


Non-Executive Report of the: Audit Committee 26 January 2023	 TOWER HAMLETS
Report of: Caroline Holland, Interim Corporate Director Resources	Classification: Unrestricted
Treasury Management Mid-Year Report for 2022-23	

Originating Officer(s)	Nisar Visram, Director of Finance, Procurement and Audit Miriam Adams, Interim Head of Pensions & Treasury
Wards affected	All wards

Executive Summary

- 1) 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 2022-23 were approved by Council on 2nd March 2022 as required by the Local Government Act 2003. This report covers the period 1st April 2022 to 30th September 2022.
- 2) 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.
- 3) To date £76m has been invested in pooled funds. The value of pooled funds at 30 September is currently at a loss of £5.5m however the Council continues to receive dividend income.
- 4) From the Benchmarking exercise, a total return 0.42% was achieved for the reporting period. This was below the benchmark average of 1.31%.
- 5) Over the reporting period, all treasury management 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:

It is recommended to Audit Committee to:

- 1) Note the contents of the treasury management activities and performance against targets for the half year ending 30 September 2022; and
- 2) Note the Council's investments as set out in Appendix 1. The balances outstanding at 30 September 2022 was £247.3m.

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 sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities. If the Council was to deviate from these requirements, there would need to be justifiable reason for doing so.

3 DETAILS OF THE REPORT

Background to Treasury Management

- 3.1 The Council's treasury management strategy was approved at the Council meeting of 1 March 2022. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested pooled funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

- 3.2 The 2021 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 2 March 2022.

External Context

- 3.3 **Economic background:** The conflict in Ukraine continued to keep global inflation elevated and the UK and global economic outlook remains weak. Political uncertainty in the UK improved in the later part of the period following a change in government to what financial markets perceived as being more fiscally prudent.

The economic backdrop in the last few months continues to be characterised by high energy and commodity prices, high inflation and the associated impact on consumers' cost of living, as well as little likelihood that the Russia-Ukraine hostilities will end any time soon.

- 3.4 Central Bank rhetoric and action continued to remain robust. The Bank of England, Federal Reserve and the European Central Bank all increased interest rates over the period and committed to fighting inflation, even in the face of potential recessions in those regions.

UK inflation remained high, but there were tentative signs it may have peaked. Annual headline CPI registered 10.7% in November, down modestly from 11.1% in October. RPI was 14% in November, down from 14.2% in October, but slightly above expectations for a larger fall to 13.9%.

- 3.5 The labour market remained tight but with some evidence of softening demand for new labour. Household disposal income remained under pressure, pushing consumer confidence down to a record low of -49 in September, but following months showed registered modest improvements to December's reading of -42.

- 3.6 Quarterly GDP for the April-June quarter was revised upwards to 0.2% (from -0.1%), following revisions to household and government spending, but fell by -0.3% in the July-September quarter, a larger decline than the -0.2% predicted.

The Bank of England increased the official Bank Rate to 3.5% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with outsized hikes of 50bps in August and September, 75bps in November and then another 50bps in December. The Committee noted that domestic inflationary pressures are expected to remain strong and continuing rhetoric around combating inflation means further rate rises are predicted.

- 3.7 After hitting 9.1% in June, annual US inflation slowed for a further five consecutive months, with relatively strong falls in October to 7.7% and then in November to 7.1%. The Federal Reserve continued raising interest rates over the period with four consecutive increases of 0.75% in June, July, September, and November respectively, followed by 50bp in December taking policy rates to a range of 4.25% - 4.50%.

Eurozone CPI inflation hit a record-high of 10.6% y/y in October following rises in each month over the period. In November inflation fell to 10.1%, the first decline since June 2021. Energy prices remained the largest upward contribution to the price increase. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in December following two consecutive months of 0.75% rises, taking the deposit facility rate to 2% and the main refinancing rate to 2.5%.

- 3.8 **Financial markets:** Uncertainty remained a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates. In September and October, volatility in financial markets was significantly exacerbated by the fiscal plans of the then UK government. Leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling. However, the subsequent change of government leadership lead to gilts yields falling in November and December, albeit at higher levels compared to earlier in the period.

- 3.9 **Credit review:** During the last few months of the period, in October Fitch Credit Rating Agency revised the outlook on the UK sovereign to negative from stable following the largely unfunded fiscal package announced at the time.

Over the same timeframe Moody's Credit Rating Agency also revised the UK sovereign to negative from stable, following swiftly after with a similar move for a number of local authorities and UK banks.

Local Context

- 3.11 On 31st March 2022, the Council had net investments of £[233.125m arising from its revenue and capital income and expenditure. 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 are summarised in Table 1 below.

