Lewisham

Mayor and Cabinet

- **Treasury Management Mid-Year Review 2021/22**

Date: 06/10/2021

Key decision: No.

Class: Part 1.

Ward(s) affected: All

Contributors: Director of Finance

Outline:

The purpose of this report is to set out the following:

- An economic update for the five months of the 2021/22 financial year;
- A review of the Treasury Management Strategy;
- An update on the Council's capital expenditure programme and prudential indicators;
- A review of the Council's investment portfolio for 2021/22;
- A review of the Council's borrowing strategy for 2021/22; and
- A review of compliance with treasury and prudential limits for 2021/22.

Recommendation:

Mayor and Cabinet are recommended to:

1. Note the report, in particular the macroeconomic updates, performance of investments to date, updates on capital expenditure and borrowing in line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) prudential indicators, and compliance with the Council's Treasury Management Strategy.

Timeline of engagement and decision-making:

3 March 2021 – 2021/22 Budget Report to Council (Section 5.21 onwards: Treasury Management Strategy)

10 February 2021 – 2021/22 Budget Update Report to Mayor & Cabinet

3 February 2021 – 2021/22 Budget Report to Mayor & Cabinet

1. Executive Summary

1.1. This report sets out the current economic conditions in which the Council is operating in respect of its investments and borrowing. It details the Council's treasury performance (focused on security, liquidity and return in that order) and forecast capital position as at 31 August 2021 (or alternative date as stated), and provides updates on performance against the current Treasury Management Strategy as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.

The outbreak of coronavirus in March 2020 and the global response in implementing lockdowns and coordinating economic support packages has created an unprecedented and prolonged period of economic and fiscal uncertainty, the impact of which is likely to be felt for years to come. In the UK, there has been a sharp recovery from February 2021 as a result of the vaccination programme rollout and easing of restrictions, although there will be risks which will likely persist in both the short and medium term, including:

- The pace and scale of any future changes to the UK Bank Rate;
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows;
- A resurgence of the Eurozone debt crisis; and
- UK/EU trade negotiations causing significant economic disruption and a fresh major downturn in the rate of growth.

1.2. In terms of Council performance, the overall capital expenditure estimate for 2021/22 has increased from £223.1m as per the 3 March 2021 Budget Report to £252.4m as at 30 July 2021, split between general fund (£93.8m) and housing revenue account (£158.6m). The key changes to the programme include the following:

- Brought forward underspends from 2020/21 – £6.1m
- Re-profiling of HRA schemes – £5.8m
- School minor works – £6.8m
- Transport for London – £2.4m
- Edward St – £3.6m
- Other miscellaneous – £4.7m

1.3. The Council's Operational Boundary (being the limit which external debt is not normally expected to exceed) and Authorised Limit (being the limit beyond which borrowing is prohibited) have not been breached in the year to date, and 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 an annualised average yield for the five months to 31 August 2021 of 0.16% (compared to 0.61% at September 2020). With interest rates continuing to remain low, it is likely that the final 2021/22 yield will fall short of the 0.53% achieved in 2020/21. However, for the risk profile inherent in the portfolio, current performance falls below modelled yield and is below the wider benchmark group of London authorities due to shorter term fixed deposit investments along with; lack of investment in bonds and credit default swaps, and longer term investments in pooled funds compared to other boroughs.

1.5. Due to changes in the Treasury Management Strategy that was presented to Mayor & Cabinet in February 2021, and approved by Council in March 2021, the minimum sovereign rating has excluded the UK only in order to place investments with UK institutions. With 45% of the Council's treasury portfolio currently invested in UK institutions, it was agreed to exclude the UK in the event that the sovereign rating fell below the current AA-. Individual institutions would remain subject to the usual creditworthiness checks as per Investment Strategy.

2. Recommendations

2.1. Mayor and Cabinet are recommended to:

2.1.1. Note the report, in particular the macroeconomic updates, performance of investments to date, updates on capital expenditure and borrowing in line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) prudential indicators, and compliance with the Council's Treasury Management Strategy.

3. Policy Context

3.1. The Council's 2018 to 2022 Corporate Strategy identifies seven corporate priorities and four core values which are the driving force behind what we do as an organisation. It sets out a vision for Lewisham and priority outcomes that organisations, communities and individuals can work towards to make this vision a reality. Through the work on Covid recovery these are also supported by the four Future Lewisham themes.

3.2. In taking action to implement and review the Council's treasury management function, with the overriding objective to achieve security, maintain adequate liquidity, and seek yield in line with the Council's risk appetite, we will be driven by the Council's four core values:

- We put service to the public first;
- We respect all people and all communities;
- We invest in employees; and
- We are open, honest and fair in all we do.

3.3. These core values align with the Council's seven corporate priorities, as follows:

- **Open Lewisham** - Lewisham is a welcoming place of safety for all where we celebrate the diversity that strengthens us.
- **Tackling the housing crisis** - Everyone has a decent home that is secure and affordable.
- **Giving children and young people the best start in life** - Every child has access to an outstanding and inspiring education, and is given the support they need to keep them safe, well and able to achieve their full potential.
- **Building an inclusive local economy** - Everyone can access high quality job opportunities, with decent pay and security in our thriving and inclusive local economy.
- **Delivering and defending health, social care and support** - Ensuring everyone receives the health, mental health, social care and support services they need.
- **Making Lewisham greener** - Everyone enjoys our green spaces and benefits from a healthy environment as we work to protect and improve our local environment.
- **Building safer communities** - Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.

