PUBLIC ACCOUNTS SELECT COMMITTEE			
Report Title	**Treasury Management Mid-year Review Report 2015/16**		
Key Decision	No		Item No: 5
Ward	All		
Contributors	**Executive Director for Resources & Regeneration**		
Class	Part 1		Date: 28 October 2015

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 2015. 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.

1.2 The UK economy has performed well in 2015 and the outlook is optimistic for growth, continuing low inflation, low interest rates and low unemployment. However, this perspective is tempered by the following risks:

- Geopolitical risks with instability in strategic regions,
- Weakening global growth, in particular in China, Japan and Emerging Markets, and.
- Recapitalisation of European banks and a resurgence of the Eurozone sovereign debt crisis.

1.3 In terms of performance, the capital expenditure estimate for 2015/16 has fallen to £116m, from £133m. 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 0.65% (up from 0.58% last year). For this risk profile this performance is in line with the benchmark group of London Authorities.

1.4 There are no changes proposed to the Treasury Management strategy proposed at this time. However, Members are asked to note the changes to the rating approach adopted by the Council's advisors and officers intention to explore use of longer term (more than one year) pooled investment funds within the non-specified investments parameters of the treasury management strategy.

3. STRUCTURE

3.1. 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 2015/16
- Borrowing
- Debt Rescheduling
- New Banking Contract

4. 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 2015/16;

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

(iii) The Council's capital expenditure (prudential indicators);

(iv) A review of the Council's investment portfolio for 2015/16;

(v) A review of the Council's borrowing strategy for 2015/16;

(vi) A review of any debt rescheduling undertaken during 2015/16; and

(vii) A review of compliance with Treasury and Prudential Limits for 2015/16.

5. RECOMMENDATIONS

5.1. The Public Accounts Select Committee is asked to note the report, in particular the:

- macro economic context, performance of investments to date, updates on capital expenditure and borrowing in line with CIPFA requirements and the Council's treasury management strategy.
- changes to the credit methodology adopted by the Council's advisors – Capita Asset Services – whereby viability, financial

strength, and support ratings will not be considered as key criteria in the choice of creditworthy investment criteria (Section 8).

- intention of officers to explore the use of pooled investment funds for periods of greater than twelve months, for example property funds, and that, if required, changes to non-specified investments in the Annual Investment Strategy will be brought forward when the treasury strategy is reset with the budget in February 2016.

6. 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.

7. BACKGROUND

7.1. 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 surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

7.2. 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 operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

7.3. Accordingly, treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

7.4. The Council complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011). The primary requirements of the Code 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 Annual Report (stewardship report) covering activities during the previous year. (This is the mid year 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 Select Committee.

8. ECONOMIC UPDATE

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

UK economic performance to date and outlook

8.2. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y). Growth is expected to weaken to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the Summer Budget. Despite these headwinds, the Bank of England August Inflation Report had included a forecast for growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth. However, since the report was issued, the Purchasing Manager's Index, (PMI), for services on 5 October would indicate a further decline in the growth rate to only +0.3% in Q4, which would be the lowest rate since the end of 2012. In addition, worldwide economic statistics and UK consumer and business confidence have distinctly weakened so it would therefore not be a surprise if the next Inflation Report in November were to cut those forecasts in August.

8.3. The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

8.4. There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

USA

8.5. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015. While there had been confident expectations during the summer that the Fed. could start increasing rates at its meeting on 17 September, or if not by the end of 2015, the recent downbeat news about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision to pull back from making that start. The nonfarm payrolls figures for September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to weaken. This has pushed back expectations of a first rate increase from 2015 into 2016.

Eurozone

8.6. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands.

China and Japan

8.7. Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth. In Q2 2015 growth was -1.6% (annualised) after a short burst of strong growth of 4.5% in Q1. During 2015, Japan has been hit hard by the downturn in China. This does not bode well for Japan as the Abe government has already fired its first two arrows to try to stimulate recovery and a rise in inflation from near zero, but has dithered about firing the third, deregulation of protected and inefficient areas of the economy, due to political lobbies which have traditionally been supporters of Abe's party.

