APPENDIX 1

MAYOR AND CABINET			
Report Title	**Treasury Management Mid-year Review Report 2014/15**		
Key Decision	No		Item No:
Ward	All		
Contributors	**Executive Director for Resources & Regeneration**		
Class	Part 1		Date: 12 November 2014

1. EXECUTIVE SUMMARY

1.1 The report presents the current economic conditions in which the Council is operating in respect of its investments and borrowing. It then sets out the Council's treasury performance and Capital position as at 30th September 2014. It also provides updates on the arrangements in place and an assessment of the current Treasury Management strategy as required by the Chartered Institute of Finance and Accountancy (CIPFA) Code of Practice. Finally, the report brings forward recommendations for updating the strategy to Mayor & Cabinet to recommend to Full Council.

1.2 The UK economy has performed strongly in 2014 and the outlook is optimistic for good growth, continuing low inflation, low interest rates and falling unemployment. However, this perspective is tempered by the following risks:

- Growth driven by consumer spending rather than manufacturing,
- Low productivity, wage growth and corporate tax levels,
- Weakening global growth, in particular in Europe and China, and
- Rising political instability impacting trade and investment.

1.3 In terms of performance, the capital expenditure estimate for 2014/15 has risen to £147m, up from £127m, mainly funded by additional grants secured. On current plans no difficulties are envisaged for the current or future years in complying with the Code's requirements for prudential borrowing. Council investments are managed within the agreed parameters and delivered a yield (on an annualised basis) for the six months to 30 September of 0.58%. For this risk profile this performance is in line with the benchmark for London Authorities.

1.4 Following the withdrawal of the Co-operative Bank from the Local Government market, the Council's banking contract has just been tendered and the new provider from the 1 November is Barclays Plc.

1.5 Managing the Council's investments within the current Treasury strategy to achieve the best possible returns for minimal risk is constrained by the number of counterparties available offering the products agreed. The Council also needs to prepare for the limits on some current counterparties reducing as the government exits from being shareholder in the part-nationalised banks. For these reasons the report recommends that the Treasury strategy be amended to:

- Include the use of Certificates of Deposits as a specified treasury instrument, and
- Increase the limits for use of Treasury Bills from £20 million to £60 million.

2. STRUCTURE

2.1 The rest of this report is structured with the following sections:

- Purpose
- Recommendations
- Policy Context
- Background
- Economic Update
- Treasury Management Strategy Statement And Annual Investment Strategy Update
- The Council's Capital Position
- Investment Portfolio 2014/15
- Borrowing
- Debt Rescheduling
- New Banking Contract

3. PURPOSE OF THE REPORT

3.1 This mid-year review has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management. It covers the following:

(i) An economic update for the first six months of 2014/15;

(ii) A review of the Treasury Management Strategy Statement and Annual Investment Strategy;

(iii) The Council's capital expenditure (prudential indicators) and Minimum Revenue Provision (MRP) Policy;

(iv) A review of the Council's investment portfolio for 2014/15;

(v) A review of the Council's borrowing strategy for 2014/15;

(vi) A review of any debt rescheduling undertaken during 2014/15; and

(vii) A review of compliance with Treasury and Prudential Limits for 2014/15.

4. RECOMMENDATIONS

4.1 Mayor is asked to:

Note the report and the Council's MRP Policy.

Recommend for approval by Full Council the following amendments to Treasury Management Strategy:

a. Inclusion of Certificates of Deposits as a specified treasury instrument, and

b. Increase in the limits of Treasury Bills from £20 million to £60 million.

5. POLICY CONTEXT

5.1 The contents of this report are consistent with the Council's policy framework. It supports the achievement of the Council's corporate priority to ensure efficiency, effectiveness and equity in the delivery of excellent services to meet the needs of the community.

6. BACKGROUND

6.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with any surplus monies being invested in low risk counterparties, to provide adequate liquidity before considering maximising investment return.

6.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council. Essentially the longer term cash flow planning to ensure the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, using longer term cash flow surpluses, and on occasion restructuring any debt previously drawn to meet Council objectives.

