LONDON BOROUGH OF CAMDEN	WARDS: All
REPORT TITLE Treasury Management Report	
REPORT OF Executive Director Corporate Services	
FOR SUBMISSION TO Audit and Corporate Governance Committee	**DATE** 17 November 2022

SUMMARY OF REPORT

Audit and Corporate Governance Committee has a key role in the oversight, governance and assurance of the treasury function and this is included in its terms of reference. This report presents compliance with guidance and treasury indicators, provides an update on the economic background, summarises Treasury activities between April 2022 and September 2022 and presents the debt and investment portfolios as at 30 September 2022.

We Make Camden includes a commitment to “long-term plans to ensure we remain a financially stable authority in a very different financial climate”. A robust and effective Treasury Management Strategy is crucial to enabling this ambition. This report provides a perspective on the management of investments of **£603m** (there is an additional separate sum of **€289m relating to the NLWA**) and debt of **£330m** worth of resources, and an update on external factors that can affect the future financial plans of the Council.

Local Government Act 1972 – Access to Information

No documents which are required to be listed were used in the preparation of this report.

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RECOMMENDATION

The Committee is asked to note the report.

Signed: Director of Finance

Date: 7 November 2022

1. Purpose of Report

1.1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Members are updated on treasury management activities regularly. The Treasury Management Code of practice also requires councils to put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activites.

1.2. Policies and practices should make clear that the effective management and control of risk are prime objectives of the treasury management activities. This report therefore ensures the Council is implementing best practice in accordance with the Code.

1.3. On 20 December 2021 CIPFA published revised codes which build on previous editions. Formal adoption of the revised reporting requirements within the codes is not required until 2023/24 financial year (these include changes in capital strategy, prudential indicators and investment reporting) but the Council continues to follow the principles enshrined in these codes, which includes the principle that the Authority will not borrow to invest primarily for financial return.

1.4. It is important that Council funds are invested safely and appropriately and that cash is available when required, ensuring that the Council can operate its services as expected. It is also essential that after meeting the above requirements the Council achieves a good rate of return on its investments.

1.5. The Council uses debt to realise its long term capital programme and it is important that its underlying need to borrow for the capital programme (both past and present) is financed by borrowing that represents good value and is structured appropriately.

1.6. While Cabinet and Council set treasury management policy, the role of this Committee in receiving this report is to review the risks being run in both the investment and debt portfolios.

1.7. During the quarter the Prudential Code and Treasury Management Strategy were adhered to with no breaches of limits set.

1.8. The report provides detailed assessment of our treasury management activity, but in summary, it is worth noting that:

- There is no increase in the risk profile and appetite and the Council continues to operate prudent debt and investment strategies.
- On 24 February the North London Waste Authority (NLWA) borrowed £250m and this cash is co-invested alongside Council investment balances and has therefore increased investments under management.
- The Council has not engaged in the arguably riskier commercial activities that have led to a tightening of the treasury framework for all Councils. While we continue to look at ways in which to maximise our investment returns, this has not been at the expense of the security of our investments.

- There are no immediate plans for new borrowing at this time. The internal borrowing policy continues to be sensible and appropriate given the outlook for interest rates on debt and investment. The policy ensures the Council minimises interest paid on debt and uses investment resources efficiently.
- During 2022/23, the Council has operated within its treasury and prudential indicators set which demonstrates good governance and control.

2. Economic Background and context

2.1. The management of the Council's investment and debt portfolios is conducted within, and heavily sensitive to, changes to the domestic and global economic environment. A summary of the major developments in the reporting period is set out below with reference to key economic and financial indicators:

Indicator	Developments in Reporting Period
Inflation – *The Bank of England sets interest rates in order to achieve an inflation target of 2%. If medium term inflation is forecast to overshoot the target, the Bank may look to increase rates, and vice versa. The inflation target is measured using the Consumer Prices Index (CPI).*	The Consumer Price Index (CPI) year-on-year (y/y) rate was 9.0% in April 2022 but increased to 9.9% in August (the latest figure available at the time of drafting this report). The increase in recent months is largely attributable to increases in food prices. The expectation of the Bank of England in September 2022 is that CPI inflation reaches just under 11% in October 2022, and is expected to remain above 10% over the new few months before decreasing, owing mainly to higher energy prices and other goods' prices. In the medium term CPI inflation is projected to return to the 2% target. The IHS Markit Purchasing Managers' Index (PMI), a forward-looking index of business confidence, stood at 58.2 in April, then fluctuated to 53.1 in May and then to 53.7 in June. It then steadily decreased to 52.1 in July, and then to 49.6 in August and then to 49.1 in September. The movements suggests decreased confidence amongst businesses. IHS Markit is now part of S&P Global. The S&P Global/CIPS UK Composite PMI fell to 47.2 in October from 49.1 in September, well below expectations of 48.1 and marking the steepest decline in 21 months. Annual pay growth for average weekly earnings, excluding bonuses, was 4.2% in April 2022 and decreased to 5.4% in August 2022.
UK Gross Domestic Product (GDP) – *the health of the domestic economy reflects*	Sharp shifts in the economy have increased the difficulty of estimating GDP and other macroeconomic variables, since early ONS and Bank of England estimates of GDP rely upon statistical estimates that are increasingly challenging to produce with precision.