8.8. As for China, the Government has been very active during 2015 in implementing several stimulus measures to try to ensure the economy hits the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market. Many commentators are concerned that recent growth figures around that figure, could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much bank lending to corporates and local government during the post 2008 credit expansion period and whether the bursting of a bubble in housing prices is drawing nearer. Overall, China is still expected to achieve a growth figure that the EU would be envious of. However, concerns about whether the Chinese cooling of the economy could be heading for a hard landing, and the volatility of the Chinese stock market, have caused major volatility in financial markets in August and September such that confidence is, at best, fragile.

Emerging countries

8.9. There are considerable concerns about the vulnerability of some emerging countries and their corporates which are getting caught in a perfect storm. Having borrowed massively in western currency denominated debt since the financial crisis, caused by western investors searching for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields (due to QE), and near zero interest rates, into emerging countries, there is now a strong current flowing to reverse that flow back to those western economies with strong growth and an imminent rise in interest rates and bond yields. This change in investors' strategy and the massive reverse cash flow, has depressed emerging country currencies and, together with a rise in expectations of a start to central interest rate increases in the US and UK, has helped to cause the dollar and sterling to appreciate. In turn, this has made it much more costly for emerging countries to service their western currency denominated debt at a time when their earnings from commodities are depressed. There are also going to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates, if available at all.

8.10. Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by sovereign wealth funds of countries highly exposed to falls in commodity prices which, therefore, may have to liquidate investments in order to cover national budget deficits.

Capita Asset Services' Interest Rate Forecast

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

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

8.12. Capita Asset Services undertook its last review of interest rate forecasts on 11 August shortly after the quarterly Bank of England Inflation Report. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and so caused PWLB rates to fall below the above forecasts for quarter 4 2015. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, has compounded downward pressure on equity prices. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

8.13. Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

8.14. The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

8.15. The disappointing US nonfarm payrolls figures and UK PMI services figures at the beginning of October have served to reinforce a trend of increasing concerns that growth is likely to be significantly weaker than had previously been expected. This, therefore, has markedly increased concerns, both in the US and UK, that growth is only being achieved by monetary policy being highly aggressive with central rates at near zero and huge QE in place. In turn, this is also causing an increasing debate as to how realistic it will be for central banks to start on reversing such aggressive monetary policy until such time as strong growth rates are more firmly established and confidence increases that inflation is going to get back to around 2% within a 2-3 year time horizon. Market expectations in October for the first Bank Rate increase have therefore shifted back sharply into the second half of 2016.

8.16. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate. Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

8.17. The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ.
- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

9. CHANGES IN CREDIT RATING METHODOLOGY

9.1. The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these “uplifts” with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have “netted” each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody’s) Financial Strength rating withdrawn by the agency.

9.2. In keeping with the agencies’ new methodologies, the credit element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used by Standard & Poor’s, this has been a change to the use of Fitch and Moody’s ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

9.3. The evolving regulatory environment, in tandem with the rating agencies’ new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of ….. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

9.4. It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the “support” phase of the financial crisis.

10. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

10.1. The Treasury Management Strategy Statement (TMSS) for 2015/16 was approved by Council on 25 February 2015.

10.2. No changes to the current treasury strategy are proposed at the current time.

10.3. Officers are exploring the option, as a non-specified investment, to use pooled investment funds for periods of greater than twelve months. For example, property funds. Such funds typically have relatively high entry and exit fees and therefore require a linger term investment horizon of five years plus. The use of such instruments can be deemed capital expenditure and as such will be an application (spending) of capital resources. The Authority will seek guidance on the status of any fund it may consider using and appropriate due diligence will also be undertaken before any such investment is committed to.

10.4. If required, changes to or clarifications within the non-specified investments Annual Investment Strategy will be brought forward when the treasury strategy is reset with the budget in February 2016.