3.4. As the Council seeks to support the borough and its businesses and residents through the pandemic and beyond, this recovery is based on the four key themes of Future Lewisham, these are:

- A Greener Lewisham;
- A healthy and well future;
- An economically sound future; and
- A future we all have a part in.

3.5. The Treasury Management Strategy will directly support the theme of an economically sound future for the borough and its residents.

4. Structure of the Report

4.1. The remainder of this report is structured as follows:

5. Background and Prior Year Outturn

5.1. The Council is required to operate 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. The onset of the coronavirus pandemic has led to unprecedented levels of economic and fiscal uncertainty, making a balanced budget even more challenging to achieve than in the previous years of austerity.

5.2. 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.

5.3. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity and the ability to meet spending commitments as they fall due, either for day-to-day revenue purposes or for larger capital projects. Treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund.

5.4. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, arising usually from capital expenditure, and are separate from the day to day treasury management activities.

5.5. 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."

5.6. The Council complies with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017). The primary requirements of the Code are as follows:

a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

c) 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.

d) 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.

e) 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.

a) Capital Strategy

5.7. The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to produce a Capital Strategy, which will 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; and
- The implications for future financial stability.

5.8. The aim of the strategy is to ensure that all elected Members on full Council fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite

5.9. The Capital Strategy is reported separately from the Treasury Management Strategy; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and strategic investments are usually driven by expenditure on an asset.

The Capital Strategy shows:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value; and
- The risks associated with each activity.

5.10. On 10 February 2021, Mayor & Cabinet agreed that the Capital Strategy would be presented later in 2021/22 financial year, now expected in December.

b) 2020/21 Treasury Management Outturn

5.11. The overall treasury management outturn for the year ending 31 March 2021 is set out in the table below:

Treasury Management Outturn 2020/21	Outstanding at 31 March 2021	Weighted Average Coupon Rate	Weighted Average Remaining Duration	Outstanding at 31 March 2020
	£m	%	Years	£m
Fixed Rate Borrowing				
Public Works Loan	92.9	4.3	25.3	96.7
Market Loans	82.5	4.0	33.2	82.5
Subtotal – Fixed Rate Borrowing	***175.4***	***4.2***	***29.0***	***179.2***
Variable Rate Borrowing				
Public Works Loan	0.0	0.0	0.0	0.0
Market Loans	37.6	2.2	36.8	37.8
Subtotal – Variable Rate Borrowing	***37.6***	***2.2***	***36.8***	***37.8***
Total Debt	**213.0**	**3.8**	**30.4**	**217.0**

Fixed Rate Investments				
Banks and Building Societies	215.0	0.21	85 (days)	175.0
Local Authorities	8.0	0.31	160 (days)	13.0
Subtotal – Fixed Rate Investments	***223.0***	***0.22***	**93 (days)**	***188.0***
Variable Rate Investments				
Money Markets	74.2	0.01	N/A	114.7
Notice Accounts	90.0	0.25	162 (days)	80.0
Subtotal – Variable Rate Investments	***164.2***	***0.11***	***162 (days)***	***194.7***
Total Investments	**387.2**	**0.19**	**107 (days)**	**382.7**

5.12. In respect of the net borrowing requirement for 2020/21 was £2.5m, this being £38.2m lower than the net borrowing requirement of £40.7m for 2019/20 as set out in the table below:

Net Borrowing Requirement	2020/21 £m	2019/20 £m
Capital Investment	73.7	73.3
Capital Grants	(35.5)	(15.7)
Capital Receipts	(11.7)	(9.7)
Revenue	(15.9)	(3.0)
Net position	***10.6***	***44.9***
MRP	(4.1)	(4.0)
Maturing Debt	(4.0)	(0.2)
Net Borrowing Requirement	**2.5**	**40.7**

5.13. As at 31 March 2021, this internal borrowing was estimated to be £74.6m, which is the difference between the Capital Financing Requirement (CFR) and the Council's actual borrowing.

Debt and CFR Movement	2020/21 £m	2019/20 £m
Capital Financing Requirement*	298.1	291.7
External Debt**	(223.5)	(217.0)
Difference – Internal Borrowing	***74.6***	***74.7***

* Excluding other long term liabilities.

**Excluding Fair Value adjustments.

6. Economic Update

6.1. The Economic update is provided by the Council's treasury advisors Link Assets Services and is at Appendix 4; this includes commentary on the impact of coronavirus on global markets.

a) Interest Rate Forecasts

6.2. The Council's treasury adviser, Link Asset Services, has published its latest interest rate forecasts up to 31 December 2023 as below:

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Bank Rate View	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%
3 Month average earnings	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.30%	0.30%	0.30%
6 Month average earnings	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.20%	0.30%	0.40%	0.50%
12 Month average earnings	0.20%	0.20%	0.20%	0.20%	0.20%	0.30%	0.30%	0.40%	0.50%	0.60%
5yr PWLB Rate	1.20%	1.20%	1.20%	1.30%	1.30%	1.30%	1.40%	1.40%	1.40%	1.50%
10yr PWLB Rate	1.60%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	1.90%	2.00%
25yr PWLB Rate	1.90%	2.00%	2.10%	2.20%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%

50yr PWLB Rate	1.70%	1.80%	1.90%	2.00%	2.10%	2.10%	2.10%	2.20%	2.20%	2.20%

6.3. The coronavirus outbreak has caused huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March 2020 to cut the Bank Rate to 0.25%, latterly it cut this further to 0.10% and it has remained unchanged since August 2020 (as at August 2021 meeting). As shown in the forecast table above, no increase in the Bank Rate is expected within the forecast horizon until June 2023 as economic recovery is expected to be gradual and, therefore, prolonged.