6.3 The primary requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Outturn Report covering activities during the previous year. (This report is the mid-year review report)
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Public Accounts Committee.

7. ECONOMIC UPDATE

<u>UK economic performance to date and outlook</u>

7.1 The Economic update is provided by our Treasury Advisors Capital Asset Services:

7.2 After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1 and 0.9% in Q2 2014 (annual rate 3.2% in Q2), it appears very likely that strong growth will continue through 2014 and into 2015 as forward surveys for the services and construction sectors, are very encouraging and business investment is also strongly recovering. The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance.

7.3 This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable.

7.4 There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review

7.5 Also encouraging has been the sharp fall in inflation – Consumer Price Inflation (CPI), reaching 1.5% in May and July, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly near to 1%. Overall, markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in Q1 or Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

7.6 The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed so far in 2014/15.

USA

7.7 In September, the Federal Reserve continued with its monthly $10bn reductions in asset purchases, which started in December 2014. Asset purchases have now fallen from $85bn to $15bn and are expected to stop in October 2014, providing strong economic growth continues. First quarter GDP figures for the US were depressed by exceptionally bad winter weather, but growth rebounded very strongly in Q2 to 4.6% (annualised).

7.8 The U.S. faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although the weak labour force participation rate remains a matter of key concern for the Federal Reserve when considering the amount of slack in the economy and monetary policy decisions.

Eurozone

7.9 The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In September, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June to loosen monetary policy in order to promote growth. In September it took further action to cut its benchmark rate to only 0.05%, its deposit rate to -0.2% and to start a programme of purchases of corporate debt. However, it has not embarked yet on full quantitative easing (purchase of sovereign debt).

7.10 Concern in financial markets for the Eurozone subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed.

Capita Asset Services' Interest Rate Forecast

7.11 Table 1: The Council's treasury advisor, Capita Asset Services, has provided the following forecast.

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	2.00%	2.00%
5yr PWLB rate	2.70%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%
10yr PWLB rate	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%
25yr PWLB rate	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%
50yr PWLB rate	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%

7.12 Capita Asset Services undertook a review of its interest rate forecasts in mid August, after the Bank of England's Inflation Report. By the beginning of September, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, had caused a further flight into safe havens like gilts and depressed PWLB rates further. However, there is much volatility in rates as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 1 of 2015.

7.13 Our PWLB forecasts are based around a balance of risks. However, there are potential upside risks, especially for longer term PWLB rates, as follows:

- A further surge in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds and into equities.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields

7.14 Downside risks currently include:

- The situation over Ukraine poses a major threat to EZ and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe.
- UK strong economic growth is currently dependent on consumer spending and the unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.
- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partners - the EU and US, inhibiting economic recovery in the UK.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- Recapitalising of European banks requiring more government financial support.
- Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity programme required and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- France: after being elected on an anti austerity platform, President Hollande has embraced a €50bn programme of public sector cuts over the next three years. However, there could be major obstacles in implementing this programme. Major overdue reforms of employment practices and an increase in competiveness are also urgently required to lift the economy out of stagnation.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Heightened political risks in the Middle East and East Asia could trigger safe haven flows back into bonds.

- There are also increasing concerns that the reluctance of western economies to raise interest rates significantly for some years, plus the huge QE measures which remain in place (and may be added to by the ECB in the near future), has created potentially unstable flows of liquidity searching for yield and therefore heightened the potential for an increase in risks in order to get higher returns. This is a return of the same environment which led to the 2008 financial crisis.

8. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

8.1 The Treasury Management Strategy Statement (TMSS) for 2014/15 was approved by Council on 26 February 2014.

8.2 The current situation within the financial markets has limited the number of counterparties available to the Council. The current counterparty list has a large number of banks but not all of them are actively seeking deposits. To diversify the portfolio and spread the risk, officers are proposing to:

a) increase the deposit limit for Treasury Bills from £20 m to £60 m (this will be kept under regular review)

b) include Certificates of Deposit (CDs) with a maximum duration of one year as a specified instrument.