Table 1: Balance Sheet Summary at 31 March 2022 (unaudited)

	31.3.22
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	Actual £m
General Fund CFR	365.673
HRA CFR	152.485
Total CFR	518.158
Less: *Other debt liabilities (PFI and Leases)	53.483
Loans CFR	464.675
External borrowing	69.872
Internal (over) borrowing	394.803
Usable reserves	600.900
Working capital	96.900
Treasury Investments(New Borrowing)	302.997
Net [borrowing / investments]	233.125

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

- 3.12 The treasury management position on 30th September 2022 and the change during over the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.03.22 Balance £m	Movement over the Year £m	30.09.22 Balance £m	30.09.22 Rate %
Long-term borrowing	69.872	1.163	68.709	3.01
Short-term borrowing	-	-	-	
Total Borrowing	69.872	1.163	68.709	3.01
Long-term investments	56.000	-	56.000	
Short-term investments	40.000	35.000	75.000	
Cash and cash equivalents	225.200	-108.900	116.300	
Total investments	321.200	-73.900	247.300	2.85
Net investments	251.328	-75.063	178.591	

Borrowing Update

- 3.13 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities

to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

Borrowing Strategy and Activity

- 3.14 Although the Council has not borrowed in many years, however, should the Council decide to borrow, the Council's chief objective when borrowing would be to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
- 3.15 The cost of both long and short term borrowing has risen dramatically over the April – December period, with rates at the end of December around 2% - 3% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Particularly dramatic rises were seen in September. The PWLB 10 year maturity certainty rate stood at 4.59% at the end of 2022.
- 3.16 At 30 September 2022, the Council held £68.709m of loans, a decrease of £1.163m from 31st March 2022 position. Outstanding loans on 30th September are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.03.22 Balance £m	Movement £m	30.09.22 Balance £m	30.09.22 Rate %	30.09.22 WAM* years
Public Works Loan Board	52.372	-1.163	51.209	2.551	
Banks (fixed-term)	17.500	-	17.500	4.339	
Total borrowing	69.872	-1.163	68.709	3.007	

**Weighted average maturity

- 3.17 Table 3B: Long-dated Loans borrowed

	Amount £m	Rate %	Period (Years)
WLB Maturity Loan 1	1.209	4.50	30.52

WLB Maturity Loan 2	20.000	2.61	46.22
WLB Maturity Loan 3	10.000	2.50	45.22
WLB Maturity Loan 4	20.000	2.40	46.38
Market Loan 1	4.500	4.25	55.02
Market Loan 2	13.000	4.37	55.02
Total borrowing	68.709	3.007	

Other Debt Activity

- 3.18 Although not classified as borrowing, the Council did not raise any new capital finance for Private Finance Initiative and finance leases between April 2022 and September 2022.

Treasury Management Investment Activity

- 3.19 CIPFA revised TM Code defines treasury management investments as those which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.

The Authority holds £220.7m invested funds, representing income received in advance of expenditure plus balances and reserves held. During the period, the Authority's investment balances ranged between £220m and £330 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

- 3.20 Table 4: Treasury Investment Position at 30 September by Financial Sector

Financial Sector	31.03.22 Balance £m	Movement over the Year £m	30.09.22 Balance £m	% Portfolio
UK Banks	15.000	0.000	15.000	6.07%
Government (incl. local authorities)	55.000	25.000	80.000	32.35%
Overseas Banks	60.000	-15.000	45.000	18.20%
Money Market Funds	115.200	-83.900	31.300	12.66%
Pooled Investment Funds:	76.000	0.000	76.000	30.73%
<i>Cash plus funds</i>	<i>20.000</i>	<i>0.000</i>	<i>20.000</i>	
<i>Short-dated bond funds</i>	<i>18.000</i>	<i>0.000</i>	<i>18.000</i>	

<i>Strategic bond funds</i>	9.000	0.000	9.000	
<i>Equity Income funds</i>	13.000	0.000	13.000	
<i>Property funds</i>	5.000	0.000	5.000	
<i>Multi asset income funds</i>	11.000	0.000	11.000	
Total investments	321.200	-73.900	247.300	

**Weighted average maturity will apply to the first five categories above and to cash plus and bond funds.*

- 3.21 Both the CIFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum 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.

Bank Rate has increased from 0.75% at the beginning of the period under review to 3.5% at the end, with the prospect of further increases to come. Short-dated cash rates, which had ranged between 0.7% - 1.5% at the end of March, rose by around 2.7% for overnight/7-day maturities and 3.0% for 6-12 month maturities.

