London Borough of Hammersmith & Fulham **CABINET** **1 JULY 2019**	
TREASURY OUTTURN REPORT 2018/19	
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 of Finance and Governance	
Report Author: Patrick Rowe, Acting Treasury Manager	**Contact Details:** Tel: 020 7641 6159 E-mail: prowe@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 2018/19 in accordance with the Council's treasury management practices. It is a regulatory requirement for this outturn report to be presented to Council by the 30 September of each year.

1.2. Treasury management comprises:

- managing the Council's borrowing to ensure funding of the Council's future capital programme is at optimal 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 2018/19 to include the treasury position as at 31 March 2019;

- a review of the Council's borrowing strategy for 2018/19;

- a review of compliance with Treasury and Prudential Limits for year to 2018/19.

- an economic update for 2018/19.

1.4 During 2018/19, 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 2019;
- the borrowing strategy for 2018/19;
- the borrowing outturn for 2018/19;
- compliance with treasury limits and prudential indicators;
- investment strategy for 2018/19; and
- investment outturn for 2018/19.

4. TREASURY POSITION AT YEAR END

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 2019 (£m)	Rate (%)	31 March 2018 (£m)	Rate (%)
General Fund (GF)	36.36	4.77	37.14	4.89
Housing Revenue Account (HRA)	176.48	4.77	180.27	4.89
Total Borrowing	**212.84**	**4.77**	**217.41**	**4.89**
Total Cash Invested	326.40	0.95	339.35	0.53
Net Cash Invested	**113.56**		**121.94**	

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

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)	1.73	-1.77	-0.04
Housing Revenue Account (HRA)	8.76	-0.34	8.42
Other*	-	-0.33	-0.33
Total	10.49	-2.44	8.05

* 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 83.5% of the Council's external debt and the General Fund is responsible for the remaining 16.5%.

4.4. The table below shows the split of investments by duration as at 31 March 2019:

Maturity Period	Call (£m)	Fixed (£m)	MMF (£m)	Total (£m)
Liquidity	56.00		57.90	113.90
< 1 Month		5.00		5.00
1 – 3 Months		13.00		13.00
3 – 6 Months		45.00		45.00
6 – 12 Months		132.50		132.50
1 – 3 Years		17.00		17.00
Total	56.00	212.50	57.90	326.40

The Treasury Management Strategy for 2018/19

4.5. The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by the Council on 21 February 2018.

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

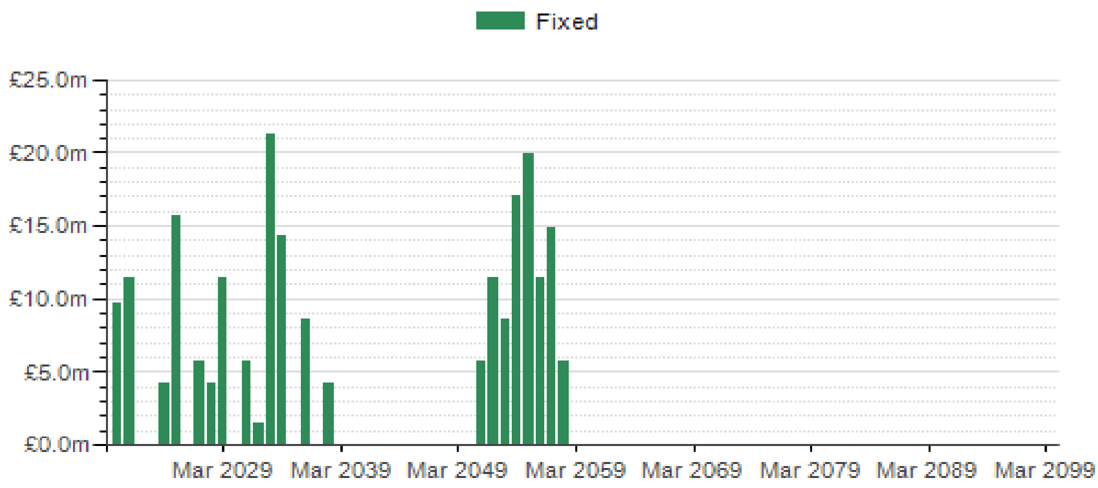
4.7. Due to the level of cash balances held by the Council at the start of the year (£339 million at 31 March 2018), it was anticipated that there would not be any need to borrow externally during 2018/19.