8.3 Treasury bills are loans issued by the Government to fund short term liquidity. They are similar to gilts in nature but treasury bills have a term of less than one year, whereas gilts are issued for more than one year. The current deposit limit is £20 million. Treasury bills are a AAA/AA+ rated and issued by the Debt Management Office (DMO) via a weekly tender. They are government backed and low risk, identical to the DMO account. In agreeing this change, no additional portfolio risk will be taken and this will provide the Council with the flexibility to adjust its portfolio in a managed way as and when the government exists from the part nationalised banks.

8.4 Certificates of Deposit (CD's) are tradable loans issued by banks. CD's are generally issued with a maturity ranging from one month to a year. Unlike most investments that the Council currently uses, the Council would be able to sell out of a bank should it no longer meet the Council's risk profile or for cash flow purposes. Some banks do not offer fixed term investments in the usual manner but instead prefer to issue CDs and the Council would not want to restrict itself in these situations.

8.5 Credit ratings for banks issuing CDs is already incorporated in the current creditworthiness criteria provided by our advisers and is being used by the Council. The proposed use of CDs would be subject to compliance with the current credit rating criteria. CDs rank side by side with Fixed Deposits, in that they have the same priority in the event of a default. The proposed amended investment limits are attached in Appendix 1.

8.6 These changes would give officers additional capacity to invest available cash within the agreed risk parameters – counterparty risk and investment duration.

9. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

9.1 This section of the report is structured to update on:

a) The Council's capital expenditure plans;

b) How these plans are being financed;

c) The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and

d) Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

9.2 This table shows the original estimates for capital expenditure and the changes since the capital programme was agreed by Council in the Budget.

Table2: Capital Expenditure by Service

2014/15 Capital Expenditure By Service	Original Estimate £m	Latest Expenditure (to end Aug 14)£m	Revised Estimate £m
Education	50	12	59
Highways and Regeneration	8	2	12
Housing General Fund	10	5	12
Other General Fund	1	1	5
Housing Revenue Account	58	13	59
Total Expenditure	**127**	**33**	**147**

Financing of the Capital Programme

9.3 The table below shows the expected financing of the capital programme. The borrowing required increases the underlying indebtedness of the Council as measured by the Capital Financing Requirement (CFR), although this is reduced by charges made to revenue for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 3: Capital Expenditure Financing

2014/15 Capital Expenditure Financing	**Original Estimate £m**	**Latest Expenditure (to end of Aug 14) £m**	**Revised Estimate £m**
Total Expenditure	**127**	N/A	**147**
Financed by:			
Capital Grants	69	N/A	85
General Resources (Capital Receipts, Reserves and Revenue Contributions)	57	N/A	61
Total Financing Used	**126**	**N/A**	**146**
Borrowing Required	**1**	N/A	**1**

Minimum Revenue Provision (MRP) Policy

9.4 A proportion of the Council's capital expenditure is not immediately financed from its own resources. This results in a debt liability which must be charged to the Council Tax over a period of time. This repayment (the Minimum Revenue Provision - MRP) must be determined by the Council as being a prudent provision having regard to the CIPFA Prudential Code for Capital Finance.

9.5 The MRP is the amount the Council charges to the revenue account and does not correspond to the actual amount of debt repaid, which is determined by treasury management considerations. The Council applies a consistent MRP policy which comprises prudential borrowing being repaid over the useful life of the asset concerned, with previous existing borrowing being repaid at 4% of the CFR.