the strength of the outlook for banks we invest with as well as prospects for interest earned on our portfolio.	According to ONS UK GDP decreased by an estimated 0.1% in Quarter 2 2022. The Bank now expects GDP to fall by 0.1% in Q3, below the August Report projection of 0.4% growth, and a second successive quarterly decline. Independent forecasts prepared in September 2022 present a range of estimates for UK GDP growth in 2022 - between 2.3% and 5.5%. The range of forecasts for 2023 also shows a wide range – between -1.9% and 2.1%. The balance of trade deficit for the three months to August 2022 widened by £0.9 billion to £61.9 billion whilst imports of goods increased by £4.7 billion. Imports of goods from non-EU continues to be higher than from EU countries.
Global Growth – *UK economic performance is contingent on global growth and financial markets sensitive to global events. Many of the banks we invest with are domiciled outside the UK and those that are based here have exposure to the rest of the world.*	The OECD view the prospects for global GDP to slow, and estimates economic growth to decrease. Their core projection for 2022 is for growth of 3.0% (September 2022 forecasts). The IMF report growth of 3.2% in 2022 and expects 2.7% in 2023 due to increased commodity prices caused by the cost-of-living crisis, the Russian invasion of Ukraine and lasting Covid-19 pandemic (October 2022 forecasts). The latest IMF forecasts for 2022 & 2023 (dated October 2022) for major countries and trade blocks are as shown below: • **The US**: growth of 1.6% in 2022 and 1.0% in 2023 • **Eurozone**: growth of 3.1% in 2022 and 0.5% in 2023 • **China**: growth of 3.2% in 2022 and 4.4% in 2023
Credit Default Swaps (CDS) – *investors use these to insure against the possibility of a borrower not repaying a loan when due. Their price can be seen as an indicator of the credit quality of an investment, with a higher price denoting a market perception of a riskier investment.*	The benchmark **iTraxx Senior Financials Index** combines the price for CDS instruments for 25 European banks. As of 1 April, the itraxx was 81 and on 30 September was 147.5. Since September the index decreased. This indicates increasing market concerns about the economic outlook during a volatile period. The readings for the banks on the Council's counterparty list remain within the normal ranges.
Financial Markets – *Changes in the prices of financial assets (e.g.*	The Fed (Federal Reserve) increased rates by 0.75% on 2 November 2022. As a result Equity markets sold off, and bonds were sold, pushing yields higher.

shares) are indicative of investor sentiment generally.	

2.2. An illustration of the main risks managed by the treasury management function is presented in Appendix 6.

Interest Rate Forecasts

2.3. Inflation had increased as a result of the cost-of-living crisis and the Russian invasion of Ukraine. In July inflation of 10.1% caused the Governor of the Bank of England to write to the Chancellor of the Exchequer in September to explain why inflation was more than the target rate of 2%.

2.4. At its meeting on 21 September, the MPC voted 5-3-1 to raise the base rate from 1.75% to 2.25%.

2.5. Core CPI inflation rose to 6.3% in August. core CPI in the following months is expected to stay within current levels.

2.6. Independent forecasters project year end inflation 2022 of between 7.4% and 14.0% with an average of 10.5%. For 2023, forecasters project year end inflation between 0.9% and 7.6% with an average of 4.5%.

3. Investments and cash management

3.1. The Treasury Mangement Strategy (TMS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 7 March 2022 and sets out the Council's investment priorities as being

- security of capital
- liquidity

3.2. After these priorities, the Council aims to achieve the optimum return (yield) on investments commensurate with high levels of security and liquidity. In the current economic climate and the heightened credit concerns, it is considered appropriate to keep investments short term, and only invest with highly rated financial institutions, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions.

3.3. The debt strategy is still appropriate and pursues an internal borrowing strategy, reducing investments as opposed to taking out new debt. This strategy aims to avoid higher costs linked to the cost of carry (higher rates on new debt compared to current returns on investment balances). One PWLB loan is maturing in 2022/23, £7.2m matured on 10 October 2022 and the Council does not plan to take on any new borrowing in the immediate future and this will minimise debt costs and is the most efficient way to approach borrowing.

3.4. A summary of the investment activity occurring during the last six months is presented in Appendix 1. In addition, a full list of investments held and their credit ratings as at 30 September 2022 is included in Appendix 2 alongside the current approved banks forming our lending list. The total amount invested as at 30 September 2022 was £603m, £18m less than was reported on 31 March 2022.

3.5. The Council's banker, NatWest Bank, is a ring-fenced bank with the Royal Bank of Scotland Group. The Government sold a further tranche of shares on the 11 May 2021 and announced that it would start a trading plan on 12 August 2021, potentially reducing the Government's holding by a further 8.8% from its current holding of 48.1% as at the 28 March 2022. Given the Government's significant holding in the part-nationalised bank it is still not considered to be pure banking risk and is eligible for investments of up to one year on the Council's counterparty list. This will be kept under review, although Government ownership is set to decrease over the course of this Parliament, the process is expected to be gradual.

3.6. The Treasury dealing function aims to invest surplus cash with banks on the counterparty list leaving only minimal cash balances at the Council's bank, NatWest. Occasionally amounts are received later in the day and these amounts are automatically held in an interest-bearing account with NatWest overnight. The average overnight deposit during the reporting period was £526k, which is less than the last period (£857k). On 40 occasions during the six month period overnight deposits exceeded £500k. There were no material overdrafts (>£100k) during this reporting period.

3.7. The Council provides treasury management services to the North London Waste Authority (NLWA) under the terms of a treasury management agreement, including investment of surplus balances. As at 30 September there was £225.7m invested on behalf of the NLWA within the investment portfolio.

3.8. The NLWA is building an £850m energy recovery facility (ERF) to replace its existing facility. On 16 December 2021 the NLWA borrowed £280m from the PWLB to fund this project. This was invested in Euro MMFs as their contractual commitment for the plant is in Euros. Four Euro MMFs were used to invest a total of €330m (£280m in sterling), the total has decreased to approx. €289m due to negative euro interest rates and subsequent payments. However, the Euro MMFs are now yielding positive interest rates (>0.5%). Euro Money market funds were specifically used to ensure no currency fluctuations with their euro payment exposure.

3.9. The NLWA borrowed an additional £250m in February 2022 to cover their procurement for the new ERF. This was to cover sterling capital expenditure. This cash has been invested alongside the council's investment balances, bringing the total to £225.7m invested on behalf of the NLWA within the investment portfolio. Subsequently, investment limits were increased in a report to the Executive Director Corporate Services on 11 May 2022 (these increased limits are shown in brackets within Appendix 1 - Table 1). This was within delegated responsibility agreed by Council in the Treasury Management Annual Report and midyear strategy report (November 2021).

4. Debt Management

4.1. Appendix 3 details the external debt portfolio at the reporting date, including a breakdown of debt attributable to the General Fund (GF) and the Housing Revenue Account (HRA). During the first half of the year the Council undertook no new borrowing or debt rescheduling. No existing debt matured during the period although just after the end of the quarter on 10 October a loan matured for £7.2m (at a rate of 6.375%).

4.2. The Council continues to use internal borrowing as part of its borrowing strategy and is forecast to be under-borrowed by £379m at the end of 2022/23. This means that rather than taking on new external debt to meet the council's borrowing requirements of £708m, known as the Capital Financing Requirement (CFR), the Council is temporarily using some of its own resources, by reducing investment balances, to fill this borrowing requirement.