6.4. Furthermore, gilt yields and PWLB rates have fallen around 40 basis points since the beginning of June 2021 in the 25 and 50 year periods; and 10 basis points in some 5 and 10 year PWLB rate forecasts in 2021 and 2022. Additionally, LIBOR and LIBID rates will cease from the end of 2021.

b) Balance of Risks to the UK

6.5. The overall balance of risks to economic growth in the UK is now to the upside though there are still residual risks from variants – both domestically and their potential effects worldwide. There is relatively little domestic risk of increases in the Bank Rate exceeding 0.50% in the next two to three years and, therefore, in shorter-term PWLB rates.

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

- Mutations of the virus could render current vaccines ineffective, and tweaked vaccines may have to be developed to combat these mutations, if these are delayed this could result in further national lockdowns or sever regional restrictions;
- UK/EU trade arrangements could be impacted by complications or lack of co-operation in sorting out the significant issues outstanding which would have a major impact on trade flows and financial services;
- The Bank of England taking action too quickly, or too far, over the next three years to raise the Bank Rate, causing UK economic growth, and increases in inflation, to be weaker than currently anticipated;
- A resurgence of the Eurozone debt crisis;
- Weak capitalisation of some European banks, which could be undermined further depending on the extent of credit losses resultant of the pandemic; and
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.

6.7. Upside risks to current forecasts for UK gilt yields and PWLB rates include:

- Vaccinations have been even more successful than expected and are eradicating hesitancy around a full return to normal; which will lead to a stronger than currently expected recovery in the UK and other major developed economies; and
- The Bank of England is too slow in its pace and strength of increases in the Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in the Bank Rate faster than currently expected.

7. Annual Investment Strategy

7.1. The Treasury Management Strategy Statement (TMSS) for 2021/22 was approved by Council on 3 March 2021.

Investment Policy – Management of Risk

7.2. The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals predominantly with financial instruments (as managed by the Strategic Finance – Treasury Team); non-financial investments, essentially the purchase of income yielding assets, are summarised at the end of Section 7 and covered in detail within the separate Capital Strategy.

7.3. The Council’s investment policy has regard to MHCLG’s Guidance on Local Government Investments (“the Guidance”), the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (“the CIPFA TM Code”), and CIPFA’s Treasury Management Guidance Notes 2018.

7.4. The Council’s investment priorities will be security first, liquidity second, then return. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council’s risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

7.5. The Council uses Link Group, Treasury Solutions as its external treasury management advisor. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information including, but not solely, our treasury advisors. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

7.6. The Guidance and CIPFA TM Code place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long term ratings.
2. **Other information**; ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end, the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings, as well as information on outlooks and watches. This is fully integrated into the credit methodology provided by the advisors in producing its colour codings which show the varying degrees of suggested institution creditworthiness. This has been set out in more detail at Appendix 2.
3. **Other information sources** used will include the financial press, share prices and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. The Council has defined the list of **types of investment instruments** that the treasury team are authorised to use in the financial year, and these are listed in Appendix 2 under the categories of “specified” and “non-specified” investments

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

5. **Lending limits** (amounts and maturity) for each counterparty will be set through applying the credit criteria provided by advisors, and are set out in Appendix 2.
6. **Interest rate limits** are set out in paragraph 11.7 and place restrictions on the exposure to variable and fixed rate investments.
7. The Council has placed a limit on the amount of its investments which are invested for **longer than 365 days** (see paragraph 11.9).
8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see Appendix 5).
9. All investments will be denominated in **sterling**.
10. As a result of the change in accounting standards for 2018/19 under IFRS 9, the Council will, on an ongoing basis, consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant changes at the end of the year to the General Fund. The MHCLG enacted a statutory override in 2018/19 for a five year period over the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year, giving local authorities time to initiate an orderly withdrawal of funds if required. The Council does not at present have any pooled investments, though has scope to do so as per the creditworthiness policy in Appendix 2.

7.7. Investments will be made with reference to the core balances and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). In order to maintain sufficient liquidity, the Council will seek to utilise its notice accounts, money market funds and short-dated deposits (overnight to three months. The remainder of its investments will be placed in fixed term deposits of up to 24 months to generate improved returns, depending on prevailing market conditions.

Creditworthiness Policy

7.8. The Council's Treasury Team applies the creditworthiness service provided by its advisors Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- CDS spreads that may give early warning of changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

7.9. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments:

- Yellow 5 years*
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour Not to be used**

*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.

**except for those building societies rated BBB- or higher as set out in the policy.

7.10. The Council's creditworthiness policy has been set out at Appendix 2.

Country limits

7.11. The Council has determined that it will only use approved counterparties from the UK and from other countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5. This list will be added to, or deducted from, by officers should country ratings change in accordance with this policy.

