

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Audit Committee

Date: 14 September 2021

Subject: Treasury Management Outturn Report 2020/21

Report of: Emily Hill, Director of Finance

Report author: 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 for 2020/21, 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.

During the year the Council operated within the Treasury Limits and Prudential Indicators set out in the Treasury Management Strategy Statement approved by Council on 26 February 2020.

RECOMMENDATIONS

1. That the Committee note the annual Treasury Management Outturn Report for 2020/21.
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Wards Affected: None

Our Values	Summary of how this report aligns to the H&F Values
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 2020/21 (approved by Council on 26 February 2020)
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DETAILED ANALYSIS

Proposals and Analysis of Options

Background and Treasury Position

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.”

2. This annual treasury report covers:

- the treasury position as at 31 March 2021;
- the borrowing strategy for 2020/21;
- the borrowing outturn for 2020/21;
- compliance with treasury limits and prudential indicators;
- investment strategy for 2020/21; and
- investment outturn for 2020/21.

3. The Council’s debt, all held with the Public Works Loan Board (PWLB), and investment positions at the beginning and end of the 2020/21 year were as follows:

	31 March 2021 (£m)	Rate (%)	31 March 2020 (£m)	Rate (%)
General Fund (GF)	52.8	3.71	54.7	3.72
Housing Revenue Account (HRA)	218.9	3.77	188.4	4.32
Total Borrowing	271.7	3.76	243.1	4.02
Total Cash Invested	297.4	0.05	209.1	0.77
Net Cash Invested	25.7		(34.0)	

4. The table below shows the allocation of interest paid and received during the year 2020/21:

	Interest Paid (£m)	Interest Received (£m)	Net (£m)
General Fund (GF)	2.0	(1.0)	1.0
Housing Revenue Account (HRA)	8.4	0.0	8.4
Other*	0.0	(0.3)	(0.3)
Total	10.4	(1.3)	9.1

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

5. The Housing Revenue Account (HRA) is responsible for servicing 80.6% of the Council's external debt and the General Fund is responsible for the remaining 19.4%.
6. The table below shows the split of investments by duration as at 31 March 2021:

Maturity Period	Call (£m)	Fixed (£m)	MMF (£m)	Total (£m)
Liquidity	35.0	0.0	133.4	168.4
< 1 Month	0.0	109.0	0.0	109.0
1 – 3 Months	0.0	15.0	0.0	15.0
3 – 6 Months	0.0	0.0	0.0	0.0
6 – 12 Months	0.0	5.0	0.0	5.0
Total	35.0	129.0	133.4	297.4

7. The Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by Full Council on 26 February 2020.
8. The TMSS kept investments short-term and invested with highly rated or UK Government backed institutions, resulting in low returns compared with borrowing rates.

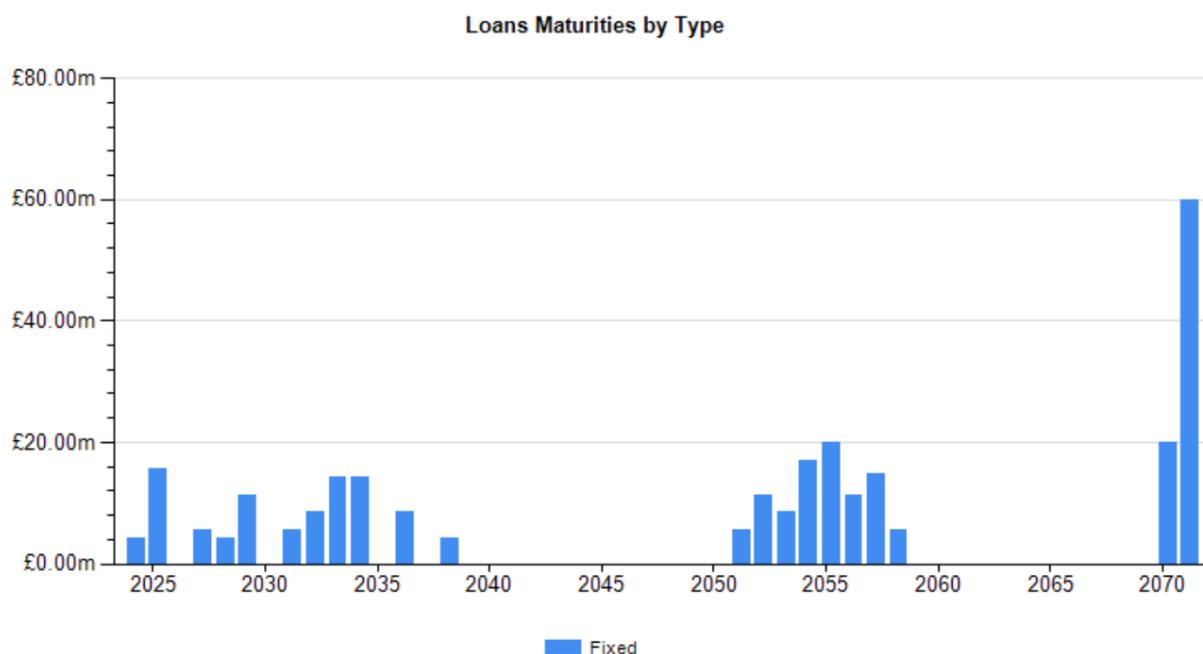
Treasury Borrowing

9. Borrowing totalling £40m was undertaken during the 2020/21 year. Public Works Loans Board (PWLB) debt maturing during the year totalled £11.4 million, with an average nominal interest rate of 4.04%. This resulted in an increase in debt to £271.7 million and the average interest rate reducing from