4.3. The policy of internal borrowing is a prudent treasury management decision in an environment where the cost of borrowing is considerably higher than the returns available on investment and so on a net basis reduces interest payable on external debt.

4.4. As at 30 September 2022, the financing cost of £379m of new borrowing at the 50 year Public Works Loans Board (PWLB) rate (4.65%) would be £17.6m, while the interest foregone on that balance using 3 month compounded SONIA (3.2360%) would be £12.25m. The difference between the avoided debt costs and lost investment income is known as the "cost of carry" and represents a real revenue saving (£5.35m). Appendix 4 presents the current and forecast PWLB rates.

4.5. The Council could chose to repay any of its PWLB loans early. The total PWLB loans the Council had stood at £205m as at 30 September. However, due to one PWLB loan maturing, the balance is now £198m and it would have to pay a premia on those loans which currently stands at £2m. This is based on repayment of interest to the end of the loan calculated in today's money (discounted). It is therefore not cost effective to consider this repayment.

4.6. The Council is using a local climate bond in the form of a Community Municipal Investment (CMI).The CMI was launched and well received with the target of £1m raised by 29 June 2022. The CMI was raised at a rate of 1.75%. It provides a unique opportunity to engage and empower our residents and businesses to collectively participate in our plans for decarbonisation and invest in the delivery of projects identified in our climate strategy. This is an innovative financing route which gives the Council another way to realise its ambitious 2030 zero carbon target and is a first step towards introducing new financing measures towards reducing carbon emissions.

<u>Public Works Loan Board</u>

4.7. The Government recognises that the freedoms for local authorities to borrow under the Prudential Framework are fundamental to supporting local capital strategies and authorities' organisational objectives, including regeneration, supporting local growth and service delivery. The PWLB supports this activity by on-lending Government borrowing (so called gilts) from the capital markets to local authorities to deliver capital investment.

4.8. PWLB lending is offered at a fixed margin above the Government's cost of borrowing, as measured by gilt yields. The Treasury raised the margin over gilts to 100bps (one percentage point) in 2010, in its own words to better reflect the availability of capital finance and lowered it to 0.8% over gilts in 2013 for qualifying authorities.

4.9. Some local authorities substantially increased their use of the PWLB (some for commercial projects), as the cost of borrowing had fallen to record lows. In October 2019, the Treasury raised the cost of PWLB borrowing again. In announcing this increase the Treasury stated that they were restoring interest rates to levels available in 2018, by increasing the margin that applies to new loans from the PWLB by 1% on top of usual lending terms to 1.8% above gilts.

4.10. This margin increase had been met with significant criticism leading to a consultation on the PWLB and future access to finance which the Council responded to in July 2020. One key concern of the Government highlights was that a minority of local authorities had started using low-cost loans from the PWLB to buy investment property, primarily for rental income, something the Government aimed to stop. At this point the Government also cut the rate of new loans for social housing to the old 2019 rate (Gilts + 0.80%). HM Treasury's PWLB guidance has been significantly revised, including more details on PWLB loans permitted and prohibited.

4.11. On 25 November 2020 the 1% increase was reversed, permitting councils to again borrow at an interest rate of Gilts + 0.80%. In order to address concerns around councils borrowing to invest in commercial income generating assets they are now required to report on their capital programme and to certify that they are not borrowing for such purposes.

4.12. Movement in PWLB rates are determined by Gilt yields. Throughout 2022/23, gilt yields have been on an upward trend, as inflation concerns, growth expectations and the continued conflict between Russia and Ukraine and the subsequent impact on commodity prices all contributed to increased borrowing costs. However, the upward trend was exceptionally sharp and volatile at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The increase in Gilt yields prompted intervention by the Bank of England to ensure financial stability and ultimately resulted in both a new Chancellor and Prime Minister who subsequently reversed the policy measures announced in the mini budget. This has brought some initial stability as we await a full Autumn Statement on the 17 November which will provide a medium term fiscal plan and be accompanied by forecasts from the Office of Budget Responsibility.

4.13. Current interest rate forecasts expect gilt yields/PWLB rates to peak through the remainder of this year, before reducing on a gradual basis through 2023, 2024 and 2025. However, much will depend on market reaction to the Government's Autumn Statement and the continued impact of inflation and growth expectations on the economy.

5. Compliance with Treasury and Prudential Indicators

5.1. Treasury and Prudential Indicators are presented in Appendix 5. The Council complied with all indicators during the half-year.

6. Finance Comments of the Executive Director Corporate Services

6.1. The comments of the Executive Director Corporate Services have been incorporated into this report.

7. Legal Comments of the Borough Solicitor

7.1. Legal Services have been consulted and have no further comment to add.

8. Environmental Implications

8.1. The Community Municipal Investment is a means of funding ongoing local net zero projects via green finance. These projects include electrical vehicle charging points, healthy school streets, solar on council estate roofs and greening of Camden's transport fleet.

8.2. Environmental, Social and Governance (ESG) issues are becoming a significant consideration. This is currently better developed in the equity and bond market rather than for short-term cash desposits, and with a diverse range of market approaches to ESG classification and analysis a consistent approach to ESG is currently difficult for public service organisaitons. This is currently a developing area and counterparty policies will be considered in light of ESG information and develop our own ESG policies.

9. Appendices

- Appendix 1 – Investments Overview
- Appendix 2 – Counterparty List with Current Investments
- Appendix 3 – Debt Overview
- Appendix 4 – Interest Rate Forecasts and PWLB Rates
- Appendix 5 – Prudential and Treasury Indicators
- Appendix 6 – Treasury Risks
- Appendix 7 – Glossary

REPORT ENDS

Appendix 1: Investments Overview

1. The Council's minimum credit rating criteria as agreed by Council on 7 March 2022 are shown below (these are similar to the 21/22 limits, the difference includes increased cash limits agreed in May by the Executive Director Corporate Services in order to accommodate higher investment balances following the NLWA's borrowing in February of £250m). The approved Treasury Management Strategy retains the maximum investment period of 12 months for banks and local authorities. Due to significant Government ownership NatWest is considered to have quasi-sovereign risk, not pure banking risk, and has a limit of £100m.

