London Borough of Hammersmith & Fulham **CABINET** **9 JULY 2018**	
TREASURY OUTTURN REPORT 2017/18	
Report of the Cabinet Member for Finance and Commercial Services: Councillor Max Schmid	
Open report	
Classification: For Decision **Key Decision: Yes**	
Wards Affected: All	
Accountable Director: Hitesh Jolapara: Strategic Director Finance and Governance	
Report Author: Miriam Adams, Strategic Finance Manager	**Contact Details:** Tel: 020 7641 4176 E-mail: madams@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. The purpose of this report is to:

- Present the Council's annual Treasury Management Outturn Report for 2017/18 in accordance with the Council's treasury management practices. It is a regulatory requirement for this outturn report to be presented to Council each year.

1.2. Treasury management comprises:

- managing the Council's borrowing to ensure funding of the Council's future capital programme is at minimal cost;

- investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security and liquidity.

1.3. This report complies with CIPFA's Code of Practice on Treasury Management, and covers the following:

- a review of the Council's investment portfolio for 2017/18 to include the treasury position as at 31 March 2018;
- a review of the Council's borrowing strategy for 2017/18;
- a review of compliance with Treasury and Prudential Indicator Limits for year to 31 March 2018;
- an economic update for 2017/18.

1.4 The Council has complied with all elements of the Treasury Management Strategy Statement (TMSS).

2. RECOMMENDATIONS

2.1. That this report be noted.

3. INTRODUCTION AND BACKGROUND

3.1. Treasury management in this context is defined as:

"The management of the Council'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."[1]

3.2. This annual treasury report covers:

- the treasury position as at 31 March 2018;
- the borrowing strategy for 2017/18;
- the borrowing outturn for 2017/18;
- compliance with treasury limits and prudential indicators;
- investment strategy for 2017/18; and
- investment outturn for 2017/18.

4. TREASURY ACTIVITY

4.1. The Council's debt, all held with the Public Works Loan Board (PWLB), and investment positions at the beginning and end of the year were as follows:

	31 March 2018 (£m)	**Rate (%)**	**31 March 2017 (£m)**	**Rate (%)**
General Fund (GF)	37.14	4.89	38.40	5.01
Housing Revenue Account (HRA)	180.27	4.89	186.42	5.01
Total Borrowing	**217.41**	**4.89**	**224.82**	**5.01**
Total Cash Invested	339.23	0.53	326.51	0.45
Net Cash Invested	**121.82**		**101.69**	

[1] Treasury Management Policy Statement adopted by Cabinet on the 31 January 2012 and continues to be adhered to.

4.2. The table below shows the allocation of interest paid and received during the year:

	Interest Paid (£m)	Interest Received (£m)	Net (£m)
General Fund (GF)	1.87	(1.11)	0.76
Housing Revenue Account (HRA)	9.05	(0.15)	8.90
Other*	0.00	(0.16)	(0.16)
Total	**10.92**	**(1.42)**	**9.50**

* Other: Interest paid on balances held for Section 106 and other deposits

4.3. Following the implementation of the self-financing initiative for housing, the Housing Revenue Account (HRA) is responsible for servicing 82.9% of the Council's external debt and the General Fund is responsible for the remainder.

4.4. The table below shows the split of investments by duration as at 31 March 2018:

Maturity Bucket	Bond (£m)	Call (£m)	Fixed (£m)	MMF (£m)	VNAV Fund (£m)	Total (£m)
Liquidity		0.00		83.85	39.88	123.73
< 1 Month	-34.99		38.00			3.01
1 - 3 Month	49.99	25.00	15.00			89.99
3 - 6 Months	15.00	25.00				40.00
6 - 12 Months		20.00	45.00			65.00
1 - 3 Years			17.50			17.50
Total	**30.00**	**70.00**	**115.50**	**83.85**	**39.88**	**339.23**