4.02% to 3.76%, due to the low interest rates obtained on the two new loans. These loans were taken out to support the HRA capital programme. The table below details these new loans taken:

Purpose	Amount	Rate (%)	Start Date	Maturity Date
HRA	£20m	1.26	01/04/2020	01/04/2070
HRA	£20m	1.25	21/04/2020	21/04/2070

10. All of the Council's loans are at a fixed rate of interest. The table below shows the debt profile as at 31 March 2021:



11. In 2020/21, the HRA PWLB debt of £219 million remained below the HRA Capital Financing Requirement (CFR) of £233.1 million, which generates internal borrowing of £14.1 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, represent cash balances, on which interest is allocated from the general fund. As at 31 March 2021, the HRA held cash balances of £219m over and above the £14.1m.
12. As at 31 March 2021, 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 2021 CFR £m	31 March 2021 External Debt £m	31 March 2020 CFR £m	31 March 2020 External Debt £m
GF CFR (Excluding DSG funded Schools Windows borrowing)	122.2	0.0	114.1	0.0
GF CFR (DSG funded Schools Windows borrowing)	21.5	0.0	11.8	0.0
Total GF Headline CFR	143.7	0.0	125.9	0.0
Finance leases/PFI	8.9	0.0	9.2	0.0
Total Closing GF CFR	152.6	52.8	135.1	54.7
HRA TOTAL	233.1	0.0	215.8	0.0
HRA CFR Total	233.1	218.9	215.8	188.4
Total CFR/External Debt	385.7	271.7	350.9	243.1

Treasury Investments

13. At 1 April 2021, a significant part of the Council's treasury investment portfolio (£114 million) was held in fixed term deposits with other local authorities, DMADF and bank notice accounts.
14. The TMSS allowed investment in the following areas:
 - an unlimited investment limit with the UK Government (DMO) deposits, UK gilts, repos and treasury 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 and Director of Finance);
 - 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.
15. The investments outstanding at 31 March 2021 amounted to £297.4 million invested in short-term deposits. This compares with £282 million short-term investments at 1 April 2020.

16. The table below provides an analysis of the cash deposits, together with comparisons from the previous year:

	31 March 2018 £m	31 March 2019 £m	31 March 2020 £m	31 March 2021 £m
Liquid Deposits	0.0	0.0	0.0	0.0
Money Market Funds	83.9	57.9	47.1	133.4
Notice Accounts	70.0	56.0	25.0	35.0
Custodian Held Assets	30.0	0.0	0.0	0.0
Term Deposits	115.5	212.5	137.0	129.0
Enhanced Cash Fund	39.9	0.0	0.0	0.0
Total	339.3	326.4	209.1	297.4

17. During 2020/21 cash balances varied between £248 million and £333 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 increased cash balance at the end of the 2020/21 financial year is in relation to the new HRA PWLB loans undertaken and Government grants for COVID-19 support received in 2020/21.
18. The average return achieved on investments managed internally for the year was 0.26% compared with the average 7-day money market rate (uncompounded) of -0.07%. The total interest received of £1.3 million compares with a weighted average of 0.93% and a total interest £2.7 million for 2019/20. 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.

Prudential Indicators

19. During the year the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS approved by Council on 26 February 2020.
20. The table below provides a breakdown of the indicators and actual position for the year ending 31 March 2021:

Indicator	2020/21 Approved Limit	2020/21 Actual	Indicator Met?	
Capital Financing Requirement	£402m	£385.6m	Met	
Authorised Limit for external debt ¹	£400m	£271.7m	Met	
Operational Debt Boundary ²	£340m		Met	
Capital Expenditure	£103m	£89m	Met	
Ratio of financing costs to revenue stream	GF 1.81% HRA 28.94%	GF (2.09%) HRA (6.52%)	Met	
Working capital balance	£0m	£0m	Met	
Limit on surplus funds invested for more than 364 days	£120m	£0m	Met	
Maturity Structure of Borrowing	Minimum	Maximum	Actual	Indicator Met?
Under 12 Months	0%	15%	0%	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%	13%	Met
Over 10 years	0%	100%	78%	Met

Reasons for Decision

21. The Council's treasury management activity is underpinned by the CIPFA Code, which recommends that members are informed of treasury management activities at least twice a year.

Equality Implications

22. There are no direct negative implications for protected groups, under the Equality Act 2010, arising from the information presented in this report.
23. Implications completed by: Sophie Green, Treasury Manager, tel. 07816 280 994.

Risk Management Implications

24. The purpose of this report is to present the Council's annual Treasury Management Outturn Report for 2020/21 in accordance with the Council's

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.

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 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 the Covid-19 outbreak.

25. Implications verified by: Ray Chitty, Head of Insurance, tel 07739 315565

LIST OF APPENDICES

None.