Public Accounts Select Committee			
Report Title	**Treasury Management Mid-year Review 2017/18**		
Key Decision	No		Item No: 7
Ward	All		
Contributors	**Head of Corporate Resources**		
Class	Part 1		Date: 16 November 2017

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 30 September 2017. 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 disappointingly in 2017, with weak growth influenced by the large element of uncertainty about the final form that Brexit might take. The outlook for the next two to three years includes a number of potential risks, including:

- The pace and scale of any future changes to the UK base rate;
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows;
- Recapitalisation of European banks and a resurgence of the Eurozone sovereign debt crisis; and
- Volatile or weakening global growth, particularly in the US, China and Japan.

1.3 In terms of performance, the capital expenditure estimate for 2017/18 has fallen to £102m, from £124m, principally in respect of the HRA. 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 0.48% (down from 0.59% last year). For the 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 at this time.

2. STRUCTURE

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

- Purpose
- Recommendations
- Policy Context
- Background and Prior Year Outturn
- Economic Update
- Treasury Management Strategy Statement and Annual Investment Strategy Update
- The Council's Capital Position (Prudential Indicators)
- Investment Portfolio 2017/18
- Borrowing
- Debt Rescheduling
- Other Issues

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 part of 2017/18;

(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 2017/18;

(v) A review of the Council's borrowing strategy for 2017/18;

(vi) A review of any debt rescheduling undertaken during 2017/18; and

(vii) A review of compliance with Treasury and Prudential Limits for 2017/18.

4. RECOMMENDATIONS

4.1. The Public Accounts Select Committee are asked to note the report, in particular the macroeconomic context, performance of investments to date, updates on capital expenditure and borrowing in line with CIPFA requirements and the Council's treasury management strategy.

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 AND PRIOR YEAR OUTURN

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

6.3. 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."

6.4. 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.
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.

2016/17 Treasury Management Outturn

6.5. The overall treasury management portfolio as at 31 March 2017 is set out in the table below:

Treasury Management Outturn 2016/17	Outstanding at 31 March 2017	Average Coupon Rate	Average Remaining Duration	Outstanding at 31 March 2016
	£m	%	Years	£m
Fixed Rate Borrowing				
Public Works Loan Board	76.7	5.4	21.6	78.0
Market Loans	89.2	4.7	36.9	88.3
Sub-total – Fixed Rate Borrowing	***165.9***	***5.1***	***29.3***	***166.3***
Variable Rate Borrowing				
Public Works Loan Board	0.0	0.0	N/A	0.0
Market Loans	25.0	4.5	21.8	25.0
Sub-total – Variable Rate Borrowing	***25.0***	***4.5***	***21.8***	***25.0***
Total Debt	**190.9**	**4.8**	**25.6**	**191.3**
Investments				
Money Markets	92.4	0.4	N/A	90.5
Fixed Term Deposits	245.1	0.7	116 days	220.0
Notice Deposits	35.0	0.5	N/A	20.0
Total Investments	**372.5**	**0.6**	**116 days**	**330.5**

6.6. The net borrowing requirement for 2016/17 was minus £0.4m, this being £11.3m less than the net borrowing requirement of £10.9m for 2015/16 as set out in the table below:

Net Borrowing Requirement	2016/17	2015/16
	£m	£m
Capital Investment	46.8	72.3
Capital Grants	(15.9)	(36.2)
Capital Receipts	(19.2)	(11.7)
Revenue	(4.7)	(11.9)
Net position	***7.0***	***12.5***
MRP	(6.1)	(1.6)
Maturing Debt	(1.3)	0
Net Borrowing Requirement	**(0.4)**	**10.9**

6.7. In previous years the Council has financed its net borrowing requirement from temporary cash balances it holds. As at 31 March 2017, this internal borrowing totalled £51.7m, which is the difference between the Capital Financing Requirement (CFR) and the Council's actual borrowing.

Debt and CFR Movement	2016/17	2015/16
	£m	£m
Capital Financing Requirement *	242.6	241.7
External Debt	(190.9)	(191.3)
Difference – internal borrowing	***51.7***	***50.4***

* Excluding other long term liabilities

6.8. With the exception of capitalised interest of £0.9m on one loan, there was no new borrowing in 2016/17. Two PWLB loans matured and were repaid in 2016/17, reducing the outstanding loan balance by £1.3m.

7. ECONOMIC UPDATE

7.1. The Economic update is provided by our treasury advisors Capital Asset Services:

UK

7.2. After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure.

7.3. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

7.4. The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time.

7.5. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC. This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action.

