Mayor and Cabinet			
Report Title	Treasury Management Mid-year Review 2018/19		
Key Decision	No		Item No:
Ward	All		
Contributors	Executive Director for Resources & Regeneration (Head of Corporate Resources)		
Class	Part 1		Date: 21 November 2018

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 (focused on security, liquidity and return in that order) and capital position as at 30 September 2018. 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 modestly in the first half of 2018, 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 2018/19 has increased slightly from £136m to £138m due to a re-profiling of expenditure across the programme and additional information made available on confirmed grant funding. On current plans no difficulties are envisaged for the current or future years in complying with the Code's requirements for prudential borrowing.

1.4 Council investments are managed within the agreed parameters and delivered a yield (on an annualised basis) for the six months to 30 September of 0.72% (up from 0.48% last year). For the risk profile this performance is in line with the benchmark group of London Authorities.

1.5 There are no changes proposed to the Treasury Management strategy at this time with next update being part of the Budget report in February 2019.

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 2018/19
- 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's (CIPFA) Code of Practice on Treasury Management. It covers the following:

(i) An economic update for the first part of the 2018/19 financial year;

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

(iii) The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;

(iv) A review of the Council's investment portfolio for 2018/19;

(v) A review of the Council's borrowing strategy for 2018/19;

(vi) A review of any debt rescheduling undertaken during 2018/19; and

(vii) A review of compliance with Treasury and Prudential Limits for 2018/19.

4 RECOMMENDATIONS

4.1 Mayor and Cabinet 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 compliance with the Council's Treasury Management Strategy.

5 POLICY CONTEXT

5.1 The overarching policy and decision making framework for the discharge of the Council's many functions and duties is contained in Lewisham's Sustainable Community Strategy. The Strategy contains two overarching principles which are:

- Reducing inequality – narrowing the gap in outcomes.
- Delivering together efficiently, effectively and equitably – ensuring that all citizens have appropriate access to and choice of high quality services.

5.2 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 borrowing, 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 CIPFA Code of Practice on Treasury Management (revised 2017). 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.

Capital Strategy

6.5 In December 2017 CIPFA issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following:

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- An overview of how the associated risk is managed;
- The implications for future financial sustainability

The first iteration of the Capital Strategy was taken to Mayor and Cabinet on 11 July 2018 with an updated 2018/19 Treasury Management Strategy; going forward, it will be taken to Mayor and Cabinet and full Council with the Treasury Strategy as part of the Budget Report annual cycle at the beginning of the calendar year.

2017/18 Treasury Management Outturn

6.6 The overall treasury management portfolio as at 31 March 2018 is set out in the table below:

Treasury Management Outturn 2017/18	Outstanding at 31 March 2018	Average Coupon Rate	Average Remaining Duration	Outstanding at 31 March 2017
	£m	%	Years	£m
Fixed Rate Borrowing				
Public Works Loan Board	88.7	5.3	21.8	76.7
Market Loans	92.5	4.7	31.5	89.2
Sub-total – Fixed Rate Borrowing	***181.2***	***5.0***	***26.7***	***165.9***
Variable Rate Borrowing				
Public Works Loan Board	0.0	0.0	0.0	0.0
Market Loans	48.2	4.5	40.3	25.0
Sub-total – Variable Rate Borrowing	***48.2***	***4.5***	***40.3***	***25.0***
Total Debt	**229.4**	**4.8**	**33.5**	**190.9**
Investments				
Money Markets	100.9	0.4	N/A	92.4
Fixed Term Deposits	230.0	0.7	165 days	245.1
Notice Deposits	80.0	0.8	N/A	35.0
Total Investments	**410.9**	**0.6**	**165 days**	**372.5**

6.7 The net borrowing requirement for 2017/18 was £9.4m, this being £9.8m higher than the net borrowing requirement of minus £0.4m for 2016/17 as set out in the table below:

Net Borrowing Requirement	2017/18	2016/17
	£m	£m
Capital Investment	57.2	46.8
Capital Grants	(18.5)	(15.9)
Capital Receipts	(18.8)	(19.2)
Revenue	(5.0)	(4.7)
Net position	***14.9***	***7.0***
MRP	(5.5)	(6.1)
Maturing Debt	0.0	(1.3)
Net Borrowing Requirement	**9.4**	**(0.4)**

6.8 In previous years the Council has financed its net borrowing requirement from temporary cash balances it holds. As at 31 March 2018, this internal borrowing totalled £22.6m, which is the difference between the Capital Financing Requirement (CFR) and the Council's actual borrowing.

