

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 18 July 2024
<p>SUMMARY OF REPORT</p> <p>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 October 2023 and March 2024 and presents the debt and investment portfolios as at 31 March 2024.</p> <p>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 £413m (this includes £107m of NLWA investments and £306m of Council investments). There is an additional €164m relating to the NLWA held for their Euro project commitments). Debt stands at £314m (Housing Revenue Account – HRA - and General Fund only). The report also updates on external factors that can affect the future financial plans of the Council and these balances.</p> <p>Local Government Act 1972 – Access to Information No documents which are required to be listed were used in the preparation of this report.</p> <p>Contact Officer: Nigel Mascarenhas Head of Treasury and Financial Services Corporate Services Dennis Geffen Annexe Camley Street London. N1C 4DG.</p> <p>Telephone: 020 7974 1904 Email: Nigel.Mascarenhas@camden.gov.uk</p>	
RECOMMENDATION	
The Committee is asked to note the report.	

Signed: Daniel Omisore

Date: 8 July 2024

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 activities.
- 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 (these include changes in capital strategy, prudential indicators and investment reporting). The Council continues to follow the principles within these codes 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.
 - The NLWA has been borrowing to Fund its Heat and Power Project and as at the end of March 2024 balances held by the council and co-invested alongside Council investment balances were £107m.
 - 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. Given the outlook for interest rates 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.

- 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
<p>Inflation – <i>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).</i></p>	<p>The Consumer Prices Index rose by 2.8% in the 12 months to May 2024, down from 3.0% in the 12 months to April.</p> <p>The Consumer Prices Index (CPI) rose by 2.0% in the 12 months to May 2024, down from 2.3% in the 12 months to April.</p> <p>The largest downward contribution to the CPI annual rates came from food, with prices falling this year but rising a year ago; the largest upward contribution came from motor fuels, with prices rising slightly this year but falling a year ago.</p> <p>CPI inflation is projected to return to the 2% target by 2025 Q2 and to be 1.7% at the two-year horizon and 1.5% in three years.</p>
<p>UK Gross Domestic Product (GDP) – <i>the health of the domestic economy reflects the strength of the outlook for banks we invest with as well as prospects for interest earned on our portfolio.</i></p>	<p>Monthly real gross domestic product (GDP) is estimated to have shown no growth in April 2024, following growth of 0.4% in March 2024.</p> <p>Real gross domestic product is estimated to have grown by 0.7% in the three months to April 2024 compared with the three months to January 2024.</p> <p>Services output grew by 0.2% in April 2024, its fourth consecutive monthly growth, and also grew by 0.9% in the three months to April 2024.</p> <p>Production output fell by 0.9% in April 2024 following growth of 0.2% in March 2024, but grew by 0.7% in the three months to April 2024.</p>

Indicator	Developments in Reporting Period
	<p>Construction output fell by 1.4% in April 2024, its third consecutive monthly fall, and fell by 2.2% in the three months to April 2024.</p>
<p>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.</p>	<p>According to the IMF, the baseline forecast is for the world economy to continue growing at 3.2% during 2024 and 2025, at the same pace as in 2023.</p> <p>A slight acceleration for advanced economies where growth is expected to rise from 1.6% in 2023 to 1.7% in 2024 and 1.8% in 2025, will be offset by a modest slowdown in emerging market and developing economies from 4.3% in 2023 to 4.2% in both 2024 and 2025.</p> <p>The forecast for global growth five years from now at 3.1% is at its lowest in decades. Global inflation is forecast to decline steadily, from 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025, with advanced economies returning to their inflation targets sooner than emerging market and developing economies.</p> <p>The latest IMF forecasts for 2024 (dated April 2024) for major countries and trade blocks are as shown below:</p> <ul style="list-style-type: none"> • The US: growth of 2.5% in 2023 and 2.7% in 2024 • Eurozone: growth of 0.4% in 2023 and 0.8% in 2024 • UK growth of 0.1% in 2023 and 0.5% in 2024 • China: growth of 5.2% in 2023 and 4.6% in 2024
<p>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.</p>	<p>The benchmark iTraxx Senior Financials Index combines the price for CDS instruments for 25 European banks. As of March 2024, the itraxx was 52.25. The index indicates market views on the safety of Financial entities. The readings for the banks on the Council’s counterparty list remain within the normal ranges.</p>
<p>Financial Markets –</p>	<p>The Fed (Federal Reserve) decided to maintain the target range for rates at 5.25-5.50% in June 2024.</p>

