Mayor & Cabinet			
Report Title	**Treasury Management Mid-year Review Report 2016/17**		
Key Decision	No		Item No:
Ward	All		
Contributors	**Executive Director for Resources & Regeneration**		
Class	Part 1		Date: 7 December 2016

Lateness: This report was not available for the original dispatch because officers needing additional time to complete their review of the current Treasury Management performance and prepare the report.

Urgency: The report is urgent and cannot wait until the next meeting of the Mayor & Cabinet on 11 January 2017 to comply with the requirement of the CIPFA Treasury Management Code of Practice and to enable Members to note the position of the Council's Treasury Management Strategy before considering the Treasury Management Strategy with the Council's budget in the New Year.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b)(4) the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

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 2016. 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 2016 however there are large uncertainties in the outlook. These include the following risks:

- The implications of the UK's EU referendum result most immediately the inflationary pressures from the loss of value of sterling;
- 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 2016/17 has fallen to £85m, from £129m, 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 0.59% (down from 0.65% 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 and one change the Prudential Indicators (to reflect revised Capital Finance Requirement) and one change the Treasury Indicators (to provide some flexibility in the profile of fixed rate borrowing).

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
- Investment Portfolio 2015/16
- Borrowing
- Debt Rescheduling
- New Banking Contract

3. PURPOSE OF THE REPORT

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

(i) An economic update for the first part of 2016/17;

(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 2016/17;

(v) A review of the Council's borrowing strategy for 2016/17;

(vi) A review of any debt rescheduling undertaken during 2016/17; and

(vii) A review of compliance with Treasury and Prudential Limits for 2016/17.

4. RECOMMENDATIONS

4.1. Mayor and Cabinet are 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.
- the changes (section 12) to the Treasury Indicators and Limits in respect of the fixed interest rate borrowing to reflect the maturing structure of the existing borrowing portfolio.
- officers work to explore the options, as a non-specified investment, of pooled investment funds and residential mortgage backed securities for periods of greater than twelve months 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 2017.

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

<u>Background</u>

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. (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.

2015/16 Treasury Management Outturn

6.5. The overall treasury management portfolio as at 31 March 2016 is set out in the table below:

Treasury Management Outturn 2015/16	**Outstanding at 31 March 2016**	**Average Coupon Rate**	**Average Remaining Duration**	**Outstanding at 31 March 2015**
	£m	**%**	**Years**	**£m**
Fixed Rate Borrowing				
Public Works Loan Board	78.0	5.1	36.0	78.0
Market Loans	88.3	4.5	46.7	87.4
Sub-total – Fixed Rate Borrowing	***166.3***	***4.8***	***41.4***	***165.4***
Variable Rate Borrowing				
Public Works Loan Board	0	0	N/A	0
Market Loans	25.0	4.6	37.5	25.0
Sub-total – Variable Rate Borrowing	*25.0*	*4.6*	*37.5*	*25.0*
Total Debt	**191.3**	**4.7**	**39.5**	**190.4**
Investments				
Money Markets	90.5	0.5	N/A	81.0
Fixed Term Deposits	220.0	0.8	137.0	220.0
Notice Deposits	20.0	0.7	135.0	10.0
Total Investments	**330.5**	**0.7**	**136.0**	**311.0**

6.6. The net borrowing requirement for 2015/16 was £10.9m, this being £10.1m higher than the net borrowing requirement of £0.8 for 2014/15 as set out in the table below:

Net Borrowing Requirement	2015/16	2014/15
	£m	£m
Capital Investment	72.3	65.3
Capital Grants	(36.2)	(50.9)
Capital Receipts	(11.7)	(4.3)
Revenue	(11.9)	(6.7)
Net position	***12.5***	***3.4***
MRP	(1.6)	(8.5)
Maturing Debt	0	5.9
Net Borrowing Requirement	**10.9**	**0.8**

6.7. In previous years the Council has financed its net borrowing requirement from temporary cash balances it holds. As at 31 March 2016, this internal borrowing totalled £50.4m, which is the difference between the Capital Financing Requirement (CFR) and the Council's actual borrowing.

Debt and CFR Movement	2015/16	2014/15
	£m	£m
Capital Financing Requirement *	241.7	230.8
External Debt	(191.3)	(190.4)
Difference – internal borrowing	***50.4***	***40.3***

* Excluding other long term liabilities

6.8. With the exception of the capitalised interest £0.9m on one loan, there was no new borrowing in 2015/16. There were no external debt transactions during 2015/16 therefore the average interest rate of the external debt and the average duration remained the same as the previous year.

