Non-Executive Report of the: **Audit Committee** **4 December 2024**	TOWER HAMLETS
Report of: Julie Lorraine, Corporate Director Resources	**Classification:** Unrestricted
Treasury Management Mid-Year Report for 2024-25	

Originating Officer(s)	Abdulrazak Kassim, Director of Finance, Procurement and Audit Paul Audu, Interim Head of Pensions & Treasury
Wards affected	All wards

Reasons for urgency

The report was not published five clear days in advance of the meeting. Therefore, before this item can be considered at this meeting, the Chair of the Committee would need to be satisfied that it is necessary to consider Treasury Management Mid-Year Report for 2024-25 at this meeting, the Committee may also take the view that it is important that there should not be an extended period without any member oversight.

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 2024-25 were approved by Council on 28 February 2024 as required by the Local Government Act 2003. This report covers the period 1 April 2024 to 30 September 2024.

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 £2.239m, however the Council continues to receive dividend income.

4) From the Benchmarking exercise, a total return of 4.93% was achieved for the reporting period. This was above the benchmark average of 4.90%.

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 2024; and
2) Note the Council's investments as set out in Appendix 1. The balances outstanding at 30 September 2024 were £194.007m.

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 of 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.

1.4 This report includes the new requirement in the 2021 Prudential Code, mandatory from 1 April 2023, of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the Authority's normal quarterly revenue and capital monitoring report.

2 ALTERNATIVE OPTIONS

2.1 The Council is bound by legislation to have regard to the Treasury Management 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 the 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 for 2024-25 was approved at the Council meeting of 28 February 2024. The Council has borrowed and 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. Successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

3.2 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve, as a minimum, treasury management semi-annual and annual outturn reports.

3.3 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 28 February 2024.

External Context

3.4 **Economic background**: UK headline consumer price inflation remained around the Bank of England (BoE) target later in the period, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally to June to 2.2% in July and August, as was expected, due to base effects from energy prices. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August.

3.5 The UK economy continued to expand over the period, albeit slowing from the 0.7% gain in the first calendar quarter to 0.5% (downwardly revised from 0.6%) in the second. Of the monthly figures, the economy was estimated to have registered no growth in July.

3.6 Labour market data was slightly better from a policymaker's perspective, showing an easing in the tightness of the job market, with inactivity rates and vacancies declining. However, a degree of uncertainty remains given ongoing issues around the data collected for the labour force survey by the Office for National Statistics. Figures for the three months to July showed the unemployment rate fall to 4.1% (3mth/year) from 4.4% in the previous three-month period while the employment rate rose to 74.8% from 74.3%.

3.7 Over the same period average regular earnings (excluding bonuses) was 5.1%, down from 5.4% in the earlier period, and total earnings (including bonuses) was 4.0% (this figure was impacted by one-off payments made to NHS staff and civil servants in June and July 2023). Adjusting for inflation, real regular pay rose by 2.2% in May to July and total pay by 1.1%.

3.8 With headline inflation lower, the BoE cut the Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. At the September MPC meeting, committee members voted 8-1 for no change at 5.00%, with the lone dissenter preferring Bank Rate to be cut again to 4.75%. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern among policymakers.

3.9 The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025 and remaining there until early 2027.

3.10 Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, with November 2024 the likely next one, taking Bank Rate down to around 3% by the end of 2025.

3.11 **Financial markets**: Sentiment in financial markets continued to mostly improve over the period, but the ongoing trend of bond yield volatility remained. The general upward trend in yields in the early part of the period was reversed in the later part, and yields ended the half-year not too far from where they started. However, the volatility in response to economic, financial and geopolitical issues meant it was a bumpy ride for bond investors during that time.

3.12 Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.00% but hit a high of 4.41% in May and a low of 3.76% in mid-September. While the 20-year gilt started at 4.40% and ended at 4.51% but hit a high of 4.82% in May and a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.12% over the period to 30th September.

3.13 **Credit review**: Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.

3.14 Having had its outlook increased by Fitch and ratings by S&P earlier in the period, Moody's upgraded Transport for London's rating to A2 from A3 in July.

3.15 Moody's also placed National Bank of Canada on Rating Watch for a possible upgrade, revising the outlook on Standard Chartered to Positive, the outlook to Negative on Toronto Dominion Bank, and downgrading the rating on Close Brothers to A1 from Aa3.