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

11.1. 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

11.2. 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

2015/16 Capital Expenditure By Service	Original Estimate £m	Latest Expenditure (to end Sept 15) £m	Revised Estimate £m
Education	24	28	33
Highways and Regeneration	9	3	17
Housing General Fund	29	2	26
Other General Fund	1	0	1
Housing Revenue Account	70	12	39
Total Expenditure	**133**	**45**	**116**

Financing of the Capital Programme

9.3 The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges 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

2015/16 Capital Expenditure Financing	**Original Estimate £m**	**Revised Estimate £m**
Total Expenditure	**133**	**116**
Financed by:		
Capital Grants	25	25
General Resources (Capital Receipts, Reserves and Revenue Contributions)	85	80
Total Financing Used	**110**	**105**
Borrowing Required	**23**	**11**

9.4 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

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

2015/16 Prudential Indicators (as at the end of the year)	**Original Estimate £m**	**Forecast Outturn £m**
CFR – General Fund	403.7	400.4
CFR – HRA	83.6	79.8
Total Capital Financing Requirement	**487.3**	**480.2**
External Debt / Operational Boundary		
Borrowing	191.3	191.3
Other long term liabilities*	252.2	247.8
Total External Debt as at 31 March 16	**443.5**	**439.1**
New and Maturing Debt	0	0
Operational Boundary as at 31 March 16	**443.5**	**439.1**

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

Limits to Borrowing Activity

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 2015/16 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 2015/16 where the CFR is approximately £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

2015/16 Prudential Indicators (as at the end of the year)	Original Indicator £m	Forecast Indicator £m
Operational Boundary for External Debt	**450.3**	**439.0**
Provision for unexpected short term borrowing	46.0	46.0
Authorised Limit for External Debt	**496.3**	**485.0**

12. INVESTMENT PORTFOLIO 2015/16

12.1. 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 7, 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. The continuing potential for a re-emergence of a 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.

12.2. The Council held £365m of investments as at 30 September 2015 (£326m at 31 March 2015) and the investment portfolio yield for the first six months of the year is 0.65%.

12.3. 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 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.

12.4. A full list of investments held as at 30 September 2015 is shown below:

Table 6: Fixed Term Deposits

Counterparty	Duration	Principal £m	Rate	Interest £
Standard Charter Bank (CD)	183	10.000	0.72%	34,600
Bank of Scotland Plc (TD)	364	5.000	1.00%	49,863
Lloyds Bank Plc (TD)	364	5.000	1.00%	49,863
Rabobank Nederland (TD)	364	5.000	0.83%	41,386
Lloyds Bank Plc (TD)	365	5.000	1.00%	50,000
Barclays Bank Plc (TD)	365	5.000	0.93%	46,500
The Royal Bank of Scotland Plc (CD)	365	20.000	0.90%	174,052

Counterparty	Duration	Principal £m	Rate	Interest £
Barclays Plc (TD)	183	10.000	0.66%	33,090
Landesbank Hessen – Helaba (TD)	183	10.000	0.76%	38,104
The Royal Bank of Scotland Plc (CD)	365	20.000	0.89%	172,051
Lloyds Bank Plc (TD)	365	10.000	1.00%	100,000
Credit Industriel et Commercial (TD)	186	5.000	0.72%	17,951
Landesbank Hessen – Helaba (TD)	182	5.000	0.72%	17,951
Cooperative Centrale Raiffeisen Boerenlenbank (TD)	184	15.000	0.67%	50,663
Societe Generale (CD)	182	10.000	0.73%	34,909
Landesbank Hessen – Helaba (TD)	185	5.000	0.70%	17,740
Nationwide BS (TD)	184	5.000	0.66%	16,636
Santander UK Plc (TD)	176	5.000	0.71%	17,118
Credit Agricole (TD)	182	10.000	0.70%	34,904
DZ Bank AG (TD)	182	15.000	0.69%	51,608
Skandinaviska Enskilda Banken AB (CD)	274	10.000	0.73%	52,560
Standard Charter Bank (CD)	365	10.000	0.90%	87,026
Credit Agricole (CD)	365	15.000	0.95%	138,041
Skandinaviska Enskilda Banken AB (CD)	365	10.000	0.84%	81,024
Pohjola Bank (TD)	364	20.000	0.96%	191,474

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 2015 is shown below:

Money Market Funds

MMF Counterparty	Principal £m	Average Interest
Ignis	30.000	0.50%
Insight	30.000	0.45%
Federated (PR)	30.000	0.48%
Blackrock	10.533	0.45%

Call and Notice Accounts

Counterparty	Principal £m	Interest Rate
Santnder UK Plc (95 Day Notice)	10.000	0.60%
Deutsche Bank AG (95 Day Notice)*	10.000	0.46%

** notice given to close this account*

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 2015/16.