Debt and CFR Movement	2017/18	2016/17
	£m	£m
Capital Financing Requirement *	252.0	242.6
External Debt	(229.4)	(190.9)

Difference – internal borrowing	***22.6***	***51.7***

* Excluding other long term liabilities

6.9 In 2017/18 the Council undertook a debt restructuring exercise against one of its LOBO loans (Lender Option Borrower Option) which, after seeking the relevant advice and approvals, saw the drafting of a detailed restructuring solution which will deliver almost £24m of revenue savings to the Council over the remaining life of the loan, representing a present value benefit of approximately £5.4m. As a result of that restructure, the value of market loans on the balance sheet increased by £28.5m

6.10 In addition, the Council took out a total of £12m in loans with the Public Works Loan Board (PWLB) and advanced it to its Arm's Length Management Organisation (ALMO), Lewisham Homes, to finance their acquisition programme addressing temporary accommodation pressures. The loan agreement allows for a maximum of £20m to be drawn down by Lewisham Homes, and the final £8m was drawn down in April 2018, financed by an additional £8m loan from the PWLB.

6.11 There were no loan maturities in 2017/18. A £10m LOBO matured and was repaid in May 2018, with no further maturities until May 2020.

7 ECONOMIC UPDATE

7.1 The economic update is provided by our treasury advisors Link Asset Services and is at Appendix 4.

<u>Interest Rate Forecasts</u>

7.2 The Council's treasury advisor, Link Asset Services, has provided the following forecast:

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%

25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

7.3 The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in the Bank Rate and shorter term PWLB rates are probably also even and broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly Brexit negotiations move forward positively.

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

- Bank of England monetary policy takes action too quickly over the next three years to raise the Bank Rate, causing UK economic growth, and increases in inflation, to be weaker than we currently anticipate;
- A resurgence of the Eurozone sovereign debt crisis;
- Weak growth or recession in the UK's main trading partners - the EU and US;
- Weak capitalisation of some European banks;
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.

7.5 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, include:

- US fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US, resulting in further sell offs of government bonds in major western countries;
- 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 sustained 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 2018/19 was approved by Council on 21 February 2018. A revised TMSS for 2018/19 was approved by Mayor and Cabinet on 11 July 2018.

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 2018/19 and the changes since the capital programme was agreed by Council in the Budget.

Capital Expenditure	Original Feb 18 £m	Revised Sep 18 £m	Change £m	Change %
General Fund				
Smarter Working Programme (Invest to Save agreed 17/18)	2.0	2.1	0.1	5%
Schools – Pupil Places and Other Capital Works	18.8	11.6	(7.2)	(38%)
Highways, Footways and Bridges	4.2	9.4	5.2	124%
Regeneration Schemes	8.0	8.9	0.9	11%
Lewisham Homes Property Acquisition	10.0	8.0	(2.0)	(20%)
Town Centres and High Street Improvements	2.8	2.0	(0.8)	(29%)
Asset Management Programme	3.9	4.2	0.3	8%
Fleet Replacement Programme	2.6	2.9	0.3	12%
Beckenham Place Park	5.5	4.0	(1.5)	(27%)
Travellers Site Relocation	1.1	1.0	0.0	0%
ICT – Tech Refresh	0.7	0.9	0.2	29%
Private Sector Grants and Loans (Inc DFG)	1.7	3.0	1.3	76%
Other Schemes	1.9	7.3	5.4	284%
Sub total	***63.2***	***65.4***	***2.2***	***3%***
Housing Revenue Account	72.7	72.4	(0.3)	0%
Total	**135.9**	**137.8**	**1.9**	**1%**

9.3 The General Fund revised capital expenditure forecast at September 2018 has increased marginally by 3%, with slight adjustments to forecasts throughout the programme. The Schools programme forecast has reduced by £7.2m due to a re-profiling of the Pupil Places Programme budget, whilst the Highways, Footways and Bridges budget has increased by £5.2m which takes into account funds from TFL confirmed post-budget setting in February. Further grant confirmations post February are also the reason for the 76% increase in Private Sector Grants and Loans.