Prior Updates to Investment Strategy

7.12. For the 2021/22 strategy an additional unspecified investment was added to the creditworthiness policy at Appendix 2, namely the ability to invest in UK building societies with a minimum credit rating of BBB- from Fitch (or equivalent), specifically those that are shown on Link Group's lending list only (but which may be rated 'No colour') for a maximum of three months and limited to £10m per institution.

7.13. Very few building societies have credit ratings assigned to them due to the lack of large ticket funding transactions that would warrant a formal credit rating being issued by one of the three main ratings agencies, and only a select few within the top ten by asset size have been issued with one. A credit rating of BBB- remains within the 'investment grade' category, subject to moderate credit risk, which is reflected by the monetary and duration limits as set out above.

7.14. This addition to the strategy was made as a result of current economic conditions and the reduced options available for investing at positive yields; in practice it opens up a limited number of two-three additional counterparties for consideration. Officers will continue to monitor the rating movements against these counterparties to ensure that any investments fall within the set criteria.

Prospects for Investment Returns

7.15. Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years. The coronavirus outbreak has caused huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March 2020 to cut the Bank Rate to first 0.25%, and then to 0.10%, it has left the Bank Rate unchanged for over one year.

7.16. Money market yields have continued to drift lower and some managers have resorted to trimming fee levels to ensure that net yields for investors remain in positive territory, or zero, where possible. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has resulted in a surplus of cash swilling around at the very short end of the market with only marginally positive returns.

7.17. The Council uses the services of its advisor, Link Group, to formulate a view on interest rates; their view is that there will be no increase in the Bank Rate in the immediate short-term up to at least June 2023 as economic recovery is expected to be gradual and therefore prolonged. Given this uncertainty, suggested investment returns are expected to remain low and money market related instruments will be sub 0.50% for the foreseeable future.

7.18. In light of these predictions for low returns the Council continues to assess, with support from its advisors, the potential risk and return offered by investing for longer (five or more years) in pooled asset funds. This policy is set with regard to the Council's liquidity requirements and to reduce the risk of a forced sub-optimal early sale of an investment; any investments entered into will be on the advice of the Council's advisors and will continue to meet the objectives of security, liquidity and return.

7.19. There is relatively little UK domestic risk of increases or decreases in the Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in the Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields (and so PWLB rates) in the UK.

7.20. A more extensive table of interest rate forecasts for September 2021 onwards, including Public Works Loan Board (PWLB) borrowing rate forecasts, is set out in Appendix 1.

Non-Treasury Investments

7.21. Treasury management investments represent the placement of cash in relation to the S12 Local Government Act 2003 investment powers, i.e. they represent investments using the residual cash available to the authority from its day to day activities, under security, liquidity and yield principles.

7.22. The Council recognises that non-treasury investments in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful management. Such investments tend to be either:

- Policy type investments; whereby capital or revenue cash is advanced for a specific Council objective and will be approved directly through Committee. This may be an advance to a third party for economic regeneration, investments in subsidiaries and joint ventures, etc.
- Strategic type investments; whereby the objective is primarily to generate capital or revenue resources to help facilitate Council services.

7.23. The Council's risk appetite for these investments is reviewed on a case-by-case basis depending on the scale and nature, and strategic fit, of the proposed investment. Where such non-treasury investments exist, they will be identified and summarised at high level within this strategy. The detail and rationale for non-treasury investments are covered in the separate Capital Strategy.

Subsidiary Companies

7.24. The Council has two wholly owned subsidiary companies, Lewisham Homes Limited and Catford Regeneration Partnership Limited (CRPL). It has invested in these subsidiaries as summarised below.

<u>Lewisham Homes Limited</u>

7.25. Lewisham Homes is an arms-length management organisation (ALMO) set up in 2007 as part of the Council's initiative to deliver better housing services and achieve the Decent Homes Standard. The company manages approximately 18,000 homes.

7.26. The Council has to date agreed two separate loan facilities with Lewisham Homes, the first on proxy commercial terms financed from internal borrowing and the second on cost-neutral terms financed through the PWLB. Both loans allow Lewisham Homes to purchase properties to address temporary accommodation needs in the borough, and will be repaid on set maturity dates.

7.27. Agreement of the property acquisition programme and relevant loan agreements was obtained from Mayor and Cabinet. State Aid issues and other risks and mitigations were considered in the approval of the loan facilities, including for the second loan the requirement for collateral against the loan in order to obtain MRP exemption.

7.28. As at 31 August 2021 the Council has advanced £17m of the available £20m commercial loan facility, and all £20m of the agreed facility financed from PWLB debt.

Catford Regeneration Partnership Limited (CRPL)

7.29. The CRPL is a property investment company created in January 2010 which owns the Catford Shopping Centre and several neighbouring properties used to generate income whilst driving forward a regeneration programme for the town centre and surrounding area.

7.30. The Council has existing loan agreements in place with the CRPL, currently on an interest only basis, with interest being capitalised until 2024/25. As at 31 August 2021 the Council expects the outstanding loan principal to be approximately £15.0m.

Other Non-Treasury Investments

Besson Street Joint Venture

7.31. The Council is an equal equity partner in a joint venture with Grainger Plc. to bring forward the development of the currently vacant Besson Street site to provide properties for the Private Rented Sector on long term tenancies. The Council has invested land at this stage and will be required to put forward an estimated £22-27m of cash to make up its share (50%) of the 40% equity, with 60% external long-term borrowing, to be invested once the scheme is built. This is currently forecast to be in 2026/27.