Treasury Borrowing

4.8. No new long-term borrowing was undertaken during the year. Public Works Loans Board (PWLB) debt maturing during the year, which was not refinanced, totalled £3.8 million with an average nominal interest rate of 8.9%. This resulted in a reduction in debt to £212.8 million and the average interest rate reduced from 4.89% to 4.77%.

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:

Loan Maturities by Type



4.10. During 2018/19, most PWLB rates were on a general downward trend and reached lows for the year at the end of March.

4.11. **Housing Revenue Account (HRA) Self Financing**

4.12. In 2018/19, the HRA PWLB debt of £176.5 million remained below the HRA Capital Financing Requirement (CFR) of £210.46 million, which generates internal borrowing of £33.96 million. This difference does not, as yet, exceed the value of HRA working balances of £35.5m. As such, the HRA could be considered to be borrowing from itself. Moving forwards, a policy will need to be considered concerning the charging of interest in the event that the HRA is internally borrowing from the general fund. HRA reserves and working capital, in excess of the internal borrowing, represents cash balances on which interest is allocated from the general fund.

Capital Financing Requirement (CFR)

4.13. As at 31 March 2019, the Council had an under-borrowed position[2]. This means that the capital borrowing need was not fully funded by the existing external loan debt and the balance is funded by cash reserves (known as internal borrowing).

The Closing Capital Financing Requirement analysed between General Fund and Housing Revenue Account.

£'m	31st March 2018 CFR	31st March 2018 EXTERNAL DEBT	31st March 2019 CFR	31st March 2019 EXTERNAL DEBT
GF CFR (Excluding DSG funded Schools Windows borrowing)	50.48	-	70.85	-
GF CFR (DSG funded Schools Windows borrowing)	6.63	-	7.38	-
Total GF Headline CFR	**57.11**	**-**	78.23	**-**
Finance leases/PFI	10.33	**-**	9.78	**-**
Total Closing GF CFR	**67.44**	**37.14**	**88.01**	**36.36**
HRA TOTAL	204.85	-	204.85	-
Deferred Disposal Costs	5.42	-	5.62	-
HRA CFR Total Including Deferred Disposal Costs	**210.27**	**180.27**	**210.46**	**176.48**
TOTAL CFR/DEBT	**277.71**	**217.41**	**298.47**	**212.84**

NB: The 'headline' CFR shown above is the consistent with capital reports. The annual accounts disclose CFR of £298.47 million due to the inclusion of PFI, finance leases and deferred cost of disposal.

	General Fund £m	**Housing Revenue Account £m**	**Total £m**
Capital Expenditure 2018/19	(35.55)	(20.14)	**(55.69)**
Financed by:			
Government & Public Body Grants	4.65	-	**4.65**
S106 & Other Contributions	6.34	0.80	**7.14**
Leaseholder Contributions	-	2.55	**2.55**
Capital Receipts	2.05	3.65	**5.70**
Major Repairs Reserve (MRR)	-	8.17	**8.17**
Earmarked Reserve (revenue)	0.91	0.87	**1.78**
Internal Borrowing	21.6	4.10	**25.70**
Total Capital Financing	**35.55**	**20.14**	**55.69**

Annual Investment Strategy for 2018/19

[2] The Capital Financing Requirement (CFR) represents the underlying cumulative need to borrow for the past, present and future (up to 2 years in advance) amounts of debt needed to fund capital expenditure (net of receipts). Debt can be met not only from external loans but also by the temporary use of internally generated cash from revenue balances i.e. internal borrowing.

4.14. At the start of the year, over half of the Council's treasury investment portfolio (£185 million) was held in fixed term deposits with other local authorities, bank notice accounts and enhanced cash funds. Due to market rates remaining relatively low in the tradeable instruments sector, this strategy was maintained with a greater amount allocated to other Local Authority borrower's.

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

- no limit with the UK Government (DMO) deposits, UK gilts, Repos and T/Bills.
- up to a maximum of £100 million 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 £30 million to be invested with any UK Local Authority (subject to internal counterparty approval by the Tri-Borough Director of Treasury and Pensions);
- no more than £30 million to be invested with any individual Money Market Fund;
- any financial instrument held with a UK bank limited to £70 million depending on Credit rating and Government ownership above 25 per cent (limit of £50 million was implemented);
- any financial instrument held with a Non-UK bank limited to £50 million.