Table 4: Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

2014/15 Prudential Indicators (as at the end of the year)	**Original Estimate £m**	**Forecast Outturn £m**
CFR – General Fund	384.5	399.6
CFR – HRA	83.6	83.6
Total Capital Financing Requirement	**468.1**	**483.2**
External Debt / Operational Boundary		
Borrowing	190.3	190.4
Other long term liabilities*	241.4	254.6
Total External Debt as at 31 March 15	**431.7**	**445.0**
New and Maturing Debt	0	0
Operational Boundary as at 31 March 15	**431.7**	**445.0**

** On balance sheet PFI schemes and finance leases etc.*

<u>Limits to Borrowing Activity</u>

9.6 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) is only undertaken for capital purposes. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has an approved policy for borrowing in advance of need which will be utilised if it is deemed to be prudent.

9.7 The Executive Director for Resources and Regeneration reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator. The table above shows the forecast position for the end of 2014/15 where the CFR is nearly £40m higher than the external debt.

9.8 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements and is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Table 5: Limits to Borrowing

2014/15 Prudential Indicators (as at the end of the year)	**Original Indicator £m**	**Forecast Indicator £m**
Operational Boundary for External Debt	**431.7**	**445.0**
Provision for unexpected short term borrowing	46.0	46.0
Authorised Limit for External Debt	**477.7**	**491.0**

10. INVESTMENT PORTFOLIO 2014/15

10.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 4, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. Indeed, the introduction of the Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

10.2 The Council held £329.5m of investments as at 30 September 2014 (£283.6m at 31 March 2014) and the investment portfolio yield for the first six months of the year was 0.58%.

10.3 The Council is a member of a London treasury benchmarking group (organised by Capita Services) along with 11 other London authorities. An extraction of the June benchmarking report is shown in Appendix 2. This shows that the 0.57% return on investments in June is in-line with the model weighted average rate of return provided by the Council's treasury advisors and based on the overall risk the investments are exposed to (see Appendix 2).

10.4 A full list of investments held as at 30 September 2014 is shown below:

Table 6: Fixed Term Deposits

Counterparty	Duration	Principal £m	Rate	Interest £
Bank of Scotland Plc	364	5.000	0.98%	48,866
Lloyds Bank Plc	364	5.000	0.98%	48,866
Lloyds Bank Plc	186	5.000	0.70%	17,836
Barclays Bank Plc	94	5.000	0.48%	6,181
Bank of Nova Scotia	105	10.000	0.47%	13,521
HSBC Bank Plc	184	20.000	0.40%	40,329
Barclays Bank Plc	92	10.000	0.48%	12,099
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	183	15.000	0.52%	39,107
Bank of Nova Scotia	110	10.000	0.47%	14,164
Goldman Sachs International Bank	91	15.000	0.49%	18,325
National Australia Bank Ltd	183	10.000	0.58%	29,079
Lloyds Bank Plc	185	10.000	0.70%	35,479
Overseas Chinese Banking Corporation Ltd	185	10.000	0.62%	31,425
Nationwide BS	184	10.000	0.64%	32,263
Deutsche Bank AG	182	5.000	0.66%	16,205
Lloyds Bank Plc	365	10.000	0.95%	95,000
Lloyds Bank Plc	277	5.000	0.80%	30,356
Nationwide BS	185	5.000	0.63%	15,966
Bank of Scotland Plc	273	5.000	0.80%	29,918
Lloyds Bank Plc	368	5.000	0.95%	47,890
Bank of Scotland Plc	365	5.000	0.95%	47,500
Lloyds Bank Plc	364	5.000	0.95%	47,370
Overseas Chinese Banking Corporation Ltd	364	10.000	0.90%	89,753
Bank of Scotland Plc	365	5.000	0.95%	47,500

10.5 In addition to the fixed investments above, the Council holds certain funds in the money markets, call accounts, and treasury bills. A list of these investments held as at 30 September 2014 is shown below:

Money Market Funds

MMF Counterparty	Principal £m	Average Interest
Ignis	30.000	0.45%
Insight	19.536	0.41%
Federated (PR)	30.000	0.41%

Call and Notice Accounts

Counterparty	Principal £m	Interest Rate
Svenska Handelsbanken AB	20.000	0.40%
Santnder UK Plc (95 Day Notice)	10.000	0.60%
Deutsche Bank AG (95 Day Notice)	10.000	0.74%

Treasury Bills

Broker	Duration	Principal £m	Rate	Interest £
King & Shaxson	89	9.990	0.42%	10,460

10.6 The Executive Director for Resources and Regeneration confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2014/15.