<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 2018/19. 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. The table shows that a forecasted increase in use of capital receipts and revenue has reduced the estimated borrowing required to finance the capital programme in 2018/19 by almost 50%.

Capital Expenditure Financing	Original Feb 18 £m	Revised Sep 18 £m	Change £m	%
Grants and contributions	28.7	28.8	0.1	0%
Capital Receipts	2.5	6.6	4.1	164%
General reserves / revenue	87.0	93.4	6.4	7%
Sub total	***118.2***	***128.8***	***10.6***	***9%***
Borrowing Required	17.7	9.0	(8.7)	(49%)
Total	**135.9**	**137.8**	**1.9**	**1%**

9.5 The CFR forecast for 2018/19, which is the underlying external need to incur borrowing for a capital purpose, has decreased since it was reported in February's Budget (see table at 9.7); this is largely due to a £10m adjustment in the underlying prudential borrowing figures. The final actuals for 2018/19, as well as forecasts for 2019/20 to 2021/22, will be presented with the 2019/20 Treasury Management Strategy in February 2019.

<u>Limits to Borrowing Activity</u>

9.6 The first key control over 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 2018/19 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.

9.7 The forecast gross debt position for the end of 2018/19 has changed from that reported in the February Budget due to an increase in the opening external debt balance (£10m due to an accounting adjustment to recognise the fair value on recognition of the restructured market loan, and £2m relating to loans provided to Lewisham Homes) and an adjustment to the change in external debt which reflects the net effect of a repayment of a maturing market loan, and the drawdown of loan funds from the £20m facility agreed with Lewisham Homes. With the adjusted CFR, the end result is a mid-year forecast under borrowed position of £30.3m, as shown in the below table.

	2017/18 Actual £m	2018/19 Forecast (as per February 2018 Budget) £m	2018/19 Forecast (at 30 September 2018) £m
External Debt at 1 April	190.9	217.4	229.4
Change in External Debt	38.5	(0.2)	(2.2)
Other Long-Term Liabilities	236.1	228.3	228.1
Gross Debt at 31 March	**465.5**	**445.5**	**455.3**
Capital Financing Requirement at 31 March	**488.1**	**496.4**	**485.6**
Borrowing – Over / (Under)	**(22.6)**	**(50.9)**	**(30.3)**

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. The level for 2018/19 was originally forecast at £501.5m 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.

9.9 The table below shows the updated Operational Boundary forecast for 2018/19, that is the limit which external debt is not normally expected to exceed, and the updated 2018/19 Authorised Limit if the new Operational Boundary were to be applied. Mid-year forecasts indicate an increase in the Operational Boundary and Authorised Limit for the year, due to reasons outlined above in section 9.7.

	2017/18 Actual £m	2018/19 Forecast (as per February 2018 Budget) £m	2018/19 Forecast (at 30 September 2018) £m
Maximum External Debt at 31 March	229.4	217.2	227.2
Other Long-Term Liabilities	236.1	228.3	228.1
Operational Boundary for the Year	**465.5**	**445.5**	**455.3**
Provision for Non Receipt of Expected Income	56.0	56.0	56.0
Authorised Limit for Year	**512.5**	**501.5**	**511.3**

9.10 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 2018/19

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 are very low and in line with the current 0.75% 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 and the fact that increases in the 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 £414m of investments as at 30 September 2018 (£411m at 31 March 2018) and the investment portfolio annualised yield for the first six months of the year is 0.72% (compared to 0.48% this time last year).