Investment Counterparty List

10.7 The current investment counterparty criteria selection approved in the TMSS is meeting the requirements of the treasury management function.

13. BORROWING

13.1. The Council's latest forecast capital financing requirement (CFR) for 2015/16 is £480m. 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).

13.2. The balance of external and internal borrowing is generally driven by market conditions. The Council has borrowings of £191m and has utilised £28m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

13.3. It is anticipated that further borrowing may be undertaken during this financial year as the capital programme develops. This position will require ongoing monitoring alongside review of opportunities to favourably refinance existing borrowing.

14. DEBT RESCHEDULING

14.1. Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. Two of the Council's Lender Option / Borrower Option (LOBOs) were offered by the lender for early redemption on payment of a proposed fair value premium. Having taken advice, it was decided not to accept the offer. No debt rescheduling was undertaken during the first six months of 2015/16.

15. FINANCIAL IMPLICATIONS

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

16. LEGAL IMPLICATIONS

16.1. There are no additional legal implications other than those mentioned in the main budget report.

17. ENVIRONMENTAL IMPLICATIONS

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

18. HUMAN RESOURCES IMPLICATIONS

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

19. CRIME AND DISORDER IMPLICATIONS

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

20. EQUALITIES IMPLICATIONS

20.1. There are no specific equalities implications relating to this report.

For further information about this report, please contact:

David Austin, Head of Corporate Resources on 020 8314 9114, or

Richard Lambeth, Group Manager Capital and Accounting on 020 8314 3797.

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 £40m £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.*

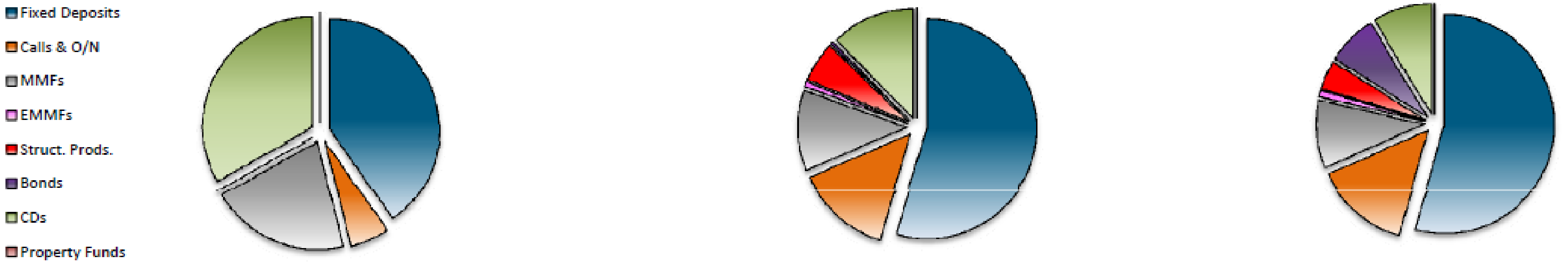
APPENDIX 2 - Extract of the Benchmarking Data with 11 other London Authorities June 2015