7.6. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

7.7. On 2 November the MPC voted to increase the Bank Rate to 0.5%; the big question now is whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019, and the Bank of England's own forecasts are based on two more rate hikes priced in over three years. Minutes released from the recent meeting indicate that the Bank is in no hurry to raise rates again, suggesting further increases will be limited.

7.8. Some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

Eurozone

7.9. Economic growth in the EU, (the UK's biggest trading partner), has been lacklustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

USA

7.10. Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of

2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

Asia

7.11. Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems

7.12. Japan is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Interest rate forecasts

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

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB Rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.20%	2.20%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB Rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

7.14. Capita Asset Services undertook its last review of interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report, and before the recent rate increase on 2 November.

7.15. The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include what final form Brexit will take, when finally agreed with the EU. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and to get inflation up consistently to around monetary policy target levels.

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

- The pace and timing 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 causing an increase in the inflation premium inherent to gilt yields.

8. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

8.1. The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by Council on 22 February 2017.

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

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 below shows the original estimates for capital expenditure in 2017/18 and the changes since the capital programme was agreed by Council in the Budget.

Capital Expenditure	Original Feb 17 £m	Revised Sep 17 £m	Change £m	%
General Fund				
Building Schools for the Future	0.0	0.0	0.0	0%
Schools – Primary Places and Other Capital Works	20.6	21.1	0.5	2%
Highways, Footways and Bridges	3.5	7.7	4.2	120%
Major Regeneration Schemes	10.1	22.0	11.9	118%
Town Centres and High Street Improvements	0.0	0.0	0.0	0%
Asset Management Programme	3.8	3.6	(0.2)	(5%)
Other Schemes	7.5	10.4	2.9	39%
Sub total	***45.5***	***64.8***	***19.3***	***42%***
Housing Revenue Account	78.0	37.6	(40.4)	(52%)
Total	**123.5**	**102.4**	**(21.1)**	**(17%)**

9.3. The General Fund revised capital expenditure plan at the half year increased by 42%, reflecting an updated Highways TFL-funded budget, further loan capital to fund Lewisham Homes' acquisition programme, and the addition of new projects such as the Fleet replacement programme and the PLACE/Deptford project. The Housing Revenue Account revised capital expenditure plan has been reduced by 52% to reflect the re-profiled spend on the New Homes, Better Places programme.

<u>Financing of the Capital Programme</u>

9.4 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 in 2017/18. 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.

Capital Expenditure Financing	Original Feb 17 £m	Revised Sep 17 £m	Change £m	%
Grants and contributions	21.0	25.7	4.7	22%
Capital Receipts	21.2	19.1	(2.1)	(10%)
General reserves / revenue	76.0	44.8	(31.2)	(41%
Sub total	***118.2***	***89.6***	***(28.6)***	***(24%)***
Borrowing Required	5.3	12.8	7.5	142%
Total	**123.5**	**102.4**	**(21.1)**	**(17%)**

9.5 The CFR forecast for 2017/18, which is the underlying external need to incur borrowing for a capital purpose, has increased since it was reported in February's Budget; this is largely due to an increase of £7.5m in borrowing required as per the above table, which takes into account the arrangement between the Council and Lewisham Homes to finance their property acquisition programme (see section 11.4). There are no other changes at this stage and a full outturn position, including the operational boundary, will be presented with the 2018/19 Budget in February 2018.

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 2017/18 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council's policy is not to borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within the approved CFR estimates and will be utilised if it is deemed to be prudent. The forecast position for the end of 2017/18 has changed from that reported in the Budget, on the assumption that the change in external debt will not be as high as originally forecast. The CFR is forecast to be approximately £36m higher than the actual level of external debt, as shown in the below table.

	2016/17 Actual £m	2017/18 Forecast (as per February 2017 Budget) £m	2017/18 Forecast (at 30 September 2017) £m
External Debt at 1 April	191.3	190.9	190.9
Change in External Debt	(0.4)	46.0	25.2
Other Long-Term Liabilities	243.8	236.2	236.2
Gross Debt at 31 March	**434.7**	**473.1**	**452.3**
Capital Financing Requirement at 31 March	**486.4**	**477.2**	**488.1**
Borrowing – Over / (Under)	**(51.7)**	**(4.1)**	**(35.8)**

9.7 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. The level for 2017/18 was set at £529.1m in the Budget and includes on balance sheet PFI schemes and finance leases as well as borrowing. 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.

9.8 The table below shows the updated Operational Boundary forecast for 2017/18, that is the limit which external debt is not normally expected to exceed, and the updated 2017/18 Authorised Limit if the new Operational Boundary were to be applied. Mid-year forecasts indicate that the Council is operating well within the limits approved in the February 2017 Budget.