The return on the Council's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds ranged between 0.9% - 1.1% p.a. in early April and between 2.8% and 3.0% at the end of December

- 3.22 The progression of risk and return metrics are shown in the progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

Period	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return (%)
31.03.2022	4.40	AA-	59.0%	38	0.87%
30.06.2022	4.18	AA-	48.0%	46	1.29%
30.09.2022	3.22	AA	36.0%	60	2.85%
Similar Las	3.96	AA-	63.0%	36	1.31%
All Las	4.07	AA-	55.0%	18	1.47%

*Weighted average maturity

3.23 **Externally Managed Pooled Funds:** £76.0m of the Authority's investments is invested in externally managed cash plus funds and strategic pooled funds investing in bonds, equity, multi-asset and property funds 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 unrealised loss of 400k and £5.1m, comprising -3.8% and -10% capital return and 0.89% and 7.26% income return respectively.

3.24 Financial market volatility and uncertainty remain due to stagflation fears, little sight of the war in Ukraine ending soon and ongoing supply chain issues, a lingering problem yet to be fully resolved.

The change in the Authority's funds' capital values and income earned over the 6-month period is shown in Table 4.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, the Council's treasury adviser is currently in support of these investments being held by the Council on the understanding that 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 should exceed cash interest rates.

The Authority had budgeted £2.27m income from its investments in 2022/23.

Non-Treasury Investments

3.25 The definition of investments in CIPFA's revised 2021 Treasury Management Code 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). Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

3.26 The Council held investments made for service purposes:

- shareholding in subsidiaries £6m)
- loans to subsidiaries £2.175m

A full list of the Authority's non-treasury investments is available in the Council's statement of accounts.

Treasury Performance

- 3.27 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 6 below.

Table 6: Forecast Performance at 30 September 2022

	Actual £m	Budget £m	Over/ under	Actual %
PWLB Interest Payable	1.325	1.490	-0.165	63.58%
Market Loan Interest Payable	0.759	0.760	0.000	36.42%
Total borrowing Interest	2.084	2.250	-0.165	100.00%
Money Market Funds	0.955	2.270	0.498	34.50%
Pooled Funds	1.001			36.16%
Fixed Deposits	0.719			25.98%
Call Accounts	0.093			3.36%
Total treasury investments	2.768	2.270	0.480	100.00%

	Tower Hamlets		16 London & Metropolitan	121 Local Authorities (LAs)
	31 March 2022	30 Sept 2022	Average	Average
Security				
Average Credit Score	4.4	3.64	4.32	4.29
Average Credit Rating	AA-	AA-	AA-	AA-
Number of Counterparties & Funds	31	22	13	13
Proportion Exposed to Bail-in	59%	36%	63%	55%
Proportion Available within 7 days	39%	13%	59%	45%
Proportion Available within 100 days	78%	62%	36%	18%
Average Days to Maturity	38	60	36	18
Total Investments - Total Return	0.87%	2.85%	2.00%	2.06%

Compliance

3.28 The Corporate Director Resources reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy Compliance with specific investment limits is demonstrated in table 7 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

3.29 Table 7: Debt Limits

	31.03.22	2022/23	30.09.22	2022/23	2022/23	
	Actual	Forecast	Actual	Operational Boundary	Authorised Limit Boundary	Complied (Y/N)
	£m	£m	£m	£m	£m	
Borrowing	69.872	68.709	68.709	568.665	608.665	✓
PFI & finance leases	53.483	46.020	46.020	49.059	49.059	✓
Total debt	123.355	114.729	114.729	617.724	657.724	

Table 8: Investment Limits at 30 September 2022

Counterparty	Amount £m	Counter Party Limit	Sector Limit	Complied
Invesco MMF	9.200	30.000	Unlimited	✓
Federated MMF	0.500	30.000		✓
Morgan Stanley MMF	21.600	30.000		✓
SUB TOTAL	31.300			
DBS	5.000	15.000	Unlimited	✓
Santander	15.000	15.000		✓
DBS Bank	10.000	15.000		✓
Landesbk Hessen-Thuringen/London	15.000	15.000		✓
Australia & New Zealand Banking Group	15.000	15.000		✓
SUB TOTAL	60.000			
Doncaster Metropolitan Borough Council	5.000	30.000	Unlimited	✓
Liverpool City Council	10.000	30.000		✓
SUB TOTAL	15.000			
DMO	20.000	Unlimited	Unlimited	✓
DMO	5.000	Unlimited		✓
DMO	20.000	Unlimited		✓
DMO	20.000	Unlimited		✓
SUB TOTAL	65.000			
CCLA LAMIT Property Fund (POOLED)	5.000	30.000	75.000	✓
SUB TOTAL	5.000			
Payden & Rygel Sterling Reserve Fund (POOLED)	10.000	30.000	150.000	✓
Royal London Enhanced Cash Plus (POOLED)	10.000	30.000		✓
CCLA Diversified Income Fund (POOLED)	5.000	30.000		✓
Payden Absolute Return Bond Fund (POOLED)	10.000	30.000		✓
Columbia Threadneedle Global Equity Income Fund Z (POOLED)	3.000	30.000		✓
Columbia Threadneedle Strategic Bond Fund Z (POOLED)	5.000	30.000		✓
Columbia Threadneedle Sterling Short-Dated Corporate Bond Fund (POOLED)	8.000	30.000		✓
Investec Fund Series I Diversified Income (POOLED)	6.000	30.000		✓
Schroder Income Maximiser Fund (POOLED)	3.000	30.000		✓
M & G Global Dividend Fund (POOLED)	2.000	30.000		✓
M & G Optimal Income Fund (POOLED)	2.000	30.000		✓
M & G UK Income Distribution Fund (POOLED)	3.000	30.000		✓
M & G Strategic Corporate Bond Fund (POOLED)	4.000	30.000		✓
SUB TOTAL	71.000			
TOTAL	247.300			