Indicator	Developments in Reporting Period
<i>Changes in the prices of financial assets (e.g. shares) are indicative of investor sentiment generally.</i>	<p>Policymakers do not expect it will be appropriate to reduce rates until they gained greater confidence that inflation is moving sustainably toward 2%.</p> <p>The ECB decided to lower the three key ECB interest rates by 25 basis points. Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will be decreased to 4.25%, 4.50% and 3.75% respectively, with effect from 12 June 2024.</p>

- 2.2. An illustration of the main risks managed by the treasury management function is presented in Appendix 7.

Interest Rate Forecasts

- 2.3. The Consumer Prices Index rose by 2.8% in the 12 months to May 2024, down from 3.0% in the 12 months to April.
- 2.4. The Bank of England's MPC decided to keep the rate unchanged at 5.25% on 20 June 2024. The MPC voted by a majority of 7-2 to maintain Bank Rate at 5.25%, with two members voting to reduce the Bank Rate to 5%.
- 2.5. CPI inflation is projected to fall to slightly below the 2% target in 2024 Q2, marginally weaker than previously expected owing to the freeze in fuel duty announced in the Budget.

3. Investments and cash management

- 3.1. The Treasury Management Strategy (TMS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 28 February 2024 and sets out the Council's investment priorities as being
- security of capital
 - liquidity
 - yield
- 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 investment 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 matured on 30 November 2023 valued at £8.3m. 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 31 March 2024 is included in Appendix 2 alongside the current approved banks forming our lending list. The total amount invested as at 31 March 2024 was £413m.

- 3.5. The Council's banker, NatWest Bank, is a ring-fenced bank with the Royal Bank of Scotland Group (RBS). To maintain financial stability at the height of the financial crisis, the UK government became the majority shareholder of RBS owning a total economic ownership of 84.4%. Since 2015, the government began the process of selling shares back to the private sector. Given the Government's significant holding of 23% 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. The Government recently announced the sale of £1.24bn worth of shares in NatWest in May with ownership set to decrease over the coming years. The plans for a mass sale this summer of NatWest shares was postponed after the General Election was called.
- 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 balance at NatWest during the reporting period was £484k.
- 3.7. On 34 occasions during the six month period overnight deposits exceeded £500k. There were no material overdrafts (>£100k) during the reporting period.
- 3.8. 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 31 March there was £107m invested on behalf of the NLWA within the investment portfolio.
- 3.9. 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. €164m due to euro contractual payments. Euro Money market funds were specifically used to ensure no currency fluctuations with their euro payment exposure.
- 3.10. The NLWA borrowed £250m in February 2022 to cover their procurement for the new ERF. This was to finance sterling capital expenditure. In January 2023 they borrowed an additional £200m. These monies have been invested alongside the council's investment balances, with the current NLWA balance of £107m within the investment portfolio. Investment limits were increased in a report to the Executive Director Corporate Services on 11 May 2022 and then again on 17 January to accommodate higher investment balances and to ensure a suitable diversification and spread of risk. 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 year the Council undertook no new borrowing or debt rescheduling. One loan matured in 2023/24 of £8.3m on 30 November 2023 at a rate of 7.5% and so debt as at 31 March 2024 was £314m. One loan matured after the reporting period in 2024/25 of £20.7m on

29 April 2024. This loan had an interest rate of 5.6% and was taken out in April 1998.

- 4.2. The Council continues to use internal borrowing as part of its borrowing strategy and was under-borrowed by £322m at the end of 31 March 2024. This means that rather than taking on new external debt to meet the council's borrowing requirements of £636m, 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 (or expected future cost of borrowing) is higher than the returns available on investment and so on a net basis reduces interest payable on external debt.
- 4.4. In accordance with the internal borrowing approach adopted, the Council did not take on any new debt during the year. The Council could have decided to borrow at rates (currently offered at 5.29% for 50-year loans) to meet some of its outstanding borrowing requirement. However, as the Council has no immediate need for external borrowing and can use cash balances, this would have resulted in a 'cost of carry' of £533k (i.e. the difference between new borrowing rates and investment rates on re-invested cash not immediately required) which would be a real revenue cost to the Council. Appendix 4 presents the current and forecast PWLB rates.
- 4.5. The Council could choose to repay any of its PWLB loans early. The total PWLB loans the Council had stood at £190m as at 31 March. The early repayment of PWLB loans is based on repayment of interest to the end of the loan calculated in today's money (discounted) and stands at a premia of £1.4m. Given the Council's ongoing need to borrow rescheduling cheap debt is not something that is being considered.
- 4.6. The Council is using a local climate bond in the form of a Community Municipal Investment (CMI). Launched on 29 June 2022 at a value of £1m and a rate of 1.75%. 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.