7. ECONOMIC UPDATE

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

<u>UK</u>

7.2. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year 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. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

7.3. The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

7.4. The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

USA

7.5. The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

Eurozone

7.6. In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

Asia

7.7. Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

Interest rate forecasts

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

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

7.9. Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

7.10. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, we have been experiencing exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates. Our PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

7.11. The overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Weak capitalisation of some European banks.
- A resurgence of the Eurozone sovereign debt crisis.
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a further flight to safe havens (bonds).
- 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.

7.12. 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 than in the wider EU and US, 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 2016/17 was approved by Council on 24 February 2016.

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

8.3. Officers continue to explore the options, as a non-specified investment, to use pooled investment funds (property funds and residential backed mortgage securities) for periods of greater than twelve months. Such funds typically have higher entry and exit fees and therefore require a longer term investment and higher risk appetite for higher returns. 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.

8.4. 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 2017.

8.5. There is one change to the Prudential Indicators and one to the Treasury Indicators. Respectively, they are:

- lower CFR to reflect revised lower capital programme which reduces the anticipated level of General Fund prudential borrowing by £10m; and
- amended upper limits for the structure of fixed rate borrowing which need to reflect the maturing nature of the Council's existing loans over 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.

<u>Prudential Indicator for Capital Expenditure</u>

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

Table2: Capital Expenditure by service area

Capital Expenditure	Original Feb £m	Revised Sep £m	Change £m	%
General Fund				
Building Schools for the Future	1.2	2.8	1.6	133%
Schools	7.4	14.3	6.9	93%
Highways & Transport	6.0	8.5	1.5	25%
Regeneration	11.7	11.7	0.0	0%
Town Centres	3.6	0.3	-3.3	-92%
Asset Management Programme	3.1	1.5	-1.6	-52%
Other	10.1	8.9	-1.2	-12%

Capital Expenditure	Original Feb £m	Revised Sep £m	Change £m	%
Sub total	**43.1**	**48.0**	**4.9**	**11%**
Housing Revenue Account	86.1	36.7	-49.4	-57%
Total	**129.2**	**84.7**	**-44.5**	**-34%**

9.3. The General Fund revised capital expenditure plan at the half year increased by 11%, reflecting in the main the additional costs anticipated to deliver school projects. The Housing Revenue Account revised capital expenditure plan has been reduced by 57% to reflect the revised timings for the delivery of the Housing Matters and Decent Homes programmes.

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

Capital Expenditure Financing	Original Feb £m	Revised Sep £m	Change £m	%
Grants and contributions	13.1	19.2	6.1	47%
Capital Receipts	53.1	27.9	-25.2	-47%
General reserves / revenue	48.3	33.0	-15.3	-32%
Sub total	***114.5***	***80.1***	***-34.4***	***-30%***
Borrowing Required	14.7	4.6	-10.1	-69%
Total	**129.2**	**84.7**	**-44.5**	**-34%**

9.4 The CFR, which is the underlying external need to incur borrowing for a capital purpose, is on target with a reduction of £10m noted in the table above for the General Fund. There are no other changes at this stage and a full outturn position, including the operational boundary, will be presented with the Budget in February.

Limits to Borrowing Activity

9.5 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 2016/17 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. The forecast position for the end of 2016/17 remains with the CFR approximately £45m higher than the actual level of external debt.

9.6 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 2016/17 was set at £507.7m 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.

9.7 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 2016/17

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 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the credit worthiness of banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

10.2. The Council held £367m of investments as at 30 September 2016 (£342m at 31 March 2016) and the investment portfolio yield for the first six months of the year is 0.59% (compared to 0.65% this time last year).

10.3. The Council is a member of a London treasury benchmarking group (organised by Capita Services) along with 12 other London authorities. An extraction of the September 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 2016 is shown below:

Table 4: Fixed Term Deposits

Counterparty	Duration	Principal £m	Rate	Interest £k
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

Counterparty	Duration	Principal £m	Rate	Interest £k
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
Bank of Scotland Plc	94	10.000	0.650%	16,740
BNP Paribas	185	10.000	0.700%	35,479
Toronto Dominion Bank	364	20.000	0.900%	179,507
Sumitomo Mitsui Banking Corporation Europe Ltd	184	5.000	0.720%	17,520
Landesbank Hessen-Thueringen Girozentrale (Helaba)	364	10.000	0.900%	89,753
Nationwide BS	183	10.000	0.710%	35,597
Goldman Sachs International Bank	185	10.000	0.780%	39,534
Credit Industriel et Commercial	185	15.000	0.700%	53,219
Goldman Sachs International Bank	186	5.000	0.620%	15,797
ABN AMRO Bank N.V.	182	15.000	0.600%	43,012
Landesbank Hessen-Thueringen Girozentrale (Helaba)	364	5.000	0.920%	45,874
Cooperatieve Rabobank U.A.	186	5.000	0.500%	12,740
BNP Paribas	186	5.000	0.530%	13,504
Norddeutsche Landesbank Girozentrale	186	10.000	0.530%	12,730
Danske Bank	184	15.000	0.500%	37,808
Landesbank Hessen-Thueringen Girozentrale (Helaba)	364	5.000	0.970%	48,367
Cooperatieve Rabobank U.A.	181	15.000	0.460%	34,216
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	181	20.000	0.450%	44,630
Abbey National Treasury Services plc	364	15.000	0.900%	134,630
Commonwealth Bank of Australia	364	10.000	0.990%	98,729
Abbey National Treasury Services plc	365	5.000	0.900%	45,000
Commonwealth Bank of Australia	364	10.000	0.990%	98,729