Treasury Management Strategy for 2017/18

4.5. The Treasury Management Strategy for 2017/18 was approved by the Council on 5 February 2017.

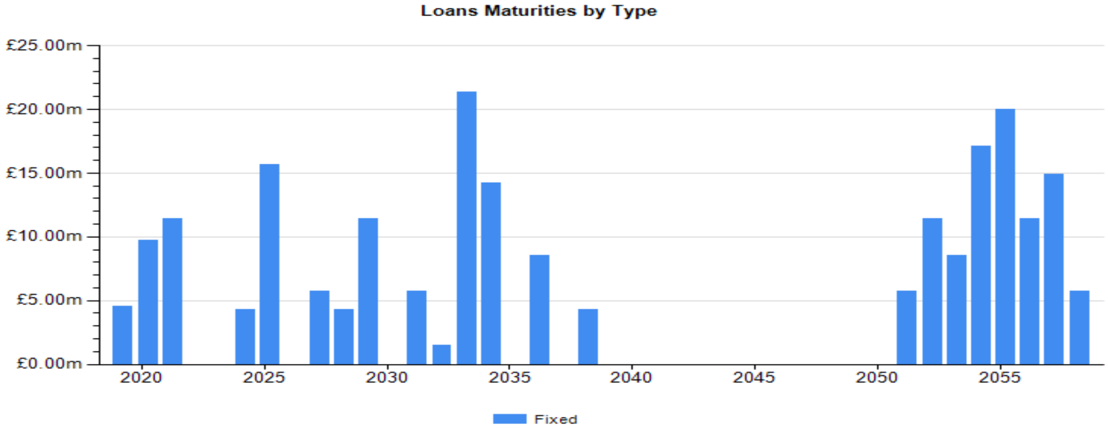
4.6. Taking into account the worldwide economic climate, it was considered appropriate to keep investments short-term and invest only with highly rated or UK Government backed institutions, resulting in relatively low returns compared with borrowing rates.

Treasury Borrowing

4.7. Due to the level of cash balances held by the Council at the start of the year (£327 million at 31 March 2017), it was anticipated that there would be no need to borrow during 2017/18, and no new long-term borrowing was undertaken during the year.

4.8. Public Works Loans Board (PWLB) debt maturing during the year, which was not refinanced, totalled £7.44 million with an average nominal interest rate of 9.3%. This resulted in a reduction in the debt outstanding to £217.41 million and the average interest rate reduced from 5.01% to 4.89%.

4.9. All of the Council’s loans are at a fixed rate of interest. The table below shows the debt profile as at 31 March 2018:



4.10. During 2017/18, longer-term PWLB rates were volatile but with little overall direction, whereas shorter-term PWLB rates were on a rising trend during the second half of the year.

Housing Revenue Account (HRA)

4.11. At 31 March 2018, the HRA Debt Cap remains at £254.62m. The PWLB debt apportioned to the HRA of £180.27 million remains below the HRA Capital Financing Requirement (CFR) of £210.27 million in the table below, thereby generating internal borrowing of £30.0m. HRA reserves and working capital, in excess of the internal borrowing, represents cash balances on which interest is allocated from the general fund.

Capital Expenditure and Capital Financing Requirement (CFR)

4.12. The Council currently maintains an internal borrowing position, whereby cash reserves currently earning low interest rates compared with borrowing rates are used to finance the capital program in the short term. This position is in line with the Council’s treasury management strategy. It is anticipated that external borrowing will commence as favourable rates become available.

The Closing Capital Financing Requirement analysed between General Fund and Housing Revenue Account in relation to capital program.