7.32. The Council also holds minority stakes in the following:

- 10% in Lewisham Schools for the Future LEP Limited, a Local Education Partnership established under the Council's Building Schools for the Future (BSF) programme to rebuild and refurbish secondary schools within the borough;
- Less than 1% in South-East London Combined Heat and Power Ltd (SELCHP), a joint venture with the London Borough of Greenwich for the provision of waste disposal and waste to energy processes; and
- A minority share in Newable Ltd (formerly Greater London Enterprise Ltd) which provides property management and consultancy services.

8. Capital Position (Prudential Indicators)

8.1. This section of the report is structured to update on:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of any changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

a) Prudential Indicator for Capital Expenditure

8.2. The table below shows the original estimates for capital expenditure in 2021/22 as agreed by Council in March 2021 and the latest revised estimates, with change recorded:

Capital Expenditure	Budget (M&C Feb 21) £m	Revised Budget Proposed July 2021 £m	Change £m	Change %
General Fund				
Schools - School Places Programme	10.4	11.8	1.4	13%
Schools – Other (Inc. Minor) Capital Works	1.7	9.5	7.8	459%
Highways & Bridges – LBL	2.5	2.6	0.1	4%
Highways & Bridges – TfL and Others	0.8	2.4	1.6	200%
Catford Town Centre	0.3	1.3	1.0	333%
Asset Management Programme	2.8	3.9	1.1	39%
Other AMP Schemes	0.9	2.9	2.0	222%
Broadway Theatre	4.8	5.3	0.5	10%
CCTV Modernisation	0.5	1.1	0.6	120%
Beckenham Place Park (Inc. Eastern Part)	1.7	1.9	0.2	12%
Catford Phase 1 – Thomas Lane Yard/ CCC	0.6	0.5	(0.1)	(17%)
Catford Station Improvements	0.3	0.4	0.1	33%
Lewisham Gateway (Phase 2)	3.5	3.5	0.0	0%
Disabled Facilities Grant	2.1	1.3	(0.8)	(38%)
Private Sector/Discretionary Grants and Loans	2.1	1.9	(0.2)	(10%)
Lewisham Homes – Property Acquisition	3.0	3.0	0.0	0%
Achilles St Development	1.0	1.0	0.0	0%
Edward St. Development	8.4	12.0	3.6	43%
Place Ladywell	2.7	2.6	(0.1)	(4%)
Deptford Southern Sites Regeneration	0.3	0.3	0.0	0%
Temporary Accommodation - Mayow Rd	6.6	7.0	0.4	6%
Temporary Accommodation - Canonbie Rd	1.4	1.8	0.4	29%
Temporary Accommodation - Sydney Arms	3.8	1.0	(2.8)	(74%)
Temporary Accommodation - Morton House	0.1	1.5	1.4	1400%
Temporary Accommodation- Manor Avenue	0.0	1.2	1.2	N/A
Fleet Replacement Programme	0.8	1.6	0.8	100%
Travellers Site Relocation	3.6	3.8	0.2	6%
Other Schemes	3.6	6.7	3.1	86%
Subtotal	***70.3***	***93.8***	***23.5***	***33%***
Housing Revenue Account				
HRA	152.8	158.6	5.8	4%
Total	**223.1**	**252.4**	**29.3**	**13%**

8.3. The overall capital programme for 2021/22 was agreed as £223.1m in March 2021, and revised to £252.4m as at 31 July 2021. The General Fund’s revised capital expenditure forecast at July 2021 has increased by £23.5m, or 33%, from the position reported in the March budget report, with material adjustments to several forecasts throughout the programme.

- Within the overall schools programme the estimated spend on school places has increased from £10.4m to £11.8m, whilst estimated spend on the schools minor works programme has increased from £1.7m to £9.5m;
- Asset management programmes have also seen the estimated spend increase from £3.7m to £6.8m.
- Edward Street and other schemes have also seen a significant increase, rising from £8.4m to £12m and £3.6m to £6.7m for the respective projects.

8.4. The HRA increase of £5.8m is down to re-profiling of the current schemes.

b) Financing of the Capital Programme

8.5. 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 2021/22. 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). 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). The balance of external and internal borrowing is generally driven by market conditions

8.6. This direct borrowing need may also be supplemented by maturing debt and other treasury requirements. The table below shows an increase of £17.4m in the amount of prudential borrowing required to meet the revised capital programme; this is the result of new schemes that have been implemented since the budget report was agreed in March 2021, along with an increase in HRA schemes and the re-profiling of projects.

Capital Expenditure Financing	Original Feb 21 £m	Revised Jul 21 £m	Change £m	Change %
Grants and contributions	24.5	32.8	8.3	34%
Capital Receipts	7.4	7.4	0.0	0%
General reserves / revenue	19.6	23.2	3.6	18%
Subtotal	***51.5***	***63.4***	***11.9***	***23%***
Borrowing Required	171.6	189.0	17.4	10%
Total	**223.1**	**252.4**	**29.3**	**13%**

c) Prudential Indicators

8.7. Forward projections for borrowing as at 31 March 2021 are summarised in the table below, which shows the actual external debt from treasury management operations and other long-term liabilities against the underlying capital borrowing need (the Capital Financing Requirement - CFR) which is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness, and its underlying borrowing need; any increase to capital expenditure which has not immediately been paid for through a revenue or capital resource will increase the CFR.