Treasury Management Indicators

3.30 The Council measures and manages its exposure to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average 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.

	31.03.22 Actual	30.09.22 Actual	2022.23 Target	Complied (Y/N)
Portfolio average credit	AA-	AA-	AA-	✓

Liquidity: The Authority 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. The Council can borrow each period without giving prior notice as long as its within its CFR.

	31.03.22 Actual	30.09.22 Actual	2022/23 Target	Complied?
Total cash available within 3 months	225.200	96.300	£50.000	✓
Total sum borrowed in past 3 months without prior notice	nil	nil	nil	✓

3.31 **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.03.22 Actual	30.09.22 Actual	30.09.22 %	Upper Limit	Complied (Y/N)
Under 12 months	1.163	-	-	50%	✓
12 months and within 24 months	-	-	-	50%	✓
24 months and within 5 years	-	-	-	60%	✓
5 years and within 10 years	-	-	-	75%	✓
10 years and within 20 years	-	-	-	100%	✓
20 years and within 30 years	-	-	-	100%	✓
30 years and within 40 years	1.209	1.209	1.76%	100%	✓
40 years and above	67.500	67.500	98.24%	100%	✓
Total Borrowing	69.872	68.709	100.00%		

3.32 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority'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:

	2022/23	2023/24	2024/25
Actual principal invested beyond year end	£76m	£76m	£76m
Limit on principal invested beyond year end	£150m	£150m	£150m
Complied?			

Arlingclose's Economic Outlook for the remainder of 2022/23

- 3.33 The Council's treasury management adviser expects Bank Rate to rise further during the remainder of 2022/23 and to reach 4.25% by around the first quarter of the financial year 2023/24. Gilt yields are expected to remain broadly steady over the medium term, although with continued volatility across shorter time periods.

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00

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

5.2 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

5.3 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 2022 to September 2022.

6.2 As at the 30th September 2022 the Council had an outstanding investments portfolio of £241.8m. The revised annual investment income budget is £2.27m 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 2022 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 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 2 2022-23 and Treasury Management Mid-Year Report Template

Officer contact details for documents:

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Appendix 1: Investments as at 30th September 2022

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Invesco MMF		On demand	9.200	1.32%
	Federated MMF		On demand	0.500	1.50%
	Morgan Stanley MMF		On demand	21.600	1.39%
	SUB TOTAL			31.300	
< 1 Month	DBS	25/07/2022	25/10/2022	5.000	2.00%
	SUB TOTAL			5.000	
1 - 3 Months	Santander		Notice	15.000	0.98%
	DBS Bank	09/08/2022	09/11/2022	10.000	2.07%
	Landesbk Hessen-Thuringen/London	17/08/2022	17/11/2022	15.000	2.00%
	Australia & New Zealand Banking Group	09/08/2022	09/11/2022	15.000	2.11%
	Doncaster Metropolitan Borough Council	13/11/2020	14/11/2022	5.000	0.60%
	DMO	10/05/2022	10/11/2022	20.000	1.08%
	Payden & Rygel Sterling Reserve Fund (POOLED)			10.000	
	Royal London Enhanced Cash Plus (POOLED)			10.000	
	SUB TOTAL			100.000	
	3 - 6 Months				
Liverpool City Council		06/01/2022	05/01/2023	10.000	0.31%
DMO		06/07/2022	06/01/2023	5.000	1.77%
DMO		27/07/2022	27/01/2023	20.000	1.97%
DMO		25/08/2022	24/02/2023	20.000	2.44%
	SUB TOTAL			55.000	
6 - 9 Months					
	SUB TOTAL			0.000	
9 - 12 Months					
	SUB TOTAL			0.000	
> 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			247.300	

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; 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.