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 2016 is shown below:

Money Market Funds

MMF Counterparty	Principal £m	Average Interest
Blackrock	12.657	0.28%
Standard Life (Ignis)	30.000	0.37%
Insight	30.000	0.33%

MMF Counterparty	Principal £m	Average Interest
Federated (PR)	30.000	0.37%

Call and Notice Accounts

Counterparty	Principal £m	Interest Rate
Santander UK Plc - (95 Day Notice) (Base rate 0.25 + 10 Basis Points)	10.000	0.35%
Lloyds Bank Plc – 175 Day Notice account	10.000	0.60%
Lloyds Bank Plc – 175 Day Notice account	5.000	0.60%
Santander Corporate notice account – 180-day notice account	5.000	0.55%
Bank of Scotland Plc – 175 Day Notice account	5.000	0.60%

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 2016/17.

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 2016/17 is £474m. 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 £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.

11.3. It is anticipated that further borrowing, most likely internal borrowing, may be undertaken during this financial year as the capital programme develops. This position will require ongoing monitoring alongside the review of opportunities to favourably refinance existing borrowing and support investment in agreed Lewisham objectives (such as the Lewisham Homes acquisition programme to address Temporary Accommodation pressures) which may require external borrowing.

11.4. In recent years the Council has not added to its additional borrowing and therefore set Treasury

12. DEBT RESCHEDULING

12.1. Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2016/17. However, the Council continues to explore opportunities in respect of the financing of its PFIs and external loans.

12.2. The current Treasury indicators reflect that the existing fixed interest rate borrowing profile has been stable. This needs updating to recognise that the existing borrowing continues to mature. At the same time, following advice from our Treasury Advisors, it is proposed to introduce some headroom and flexibility in the indicators (i.e. so they add up to more than 100%). This will enable the Authority to take on additional borrowing with an appropriate level of maturity for the purposes the borrowing is required. The table below sets out the changes.

Table: Treasury Indicators and Limits

Maturity structure of fixed interest rate borrowing 2016/17 (Lower limits remain 0%)	Current Upper	Revised Upper
Under 12 months	1%	10%
12 months to 2 years	0%	10%
2 to 5 years	6%	10%
5 to 10 years	4%	15%
10 to 20 years	13%	20%
20 to 30 years	5%	25%
30 to 40 years	20%	50%
40 to 50 years	51%	60%

13. FINANCIAL IMPLICATIONS

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

14. LEGAL IMPLICATIONS

14.1. 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.

14.2. 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.

14.3. 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.

15. ENVIRONMENTAL IMPLICATIONS

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

16. HUMAN RESOURCES IMPLICATIONS

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

17. CRIME AND DISORDER IMPLICATIONS

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

18. EQUALITIES IMPLICATIONS

18.1. 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
Debt Management Office – 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 bank (>50% state owned)*

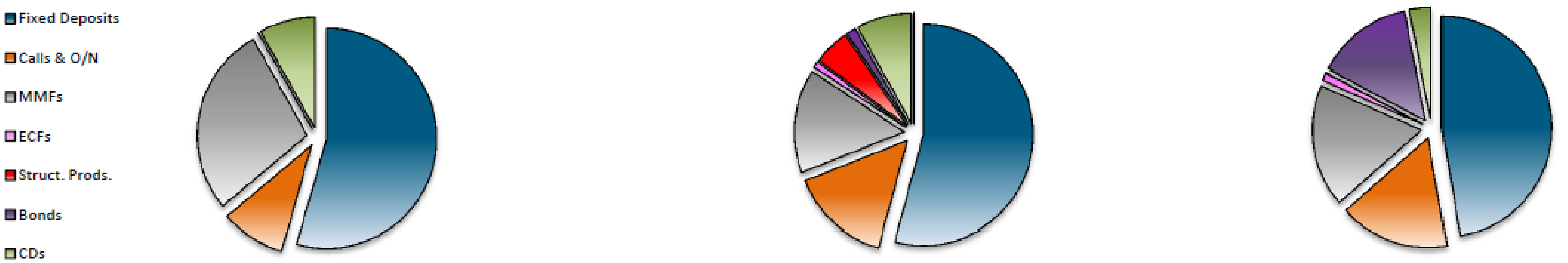
APPENDIX 2 - Extract of the Benchmarking Data with 12 other London Authorities September 2016