Public Works Loan Board

- 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 1% in 2010 and then lowered it to +0.8% above 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 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. 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. As part of the Spring Budget in 2023 the Government introduced a new discounted PWLB rate from 1 June to support local authorities with Housing and the provision of social housing. These HRA concessionary loans are available at Gilts + 0.4% (a 0.4% discount to usual lending).
- 4.12. Movement in PWLB rates are determined by Gilt yields. In 2024, gilt yields have been on an upward trend. The longer inflation and interest rates remain high, the more gilt yields are likely to rise resulting in increased borrowing costs.
- 4.13. Gilt yields peaked in September 2022 under the Truss/Kwarteng government before falling as markets stabilised under the Sunak/Hunt government post November Autumn Statement.
- 4.14. More recently UK interest rates have been left unchanged. Interest rates were held at 5.25%. In the United States and the euro area, inflationary pressures have continued to abate, though by slightly less than expected. Material risks remain, notably from developments in the Middle East including disruption to shipping through the Red Sea.
- 4.15. The market expects volatility in bond yields will endure as investors fear inflation and/or a recession. The overall longer-run trend is for gilt yields and PWLB rates to remain high and then fall once inflation starts to drop.

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 deposits, and with a diverse range of market approaches to ESG classification and analysis a consistent approach to ESG is currently difficult for public service organisations. 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 – Camden and NLWA

Appendix 7 – Treasury Risks

Appendix 8 – Glossary

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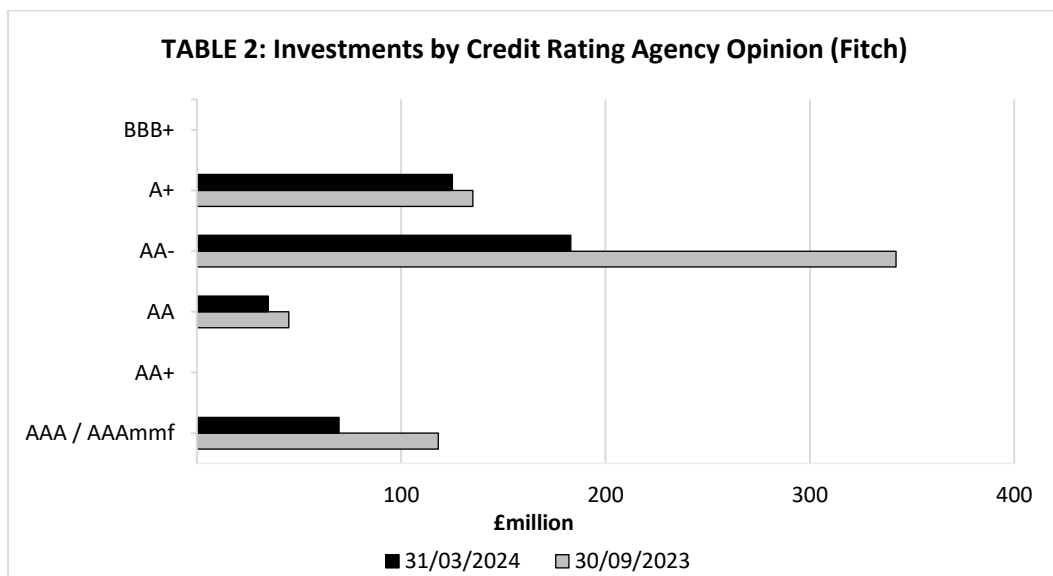
Appendix 1: Investments Overview

- The Council's minimum credit rating criteria as agreed by Council on 28 February 2024 are shown below (includes increased cash limits agreed in January 2023 by the Executive Director Corporate Services in order to accommodate higher investment balances following the NLWA's borrowing in January 2023 of £200m). The approved Treasury Management Strategy includes the maximum investment period of 2 years 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 £135m.