Investment Outturn for 2018/19

4.16. The investments outstanding at 31 March 2019 amounted to £319 million invested in short-term deposits. This compares with £323 million short-term investments at 1 April 2018.

4.17. The table below provides a breakdown of the cash deposits, together with comparisons from the previous year:

(£m)	**31/03/16**	**31/03/17**	**31/03/18**	**31/03/19**
Liquid Deposits	0.90	2.35	-	-
Money Market Funds	33.70	38.10	83.85	57.9
Notice Accounts	19.90	33.00	70.00	56.00
Custodian Held Assets	204.74	208.06	30.00	-
Term Deposits	40.00	45.00	115.50	212.5
Enhanced Cash Fund	-	-	39.88	-
Total	**299.24**	**326.51**	**339.23**	**326.4**

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

General Fund and Housing Revenue Account

(£m)	31/03/16	31/03/17	31/03/18	31/03/19
General Fund (GF)	253.60	311.90	292.63	290.90
Housing Revenue Account (HRA)	45.60	14.60	46.60	35.50
Total	**299.20**	**326.50**	**339.30**	**326.40**

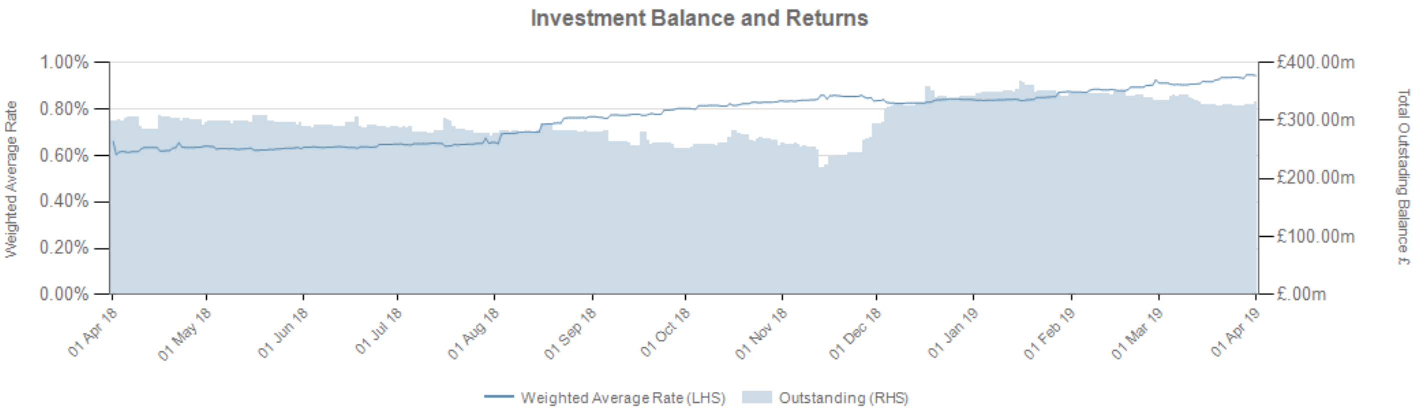
4.19. The investment balances during the year together with the average return are shown in the diagram below. Cash balances varied between £217 million and £366 million reflecting the timing of the Council's income (council tax, no-domestic rates, government grants and capital receipts, etc) and expenditure (precept payments, payroll costs, supplier payments and capital projects).

4.20. The average return achieved on investments managed internally for the year was 0.78 per cent compared to the average 7-day money market rate (uncompounded) of 0.51 per cent. The total interest received of £2.4 million (compared with a weighted average of 0.44 per cent and a total interest £1.42 million for 2017/18). Interest rates remained low throughout the year; the Council follows a low risk strategy and does not seek potential higher returns which would increase 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 Strategy Statement. The outturn for Treasury Management Prudential Indicators is shown in **appendix A**.

5.2. Non Treasury related Prudential Indicators are set and monitored as part of the



Council's Budget process.

