

London Borough of Hammersmith & Fulham

Report to: Audit and Pensions Committee

Date: 15 June 2020

Subject: Treasury Management Outturn Report 2019/20

Report of: Phil Triggs, Director of Treasury and Pensions

Responsible Director: Emily Hill, Director of Finance

Summary

The purpose of this report is to present the Council's annual Treasury Management Outturn Report for 2019/20 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.

Recommendations

1. That the Committee notes the annual Treasury Management Outturn Report for 2019/20
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Wards Affected: None

H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
Being ruthlessly financially efficient	Ensuring an optimum borrowing and investment strategy in line with the Council's Treasury Management Strategy Statement

Financial Impact

This report is wholly of a financial nature.

Legal Implications

There are no legal implications in respect of this report.

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Background Papers Used in Preparing This Report

Treasury Management Strategy Statement 2019/20 (approved by Council, on 27 February 2019)

DETAILED ANALYSIS**Proposals and Analysis of Options****1. Background and Treasury Position**

1.1 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.”

1.2 This annual treasury report covers:

- the treasury position as at 31 March 2020;
- the borrowing strategy for 2019/20;
- the borrowing outturn for 2019/20;
- compliance with treasury limits and prudential indicators;
- investment strategy for 2019/20; and
- investment outturn for 2019/20.

1.3 The Council’s debt, all held with the Public Works Loan Board (PWLB), and investment positions at the beginning and end of the 2019/20 year were as follows:

	31 March	Rate	31 March	Rate
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	2020 (£m)	(%)	2019 (£m)	(%)
General Fund (GF)	54.7	3.72	36.4	4.77
Housing Revenue Account (HRA)	188.4	4.32	176.5	4.77
Total Borrowing	243.1	4.02	212.8	4.77
Total Cash Invested	209.1	0.77	326.4	0.95
Net Cash Invested	-34.0		113.6	

1.4 The table below shows the allocation of interest paid and received during the year 2019/20:

	Interest Paid £m	Interest Received £m	Net £m
General Fund (GF)	1.8	-1.8	0.0
Housing Revenue Account (HRA)	8.4	-0.4	8.0
Other*		-0.6	-0.6
Total	10.2	-2.8	7.4

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

1.5 Following the implementation of the self-financing initiative for housing, the Housing Revenue Account (HRA) is responsible for servicing 77.5% of the Council's external debt and the General Fund is responsible for the remaining 22.5%.

1.6 The table below shows the split of investments by duration as at 31 March 2020:

Maturity Period	Call (£m)	Fixed (£m)	MMF (£m)	Total (£m)
Liquidity	25.0		47.1	72.1
< 1 Month				
1 – 3 Months		55.0		55.0
3 – 6 Months		50.0		50.0
6 – 12 Months		32.0		32.0
Total	25.0	137.0	47.1	209.1

1.7 The Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by Full Council on 27 February 2019.

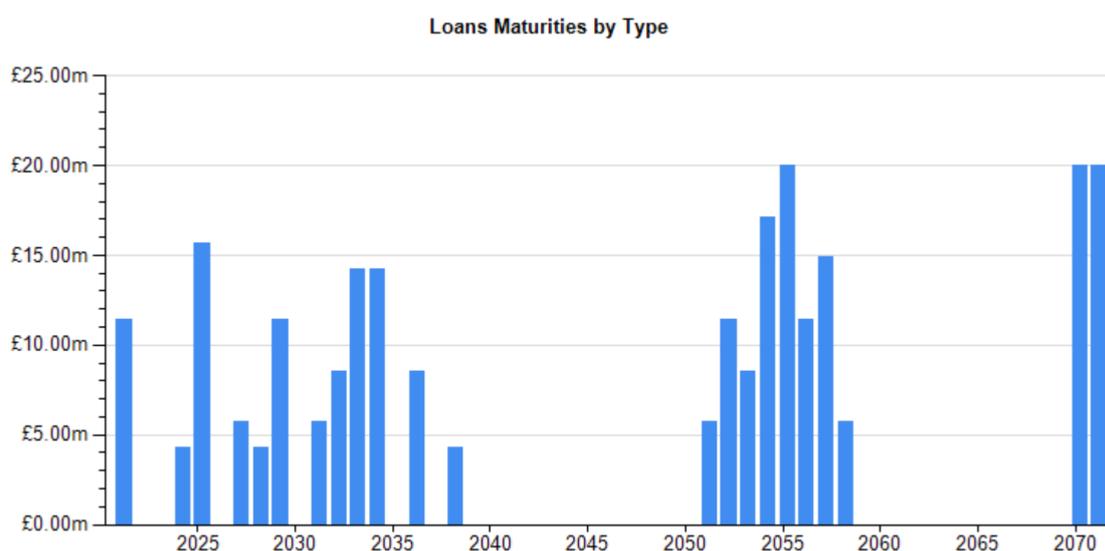
1.8 The TMSS kept investments short-term and invested with highly rated or UK Government backed institutions, resulting in relatively low returns compared with borrowing rates.

2. Treasury Borrowing

- 2.1 Borrowing totalling £40m was undertaken during the 2019/20 year. Public Works Loans Board (PWLB) debt maturing during the year, totalled £50million with an average nominal interest rate of 2.83%. This resulted in a reduction in debt to £243 million and the average interest rate reduced from 4.77% to 4.02%. The table below details the new loans taken as at 31 March 2020.