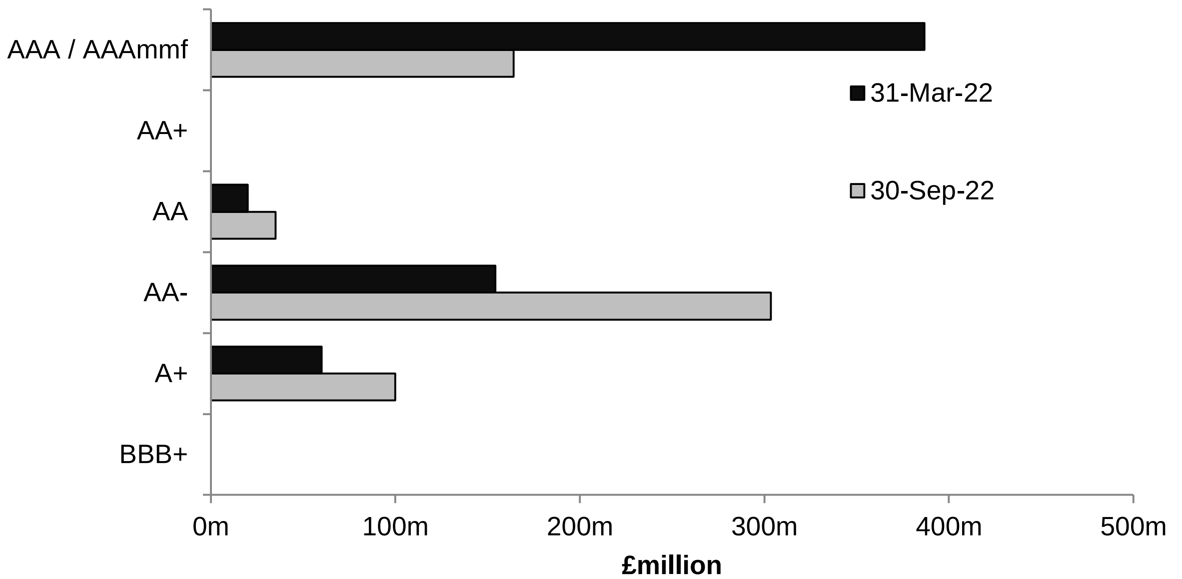
TABLE 1

Fitch		Moody's		S&P		Cash limit (£m)
Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	
AA-	F1+	Aa3	P-1	AA-	A-1+	£35m
AA	F1+	Aa2	P-1	AA	A-1+	£45m
AA+	F1+	Aa1	P-1	AA+	A-1+	£60m
AAA	F1+	Aaa	P-1	AAA	A-1+	£70m

2. The overall credit quality of the Council's investment balances at the end of the reporting period compared to the beginning of the half is shown in Table 2. In a rising interest rate environment, the Treasury function is investing surplus balances to gain a higher rate of return on investment, after prioritising security and liquidity.

3. The Council's exposure to NatWest Bank is £100m and is shown in the A+ bracket in Table 2.

TABLE 2: Investments by Credit Rating Agency Opinion (Fitch)

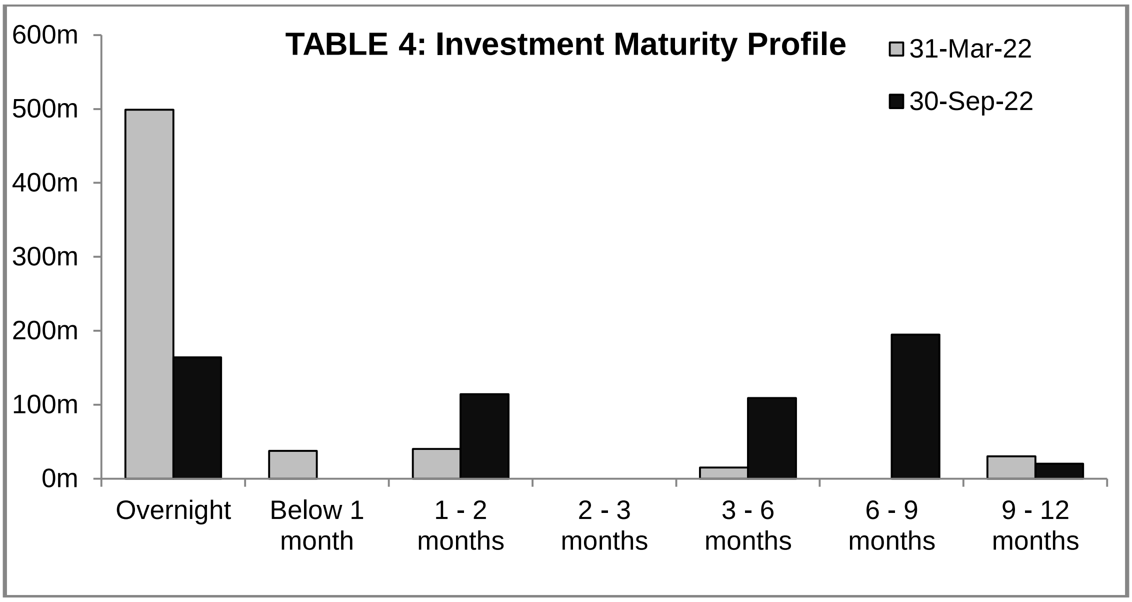


4. The geographical diversity of investments remains appropriately structured. Money Market Fund (MMF) investments are diversified amongst a much larger number of countries and accordingly this information is aggregated here.