London Borough Of Lewisham

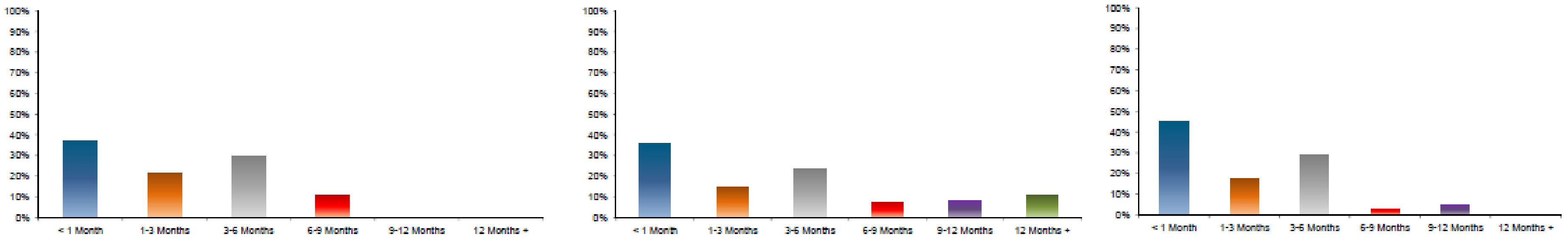
Summary Sheet

	London Borough Of Lewisham	Benchmarking Group 2 (15)	London (20)
		Basic Portfolio Characteristics	
WARoR	0.59%	0.77%	0.51%
WAM	83	158	72
WATT	159	331	148
WA Credit Risk	3.7	3.5	3.1
Model WARoR	0.59%	0.77%	0.56%
Difference	-0.01%	0.00%	-0.05%
Model Band	0.53% - 0.66%	0.71% - 0.83%	0.50% - 0.62%
Performance	Inline	Inline	Inline

Asset Breakdown



Maturity Profiles



APPENDIX 2 - Extract of the Benchmarking Data with 12 other London Authorities September 2016

London Borough Of Lewisham

Peer Comparison

	London Borough Of Lewisham	Benchmarking Group 2 (15)		London (20)		Population Average (236)	
Basic Characteristics							
Principal	£367,657,000	£260,148,296		£281,917,584		£79,974,564	
WARoR	0.59%	0.77%		0.51%		0.62%	
WAM	83	158		72		97	
WATT	159	331		148		187	
WA Credit Risk	3.68	3.46		3.07		3.64	
Portfolio Breakdown							
Fixed Deposits	54.40%	54.20%	13	47.36%	5	51.43%	210
Calls & O/N	9.52%	14.83%	14	16.19%	5	22.59%	204
MMFs	27.92%	15.20%	13	18.01%	3	18.83%	170
ECFs	0.00%	0.93%	3	1.14%	1	1.73%	24
Struct. Prods.	0.00%	5.33%	6	0.00%	0	0.56%	13
Bonds	0.00%	1.40%	2	14.22%	2	1.19%	20
CDs	8.16%	8.11%	9	3.08%	1	3.66%	47
Institution Breakdown							
Banks	69.36%	64.64%	15	47.75%	6	55.67%	225
Building Socs.	2.72%	5.16%	8	8.10%	4	12.66%	149
Government	0.00%	13.06%	7	24.81%	2	10.86%	86
MMFs	27.92%	15.20%	13	18.01%	3	18.83%	170
ECFs	0.00%	0.93%	3	1.14%	1	1.73%	24
MLDBs	0.00%	0.37%	1	0.00%	0	0.02%	1
Other	0.00%	0.63%	3	0.18%	1	0.23%	9
Domestic/Foreign Exposure							
Domestic	25.84%	61.04%	15	62.77%	6	68.58%	232
Foreign	46.24%	22.83%	10	18.08%	4	10.86%	120
MMFs	27.92%	15.20%	13	18.01%	3	18.83%	170
ECFs	0.00%	0.93%	3	1.14%	1	1.73%	24
Maturity Structure							
< 1 Month	37.44%	35.63%		45.43%		44.97%	
1-3 Months	21.76%	14.86%		17.73%		15.34%	
3-6 Months	29.92%	23.70%		29.22%		26.69%	
6-9 Months	10.88%	7.47%		3.07%		5.63%	
9-12 Months	0.00%	7.79%		4.55%		4.51%	
12 Months +	0.00%	10.55%		0.00%		2.87%	

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.