8.8. The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

8.9. The CFR includes any other long-term liabilities (e.g. PFI liabilities). Whilst these increase the CFR and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI or PPP provider and so the Council is not required to separately borrow for these schemes.

8.10. Changes in external debt incorporate upcoming loan maturities and projected prudential borrowing requirements in both the General Fund and the Housing Revenue Account (HRA).

8.11. The table below illustrates over/(under) borrowing relative to the combined CFR for the General Fund and HRA.

External Debt Projections

	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m	2024/25 Forecast £m
External Debt at 1 April	223.5	332.0	426.5	543.0
Change in External Debt	108.4	94.5	116.5	86.9
Other Long-Term Liabilities	231.3	222.0	211.5	199.7
Gross Debt at 31 March	**563.2**	**648.5**	**754.5**	**829.6**
CFR - HRA	133.8	225.9	333.3	408.7
CFR – General Fund and Other Long-Term Liabilities	470.6	475.0	463.7	444.8
Total Capital Financing Requirement at 31 March*	**604.4**	**700.9**	**797.0**	**853.5**
Borrowing – over / (under)	**(41.2)**	**(52.4)**	**(42.5)**	**(23.9)**

*The Capital Financing Requirement includes the prudential borrowing figures shown in Table E2 of Section 11 - Capital Programme in the 2021/22 Budget Report. The previous year's forecast prudential borrowing for capital did not materialise as expected and there is a risk that this recurs. This will be monitored during the year and reported back. This is a more acute risk given the scale and ambition of the capital programme, particularly in the HRA. We will ensure that we only borrow as the need arises

8.12. Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

8.13. The Executive Director for Corporate Resources officer reports that the Council has complied with this prudential indicator in the current year to date and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

d) Limits to Borrowing Activity

8.14. There are two measures of limiting external debt; the 'operational boundary' and 'authorised limit for external debt', which the Council reports on as part of its prudential indicators. Both are described in further detail in the following paragraphs.

The Operational Boundary for External Debt

8.15. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. The Council's operational boundary is set out below:

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Maximum External Debt at 31 March	331.9	426.5	543.0	629.9
Other Long-Term Liabilities	231.3	222.0	211.5	199.7
Operational Boundary for Year	**563.2**	**648.5**	**754.5**	**829.6**

The Authorised Limit for External Debt

8.16. This key indicator represents a control on the maximum level of borrowing, and provides a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term but is not sustainable in the longer term.

8.17. This is a statutory limit determined under Section 3(1) of the Local Government Act 2003, and needs to be set and revised by full Council. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.

8.18. The authorised limits are set out as below:

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Operational Boundary for Year	**563.2**	**648.5**	**754.5**	**829.6**
Provision for Non Receipt of Expected Income	56.0	56.0	56.0	56.0
Additional 10% Margin	56.32	64.85	75.45	82.96
Authorised Limit for Year	**675.52**	**769.35**	**885.95**	**968.56**

9. Investment Portfolio 2021/22

9.1. 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. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information. As set out in Section 6, it is no longer possible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that the Bank Rate is at 0.10%. Given this risk environment and the fact that increases in the Bank Rate are unlikely to occur before June 2023, investment returns are expected to remain extremely low.

a) Negative Interest Rates

9.2. The Bank of England has indicated it is unlikely to introduce a negative Bank Rate. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with significant access to credit, either directly or through commercial banks. In addition, the Government has provided grants to local authorities to help deal with the coronavirus crisis. This has caused some local authorities to have sudden large increases in investment balances, some of which was only very short term until those sums were able to be passed on.

9.3. Money Market Fund (MMF) yields have continued to drift lower. Some managers have suggested they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity, has resulted in a glut of money moving around at the very short end of the market; inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home. However, MMFs are still offering a marginally positive return, as are a number of financial institutions.

b) Performance as at 31 August 2021

9.4. The Council held £418m of investments as at 31 August 2021 (£387m at 31 March 2021) and the portfolio annualised yield for the first five months to 31 August 2021 of 0.16% (compared to 0.61% at September 2020). These investments provide some assurance when matched to the level of debt held, represent the reserves held for investment, and provide the working balances and cash flow to support the Council's service delivery.

9.5. The Council is a member of a treasury benchmarking group (organised by Link Asset Services) containing 15 authorities, including 12 other London authorities. An extract from the latest available benchmarking report is shown in Appendix 3; this shows that the return on investments as at June 2021 is below the Council's model weighted average rate of return provided by the treasury advisors, which is adjusted for the risks inherent in the portfolio. Portfolio performance is also below the overall benchmarking group, as well as a wider group of 19 London boroughs.