General Fund headline CFR increased by £6.29m

	CFR 31 March 2017 £m	**External Debt 31 March 2017 £m**	**CFR 31 March 2018 £m**	**External Debt 31 March 2018 £m**
GF CFR (Excluding DSG Funded Schools Windows Borrowing	47.25	-	50.48	-
GF CFR DSG Funded Schools Windows Borrowing	3.57	-	6.63	-

Total GF Headline CFR	**50.82**		**57.11**	
Finance leases/PFI	11.05		10.33	
Total Closing GF CFR	**61.87**	**38.41**	**67.44**	**37.14**
HRA Total	204.85		204.85	
Deferred Disposal Costs	5.83		5.42	
HRA CFR Total Including Deferred Disposal Costs	**210.68**	**186.41**	**210.27**	**180.27**
Total Capital CFR / Debt	**272.55**	**224.82**	**277.71**	**217.41**

NB: The 'headline' CFR shown above is consistent with capital reports. The annual accounts disclose CFR of £277.71m due to the inclusion of PFI, finance leases and deferred cost of disposal.

The Council's overall CFR is made up of the capital headline CFR and other long term liabilities like PFI and finance leases. The financing of the Council's capital program in 2017/18 is shown in the table below:

	General Fund £m	**Housing Revenue Account (HRA) £m**	**Total £m**
Capital Expenditure 2017/18	**35.64**	**37.91**	**73.55**
Financed by:			
Government & Public Body Grants	10.45	-	10.45
S106 & Other Contributions	15.01	-	15.01
Leaseholder Contributions	-	2.55	2.55
Capital Receipts	5.79	16.56	22.35
Revenue Funding	0.02	0.04	0.05
Major Repairs Reserve (MRR)	-	16.26	16.26
Earmarked Reserve (Revenue)	0.33	-	0.33
Internal Borrowing	4.04	2.51	6.55
Total Capital Financing	**35.64**	**37.91**	**73.55**

Annual Investment Strategy for 2017/18

4.13. At the start of the year, over half of the Council's portfolio (£181m) was held in tradable investments, including Government Treasury Bills (T-Bills), Supra-Nationals Banks and European Agencies, Close to Maturity Bonds, Certificates of Deposit and Commercial Paper. However, market rates in the sector fell significantly during the year. This led to funds being reinvested into fixed term deposits with other Local Authorities, Bank Notice Accounts and Enhanced Cash Funds.

4.14. The Treasury Management Strategy allowed investment in the following areas:

- an unlimited investment limit with the UK Government Debt Management Office (DMO) deposits, UK Gilts, Repos and Treasury Bills;
- up to a maximum of £100m per counterparty in Supra-National Banks, European Agencies and covered bonds debt on a buy to hold basis with maturity dates of up to five years, Transport for London (TfL) and the Greater London Authority (GLA) bonds for up to three years;

- a limit of £20m invested with any UK Local Authority, subject to internal counterparty approval by the Strategic Finance Director and Tri-Borough Director of Treasury and Pensions;
- no more than £30m to be invested with any individual Money Market Fund;
- any financial instrument held with a UK Bank limited to £70m, depending on its credit rating and Government ownership above 25% (limit of £50m); and
- any financial instrument held with a Non-UK Bank limited to £50m, depending on its credit rating.

Investment Outturn for 2017/18

4.15. The investments outstanding at 31 March 2018 amounted to £339.23m invested in short-term deposits. This compares with £326.51m as at 31 March 2017.