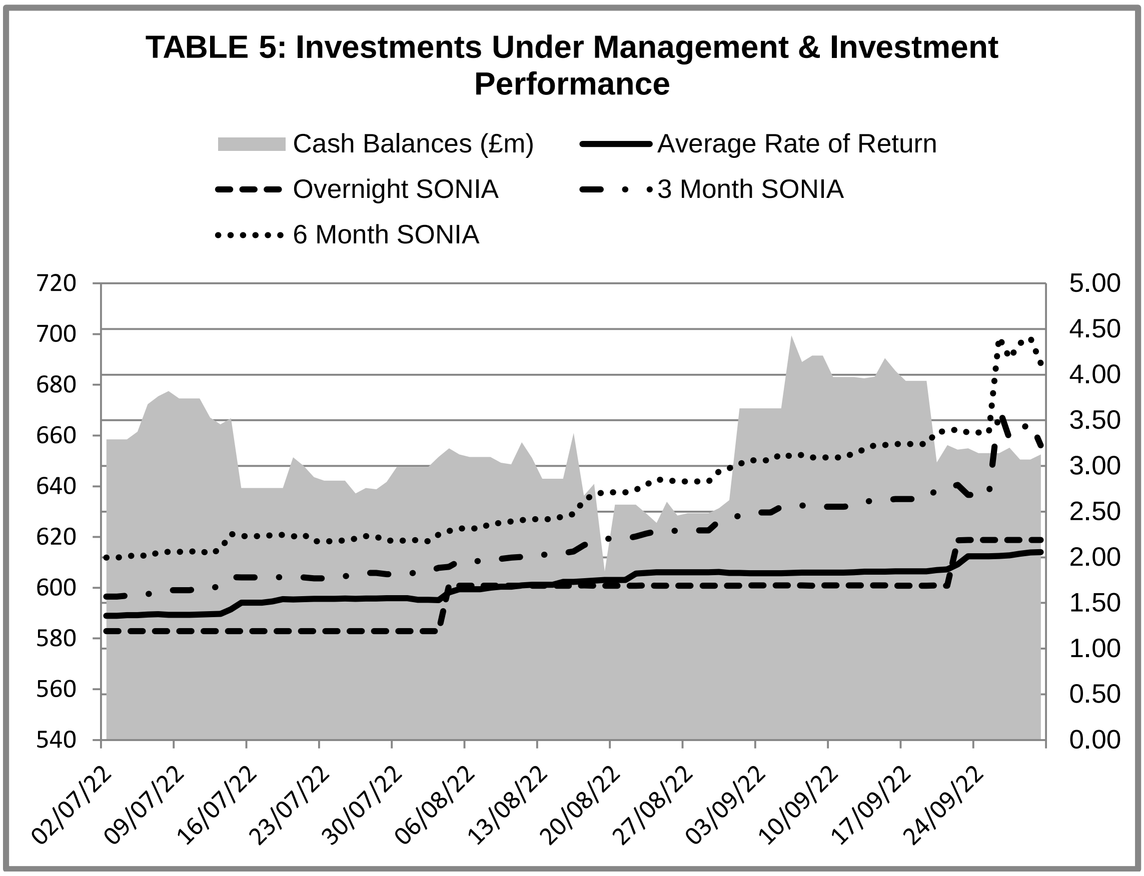
TABLE 3: GEOGRAPHICAL EXPOSURE

Domicile	31-Mar-22 £m		30-Sep-22 £m	
Australia	0	0%	0	0%
Canada	0	0%	55	9%
Germany	0	0%	0	0%
Singapore	20	3%	35	6%
Sweden	20	3%	35	6%
Finland	0	0%	35	6%
UK	194	31%	278	46%
MMF	387	62%	164	27%
Total	**621**	**100%**	**603**	**100%**

5. The maturity profile of investments under management during the reporting period is shown in Table 4. The Council retains adequate liquidity to service payment requirements as they fall due. Table 4 shows how overnight liquidity has decreased to £164m. This is due to the rising interest rate environment and the investment strategy which aims to invest surplus cash over and above liquidity requirements to capture higher interest rates.



6. Investments under management ranged from a minimum of £596m on 29 September 2022 to a maximum of £699m on 6 June 2022, averaging at £653m throughout the reporting period (£471m previously).



7. The overall rate of return on investment balances in the six months increased during the reporting period registering an average of 1.31% and ranging from a low of 0.55% to a peak of 2.06% by 30 September.

8. The overnight, 3 Month and 6 Month SONIA comparator rates increased over the first half of the year. The period saw positive interest rates on the comparators. 3 Month SONIA averaged 1.70% between April and September whilst 6 Month SONIA averaged at 2.11%. The weighted average duration of the Council's portfolio was approximately 122 days.

9. Money Market Funds (MMFs) continue to be used as an important instrument for managing short-term liquidity. Each MMF must invest in a diverse range of counterparties and assets to hedge against potential losses. The Committee should note that not all of the underlying assets in each MMF meet the Council's minimum credit rating criteria individually. However, because each fund uses extensive diversification and in-depth research as well as the fact that the Council can redeem its funds on the day, their use can be seen to be both a prudent and effective way of managing day-to-day cash flow requirements. Table 6 presents various key indicators for each of the funds for the reporting period.

10. The Council invests in three Money Market Funds (Aberdeen, JP Morgan and Goldman Sachs) which are all in the Low Volatility Net Asset Value (LVNAV) class. Money Market Fund Regulations restrict LVNAV funds from returning negative rates (currently returning 1.09%-1.14% after fees). If negative rates are a possibility, fund managers will either need to convert to accumulating share classes (ultimately 'decumulating' in value) and/or adjust their fees to avoid the need to change to this type of fund. An accumulating share class vehicle reinvests the income received back into the fund, as opposed to distributing the

returns back to the investor. It is unlikely that such changes to the structure of funds would be necessary because of expectations of interest rate increases. Since then, short term interest rates have increased and the risk of negative interest rates has dramatically receded.

11. If our funds had to change to an accumulating share class due to negative rates of interest, money market regulations would mean they could keep lower levels of cash available to return to investors and would also require a change to the Treasury Management Strategy to allow investment in these types of fund. Instead of requiring 30% of assets available for weekly liquidity, a Variable Net Asset Value (VNAV) accumulating share class requires 15% of weekly liquid assets. Our current MMFs have confirmed that any change to an accumulating asset class would mirror the liquidity and restrictions in place currently with LVNAV funds with no dilution to lower levels of liquidity that are permitted in the accumulating share classes.