Investment Counterparty List

10.7 The current investment counterparty criteria selection approved in the TMSS is meeting the requirements of the treasury management function. This strict criteria will also be applied when looking at institutions that offer CDs.

11. BORROWING

11.1 The Council's latest forecast capital financing requirement (CFR) for 2014/15 is £483m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing).

11.2 The balance of external and internal borrowing is generally driven by market conditions. The Council has borrowings of £190m and has utilised £26m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

11.3 It is anticipated that further borrowing may be undertaken during this financial year as the capital programme develops.

12. DEBT RESCHEDULING

12.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2014/15.

13. NEW BANKING CONTRACT

13.1 The Council's current banking contract with the Co-operative Bank formally comes to an end on 31st March 2015. Due to fundamental changes to the Co-operative Bank's financial strategy and its decision to withdraw from providing banking transmission services to local authorities, a mutual agreement was reached between both parties to terminate the contract early and without penalty to the Council.

13.2 The Council has recently completed a tendering exercise to seek the services of an alternative bank to start as soon as possible. The final stages of this process were completed in October 2014 and the assessment was made on weightings of 60% for price and 40% for quality. The banking contract was awarded to Barclays Bank Plc with an effective start date of 1st November 2014. The award is for a period of five years, with an option to extend for a further two years. It should be noted that the schools accounts are currently with the National Westminster/Royal Bank of Scotland Group. There are no immediate proposals to change this arrangement.

14. FINANCIAL IMPLICATIONS

14.1 There are no additional financial implications other than those mentioned in the body of the report.

15. LEGAL IMPLICATIONS

15.1 The Council's general power to borrow is set out in Section 1 of the Local Government Act 2003, subject to its affordable borrowing limits and the prudential borrowing regime set out under the Act. Authorities must determine and keep under review how much they can afford to borrow having regard to the CIPFA prudential Code of Capital Finance in Local Authorities. This requires the Council's borrowing and investment decisions to take into account the issues of affordability, prudence and sustainability, value for money stewardship of assets, service objectives and practicality.

16. ENVIRONMENTAL IMPLICATIONS

16.1 There are no specific environmental implications relating to this report.

17. HUMAN RESOURCES IMPLICATIONS

17.1 There are no specific human resources implications relating to this report.

18. CRIME AND DISORDER IMPLICATIONS

18.1 There are no specific crime and disorder implications relating to this report.

19. EQUALITIES IMPLICATIONS

19.1 The Equality Act 2010 became law in October 2010. The Act aims to streamline all previous anti-discrimination laws within a Single Act. The new public sector Equality Duty, which is part of the Equality Act 2010, came into effect on the 5 April 2011.

19.2 The Council's Comprehensive Equality Scheme for 2012-16 provides an overarching framework and focus for the Council's work on equalities and helps ensure compliance with the Equality Act 2010. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010.

For further information about this report, please contact:

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Adeola Odeneye Principal Accountant on 020 8314 6147

APPENDIX 1 - Extract from Credit worthiness Policy

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating	£20m	1 year
UK Government Treasury blls	UK sovereign rating	**100%**	6 months
Money market funds	AAA	£30m	Liquid
Local authorities	N/A	£10m	1 year
Term deposits and **Certificates of Deposits** with banks and building societies	Yellow* Purple Blue** Orange Red Green*** No Colour	£30m £25m £75m £20m £15m £10m 0	Up to 1year Up to 1 year Up to 1 year Up to 1 year Up to 6 mths Up to 100 days Not for use
Call accounts and notice accounts	Yellow Purple Blue Orange Red Green No Colour	In line with the above	Liquid

**for UK Government debt, or its equivalent, constant net asset value money market funds and collateralised deposits where the collateral is UK Government debt*