	2016/17 Actual £m	2017/18 Forecast (as per February 2017 Budget) £m	2017/18 Forecast (at 30 September 2017) £m
Maximum External Debt at 31 March	190.9	236.9	216.1
Other Long-Term Liabilities	243.8	236.2	236.2
Operational Boundary for the Year	**434.7**	**473.1**	**452.3**
Provision for Non Receipt of Expected Income	56.0	56.0	56.0
Authorised Limit for Year	**490.7**	**529.1**	**508.3**

9.9 The Executive Director for Resources and Regeneration reports that no difficulties are envisaged for the current or future years in complying with either of these prudential indicators.

10. INVESTMENT PORTFOLIO 2017/18

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 7, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades, as rates have been very low and in line with the 0.25% Bank Rate in force since August 2016. 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 and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

10.2. The Council held £426m of investments as at 30 September 2017 (£372m at 31 March 2017) and the investment portfolio yield for the first six months of the year is 0.48% (compared to 0.59% this time last year).

10.3. The Council is a member of a London treasury benchmarking group (organised by Capita Asset Services) along with 12 other London authorities. An extraction of the latest available 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.

10.4. A full list of investments held as at 30 September 2017 is shown below:

Counterparty	Duration (Days)	Principal £m	Interest Rate	Interest £k
Barclays Bank Plc (TD)	183	20.000	0.590%	59,162
United Overseas Bank Ltd (TD)	364	10.000	0.550%	54,849
Societe Generale (TD)	186	10.000	0.420%	21,403
OP Corporate Bank Plc (TD)	365	15.000	0.550%	82,500
Societe Generale (TD)	184	10.000	0.400%	20,164
Credit Industriel et Commercial (CD)	184	5.000	0.430%	10,147
Landesbank Hessen-Thueringen Girozentrale (Helaba) (TD)	364	10.000	0.630%	62,827
Credit Agricole Corporate and Investment Bank (TD)	117	10.000	0.270%	8,655
Bank of Montreal (TD)	364	10.000	0.570%	56,844
Close Brothers Limited London (TD)	185	5.000	0.600%	15,205
Landesbank Hessen-Thueringen Girozentrale (Helaba) (TD)	364	5.000	0.650%	32,411
Cooperatieve Rabobank U.A. (TD)	364	5.000	0.540%	26,926
Landesbank Hessen-Thueringen Girozentrale (Helaba) (TD)	364	5.000	0.610%	30,416
Credit Industriel et Commercial (CD)	184	15.000	0.370%	26,091
The Royal Bank of Scotland Plc (CD)	364	10.000	0.730%	69,829
The Royal Bank of Scotland Plc (CD)	361	10.000	0.680%	64,552
Commonwealth Bank of Australia (TD)	364	15.000	0.520%	77,786
Commonwealth Bank of Australia (TD)	364	10.000	0.520%	51,858
UBS AG (CD)	364	10.000	0.550%	52,121
The Royal Bank of Scotland Plc (CD)	364	5.000	0.660%	31,547
OP Corporate Bank Plc (TD)	364	10.000	0.510%	50,860
Australia and New Zealand Banking Group Ltd (TD)	364	25.000	0.500%	124,658
Cooperatieve Rabobank U.A. (TP)	364	5.000	0.450%	22,438
UBS AG (CD)	364	15.000	0.480%	71,803

10.5 In addition to the fixed investments above, the Council holds certain funds in money market funds and notice accounts. A list of these investments held as at 30 September 2017 is shown below:

Money Market Funds

Counterparty	Principal £m	Average Interest Rate
Blackrock	6.490	0.120%
Standard Life (Ignis)	30.000	0.200%
Insight	30.000	0.170%
Federated (PR)	30.000	0.210%

Notice Accounts

Counterparty	Principal £m	Interest Rate
Santander UK Plc (180 Day Notice)	20.000	0.550%
Lloyds Bank Plc (175 Day Notice)	20.000	0.650%
Bank of Scotland Plc (175 Day Notice)	20.000	0.650%
Goldman Sachs International Bank (185 Day Notice)	5.000	0.865%
Goldman Sachs International Bank (185 Day Notice)	5.000	0.825%
Goldman Sachs International Bank (185 Day Notice)	10.000	0.785%

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 2017/18.

Investment Counterparty List

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

11. BORROWING

11.1. The Council's latest forecast capital financing requirement (CFR) for 2017/18 is £488m. 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 £201m and has utilised £19m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

11.3. It is anticipated that further borrowing, most likely internal borrowing, will be undertaken during this financial year as the capital programme develops, which will require ongoing monitoring.