3.16 S&P upgraded the rating on National Bank of Canada to A+ from A, and together with Fitch, the two rating agencies assigned Lancashire County Council with a rating of AA- and A+ respectively.

3.17 Credit default swap prices were generally lower at the end of the period compared to the beginning for the vast majority of the names on UK and non-UK lists. Price volatility over the period was also generally more muted compared to previous periods.

3.18 Financial market volatility is expected to remain a feature, at least in the near term, and credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

Local Context

3.19 On 31 March 2024, the Council had net investments of £219.701m 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 2024

	31.03.24 Actual £m	31.03.25 Estimate £m
General Fund CFR	403.781	400.834
HRA CFR	180.491	210.716
Total CFR	**584.272**	**611.550**
Less other debt liabilities (PFI and Leases)	46.021	41.286
Borrowing CFR	**538.251**	**570.264**
Less external borrowing	68.709	68.709
Internal borrowing	469.542	501.555
Less balance sheet resources	(689.244)	(695.567)
Total investments	**(219.701)**	**(194.007)**

3.20 The treasury management position on 30 September 2024 and the change over the six months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.03.24 Balance £m	Movement £m	30.09.24 balance £m	30.09.24 Rate %
Long-term borrowing	68.709	-	68.709	3.01
Short-term borrowing	-	-	-	
Total Borrowing	**68.709**	**-**	**68.709**	
Long-term investments	56.000	-	56.000	4.88
Short-term investments	20.000	-	20.000	4.63
Cash and cash equivalents	143.701	-25.694	118.007	5.01
Total investments	**219.701**	**-25.694**	**194.007**	**4.93**
Net investments	**150.992**	**-25.694**	**125.298**	

Borrowing Update

3.21 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.

3.22 The Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the Council. It has no plans to do so in future.

Borrowing Strategy and Activity

3.23 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. At the present time, short-term interest rates are higher than long-term interest rates.

3.24 After substantial rises in interest rates since 2021 many central banks have now begun to reduce rates, albeit slowly. Gilt yields were volatile over the 6-month period and have reduced slightly between April and September 2024. Much of the downward pressure from lower inflation figures was counteracted by upward pressure from positive economic data. Data from the US continues to impact global bond markets including UK gilt yields.

3.25 The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the half year and 4.79% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.18%. Rates for 20-year maturity loans ranged from 5.01% to 5.57% during the half year, and 50-year maturity loans from 4.88% to 5.40%.

3.26 Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a scarcity of local-to-local authority lending/borrowing activity during the month, as expected shorter-term rates reverted to a more normal range and were generally around 5.00% - 5.25%.

3.27 As at 30 September 2024, the Council held £68.7m of loans. Outstanding loans on 30 September are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.03.24 balance £m	**Movement £m**	**30.09.24 balance £m**	**30.09.24 rate %**	**30.09.24 WAM* years**
Public Works Loan Board	51.209	-	51.209	2.55	44.7
Banks (fixed term)	17.500	-	17.500	4.34	54.0
Total borrowing	**68.709**		**68.709**	**3.01**	

**Weighted average maturity

Table 3B: Long-dated borrowing

	Amount £m	Rate %	Period years
PWLB maturity loan 1	1.209	4.50	29.5
PWLB maturity loan 2	20.000	2.61	45.2
PWLB maturity loan 3	10.000	2.50	44.2
PWLB maturity loan 4	20.000	2.40	45.4
Market loan 1	4.500	4.25	54.0
Market loan 2	13.000	4.37	54.0
Total borrowing	**68.709**	**3.01**	**47.1**

3.28 There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

3.29 The UK Infrastructure Bank is one alternative source of funding which offers funding at gilt yields + 0.40% (0.40% below the PWLB certainty rate) and the possibility of more flexible funding structures than the PWLB. Funding from UKIB is generally only available for certain types of projects that meet its criteria of green energy, transport, digital, water and waste. The minimum loan size is £5 million.

<u>Other Debt Activity</u>

3.30 Other debt liabilities, Private Finance Initiative and leases, stood at £43.654m on 30 September 2024, taking total debt to £112.363m. The Council did not raise any new capital finance for Private Finance Initiative and finance leases between April 2024 and September 2024.