***Part-nationalised banks*

**** The green limit was formerly for 3 months but the Financial Conduct Authority set (July 2013) a requirement for qualifying deposits for bank liquidity buffers of a minimum of 95 days so the green band has been slightly extended to accommodate this regulatory change.*

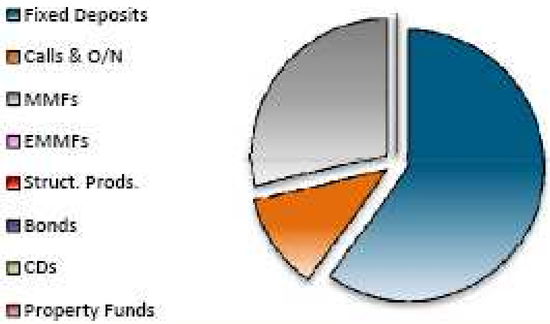
APPENDIX 2 - Extract of the Benchmarking Data with 11 other London Authorities June 2014

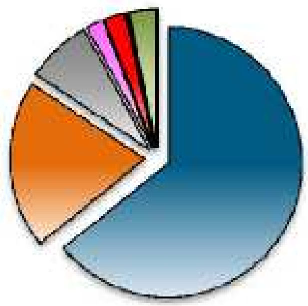
London Borough Of Lewisham

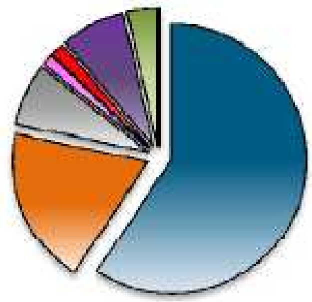
Summary Sheet

	London Borough Of Lewisham	Benchmarking Group2 (12)	London (18)
		Basic Portfolio Characteristics	
WARoR	0.57%	0.77%	0.78%
WAM	71	170	154
WATT	135	280	264
WA Credit Risk	3.2	3.1	2.9
Model WARoR	0.62%	0.74%	0.72%
Difference	-0.05%	0.03%	0.06%
Model Band	0.55% - 0.69%	0.67% - 0.80%	0.65% - 0.79%
Performance	Inline	Inline	Inline

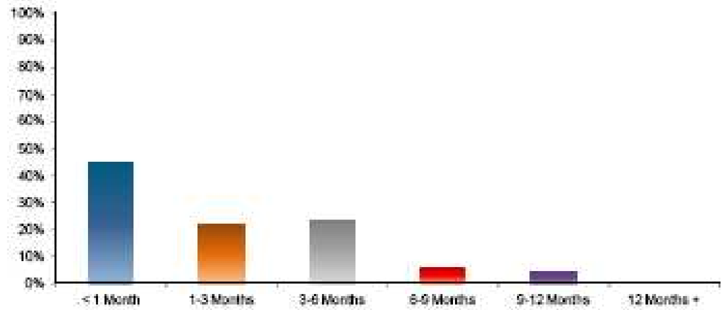
Asset Breakdown

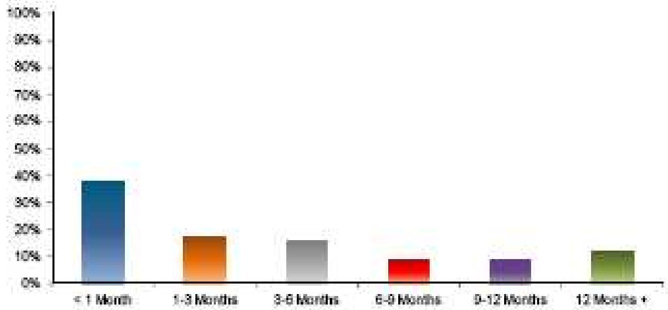


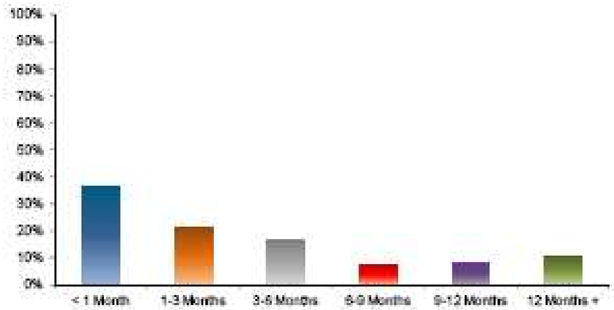




Maturity Profiles







APPENDIX 2 - Extract of the Benchmarking Data with 11 other London Authorities June 2014