10.3 The Council is a member of a London treasury benchmarking group (organised by Link Asset Services) along with 12 other London authorities. An extract from the latest available benchmarking report is shown in Appendix 2. This shows that the return on investments in June is broadly 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 2018 is shown below:

Counterparty	Duration (Days)	Principal £m	Interest Rate	Interest £k
Landesbank Hessen-Thueringen Girozentrale (Helaba) (TD)	273	10.000	0.710%	53,104
Sumitomo Mitsui Banking Corporation Europe Ltd (TD)	182	20.000	0.850%	84,767
Landesbank Hessen-Thueringen Girozentrale (Helaba) (TD)	273	5.000	0.660%	24,682
DBS Bank Ltd (TD)	185	5.000	0.850%	21,541
Credit Industriel et Commercial (CD)	184	10.000	0.780%	37,814
OP Corporate Bank Plc (TD)	365	15.000	0.780%	117,000
Bank of Scotland Plc (TD)	365	5.000	0.900%	45,000
Lloyds Bank Plc (TD)	365	5.000	0.900%	45,000
DBS Bank Ltd (TD)	184	15.000	0.720%	54,148
Credit Industriel et Commercial (CD)	184	10.000	0.760%	38,104
Cooperatieve Rabobank U.A. (TD)	276	15.000	0.970%	110,022
Landesbank Hessen-Thueringen Girozentrale (Helaba) (TD)	365	5.000	0.760%	38,000
Cooperatieve Rabobank U.A. (TD)	364	5.000	0.760%	37,896
Landesbank Hessen-Thueringen Girozentrale (Helaba) (TD)	364	5.000	0.800%	39,890
Australia and New Zealand Banking Group Ltd (TD)	185	25.000	0.980%	124,178
National Westminster Bank PLC (RFB) (TD)	182	5.000	0.900%	22,315
Credit Agricole Corporate and Investment Bank (TD)	181	10.000	0.890%	44,134
Toronto-Dominion Bank (TD)	364	10.000	1.050%	104,712
DBS Bank Ltd (TD)	182	5.000	0.880%	33,030
OP Corporate Bank Plc (TD)	364	10.000	0.900%	68,055
Commonwealth Bank of Australia (TD)	364	15.000	0.920%	137,622
Commonwealth Bank of Australia (TD)	364	10.000	0.900%	89,753
Cooperatieve Rabobank U.A. (TD)	273	5.000	0.900%	33,658
National Westminster Bank PLC (RFB) (CD)	364	5.000	0.970%	48,367
Toronto-Dominion Bank (TD)	364	10.000	0.970%	96,734
National Westminster Bank PLC (RFB) (TD)	365	15.000	1.050%	157,500

10.5 In addition to the fixed investments above the Council holds certain funds in same-day access money market funds, and notice accounts. A list of these investments held as at 30 September 2018 is shown below:

Money Market Funds

Counterparty	Principal £m	Average Interest Rate
Blackrock	22.540	0.670%

Counterparty	Principal £m	Average Interest Rate
Insight	26.911	0.670%
Federated	30.000	0.700%

Notice Accounts

Counterparty	Principal £m	Interest Rate
Santander UK Plc (180 Day Notice)	20.000	0.950%
Lloyds Bank Plc (175 Day Notice)	20.000	1.000%
Bank of Scotland Plc (175 Day Notice)	20.000	1.000%
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 2018/19.

Investment Counterparty List

10.7 The current investment counterparty criteria 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 2018/19 is £486m. 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. As at 30 September 2018, the Council has borrowings of £227m and has utilised approximately £10m 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 April 2018 the Council took out a new £8m loan with the PWLB and advanced it to Lewisham Homes, completing the drawdown of funds against the £20m loan agreement to finance their acquisition programme for addressing temporary accommodation pressures. 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 continue to monitor the ongoing programme to ensure the 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 2018/19.