Table 6: Money market Funds Summary

Indicator	Purpose	Goldman Sachs	Aberdeen	JP Morgan
Size of Fund (£m)	*The current size of the fund*	13,324	14,329	12,700
LB Camden (£m)	*The average size of the Council's investment throughout the reporting period*	110	111	111
LB Camden (%)	*Camden's investment as a proportion of the total fund*	0.83%	0.78%	0.87%
Weighted Average Maturity (days)	*A longer WAM entails a greater exposure to interest rate risk. Funds can maintain a maximum WAM of 60 days*	24	42	27
Weighted Average Life (days)	*The final maturity of the securities in the fund. Funds with a lower WAL should be less exposed to the possibility of default. Funds require a maximum WAL of 120 days*	30	58	53
1 Day Yield	*This is the average annualised rate of return for the reporting period*	1.14%	1.14%	1.09%
Weekly maturity	*The proportion of the funds assets maturing within a week. A proxy for assessing liquidity*	40.63%	39.21%	42.34%

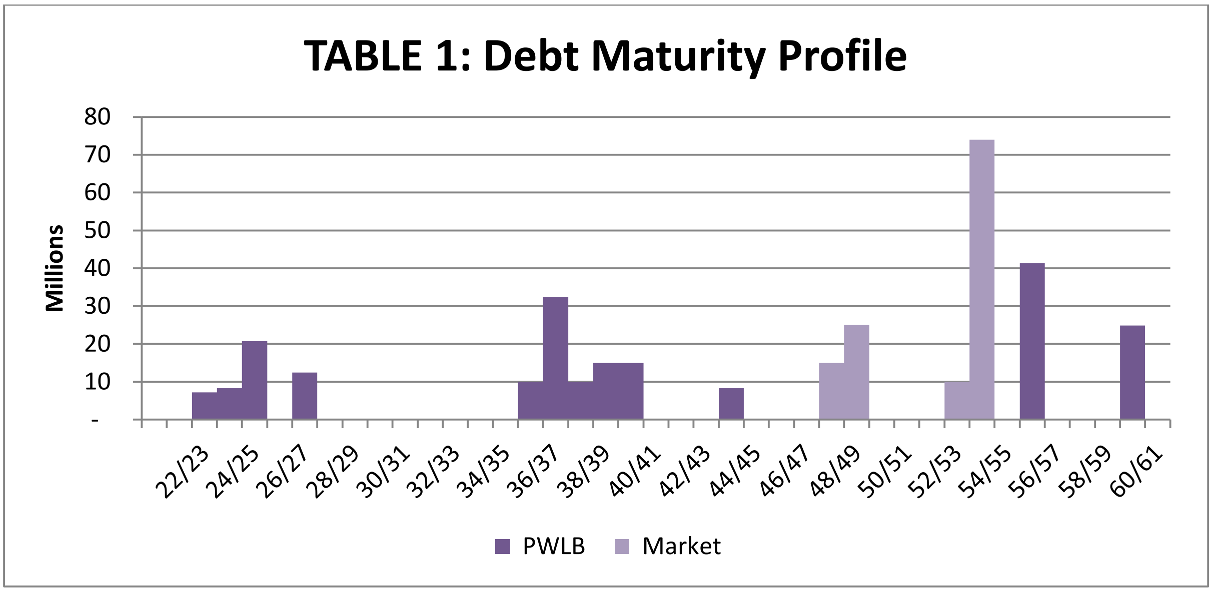
Appendix 2: Counterparty List with Current Investments

This counterparty list has been produced in accordance with the Treasury Management Strategy agreed by the Council on 7 March 2022 with further amendments including increased counterparty limits agreed by the Executive Director Corporate Services 11 May 2022.

Bank	**Country**	**Fitch**		**Moody's**		**S & P**		**mits**		**Invested**
		Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Duration (Months)	Amount (£m)	Amount (£m)
Royal Bank of Canada	Canada	AA-	F1+	Aa1	P-1	AA-	A-1+	12	35	20
Toronto-Dominion Bank	Canada	AA-	F1+	Aa1	P-1	AA-	A-1+	12	35	35
Nordea Bank Abp	Finland	AA-	F1+	Aa3	P-1	AA-	A-1+	12	35	35
Landwirtschaftliche Rentenbank	Germany	AAA	F1+	Aaa	P-1	AAA	A-1+	12	70	0
NRW.Bank	Germany	AAA	F1+	Aa1	P-1	AA	A-1+	12	45	0
European Investment Bank	Luxembourg	AAA	F1+	Aaa	P-1	AAA	A-1+	12	40	0
Bank Nederlandse Gemeenten	Netherlands	AAA	F1+	Aaa	P-1	AAA	A-1+	12	70	0
DBS Bank	Singapore	AA-	F1+	Aa1	P-1	AA-	A-1+	12	35	35
Oversea-Chinese Banking Corp	Singapore	AA-	F1+	Aa1	P-1	AA-	A-1+	12	35	0
First Abu Dhabi Bank	UAE	AA-	F1+	Aa3	P-1	AA-	A-1+	12	35	0
Svenska Handelsbanken	Sweden	AA	F1+	Aa2	P-1	AA-	A-1+	12	35	35
National Westminster Bank	UK	A+	F1	A1	P-1	A	A-1	12	100	100
Bank of New York Mellon	USA	AA	F1+	Aa1	P-1	AA-	A-1+	12	35	0
Others (UK Sovereign Rating)										
Debt Management Office - Including DMADF	UK	AA-		Aa3		AA		60	Unlimited	178
UK Local Authorities (per authority)	UK	AA-		Aa3		AA		60	40	0
Money Market Funds										
Aberdeen Sterling Liqudity Fund	AAAmmf	Aaa-mf		AAAm		60		150	56	AAAmmf
Goldman Sachs Sterling Liquid Reserve	AAAmmf	Aaa-mf		AAAm		60		150	54	AAAmmf
JPMorgan Sterling Liquidity Fund	AAAmmf			AAAm		60		150	54	AAAmmf

Appendix 3: Debt Overview

1. Table 1 shows the maturity profile of the Council's Public Works Loan Board and market debt. It is preferable to achieve a smooth maturity profile in order to avoid having to refinance maturing loans at a time when interest rates are high. Future debt payments (principal and interest) are repayable in the short term and debt servicing is affordable in the medium term. During the first half of the year there were no loans maturiting. The next loan repayment was due on 10 October 2022 and amounts to £7.2m.



2. Market loans are shown at their ultimate maturity dates. As previously reported, there is a risk that the £124m of LOBO loans may be 'called' in any one year. Officers, alongside our Treasury consultants, Link, are mindful of this risk and continue to monitor the probability of these being called. Link performed scenario testing using multiple simulations with future predictions for interest rates increasing by 0.5%. The results estimate that the cumulative call probability of a call by LOBO lenders will increase from circa 37% using current market expectations of interest rates to 49% when an additional 0.5% was added to future interest rate expectations over the life of the loans.