TABLE 1 Credit Rating Criteria

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+	£45m
AA	F1+	Aa2	P-1	AA	A-1+	£60m
AA+	F1+	Aa1	P-1	AA+	A-1+	£80m
AAA	F1+	Aaa	P-1	AAA	A-1+	£95m

- 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 high interest rate environment, the Treasury function is investing surplus balances to gain a higher rate of return on investment, after prioritising security and liquidity.
- The Council's exposure to NatWest Bank is £135m and is shown in the A+ bracket in Table 2.

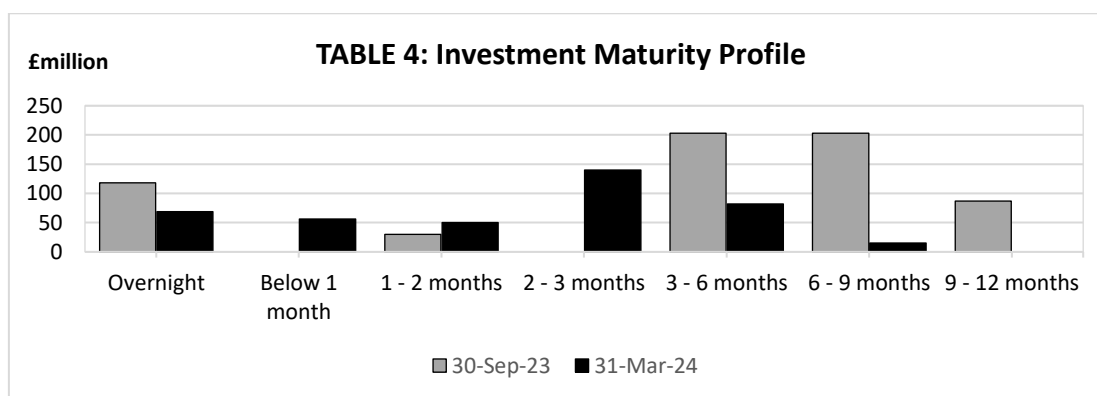


4. The geographical diversity of investments remains appropriately structured. Money Market Fund (MMF) investments are diversified amongst a much larger number of countries and accordingly this information is aggregated here.