13 OTHER ISSUES

UK Banks – Ring-fencing

13.1 The largest UK banks (those with more than £25bn of retail/Small and Medium-sized Enterprise (SME) deposits) are required by UK law to separate core retail banking services from their investment and international banking activities by 1 January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future.

13.2 Ring-fencing is a regulatory initiative in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking. In general, simpler activities offered from within a ring-fenced bank (RFB) will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

13.3 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the newly-formed entities in the same way that it does others and those with sufficiently high ratings (and other metrics) will be considered for investment purposes.

IFRS 9 Accounting Standard

13.4 This accounting standard came into effect from 1 April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments (e.g. pooled funds, third party loans, commercial investments) are likely to be impacted. As such, the impact on this authority is likely to be minimal, but officers will continue to evaluate the impact ahead of accounts closedown at the end of the financial year.

13.5 The Ministry of Housing, Communities and Local Government (MHCLG) are currently conducting a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments. Members will be updated when the result of this consultation is known.

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 - CNAV	AAA	£30m	Liquid
Money Market Funds - LVNAV	AAA	£30m	Liquid
Money Market Funds - VNAV	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 (CNAV) money market funds and collateralised deposits where the collateral is UK Government debt.*

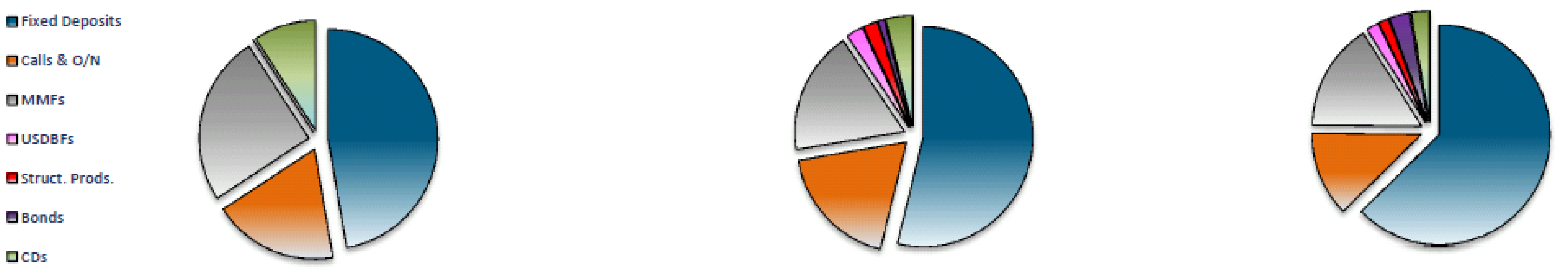
APPENDIX 2 - Extract of the Benchmarking Data with 12 other London Authorities June 2018

London Borough Of Lewisham

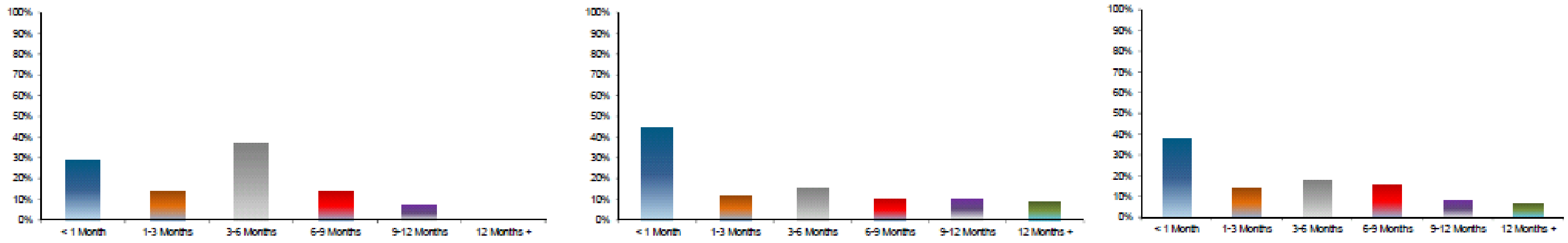
Summary Sheet

	London Borough Of Lewisham	Benchmarking Group 2 (13)	London (19)
		Basic Portfolio Characteristics	
WARoR	0.70%	0.74%	0.74%
WAM	119	141	139
WATT	199	269	266
WA Credit Risk	3.46	3.36	3.43
Model WARoR	0.65%	0.76%	0.75%
Difference	0.04%	-0.02%	-0.01%
Model Band	0.60% - 0.71%	0.70% - 0.81%	0.69% - 0.80%
Performance	Inline	Inline	Inline

