for a further year until 2022-23. Authorities now have a 2 year optional delay to the implementation and can now choose to adopt the new standard on 1 April 2022, 1st April 2023 or 1st April 2024.

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 2021-22 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 2022 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 2022

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 2021-22 and Treasury Management Outturn Report Template

Name and telephone number of holder and address where open to inspection
Miriam Adams, x4248, Pensions & Treasury, Mulberry Place, 5 Clove Crescent, London E14 2BG

Appendix 1: Investments Outstanding at 31st March 2022

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Aberdeen MMF		On demand	21.000	
	Aviva MMF		On demand	16.600	
	Insight MMF		On demand	25.000	
	BlackRock MMF		On demand	20.900	
	Morgan Stanley MMF		On demand	17.900	
	BNP Paribas MMF		On demand	7.800	
	CCLA MMF		On demand	6.000	
	SUB TOTAL			**115.200**	
< 1 Month	Cambridgeshire County Council	24/04/2021	27/04/2022	10.000	0.18%
	Development Bank of Singapore	25/01/2022	24/04/2022	5.000	0.45%
	Landesbank Hessen-Thurigen Girozentrale	26/01/2022	26/04/2022	15.000	0.42%
	SUB TOTAL			**30.000**	
1 - 3 Months	Santander			15.000	
	Payden & Rygel Sterling Reserve Fund (POOLED)			10.000	
	Royal London Enhanced Cash Plus (POOLED)			10.000	
	Liverpool City Council	21/06/2021	21/06/2022	5.000	0.15%
	DMO	10/11/2021	10/05/2022	20.000	0.09%
	Development Bank of Singapore	07/02/2022	09/05/2022	10.000	0.63%
	Australia & New Zealand Banking Group	07/02/2022	09/05/2022	15.000	0.55%
	Toronto Dominion Bank	18/03/2022	24/06/2022	15.000	0.93%
	SUB TOTAL			**100.000**	
3 - 6 Months	Plymouth City Council	07/07/2021	06/07/2022	5.000	0.10%
6 - 9 Months	Doncaster Metropolitan Borough Council	13/11/2020	14/11/2022	5.000	0.60%
	SUB TOTAL			**5.000**	
9 - 12 Months	Liverpool City Council	06/01/2022	05/01/2023	10.000	0.31%
	SUB TOTAL			**10.000**	
> 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	
	SUB TOTAL			**56.000**	
	GRAND TOTAL			**321.200**	

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.