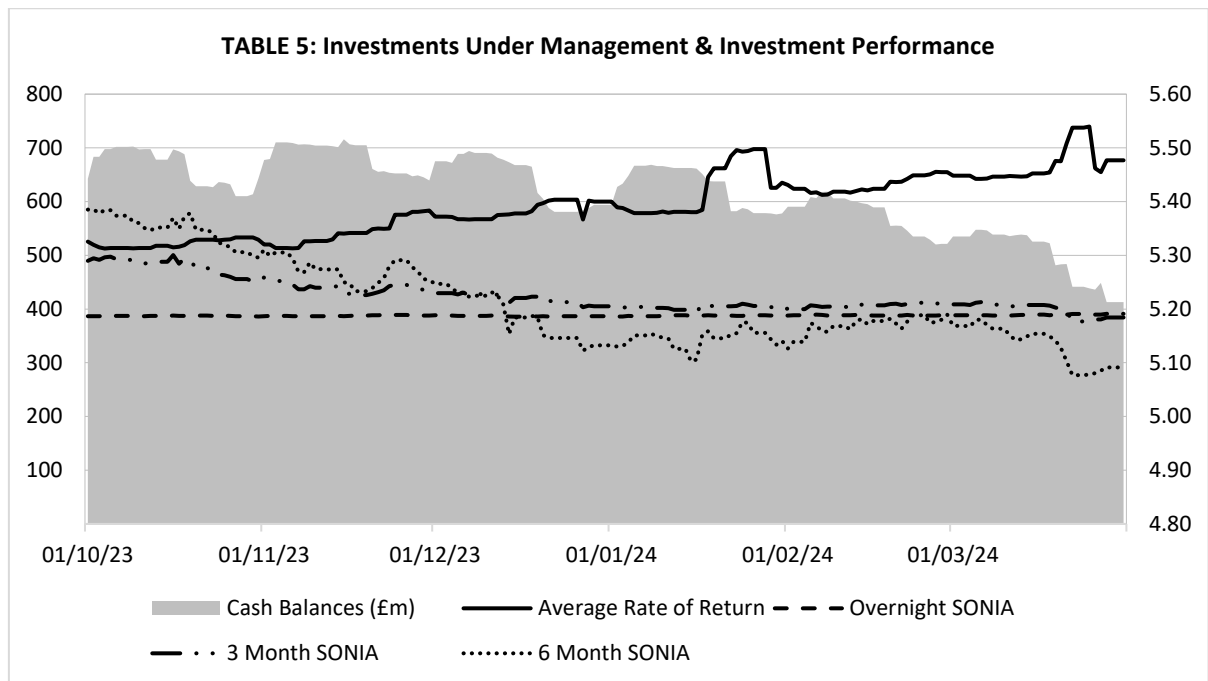
TABLE 3: GEOGRAPHICAL EXPOSURE

Domicile	30-Sep-23		31-Mar-24	
	£m	%	£m	%
Australia	0	0%	0	0
Canada	90	14%	60	15
Germany	0	0%	0	0
Singapore	65	10%	60	15
Sweden	45	7%	35	8
Finland	45	7%	18	4
UAE	45	7%	45	11
UK	232	36%	125	30
MMF	118	18%	70	17
Total	640	100%	413	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 £69m. As year end approached the Treasury function reacted to reducing overnight cash balances by selling £57m certificates of deposit to ensure the Council remained liquid and could support day to day activity. This ensured the Council did not need to borrow short term. Indications are many Councils were forced to borrow at punitive rates to tide them over this the year-end period.



6. Investments under management ranged from a minimum of £413m in March 2024 to a maximum of £716m in November 2023, averaging at £615m throughout the reporting period.



7. The overall rate of return on investment balances in the six months increased during the reporting period registering an average of 5.39% and ranging from a low of 5.31% to a peak of 5.54% in March 2024.
8. The second half of the year saw positive interest rates on the overnight, 3 Month and 6 Month SONIA comparators. 3 Month SONIA averaged 5.22% between October 2023 and March 2024 whilst 6 Month SONIA averaged at 5.21%.
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 sterling 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 positive rates in excess of 5.1%).

Table 6: Money market Funds Summary

Indicator	Purpose	Goldman Sachs	Aberdeen	JP Morgan
Size of each MMF	<i>The current size of the fund</i>	£12.7bn	£15.1bn	£14.9bn
Average Camden investment in each MMF	<i>The average size of the Council's investment throughout the reporting period</i>	£38m	£39m	£39m
Camden (%)	<i>Camden's investment as a proportion of the total fund</i>	0.30%	0.29%	0.28%
Weighted average maturity (days)	<i>A longer WAM entails a greater exposure to interest rate risk. Funds can maintain a maximum WAM of 60 days</i>	48	40	40
Weighted average life (days)	<i>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</i>	49	56	56
1 day yield	<i>This is the average annualised rate of return for the reporting period</i>	5.17%	5.24%	5.19%
Weekly maturity	<i>The proportion of the funds assets maturing within a week. A proxy for assessing liquidity</i>	50.00%	38.15%	52.53%

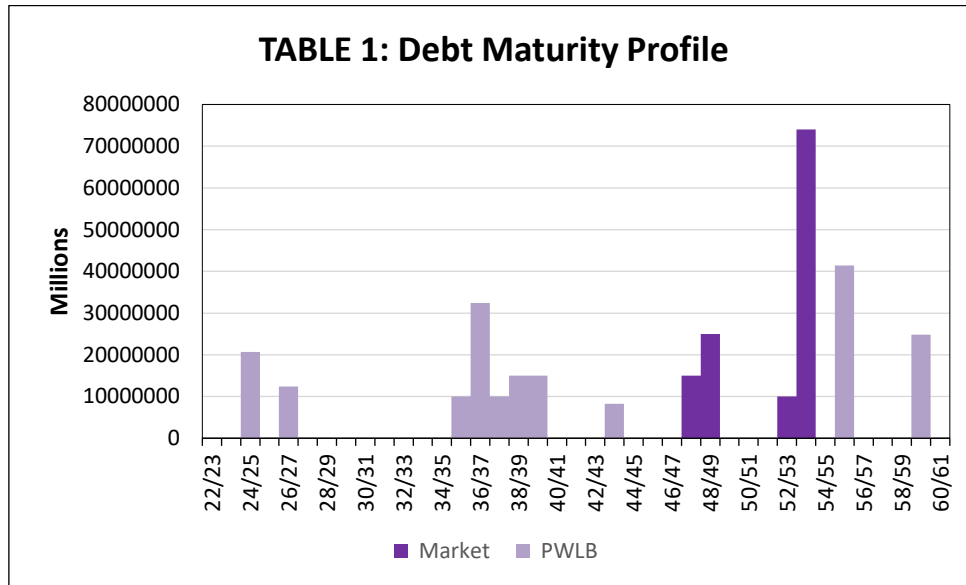
Appendix 2: Counterparty List with Current Investments