London Borough Of Lewisham

Peer Comparison

	London Borough Of Lewisham	Benchmarking Group2 (12)		London (18)		Population Average (200)	
Basic Characteristics							
Principal	£343,011,000	£222,632,291		£224,033,948		£77,937,637	
WARoR	0.57%	0.77%		0.78%		0.66%	
WAM	71	170		154		93	
WATT	135	280		264		171	
WA Credit Risk	3.19	3.12		2.93		3.21	
Portfolio Breakdown							
Fixed Deposits	59.76%	64.17%	11	59.23%	17	49.13%	181
Calls & O/N	11.66%	20.07%	9	19.08%	15	34.00%	179
MMFs	28.57%	7.74%	9	7.35%	13	11.85%	112
EMMFs	0.00%	2.03%	3	1.35%	3	1.16%	12
Struct. Prods.	0.00%	2.49%	3	1.66%	3	0.42%	9
Bonds	0.00%	0.27%	1	7.67%	5	1.26%	13
CDs	0.00%	3.24%	3	3.66%	5	2.18%	28
Property Funds	0.00%	0.00%	0	0.00%	0	0.00%	0
Institution Breakdown							
Banks	68.51%	67.15%	12	60.97%	18	66.29%	195
Building Socs.	2.92%	5.95%	8	5.65%	11	8.05%	105
Government	0.00%	16.55%	7	24.13%	12	12.51%	87
MMFs	28.57%	7.74%	9	7.35%	13	11.85%	112
EMMFs	0.00%	2.03%	3	1.35%	3	1.16%	12
MLDBs	0.00%	0.00%	0	0.15%	1	0.01%	1
Other	0.00%	0.58%	1	0.40%	2	0.12%	7
Domestic/Foreign Exposure							
Domestic	42.27%	67.97%	12	75.06%	18	77.51%	197
Foreign	29.15%	22.26%	11	16.24%	13	9.48%	92
MMFs	28.57%	7.74%	9	7.35%	13	11.85%	112
EMMFs	0.00%	2.03%	3	1.35%	3	1.16%	12
Maturity Structure							
< 1 Month	44.61%	37.74%		36.27%		54.70%	
1-3 Months	21.87%	17.26%		21.01%		13.12%	
3-6 Months	23.32%	15.61%		16.39%		15.30%	
6-9 Months	5.83%	8.71%		7.45%		6.78%	
9-12 Months	4.37%	8.94%		8.56%		6.43%	
12 Months +	0.00%	11.75%		10.32%		3.69%	

Definitions

WARoR	Weighted Average Rate of Return	This is the average annualised rate of return weighted by the principal amount in each rate.
WAM	Weighted Average Time to Maturity	This is the average time, in days, till the portfolio matures, weighted by principal amount.
WATT	Weighted Average Total Time	This is the average time, in days, that deposits are lent out for, weighted by principal amount.
WA Risk	Weighted Average Credit Risk Number	Each institution is assigned a colour corresponding to a suggested duration using Capita Asset Services' Suggested Credit Methodology 1 = Yellow; 1.25 = Pink 1; 1.5 = Pink 2, 2 = Purple; 3 = Blue; 4 = Orange; 5 = Red; 6 = Green; 7 = No Colour
Model WARoR	Model Weighted Average Rate of Return	This is the WARoR that the model produces by taking into account the risks inherent in the portfolio.
Difference	Difference	This is the difference between the actual WARoR and the model WARoR; Actual WARoR minus Model WARoR.