<u>Treasury Management Investment Activity</u>

3.31 The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows 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.

3.32 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the half year, the Council's investment balances ranged between £189.5m and £243.6m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

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

	31.03.24 balance £m	Net movement £m	30.09.24 Balance £m	30.09.24 return %
UK banks	1.00	-	1.00	4.83
Government (incl. local authorities)				
Overseas Banks		-		
Money Market Funds	142.701	-25.69	117.07	5.00
Pooled Investment Funds:				
Cash plus funds	20.00	-	20.00	4.67
Short-dated bond funds	18.00	-	18.00	4.59
Strategic bond funds	9.00	-	9.00	11.71
Equity Income funds	13.00	-	13.00	16.24
Property funds	5.00	-	5.00	2.15
Multi asset income funds	11.0	-	11.00	9.40
Total investments (Market value)	**219.701**	**-25.69**	**194.007**	**6.66**

3.33 Both the CIFA Code and government guidance require the Council to invest its funds prudently and to consider the security and liquidity of its treasury investments before seeking the optimum return rate, 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.

3.34 Bank Rate reduced from 5.25% to 5.00% in August 2024 with short term interest rates largely being around these levels. The rates on DMADF deposits ranged between 4.94% and 5.19% and money market rates between 4.94% and 5.29%.

3.35 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 %
31.03.2024	4.79	A+	100%	1	4.98
30.06.2024	3.71	AA-	72%	2	6.41
30.09.2024	4.65	A+	100%	1	6.66
Similar Las	4.70	A+	75%	12	5.33
All Las	4.39	A+	61%	11	5.42

3.36 **Externally Managed Pooled Funds**: £76.0m of the Authority's investments are 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 £738k and £4.6m since purchase, but delivered 1.38% capital returns and 5.03% income return over the year to 30 September 2024 respectively.

3.37 The first six months of 2024/25 were marked by ongoing market volatility, with global bond yields remaining elevated, although trending downward as policymakers kept rates at a restrictive level in light of persistent core inflation until nearly the end of the period, when the MPC, Federal Reserve, and ECB began to deliver rate cuts and signal a shift towards loosening monetary policy.

3.38 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.

3.39 Income returns in the first six months of 2024-25 were above budgeted. The Authority has budgeted £4.9m income from these investments in 2024-25. Income earned up to 30 September was £6.4m.

Non-Treasury Investments

3.40 The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets an authority may hold as well as other non-financial assets which the Council 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).

3.41 Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also broadens the definition of investments to include all such assets held partially or wholly for financial return.

3.42 The Council held the following non-treasury investments which were made for service purposes (the Council does not invest for commercial purposes):

- Subsidiaries and associates owed the Council £6.7m.
- Loans to third parties amounted to £0.7m.

Treasury Performance

3.43 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 2024

	Forecast £m	Budget £m	Forecast Over/ (under)
PWLB Interest Payable	1.334	1.490	(0.156)
Market Loan Interest Payable	0.759	0.760	0.000
Total borrowing Interest	**2.093**	**2.250**	**(0.156)**
Money Market Funds	(3.440)	**(4.875)**	(1.501)
Pooled Funds	(2.288)		
Fixed Deposits	(0.624)		
Call Accounts	(0.024)		
Total treasury investments income	**(6.376)***	**(4.875)**	**(1.501)**

*This is gross investment income – apportionments will need to be done at year-end where required for capital purposes

	Tower Hamlets		16 London & Mets	121 Local authorities
	31.03.24	**30.09.24**	**Average**	**Average**
Security				
Average Credit Score	4.79	4.65	4.71	4.60
Average Credit Rating	A+	A+	A+	A+
Number of Counterparties & Funds	24	23	11	12
Proportion Exposed to Bail-in	100%	100%	75%	61%
Proportion Available within 7 days	66%	61%	72%	50%
Proportion Available within 100 days	65%	72%	83%	71%
Average Days to Maturity	15	1	12	11
Total Investments - Total Return	3.35%	6.66%	5.33%	5.42%