11.4. In June 2017 the Council took out a new £10m loan with the PWLB and advanced it to Lewisham Homes to finance their acquisition programme to address temporary accommodation pressures. The loan agreement allows for a maximum of £20m to be drawn down by Lewisham Homes, the additional £10m to be borrowed from the PWLB as required (although it is not expected to be borrowed in this financial year). As per the terms of the loan agreement, the deal is effectively cost neutral to the Council and exempt from MRP providing sufficient security is held against the borrowing. Officers will monitor the ongoing programme to ensure this security meets this criteria over the life of the loan.

12. DEBT RESCHEDULING

12.1. Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling was undertaken during the first six months of 2017/18.

12.2. However, the Council is close to finalising a deal to restructure one of its LOBO loans this financial year. The terms of the restructure will, over the remaining lifetime of the loan, result in a revenue benefit of approximately £25m.

13. OTHER ISSUES

Revised CIPFA Codes

13.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes during November.

13.2. A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non-treasury investments. Officers are monitoring developments and will report to members when the new codes have been agreed and issued, and on the likely impact on the Council.

Market in Financial Instruments Directive (MiFID) II

13.3. The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MiFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date, reclassifying local authorities from professional clients to retail clients. In order to maintain these relationships and continue accessing the investment opportunities that form part of the current treasury strategy, the Council is undertaking an “opt-up” process to preserve its current professional status with each relevant institution. Officers expect to have opted-up where necessary by the January deadline.

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. Authorities are required to produce and keep under review for the forthcoming year a range of indicators based on actual figures. These are set out in the report. The CIPFA Treasury Management Code of Practice says that movement may be made between the various indicators during the year by an Authority’s Chief Finance Officer as long as the indicators for the total Authorised Limit and the total Operational Boundary for external debt remain unchanged. Any such changes are to be reported to the next meeting of the Council.

15.2. Under Section 5 of the 2003 Act, the prudential indicator for the total Authorised Limit for external debt is deemed to be increased by an amount of any unforeseen payment which becomes due to the Authority within the period to which the limit relates which would include for example additional external funding becoming available but not taken into account by the Authority when determining the Authorised Limit. Where Section 5 of the Act is relied upon to borrow above the Authorised Limit, the Code requires that this fact is reported to the next meeting of the Council.

15.3. Authority is delegated to the Executive Director for Resources & Regeneration to make amendments to the limits on the Council’s counterparty list and to undertake Treasury Management in accordance with the CIPFA Treasury Management Code of Practice and the Council's Treasury Policy Statement.

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. 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.

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 bills	UK sovereign rating	£60m	6 months
Money market funds	AAA	£30m	Liquid
Local authorities	N/A	£10m	1 year
Term deposits with banks and building societies	Yellow* Purple Blue Orange Red Green No Colour	£30m £25m £40m £25m £20m £15m 0	Up to 2 years Up to 2 years Up to 1 year Up to 1 year Up to 6 months Up to 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£40m £25m £20m £15m 0	Up to 1 year Up to 1 year Up to 6 months Up to 100 days Not for use
Call accounts and notice accounts	Yellow* Purple Blue Orange Red Green No Colour	£30m £25m £40m £25m £20m £15m 0	Liquid
Pooled asset funds		£50m	At least 5 years

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

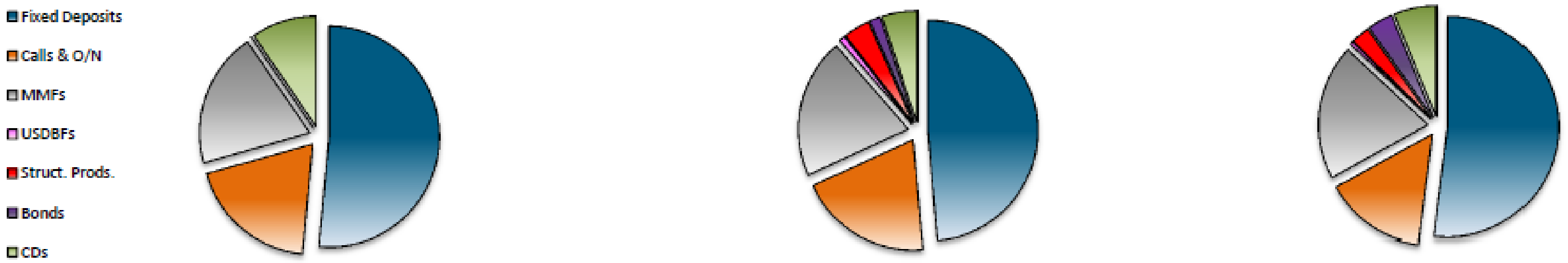
APPENDIX 2 - Extract of the Benchmarking Data with 12 other London Authorities June 2017