Asset Breakdown



Maturity Profiles



APPENDIX 2 - Extract of the Benchmarking Data with 12 other London Authorities June 2018

London Borough Of Lewisham

Peer Comparison

	London Borough Of Lewisham	Benchmarking Group 2 (13)		London (19)		Population Average (223)	
Basic Characteristics							
Principal	£433,249,000	£270,511,660		£267,767,434		£74,903,584	
WARoR	0.70%	0.74%		0.74%		0.66%	
WAM	119	141		139		92	
WATT	199	269		266		178	
WA Credit Risk	3.46	3.36		3.43		3.19	
Portfolio Breakdown							
Fixed Deposits	47.32%	53.81%	12	62.66%	19	45.89%	184
Calls & O/N	18.47%	18.58%	9	12.52%	13	24.21%	183
MMFs	24.99%	18.15%	12	15.81%	15	22.60%	159
USDBFs	0.00%	2.48%	2	1.84%	4	2.08%	22
Struct. Prods.	0.00%	2.14%	2	1.46%	2	0.32%	6
Bonds	0.00%	0.92%	2	3.01%	4	1.03%	18
CDs	9.23%	3.93%	4	2.69%	4	3.88%	46
Institution Breakdown							
Banks	75.01%	58.40%	13	52.44%	19	50.44%	209
Building Socs.	0.00%	2.76%	5	9.23%	10	6.99%	83
Government	0.00%	16.68%	9	19.64%	13	17.84%	123
MMFs	24.99%	18.15%	12	15.79%	15	22.42%	158
USDBFs	0.00%	2.48%	2	1.84%	4	2.08%	22
MLDBs	0.00%	0.46%	1	0.32%	1	0.03%	1
Other	0.00%	1.08%	2	0.74%	2	0.20%	11
Domestic/Foreign Exposure							
Domestic	30.01%	63.40%	13	66.41%	19	67.09%	215
Foreign	45.01%	15.98%	9	15.95%	14	8.36%	97
MMFs	24.99%	18.15%	12	15.79%	15	22.46%	158
USDBFs	0.00%	2.48%	2	1.84%	4	2.08%	22
Maturity Structure							
< 1 Month	28.45%	44.68%		38.16%		50.29%	
1-3 Months	13.85%	11.47%		14.24%		13.19%	
3-6 Months	36.93%	15.49%		17.45%		20.89%	
6-9 Months	13.85%	10.16%		15.83%		7.66%	
9-12 Months	6.92%	9.79%		8.14%		5.07%	
12 Months +	0.00%	8.40%		6.19%		2.90%	

APPENDIX 3 - Extract of the Benchmarking Data with 12 other London Authorities June 2018

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 Link 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.

APPENDIX 4 – Economic Overview from Link Asset Services

UK

1.1 The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee (MPC) to unanimously (9-0) vote to increase the Bank Rate on 2 August 2018 from 0.5% to 0.75%. Growth forecasts for 2018 look modest at around 1.6%, with the Office for Budget Responsibility (OBR) forecasting 'resilient' growth in the next five years, falling to 1.4% in 2020 before recovering back to 1.6% in 2023; however, there are several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

1.2 Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, although fell back to 2.4% in September and is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated the Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

1.3 As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009 (the previous high point was in July 2015). Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in the Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing the Bank Rate again, especially given all the uncertainties around Brexit.

1.4 In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA

1.5 President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2% (annualised rate) in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US (China in particular) could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

Eurozone

1.6 Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

Asia

1.7 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

1.8 Japan has been struggling to stimulate consistent significant GDP 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.

END