9.6. A full list of outstanding investments held as at 31 August 2021 is shown below:

Counterparty	Duration (Days)	Principal £m	Interest Rate	Interest £
Fixed Rate Investments – Banks and Building Societies				
Australia and New Zealand Banking Group	273	15.0	0.15%	16,829
Close Brothers Ltd	183	20.0	0.25%	25,068
DBS Bank Ltd.	184	5.0	0.12%	3,025
DBS Bank Ltd	277	5.0	0.14%	5,312
DBS Bank Ltd	365	15.0	0.15%	22,500
Goldman Sachs International Bank	184	20.0	0.295%	29,742
Landesbank Hessen-Thueringen	273	5.0	0.06%	2,244
Landesbank Hessen-Thueringen	92	5.0	0.09%	1,134
Landesbank Hessen-Thueringen	276	10.0	0.11%	8,318
National Bank of Canada	183	25.0	0.09%	11,281
National Westminster Bank PLC (RFB)	273	10.0	0.05%	3,740
National Westminster Bank PLC (RFB)	276	20.0	0.13%	19,660
National Westminster Bank PLC (RFB)	365	10.0	0.17%	17,000
Norddeutsche Landesbank	92	15.0	0.16%	6,049
SMBC Bank International Plc	153	20.0	0.09%	7,545
Toronto-Dominion Bank	244	20.0	0.12%	16,044

Counterparty	Duration (Days)	Principal £m	Interest Rate	Interest £
Toronto-Dominion Bank	365	5.0	0.12%	6,000
Fixed Rate Investments – Local Authorities				
London Borough of Waltham Forest	364	3.0	0.30%	8,975
Variable Rate Investments – Money Markets				
Aberdeen Standard	N/A	30.0	0.01%	N/A
BlackRock	N/A	30.0	0.01%	N/A
Federated Hermes	N/A	30.0	0.01%	N/A
Insight	N/A	10.0	0.00%	N/A
Variable Rate Investments – Notice Accounts				
Australia and New Zealand Banking Group	185	10.0	0.28%	N/A
Bank of Scotland Plc (RFB)	175	20.0	0.06%	N/A
Barclays Bank Plc (NRFB)	95	20.0	0.15%	N/A
Lloyds Bank Plc (RFB)	175	20.0	0.06%	N/A
Santander UK Plc	180	20.0	0.58%	N/A

9.7. The Executive Director of Corporate Resources confirms that the approved limits within the Annual Investment Strategy were not breached during the first five months of 2021/22.

9.8. The current investment counterparty criteria as set out in the Credit Worthiness Policy and included at Appendix 2 of this report are meeting the requirements of the treasury management function, although the current low rate environment and the reluctance of banks and building societies to accept new deposits reduces the available pool of counterparties that meet guideline investment rates.

10. Minimum Revenue Provision (MRP) Policy Statement

10.1. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision – VRP). The MRP must be determined by the Council as being a prudent provision having regard to the MHCLG Statutory Guidance on Minimum Revenue Provision.

10.2. The MRP is the amount the Council charges to the revenue account and does not correspond to the actual amount of debt repaid, which is determined by treasury related issues. Historically the Council has applied a consistent MRP policy which comprises prudential borrowing being repaid over the useful life of the asset concerned and previous borrowing being repaid at the rate of 4% (equivalent to 25 years) of the outstanding balance.

10.3. In 2016/17, this policy was changed to reflect the useful lives of the specific asset classes on the Council's balance sheet. It moved to:

- A straight line MRP of 14% equivalent to seven years for plant and equipment (such as IT and vehicles); and
- A straight line MRP of 2.5% equivalent to forty years for property (such as land and buildings).

10.4. In 2017/18 a third element was added to the Council's MRP policy, whereby no MRP need be charged on capital expenditure where the Council has assessed that sufficient collateral is held at a current valuation to meet the outstanding CFR liability, and that should it be determined at any point that insufficient collateral is held to match the Council's CFR liability a prudent MRP charge will commence.

10.5. In 2019/20 the Council commissioned an independent review of its current MRP policy to ensure it is fit for current and future spending plans, as well as a review of historic calculations and a reconciliation to the CFR to identify any potential efficiencies. The review was undertaken by the Council's treasury advisors, Link Group.

10.6. The Council implemented one of the recommendations from the report from 2019/20 onwards, specifically to adjust for an historic overcharging of MRP from 2003/04 as a result of a miscalculation in the 'Adjustment A' figure (an accounting adjustment designed to ensure minimal changes in liability when new capital financing regulations were introduced in 2003/04). The Prudential Code allows for MRP to be reduced appropriately, in line with an authority's own judgement, where Adjustment A reflects an error that increases the current MRP liability. As such, the Council reduced its ongoing liability by reducing its MRP charge to account for the higher Adjustment A figure, whilst additionally offsetting current and future years' MRP charges to recover the historic overcharging since 2003/04.

10.7. The value of the overcharge has been calculated as £10.1m, which will be recovered from 2019/20 over a 10 year period via an annual reduction to MRP. The outstanding value of the overcharge to be recovered as at 31 March 2021 is £8.1m.

11. Borrowing, Treasury Indicators and Debt Rescheduling

Borrowing Strategy

11.1. The Council's external debt as at 31 August 2021, gross borrowing plus long term liabilities, is expected to be £463.1m. The Council's borrowing strategy is consistent with last year's strategy. The Council is currently maintaining an under-borrowed position in that the CFR is not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as an alternative funding measure. In the current economic climate, this strategy is considered prudent while investment returns are low and counterparty risk remains an issue to be considered.