London Borough Of Lewisham

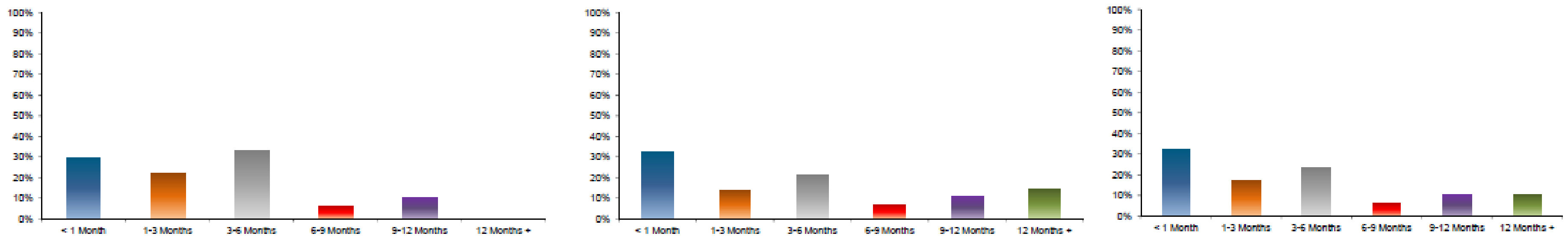
Summary Sheet

	London Borough Of Lewisham	Benchmarking Group 2 (15)	London (21)
		Basic Portfolio Characteristics	
WARoR	0.72%	0.84%	0.82%
WAM	106	184	160
WATT	215	334	295
WA Credit Risk	3.6	3.6	3.5
Model WARoR	0.70%	0.79%	0.75%
Difference	0.02%	0.05%	0.06%
Model Band	0.65% - 0.75%	0.74% - 0.84%	0.70% - 0.81%
Performance	Inline	Inline	Above

Asset Breakdown



Maturity Profiles



APPENDIX 2 - Extract of the Benchmarking Data with 11 other London Authorities June 2015

London Borough Of Lewisham

Peer Comparison

	London Borough Of Lewisham	Benchmarking Group 2 (15)		London (21)		Population Average (210)	
Basic Characteristics							
Principal	£346,354,000	£197,753,650		£240,511,096		£80,831,265	
WARoR	0.72%	0.84%		0.82%		0.69%	
WAM	106	184		160		99	
WATT	215	334		295		190	
WA Credit Risk	3.61	3.61		3.51		3.76	
Portfolio Breakdown							
Fixed Deposits	40.42%	54.61%	14	54.36%	21	51.04%	193
Calls & O/N	5.77%	13.88%	12	14.15%	18	24.71%	184
MMFs	20.60%	12.04%	12	10.06%	15	15.06%	136
EMMFs	0.00%	0.76%	2	0.95%	3	1.71%	20
Struct. Prods.	0.00%	5.88%	5	4.20%	5	0.65%	9
Bonds	0.00%	0.37%	1	7.40%	4	1.62%	16
CDs	33.20%	12.45%	9	8.89%	9	5.21%	58
Property Funds	0.00%	0.00%	0	0.00%	0	0.00%	0
Institution Breakdown							
Banks	75.07%	71.18%	15	62.85%	21	61.10%	206
Building Socs.	4.33%	6.84%	9	8.21%	14	12.16%	137
Government	0.00%	9.03%	9	16.56%	13	9.60%	82
MMFs	20.60%	12.04%	12	9.49%	15	15.00%	136
EMMFs	0.00%	0.76%	2	0.95%	3	1.71%	20
MLDBs	0.00%	0.00%	0	0.45%	1	0.06%	2
Other	0.00%	0.16%	2	1.50%	4	0.37%	9
Domestic/Foreign Exposure							
Domestic	44.75%	66.37%	15	72.03%	21	75.44%	208
Foreign	34.65%	20.83%	10	17.48%	13	7.85%	90
MMFs	20.60%	12.04%	12	9.54%	15	15.01%	136
EMMFs	0.00%	0.76%	2	0.95%	3	1.71%	20
Maturity Structure							
< 1 Month	29.26%	32.62%		32.41%		48.57%	
1-3 Months	21.65%	13.45%		17.16%		14.23%	
3-6 Months	33.20%	21.58%		23.35%		18.30%	
6-9 Months	5.77%	7.01%		6.34%		9.07%	
9-12 Months	10.11%	10.96%		10.47%		6.67%	
12 Months +	0.00%	14.39%		10.28%		3.15%	

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.