TABLE 2: Debt Portfolio as at 30 September 2022

Loan Ref.	Counterparty Name	Start date	Maturity date	HRA (£m)	General Fund (£m)	Total Debt
11111	FMS Wertmanagement	24-Mar-03	24-Mar-48	0.00	15.00	15.00
22222	FMS Wertmanagement	09-Apr-03	09-Apr-48	25.00	0.00	25.00
33333	FMS Wertmanagement	27-Feb-04	27-Feb-54	29.00	0.00	29.00
44444	Dexia Credit Local	27-Feb-04	27-Feb-54	25.00	0.00	25.00
55555	Dexia Credit Local	27-Feb-04	27-Feb-54	20.00	0.00	20.00
66666	FMS Wertmanagement	29-Mar-04	31-Mar-53	10.00	0.00	10.00
Total Market Debt				**109.00**	**15.00**	**124.00**
473571	PWLB	20-Sep-93	25-Sep-43	7.20	1.07	8.27
473875	PWLB	30-Nov-93	30-Nov-23	7.20	1.07	8.27
478129	PWLB	26-Sep-96	26-Sep-36	10.80	1.61	12.41
480058	PWLB	13-Oct-97	08-Oct-22	6.27	0.93	7.20
480908	PWLB	29-Apr-98	29-Apr-24	18.00	2.68	20.68
481162	PWLB	22-Jul-98	22-Jul-26	10.80	1.61	12.41
491048	PWLB	23-Jan-06	23-Jan-56	36.01	5.36	41.37
497213	PWLB	10-May-10	14-Nov-59	21.60	3.22	24.82
502037	PWLB	26-Mar-13	26-Sep-37	0.00	10.00	10.00
502038	PWLB	26-Mar-13	26-Sep-36	20.00	0.00	20.00
502040	PWLB	26-Mar-13	26-Sep-35	10.00	0.00	10.00
502041	PWLB	26-Mar-13	26-Sep-38	15.00	0.00	15.00
502042	PWLB	26-Mar-13	26-Sep-39	15.00	0.00	15.00
Total PWLB Debt				**177.89**	**27.55**	**205.44**
				286.89	**42.55**	
Total Debt						**329.44**

Appendix 4 Interest Rate Forecasts and PWLB Rates

1. Table 1 shows the latest interest rate forecasts for the Bank of England base rate and PWLB borrowing at major intervals. The Council's treasury consultants, Link, provided the forecasts. Link forecast rates to increase to 4.00% from December 2022, and then to 5.00% from March 2023, then decrease to 4.50% from December 2023 and 4.00% from March 2024.

2. Table 1 demonstrates that Link continues to expect PWLB borrowing rates to decrease at a gradual pace. The Council has been advised against borrowing, due to current high borrowing rates. The Council has a long-term borrowing need. However, as it has the capacity to borrow internally (offsetting debt required against lost investment income) for the medium term, any new external debt would incur a "cost of carry", which would offset the expected long-term savings.

3. Current interest rate forecasts expect gilt yields/PWLB rates to peak through the remainder of this year, before reducing on a gradual basis through 2023, 2024 and 2025. However, much will depend on market reaction to the Government's Autumn Statement, the continued impact of inflation and growth expectations on the economy and the continuing global factors that are impacting on fiscal policy.

TABLE 1: Link Asset Services Forecasts as at 27 September 2022

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

Appendix 5: Prudential and Treasury Indicators

Prudential Indicators as at 30 September 2022

	2022/23 Indicator £m	2022/23 Actual £m
Total Capital Financing Requirement	738	708
CFR – GF	165	117
CFR – HRA	573	591
Operational boundary for borrowing	738	329
Authorised limit for borrowing	938	329

	2022/23 Indicator £m	2022/23 Actual £m
Principal sums invest > 364 days	-74	0

	2022/23 Indicator £m	2022/23 Actual £m
Interest Rate Exposure		
Fixed rate based on net debt	841	-193
Variable rate based on net debt	247	124

	2022/23 Indicator £m		2022/23 Actual £m
Maturity structure of borrowing limits			
	Upper	Lower	
Under 12 months	20%	0%	2%
12 months to 2 years	20%	0%	9%
2 years to 5 years	25%	0%	4%
5 years to 10 years	50%	0%	0%
10 years to 20 years	50%	0%	25%
20 years to 30 years	50%	0%	15%
30 years to 40 years	50%	0%	46%
40 years to 50 years	50%	0%	0%

Appendix 6: Treasury Management Risks

Credit and counterparty risk - This is the risk that a borrower with whom the Council has invested defaults. The Council mitigates this risk by operating within a very strict lending list with regards to both counterparty and sovereign credit ratings. Camden invests with some of the safest banks in the world. We operate a stricter list than our treasury consultants recommend to local authorities in terms of both the length of time for which we invest and the minimum acceptable credit rating.

Liquidity risk – This is the risk that cash is not available when needed and ineffective management of liquidity creates additional unbudgeted costs. Officers maintain strong cash flow management with a track record for reporting errors in this forum. The Council has established lines of credit with our bankers, RBS and can borrow from other banks and other local authorities. Therefore, should the need arise to temporarily borrow, officers have the facility to effectively manage this.

Interest rate risk – Refers to the additional costs or loss of income that occur due to a disadvantageous change in rates. Officers manage this risk by operating diversified borrowing and investment portfolios. As part of the MTFS we have increased the interest rates budget. If changes to the timing of an interest rate hike occur, then this will impact on the Financial Strategy.

Exchange rate risk – Relates to an adverse change in exchange rates affecting the Council's returns or costs. The Council has limited exposure to foreign currency with the exception of a small handful of overseas companies with which we deal with and consequently this risk is very low.

Refinancing risk – This is the risk that the Council will need to refinance its debt at a time when rates are high. Although the Council has £124m of callable market debt in the form of LOBOs, the probability of these being called is judged to be very low by our treasury consultant. Additionally, the Council is currently pursuing an internal borrowing strategy whilst investment rates remain historically very low, which reduces the cost of carrying comparatively expensive debt.

Legal and Regulatory Risk – This is the risk that the organisation acts *ultra vires* or otherwise breaches legal or regulatory requirements. The Council deals in a number of instruments such as vanilla term deals, Certificates of Deposit, Money Market Funds and Treasury Bills. Officers operate with due professional diligence and are trained and equipped with the knowledge to deal with these instruments. Officers also seek legal advice when necessary and have the benefits of the council's treasury consultants, Link.