Compliance

3.44 The Corporate Director of 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.

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

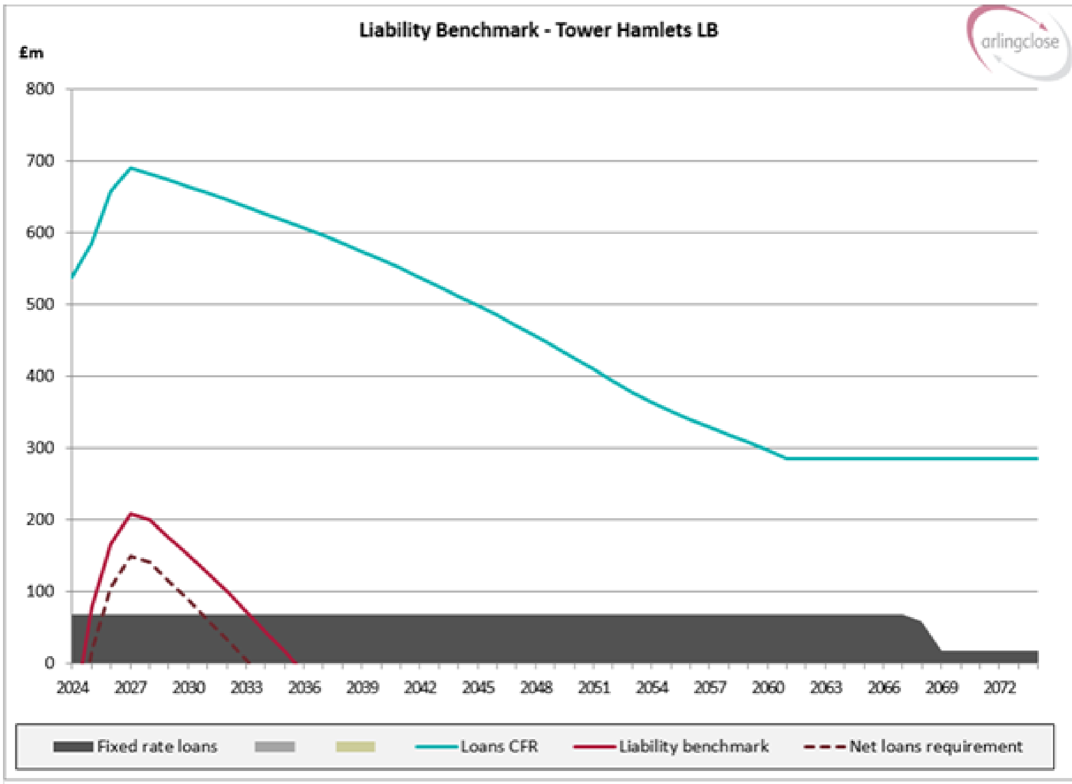
Table 7: Debt Limits

	31.03.24 Actual £m	31.03.25 actual £m	2024-25 Operational Boundary £m	2024-25 Authorised Limit £m	Complied (Y/N)
Borrowing	**68.709**	**68.709**	**585.00**	**635.00**	✓
PFI & finance leases	**46.021**	**41.286**	**60.00**	**65.00**	✓
Total debt	**114.730**	**109.995**	**645.00**	**700.00**	

3.46 **Liability Benchmark:** This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £60m required to manage day-to-day cash flow.

	31/03/24 Actual £m	31/03/25 Forecast £m
Loans CFR	538,251	570,264
Less balance sheet resources	(689,244)	(695,567)
Net loans requirement	(150,993)	(125,303)
Plus liquidity allowance	60,000	60,000
Liability benchmark	**(90,993)**	**(65,303)**
Existing borrowing	**68.709**	**68.709**

3.47 Following on from the medium-term forecast above, the long-term liability benchmark assumes no further capital expenditure funded by borrowing, and expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



Liability Benchmark - Tower Hamlets LB
£m
800
700
600
500
400
300
200
100
0
2024
2027
2030
2033
2036
2039
2042
2045
2048
2051
2054
2057
2060
2063
2066
2069
2072
Fixed rate loans
Loans CFR
Liability benchmark
Net loans requirement