This counterparty list has been produced in accordance with the Treasury Management Strategy agreed by the Council on 28 February 2024 with further amendments including increased counterparty limits agreed by the Executive Director Corporate Services on 17 January 2023.

Bank	Country	Fitch		Moody's		S & P		Duration limit (Months)	Cash Limit	Invested at 31 March 2024
		Long Term	Short Term	Long Term	Short Term	Long Term	Short Term			
Royal Bank of Canada	Canada	AA-	F1+	Aa1	P-1	AA-	A-1+	12	£45m	£25m
Toronto-Dominion Bank	Canada	AA-	F1+	Aa1	P-1	AA-	A-1+	12	£45m	£35m
Nordea Bank Abp	Finland	AA-	F1+	Aa3	P-1	AA-	A-1+	12	£45m	£18m
Landwirtschaftliche Rentenbank	Germany	AAA	F1+	Aaa	P-1	AAA	A-1+	12	£95m	£0m
NRW.BANK	Germany	AAA	F1+	Aa1	P-1	AA	A-1+	12	£60m	£0m
European Investment Bank	Luxembourg	AAA	F1+	Aaa	P-1	AAA	A-1+	12	£200m	£0m
Bank Nederlandse Gemeenten N.V.	Netherlands	AAA	F1+	Aaa	P-1	AAA	A-1+	12	£95m	£0m
DBS Bank Ltd.	Singapore	AA-	F1+	Aa1	P-1	AA-	A-1+	12	£45m	£15m
Oversea-Chinese Banking Corp. Ltd.	Singapore	AA-	F1+	Aa1	P-1	AA-	A-1+	12	£45m	£0m
First Abu Dhabi Bank PJSC	United Arab Emirates	AA-	F1+	Aa3	P-1	AA-	A-1+	12	£45m	£45m
Svenska Handelsbanken AB	Sweden	AA	F1+	Aa2	P-1	AA-	A-1+	12	£45m	£35m
National Westminster Bank PLC	UK	A+	F1	A1	P-1	A+	A-1	12	£135m	£125m
Bank of New York Mellon, The	USA	AA	F1+	Aa1	P-1	AA-	A-1+	12	£45m	£0m
United Overseas Bank Ltd	Singapore	AA-	F1+	Aa1	P-1	AA-	A-1+	12	£45m	£45m
Others (UK Sovereign Rating)										
Debt Management Office (UK Sovereign Rating) - Including DMADF	UK	AA-		Aa3		AA		60	Unlimited	£0m
UK Local Authorities (UK Sovereign Rating)	UK	AA-		Aa3		AA		60	40 (per authority)	£0m
Money Market Funds										
Aberdeen Sterling Liquidity Fund	n/a	AAAmmf		Aaa-mf		AAAm		60	£150m	£22m
Goldman Sachs Sterling Liquid Reserves	n/a	AAAmmf		Aaa-mf		AAAm		60	£150m	£22m
JPMorgan Sterling Liquidity Fund	n/a	AAAmmf				AAAm		60	£150m	£25m

Appendix 3: Debt Overview

- 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. A loan was repaid on 30 November 2023 and amounted to £8.3m.



- Market loans are shown at their ultimate maturity dates. Although it is not estimated that these loans will be called over their lifetime, the Council keeps the loans under review and will negotiate a rescheduling when and if market conditions allow. Scenario testing carried out by the Council's treasury consultants, Link Asset Services, indicates that the cumulative call probability of a call by LOBO lenders will increase from circa 35-45% using current market expectations of interest rates to 40-55% when an additional 0.5% was added to future interest rate expectations over the life of the loans.