London Bororugh Of Lewisham

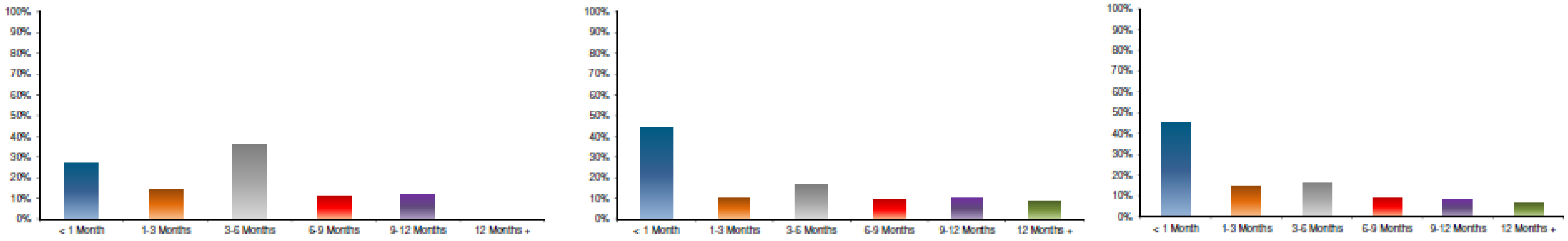
Summary Sheet

	London Bororugh Of Lewisham	Benchmarking Group 2 (15)	London (21)
		Basic Portfolio Characteristics	
WARoR	0.48%	0.62%	0.56%
WAM	128	148	125
WATT	190	305	267
WA Credit Risk	3.90	3.23	2.96
Model WARoR	0.48%	0.61%	0.57%
Difference	0.00%	0.00%	-0.01%
Model Band	0.42% - 0.55%	0.55% - 0.68%	0.50% - 0.63%
Performance	Inline	Inline	Inline

Asset Breakdown



Maturity Profiles



APPENDIX 2 - Extract of the Benchmarking Data with 12 other London Authorities June 2017

London Bororugh Of Lewisham

Peer Comparison

	London Bororugh Of Lewisham	Benchmarking Group 2 (15)		London (21)		Population Average (224)	
Basic Characteristics							
Principal	£417,652,000	£271,451,724		£279,707,850		£80,296,263	
WARoR	0.48%	0.62%		0.56%		0.50%	
WAM	128	148		125		101	
WATT	190	305		267		189	
WA Credit Risk	3.90	3.23		2.96		3.50	
Portfolio Breakdown							
Fixed Deposits	51.48%	48.57%	13	52.00%	19	47.57%	189
Calls & O/N	19.15%	19.61%	12	15.03%	17	23.54%	191
MMFs	19.79%	20.41%	14	19.87%	19	21.90%	161
USDBFs	0.00%	0.91%	2	0.42%	2	2.01%	25
Struct. Prods.	0.00%	3.84%	7	2.75%	7	0.35%	10
Bonds	0.00%	1.60%	2	3.72%	4	0.91%	15
CDs	9.58%	5.06%	6	6.20%	7	3.73%	45
Institution Breakdown							
Banks	74.22%	58.99%	15	51.83%	21	55.10%	212
Building Socs.	5.99%	4.60%	8	4.05%	10	8.27%	99
Government	0.00%	13.24%	10	20.48%	17	11.85%	103
MMFs	19.79%	20.40%	14	19.79%	19	21.91%	162
USDBFs	0.00%	0.91%	2	0.42%	2	2.01%	25
MLDBs	0.00%	0.93%	1	1.94%	2	0.33%	3
Other	0.00%	0.93%	2	1.50%	4	0.53%	10
Domestic/Foreign Exposure							
Domestic	40.70%	64.68%	15	64.77%	21	67.19%	216
Foreign	39.51%	14.02%	8	15.02%	12	8.87%	98
MMFs	19.79%	20.40%	14	19.79%	19	21.93%	162
USDBFs	0.00%	0.91%	2	0.42%	2	2.01%	25
Maturity Structure							
< 1 Month	26.97%	44.35%		45.49%		48.05%	
1-3 Months	14.37%	10.32%		14.63%		12.26%	
3-6 Months	35.92%	16.32%		16.44%		22.61%	
6-9 Months	10.77%	9.67%		8.93%		7.41%	
9-12 Months	11.97%	10.50%		8.21%		6.17%	
12 Months +	0.00%	8.84%		6.31%		3.50%	

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.