6. CONSULTATION

6.1. N/A.

7. EQUALITY IMPLICATIONS

7.1. N/A.

8. LEGAL IMPLICATIONS

8.1. There are no legal implications arising from this report.

8.2. Implications drafted by Rhian Davies, Assistant Director of Legal and Democratic Services. 07827 663794

9. FINANCIAL IMPLICATIONS

9.1. The report is wholly of financial nature.

10. RISK MANAGEMENT

10.1. The effective understanding, control and management of the many aspects of risk associated with treasury management is essential to achieving the council's objectives. Risk management is therefore embedded throughout treasury guidance, policies and practices. It is vitally important to remember that risk is constant, even doing nothing does not avoid or minimise risks. Treasury risks present themselves in many forms, from failure to optimise performance by not taking advantage of opportunities, to managing exposure to changing economic circumstances. In adopting a policy of managing Treasury risk, a council is determining its level of risk acceptance. The key challenge is to understand, identify, monitor and manage risks in a planned and effective way.

10.2. Local authorities are required to report annually to full council on their treasury management strategy (TMS) before the start of the year, which sets the objectives and boundaries for its approach to treasury activity.

10.3. The authority supplements this with treasury management practice schedules (TMPs), which set out the practical arrangement to achieve those objectives. The TMPs inform the day-to-day practices applied to manage and control treasury activities.

10.4. These are the most prominent risks that the council seeks to manage:

Credit and counterparty risk

Managing risk to principal sums deposited by setting a counterparty policy in respect of organisations it may deposit funds with, including restrictions to entity/banking group limits, instruments and methods used, and term of deposits.

Liquidity risk

11. Ensuring sufficient (though not excessive) cash resources are available to achieve business and service objectives, including understanding the immediate and medium-term cash flow profile, being able to react to change in forecasts or the economic outlook, and putting arrangements in place to safeguard public services.

Interest rate risk

Managing exposure to interest rate volatility, including the use of instruments and methods that provide stability and cost certainty, retaining flexibility to react to change in authorities and the economic outlook, and limiting lender options to increases.

The following are further risks that an authority seeks to manage:

Refinancing risk

Managing the maturity profile of investment and loan portfolios, as well as keeping under consideration options to repay loans/recall investments where favourable, including time-limits for loan/investment maturity, the regular review of settlement opportunities, and avoiding overreliance on any single source of financing.

Legal and regulatory risk

Ensuring that treasury activities comply with statutory powers and regulatory requirements, including ability to demonstrate compliance, evidence of authority to transact, and where possible, seeking to minimise the impact of any future legislative or regulatory changes.

Fraud, error and corruption, and contingency management

Identification of circumstances that may expose the authority to fraud, error and corruption, including systems to detect suspicious activity, procedures to deal with occurrences, and contingent arrangement to ensure service objectives are fulfilled.

Market risk

Managing the impact of a change in the economic climate including limiting exposure to instruments that may be subject to adverse market fluctuations, revaluation of financial instruments in times of market stress, and seeking to protect the authority from the effects of economic market volatility.

10.5. Implications verified by Michael Sloniowski Risk Manager tel 020 8753 2587.

11. IMPLICATIONS FOR BUSINESS

12.1 N/A.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. There are no procurement implications from the report. Verified by Andra Ulinov tel 07776 672876

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.	**None**		

LIST OF APPENDICES:

Appendix A – Treasury Management Prudential indicators

APPENDIX A

LBHF – TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2018/19

During the year the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS approved by Council on 21 February 2018.

Indicator	2018/19 Approved Limit	2018/19 Actual	Indicator Met?
Capital Financing Requirement	£322m	£210.46m	Met
Authorised Limit for external debt[3]	£345m	£212.84m	Met
Operational Dept Boundary[4]	£290m		Met

Interest Rate Exposure	Lower Limit	Upper Limit	Actual at 31 Mar 2019	Indicator Met?
Fixed Rate Debt	£0m	£345m	£212.84m	Met
Variable Rate Debt	£0m	£69m	£0m	Met
Maturity Structure of Borrowing				
Under 12 Months	0%	15%	4.56%	Met
12 Mths to within 24 Mths	0%	15%	5.36%	Met
24 Mths to within 5 years	0%	60%	2.01%	Met
5 years to within 10 years	0%	75%	17.42%	Met
Over 10 years	0%	100%	70.65%	Met

[3] 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.

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