Fraud, Error, Corruption and Contingency Management – The function has good controls in place, including an appropriate segregation of duties between officers originating, authorising, inputting and executing payments. Additionally, there as an annual internal audit every year. Officers complete compliance reports in the case of errors to learn lessons and business continuity is maintained with the facility to deal remotely and access systems remotely. There is a healthy contingent of suitability trained officers to provide cover in the absence of the main dealer and authoriser.

Appendix 7: Glossary of key terms discussed in report

Base Rate
Minimum lending rate of a bank or financial institution in the UK.

Capital Financing Requirement (CFR)
The underlying need to borrow for capital purposes derived from the Council's balance sheet. It is arrived at by taking the value of fixed assets and deducting capital reserves. The CFR indicates the Council's underlying need to borrow, although reserves and working balances may mean that this amount of borrowing is not immediately required.

Consumer Price Index (CPI)
This is a measure of inflation and is calculated by comparing prices of a set basket of goods and services as bought by a typical consumer, at regular intervals over time. CPI covers some items that are not in the RPI, such as unit trust and stockbrokers' fees, university accommodation fees and foreign students' university tuition fees, and excludes other housing costs and mortgage interest payments. It is the index used by the Bank of England.

Capital (Banks)
A bank's balance sheet consists of two sides with assets on one side "balanced" against liabilities and capital on the other. Assets represent everything the bank owns (e.g. mortgages it has sold to customers or loans it has advanced to businesses). The other side of the balance sheet represents how the bank has paid for its assets and is made up of a combination of liabilities and capital. Liabilities are resources which the bank has temporarily borrowed in order to buy assets and it will ultimately have to pay these sums back to its creditors. This category includes customers' current account deposits and savings as well as the much larger sums of money that the Council invests with banks. The remaining amount represents the bank's capital and is comprised of the money the bank's owners (or shareholders) have put into the bank as well as any reserves the bank has set aside in the past (e.g. retained earnings). If the bank makes a loss on any of its assets, it will first recognise the loss in its capital reserves before resorting to defaulting on the repayment of its liabilities.

Therefore, when the Council decides with whom it should invest, it should be concerned with how much capital that entity has to absorb any unexpected losses before the Council's investment is jeopardised.

Banks are required to maintain a certain amount of capital by financial regulators (e.g. the Prudential Regulation Authority in the UK). This requirement is usually expressed as a "capital adequacy ratio" with capital expressed as a percentage of assets. A particularly useful ratio is the "Common Equity Tier 1" ratio which all banks must report in accordance with an international banking agreement known as Basel III. The Common Equity Tier 1 ratio measures a bank's top grade capital against risk-weighted assets. Risk-weighting means that the bank can discount assets which are judged to be less dangerous (e.g. government debt) when it calculates its capital adequacy ratio.

Credit Default Swap (CDS)
An insurance that can be bought on a bank's probability of defaulting. The buyer of a credit swap receives credit protection whilst paying a premium for this, whereas the seller of the swap guarantees the credit worthiness of the product in return for receiving a payment. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.

Credit Rating
An evaluation made by a credit rating agency of a bank's likelihood of default.

Counterparty
The other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to go through. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

Debt Management Office (DMO)
A Treasury agency which is responsible for issuing government bonds (gilts) and lending to local authorities.

European Central Bank (ECB)
Sets the central interest rates in the European Monetary Union (EMU) area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation below but close to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.

Fitch
Along with Moody's and Standard & Poor's, Fitch is one of the top three credit rating agencies. Its rating system is very similar to S&P's in that they both use a letter system.

Gilts
Bonds that are issued by the British government and generally considered very low risk.

Gross Domestic Product (GDP)
The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis.

International Monetary Fund (IMF)
The IMF plays three major roles in the global monetary system. The Fund surveys and monitors economic and financial developments, lends funds to countries with balance-of-payment difficulties, and provides technical assistance and training for countries requesting it.

Inflation
The rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling. Central banks attempt to stop severe inflation, along with severe deflation, in an attempt to keep the excessive growth of prices to a minimum.

LIBID
London Interbank Bid Rate - the average interest rate which major London banks borrow deposits from other banks. Unlike LIBOR (London Interbank Offered Rate), which is determined by the average interest rate which banks are willing to lend deposits, LIBID refers to the rate which banks bid to borrow and represents a good indicator of the rate the Council can earn interest on its investments.

LOBOs
Lenders Option Borrowers Option – a market loan in which the lender has an option periodically (e.g. semi-annually) to raise the interest rate and the borrower has the option to either accept the new interest rate or repay the loan.

LVNAV
Low Volatility Net Asset Value" (LVNAV) is a type of money market fund. The value of the fund remains constant (usually at £1) as long as the underlying value of the assets per unit do not deviate by more than 0.2% from £1.

Money Market Fund (MMF)
A well rated, highly diversified pooled investment vehicle whose assets mainly comprise short term (less than one year) investments representing high-quality, liquid debt and monetary instruments.

Monetary Policy Committee (MPC)
A Bank of England committee that sets the Bank Rate (commonly referred to as the base rate). Its primary target is to keep inflation within plus or minus 1% of a central target of 2% in two years' time from the date of the monthly meeting of the Committee. Its secondary target is to support the Government in maintaining high and stable levels of growth and employment.

OECD
The Organisation for Economic Co-operation and Development is an intergovernmental economic organisation with 37 member countries, founded in 1961 to stimulate economic progress and world trade.

Public Works Loans Board (PWLB)
A statutory body operating within the DMO and is responsible for lending money to local authorities and other prescribed bodies.

SONIA (Sterling Overnight Index Average)

It is based on actuals and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. As it's based on actuals, going forward there will be one rate to use, as there is no bid/offer spread which determined the difference between LIBOR (offer) and LIBID (bid).

VNAV
A Variable Net Asset Value, refers to funds which are valued by reference to the market value of the underlying assets. Not all assets may have a quoted market price and are valued using normal accounting principles authorities and other prescribed bodies.

PMI
The Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors. The purpose of the PMI is to provide information about current and future business conditions.

Sovereign Credit Rating
An evaluation of the level of risk associated with investing in a given country. Credit rating agencies consider the political and economic environment in order to generate a rating.

Term Deposit
A deposit held in a financial institution for a fixed term at a fixed rate

Treasury Bills (T Bills)
Short term debt instruments issued by the UK or other governments. They operate like gilts (government bonds) but are shorter than one year in length.