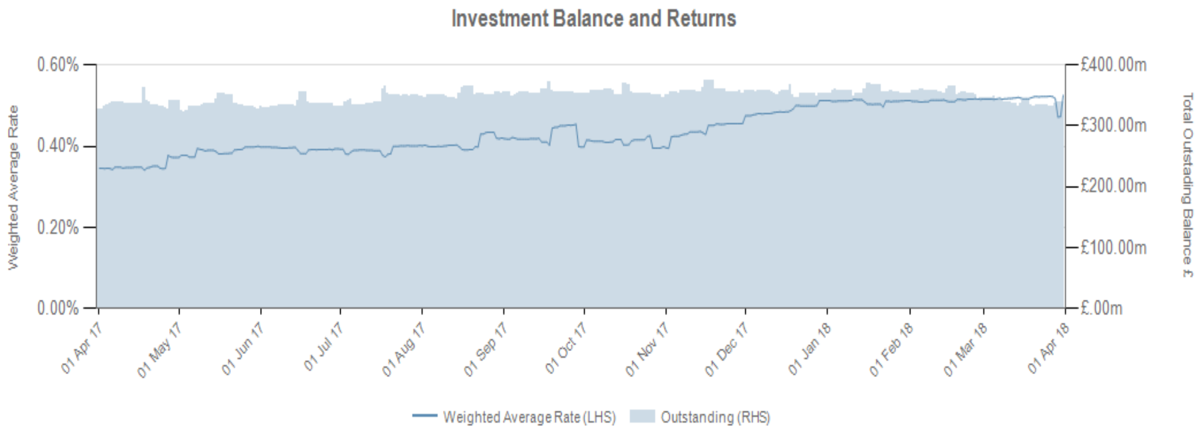
4.16. The table below provides a breakdown of cash investments, together with comparisons from previous years:

(£m)	**31/03/15**	**31/03/16**	**31/03/17**	**31/03/18**
Liquid Deposits	-	0.90	2.35	-
Money Market Funds	34.15	33.70	38.10	83.85
Notice Accounts	14.00	19.90	33.00	70.00
Custodian Held Assets	212.13	204.74	208.06	30.00
Term Deposits	99.50	40.00	45.00	115.50
Enhanced Cash Fund	-	-	-	39.88
Total	**359.78**	**299.24**	**326.51**	**339.23**

4.17. The table below provides a breakdown of the cash investments, split between General Fund and Housing Revenue Accounts:

(£m)	**31/03/15**	**31/03/16**	**31/03/17**	**31/03/18**
General Fund (GF)	296.00	253.60	273.50	292.63
Housing Revenue Account (HRA)	63.80	45.60	53.00	46.60
Total	**359.80**	**299.20**	**326.50**	**339.23**

4.18. The investment balances during the year together with the average returns are shown in the diagram below. Cash balances varied between £326m and £375m, reflecting the timing of the Council’s income (council tax, non-domestic rates, government grants and capital receipts) and expenditure (precept payments, payroll costs, supplier payments and capital expenditure).



4.19. The average return achieved on investments managed internally for the year was 0.44% compared with the average seven-day money market rate (uncompounded) of 0.21%. The total interest received amounted to £1.42m (compared with a weighted average of 0.45% and total interest received of £1.55m in 2016/17).

4.20. Interest rates remained low throughout the year. The Council followed a low risk strategy and did not seek potentially higher returns which would have increased counterparty risk.

5. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

5.1. During the financial year, the Council operated within the treasury limits set out in the Council's Treasury Policy Statement and Treasury Management Strategy Statement. The outturn for the Treasury Management Prudential Indicators is shown in A**ppendix A**.

5.2. Non Treasury related Prudential Indicators are set and monitored as part of the Council's budget process.

6. FUTURE CHANGES: IFRS 9 FINANCIAL INSTRUMENTS

6.1. IFRS 9 Financial Instruments is the new accounting standards for investments, borrowing, receivables and payables, which will apply to local authorities form the 2018/19 financial year onwards.

6.2. The new standard takes effect from 1 April 2019. There are two main changes, the first relating to the impairment of financial assets, where potential losses on investments must be charged to revenue in case actual losses are incurred in future.

6.3. The second impact arises from changes in the treatment of unrealised gains and losses on certain investments, where movements in market value must now be charged to revenue.

6.4. As at 31 March 2018, the Authority has two financial instruments which are classified as 'available for sale', and as the Authority does not hold the asset principally to sell to another party, there would be no change to the accounting treatment of these financial assets as a result of IFRS 9. The Authority will continue to ensure compliance in the accounts.