TABLE 2: Debt Portfolio as at 31 March 2024

Loan Ref.	Counterparty Name	Start date	Maturity date	HRA (£m)	General Fund (£m)	Total Debt	Rates
11111	FMS Wertmanagement	24-Mar-03	24-Mar-48	£0m	£15m	£15m	4.65%
22222	FMS Wertmanagement	09-Apr-03	09-Apr-48	£25m	£0m	£25m	4.65%
33333	FMS Wertmanagement	27-Feb-04	27-Feb-54	£29m	£0m	£29m	4.625%
44444	Dexia Credit Local	27-Feb-04	27-Feb-54	£25m	£0m	£25m	4.625%
55555	Dexia Credit Local	27-Feb-04	27-Feb-54	£20m	£0m	£20m	4.625%
66666	FMS Wertmanagement	29-Mar-04	31-Mar-53	£10m	£0m	£10m	4.62%
Total Market Debt				£109m	£15m	£124m	
473571	PWLB	20-Sep-93	25-Sep-43	£7m	£1m	£8m	7.875%
478129	PWLB	26-Sep-96	26-Sep-36	£11m	£2m	£12m	8.125%
480908	PWLB	29-Apr-98	29-Apr-24	£18m	£3m	£21m	5.625%
481162	PWLB	22-Jul-98	22-Jul-26	£11m	£2m	£12m	5.50%
491048	PWLB	23-Jan-06	23-Jan-56	£36m	£5m	£41m	3.70%
497213	PWLB	10-May-10	14-Nov-59	£22m	£3m	£25m	4.48%
502037	PWLB	26-Mar-13	26-Sep-37	£0m	£10m	£10m	3.92%
502038	PWLB	26-Mar-13	26-Sep-36	£20m	£0m	£20m	3.89%
502040	PWLB	26-Mar-13	26-Sep-35	£10m	£0m	£10m	3.85%
502041	PWLB	26-Mar-13	26-Sep-38	£15m	£0m	£15m	3.95%
502042	PWLB	26-Mar-13	26-Sep-39	£15m	£0m	£15m	3.97%
Total PWLB Debt				£164m	£26m	£190m	
				£273m	£41m		
Total Debt						£314m	

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 stay the same at 5.25% from June 2024 and then decrease to 5.0% from September 2024 ending the year at 4.5%.
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 be locked in at high interest rates which are expected to fall in the short to medium term.
3. The overall longer-run trend is for gilt yields and PWLB rates to remain high and then fall once inflation starts to drop.

TABLE 1: Link Asset Services Forecasts as at 28 May 2024

Link Group Interest Rate View	28.05.24											
	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

Appendix 5: Prudential and Treasury Indicators

Prudential Indicators as at 31 March 2024

	2023/24 Indicator	2023/24 Actual
Total Capital Financing Requirement	£739m	£636m
CFR - GF	£121m	£110m
CFR - HRA	£618m	£526m
Operational boundary for borrowing	£739m	£636m
Authorised limit for borrowing	£839m	£736m

	2023/24 Indicator £m	2023/24 Actual £m
Principal sums invest > 364 days	2	4

	2023/24 Indicator £m	2023/24 Actual £m
Interest Rate Exposure		
Fixed rate based on net debt	743	641
Variable rate based on net debt	269	269

	2023/24 Indicator £m		2023/24 Actual £m
Maturity structure of borrowing limits			
	Upper	Lower	
Under 12 months	20%	0%	7%
12 months to 2 years	20%	0%	0%
2 years to 5 years	25%	0%	4%
5 years to 10 years	50%	0%	21%
10 years to 20 years	50%	0%	20%
20 years to 30 years	50%	0%	40%
30 years to 40 years	50%	0%	8%
40 years to 50 years	50%	0%	0%

Appendix 6: Camden and NLWA

As at 31 March 2024

	Camden	NLWA	Total
Long-Term Loans			
PWLB	£190m		
CMI	£1m		
Rest of the World	£124m		
Total	£315m		
Internally Managed Investments			
Banks in UK	£93m	£32m	£125m
DMADF	£0m	£0m	£0m
Rest of the World	£161m	£57m	£218m
HM Treasury Bills	£0m	£0m	£0m
Total	£254m	£89m	£343m
Externally Managed Investments			
MMF	£52m	£18m	£70m
Total	£52m	£18m	£70m
Total Investments	£305m	£107m	£413m

Appendix 7: 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, NatWest, 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 is 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 suitably trained officers to provide cover in the absence of the main dealer and authoriser.

Appendix 8: 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.