Table 8: Investment Limits at 30 September 2024

Counterparty	Amount £m	Counter Party Limit	Sector Limit	Complied
Aberdeen MMF	19.390	25.000		✓
Aviva MMF	19.390	25.000		✓
Blackrock MMF		25.000		✓
BNP Paribas	5.559	10.200		✓
CCLA PSDF MMF	6.000	6.000		✓
Deutsche MMF	19.390	25.000		✓
Federated MMF	19.390	25.000		✓
Insight MMF	19.388	25.000		✓
Invesco MMF	8.500	10.000	Unlimited	✓
SUB TOTAL (MMF)	**117.007**			
Santander	1.000	15.000		✓
SUB TOTAL (BANKS)	**1.000**			
DMO	0.00	Unlimited	Unlimited	✓
SUB TOTAL (DMO)	**118.007**			
Payden & Rygel Sterling Reserve Fund (POOLED)	10.000	30.000		✓
Royal London Enhanced Cash Plus (POOLED)	10.000	30.000		✓
CCLA LAMIT Property Fund (POOLED)	5.000	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	150.000	✓
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 (POOLED)	**76.000**			
TOTAL	**194.007**			

Treasury Management Indicators

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

3.49 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.

	31.03.23 Actual	30.09.23 Actual	2023.24 Target	Complied (Y/N)
Portfolio average credit	AA-	AA-	AA-	✓

3.50 **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.

	31.03.24 Actual	30.09.24 Actual	2024.25 Target	Complied (Y/N)
Total cash available within 3 months	143.701	118.007	60.000	✓
Total sum borrowed in past 3 months without prior notice	nil	nil	nil	✓

3.51 **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:

	31.03.24 Actual	30.09.24 Actual	30.09.24 %	Upper Limit %	Complied (Y/N)
Under 12 months	-	-	-	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	**68.709**	**68.709**	**100.00%**		

3.52 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

Principal Sums Invested for Periods Longer than a year:

	2024-25	2025-26	2026-27
Actual principal invested beyond year end	£76m	£76m	£76m
Limit on principal invested beyond year end	£150m	£150m	£150m
Complied	✓	✓	✓

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

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 2024 to September 2024.

6.2 As at 30th September 2024 the Council had an outstanding investments portfolio of £194.007m. The annual investment income budget is £4.9m, and current estimates indicate that this will be achieved.

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 consider 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 2024 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 2024

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 2024-25 and Treasury Management Mid-Year Report Template

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Appendix 1

Investments as at 30 September 2024

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Aberdeen MMF		On demand	19.390	5.01%
	Aviva MMF		On demand	19.390	5.01%
	BNP Paribas		On demand	5.559	4.98%
	CCLA PSDF MMF		On demand	6.000	5.00%
	Deutsche MMF		On demand	19.390	4.99%
	Federated MMF		On demand	19.390	5.02%
	Insight MMF		On demand	19.388	5.01%
	Invesco MMF		On demand	8.500	5.00%
	SUB TOTAL			**117.007**	
< 1 Month	Santander			1.00	
	SUB TOTAL			**1.00**	
	Payden & Rygel Sterling Reserve Fund (POOLED)			10.000	
	Royal London Enhanced Cash Plus (POOLED)			10.000	
	SUB TOTAL			**20.00**	
> 12 Months	CCLA - DIVERSIFIED INCOME FUND			5.000	2.82%
	CCLA – LAMIT PROPERTY FUND			5.000	1.90%
	M&G GLOBAL DIVIDEND FUND			2.000	8.96%
	M&G OPTIMAL INCOME FUND			2.000	4.15%
	M&G STRATEGIC CORPORATE BOND FUND			4.000	1.90%
	M&G UK INCOME DISTRIBUTION FUND			3.000	7.02%
	NINETY ONE (INVESTEC) DIVERSIFIED INCOME FUND			6.000	3.95%
	PAYDEN ABSOLUTE RETURN BOND FUND			10.000	3.45%
	SCHRODER INCOME MAXIMISER FUND			3.000	10.89%
	THREADNEEDLE GLOBAL EQUITY INCOME FUND			3.000	2.38%
	THREADNEEDLE STERLING SHORT-DATED CORPORATE BOND FUND			8.000	3.05%
	THREADNEEDLE STRATEGIC BOND FUND			5.000	2.94%
	SUB TOTAL			**56.000**	
	GRAND TOTAL			**194.007**	

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	A 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 ratings.
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.