7. CONSULTATION

7.1. The Cabinet member for Finance has been consulted, and has given his support for the report.

8. EQUALITY IMPLICATIONS

8.1. The Committee is asked to note this report. There are no decisions or actions to be taken and there are no equality implications.

8.2. *Implications verified by: Peter Smith, Head of Policy & Strategy, tel. 0208 753 2206.*

9. LEGAL IMPLICATIONS

9.1. Statutory requirements are discussed within the report. All such requirements have been complied with.

9.2. *Legal Implications completed by Angus Everett, Chief Solicitor, 020 8753 2724.*

10. FINANCIAL IMPLICATIONS

10.1. The Report confirms the Treasury Management Outturn for the year. As set out in Appendix A there has been full compliance with the Treasury and Prudential indicators set for the year.

10.2. *Financial Implications provided by Andrew Lord, tel. 020 8753 2531 – Head of Strategic Planning and Monitoring.*

11. RISK MANAGEMENT

11.1. Treasury Management contributes positively to our financial efficiency enabling us to reduce the burden on residents by cutting or freezing council tax, as well as charges for services and in accordance with Council Priority of Being Ruthlessly Financially Efficient and contribute positively to the Management of Council Finances. The practices ensure the Council invests where it matters most to ultimately protect and improve front-line services. Treasury management risk has been discussed throughout the report. The Council’s approach during the year has been one of a low risk appetite with the security of capital considered paramount. This has resulted in the selection of high quality, low risk counterparties, culminating in a lower investment yield than might be expected with a higher risk appetite approach.

11.2. *Implications verified/completed by: Michael Sloniowski, Risk Manager - 020 8753 2587.*

12. IMPLICATIONS FOR BUSINESS

12.1. There are no implications for business arising from this report.

12.2. *Implications verified/completed by: Albena Karameros, Economic Development Team, 07739 316 597.*

13. COMMERCIAL IMPLICATIONS

13.1. Work is currently being undertaken with regard to the inclusion of asset backed securities (ABS) within the Treasury Management Strategy, and a further report and recommendation is pending. An approved recommendation will result in a market procurement for an external ABS manager.

13.2. *Implications verified/completed by: Phil Triggs, Tri-Borough Director of Treasury & Pensions, tel. 020 76414136.*

14. IT IMPLICATIONS

14.1. There are no IT implications contained within this report.

14.2. *Implications completed by: Veronica Barella, Chief Information Officer, tel. 020 8753 2927.*

LOCAL GOVERNMENT ACT 2000

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Capital Programme Monitor and budget Variations 2017/18 (Outturn) - published	Andrew Lord, ext 2531	Finance

LIST OF APPENDICES:

Appendix A: Treasury Management Prudential indicators

APPENDIX A

TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2017/18

During the financial year to 31 March 2018, the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS approved by Council on 5 February 2017.

Indicator	2017/18 Approved Limit	2017/18 Actual	Indicator Met?
Capital Financing Requirement	279.30m	277.71	Met
HRA debt Cap	254.62m	254.62m	Met
Authorised Limit for external debt[2]	£345.0m	£217.41m	Met
Operational debt boundary[3]	£290.0m		Met

Interest Rate Exposure	Lower Limit	Upper Limit	Actual at 31 Mar 2018	Indicator Met?
Fixed Rate Debt	£0m	£345.0m	£217.41m	Met
Variable Rate Debt	£0m	£69.0m	£0m	Met
Maturity Structure of Borrowing				
Under 12 Months	0%	15%	2%	Met
12 mths to within 24 mths	0%	15%	4%	Met
24 mths to within 5 years	0%	60%	5%	Met
5 years to within 10 years	0%	75%	14%	Met
Over 10 years	0%	100%	75%	Met

[2] The Authorised Limit is the maximum requirement for borrowing taking into account maturing debt, capital programme financing requirements and the ability to borrow in advance of need for up to two years ahead.

[3] The Operational Boundary is the expected normal upper requirement for borrowing in the year.