Purpose	Amount	Rate (%)	Start Date	Maturity Date
General Fund	£20m	2.07	11/03/2020	11/03/2070
HRA	£20m	1.38	31/03/2020	31/03/2070

- 2.2 All of the Council's loans are at a fixed rate of interest. The table below shows the debt profile as at 31 March 2020:



- 2.3 In 2019/20, the HRA PWLB debt of £188.4 million remained below the HRA Capital Financing Requirement (CFR) of £215.8 million, which generates internal borrowing of £27.4 million. This difference does not, as yet, exceed the value of HRA working balances. HRA reserves and working capital, in excess of the internal borrowing, represents cash balances on which interest is allocated from the general fund. As at 31 March 2020, the HRA held cash balances of £188.4 million over and above the £27.4
- 2.4 As at 31 March 2020, the Council had an under-borrowed position. 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).

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

	31 March 2020 CFR £m	31 March 2020 EXTERNAL DEBT £m	31 March 2019 CFR £m	31 March 2019 EXTERNAL DEBT £m
GF CFR (Excluding DSG funded Schools Windows borrowing)	114.1		70.9	
GF CFR (DSG funded Schools Windows borrowing)	11.8		7.4	
Total GF Headline CFR	125.9		78.2	
Finance leases/PFI	9.2		9.8	
Total Closing GF CFR	135.1	54.7	88.0	36.4
HRA TOTAL	215.8		204.9	
Deferred Disposal Costs			5.6	
HRA CFR Total Including Deferred Disposal Costs	215.8	188.4	210.5	1,776.5
TOTAL CFR/DEBT	350.9	243.1	298.5	212.8

3. Treasury Investment

3.1 At 1 April 2020, a significant part of the Council's treasury investment portfolio (£209 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 borrowers.

3.2 The TMSS allowed investment in the following areas:

- an unlimited investment 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 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 the credit rating and Government ownership above 25% (limit of £50 million);
- any financial instrument held with a non-UK bank limited to £50 million.

- 3.3 The investments outstanding at 31 March 2020 amounted to £209 million invested in short-term deposits. This compares with £319 million short-term investments at 1 April 2019.
- 3.4 The table below provides an analysis of the cash deposits, together with comparisons from the previous year:

	31 March 2017 £m	31 March 2018 £m	31 March 2019 £m	31 March 2020 £m
Liquid Deposits	2.4	-	-	-
Money Market Funds	38.1	83.9	57.9	47.1
Notice Accounts	33.0	70.0	56.0	25.0
Custodian Held Assets	208.1	30.0	-	-
Term Deposits	45.0	115.5	212.5	137.0
Enhanced Cash Fund	-	39.9	-	-
Total	326.6	339.3	326.4	209.1

- 3.5 During 2019/20 cash balances varied between £202 million and £351 million reflecting the timing of the Council's income (council tax, national non-domestic rates, government grants and capital receipts, etc) and expenditure (precept payments, payroll costs, supplier payments and capital projects). The primary reason for the reduced cash balance at the end of the 2019/20 financial year is in relation to a large payment for Earls Court which was paid on 6 December 2019.
- 3.6 The average return achieved on investments managed internally for the year was 0.93% compared with the average 7-day money market rate (uncompounded) of 0.53%. The total interest received of £2.7 million (compared with an weighted average of 0.78% and a total interest £2.4 million for 2018/19). Interest rates remained low throughout the year with the Council following a low risk strategy and avoiding potentially higher returns which would increase counterparty risk

4. Prudential Indicators

- 4.1 During the year the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS approved by Council on 27 February 2019.
- 4.2 The table below provides a breakdown of the indicators and actual position for the year ending 31 March 2020

Indicator	2019/20 Approved Limit	2019/20 Actual		Indicator Met?
Capital Financing Requirement	£308m	£350.9m		Met
Authorised Limit for external debt ¹	£400m	£243.1m		Met
Operational Debt Boundary ²	£340m			Met
Interest Rate Exposure	Lower Limit	Upper Limit	Actual at 31 Mar 2020	Indicator Met?
Fixed Rate Debt	£0m	£400m	£243.1m	Met
Variable Rate Debt	£0m	£0m	£0m	Met
Maturity Structure of Borrowing				
Under 12 Months	0%	15%	3%	Met
12 Mths to within 24 Mths	0%	15%	0%	Met
24 Mths to within 5 years	0%	60%	9%	Met
5 years to within 10 years	0%	75%	9%	Met
Over 10 years	0%	100%	78%	Met

5. Equality Implications

- 5.1 There are no direct negative implications for protected groups, under the Equality Act 2010, arising from the information presented in this report.

Implications completed by: Fawad Bhatti, Policy & Strategy Officer, tel. 07500 103617.

6. Risk Management Implications

- 6.1 The purpose of this report is to present the Council's Annual Treasury Management Outturn Report for 2019/20 in accordance with the Council's treasury management practices. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities is measured. Risk

¹ 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.

² The Operational Boundary is the expected normal upper requirement for borrowing in the year.

levels were set in accordance with the approved Treasury Management Strategy Statement. The Council continues to recognise that effective treasury management provides support towards the achievement of its business and service objectives, specifically Being Ruthlessly Financially Efficient. The identification, monitoring and control of risks are central to the achievement of the treasury objectives. Potential risks are identified, mitigated and monitored in accordance with treasury practice. It is also worthwhile in noting that this covers a period that included considerable uncertainty at a national level during Brexit and in the last quarter of the year the Covid-19 outbreak.

Implications verified by: Michael Sloniowski, Risk Manager, tel 020 8753 2587

List of Appendices:

None.