11.2. The Executive Director for Corporate Resources will continue to monitor interest rates in the financial markets and adopt a pragmatic and cautious approach to changing circumstances. For instance, if it was felt that there was a significant risk of a sharp fall in long and short term rates then long term borrowing will be postponed and potential rescheduling from fixed rate funding into short-term borrowing considered. Any such decisions would be reported to Mayor and Cabinet and subsequently Council, at the next available opportunity.

11.3. Alternatively, if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast (perhaps arising from an acceleration in rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks) then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in future years. Once again, any such decisions would be reported to Mayor and Cabinet and subsequently Council, at the next available opportunity.

Policy on Borrowing in Advance of Need

11.4. Members should note that 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 forward CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Treasury Indicators

11.5. There are three debt-related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. These limits need to be balanced against the requirement for the treasury function to retain some flexibility to enable it to respond quickly to opportunities to reduce costs and improve performance.

11.6. The debt related indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

11.7. The treasury indicators and limits are set out below:

Limits on Interest Rate Exposures	**2021/22**	**2022/23**	**2023/24**
	Upper	**Upper**	**Upper**
Limits on fixed interest rates:			
• **Debt only**	100%	100%	100%
• **Investments only:**			
When total portfolio >£400m	90%	90%	90%
When total portfolio <£400m	85%	85%	85%
Limits on variable interest rates			
• **Debt only**	15%	15%	15%
• **Investments only**	75%	75%	75%

Limits on Maturity Structure of Fixed Interest Rate Borrowing 2021/22		
	Lower	**Upper**
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	10%
5 years to 10 years	0%	25%
10 years to 20 years	0%	20%
20 years to 30 years	0%	25%
30 years to 40 years	0%	50%
40 years to 50 years	0%	60%

Limits on Maturity Structure of Variable Interest Rate Borrowing 2021/22		
	Lower	**Upper**
30 years to 40 years	0%	60%
40 years to 50 years	0%	40%

Long Term Investments Indicator

11.8. This indicator sets a limit on the total principal funds invested for greater than 365 days. This limit is set with regard to the Council's liquidity requirements and to manage the risks associated with the possibility of loss which may arise as a result of having to seek early repayment, or redemption of, principal sums invested.

11.9. The indicator is set out below. As at 31 August 2021, the Council is not expected to hold any investments for longer than 365 days.

Maximum Principal Sums Invested for Longer than 365 days			
	2021/22 £m	2022/23 £m	2023/24 £m
Limit on principal sums invested for longer than 365 days	50.0	50.0	50.0

Debt Rescheduling

11.10. As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate efficiencies by switching from long-term debt to short-term debt. However, these efficiencies will need to be considered in light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

11.11. The reasons for any rescheduling to take place will include:

- The generation of cash savings and/or discounted cash flow savings;
- Helping to fulfil the Treasury Strategy; and
- Enhancing the balance of the portfolio (to amend the maturity profile and/or the balance of volatility).

11.12. The Council will continue to explore rescheduling opportunities as appropriate in respect of the financing of its PFIs and external loans.

11.13. The Council has £120m of LOBO loans at nominal value as at 31 August 2021, of which £47.5m will be in their call period in 2021/22. In the event that the lender exercises the option to change the rate or terms of the loans within their call period, the Council will consider the terms being provided and also the option of repayment of the loan without penalty.

11.14. The Council continuously reviews its debt position to optimise its cash flow. Any consideration of debt rescheduling will be reported to Mayor and Cabinet and subsequently to Council at the earliest meeting possible.

11.15. No new external borrowing has been undertaken to date in 2021/22; the increase in PWLB margins over gilt yields in October 2019 and the subsequent consultation on these margins by HM Treasury, together with the impact of coronavirus on the capital programme, has led the Council to make use of internal borrowing where required this financial year.

11.16. Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

12. Financial Implications

12.1. There are no additional financial implications besides those mentioned elsewhere in this report.

13. Legal Implications

13.1. Local authorities are required to produce and monitor 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 so 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.

13.2. Under Section 5 of the Local Government Act 2003, 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.

13.3. Authority is delegated to the Executive Director of Corporate Resources to make amendments to the limits on the Council's counterparty list and to undertake treasury management in accordance with the CIPFA Code of Practice and the Council's Treasury Policies.

14. Equalities Implications

14.1. There are no direct equalities implications arising from this report.

15. Climate Change and Environmental Implications

15.1. There are no direct climate or environmental implications arising from this report.

16. Crime and Disorder Implications

16.1. There are no direct crime and disorder implications arising from this report.

17. Health and Wellbeing Implications

17.1. There are no direct health and wellbeing implications arising from this report.

18. Background Papers

18.1. The following papers are appended to this report:

- *Appendix 1 – Interest Rate Forecasts 2021 – 2024*
- *Appendix 2 – Extract from Credit Worthiness Policy*
- *Appendix 3 – Benchmarking Extract*
- *Appendix 4 – Economic Update from Link Asset Services*
- *Appendix 5 – Approved Countries for Investment*
- *Appendix 6 – Requirement of the CIPFA Treasury Management Code of Practice*

19. Report Author and Contacts

19.1. For more information please contact Kathy Freeman, Executive Director of Corporate Resources, 1st Floor Laurence House, 020 8314 9249, Kathy.Freeman@lewisham.gov.uk.

19.2. Financial implications: Michael Docherty, Treasury Accountant (Author)

19.3. Legal implications: Mia Agnew, Contracts Lawyer