

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Audit Committee

Date: 14 December 2021

Subject: Treasury Management Strategy: Mid-Year Review 2021/22

Report author: Phil Triggs, Director of Treasury and Pensions

Responsible Director: Emily Hill, Director of Finance

SUMMARY

This report provides an update on the implementation (six months to 30 September 2021) of the 2021/22 Treasury Management Strategy, approved by Council on 25 February 2021 and presents the Treasury Management Strategy 2021/22 mid-year review.

Treasury management comprises the management of the Council's cash balances and borrowing to ensure that funding of the Council's future capital programme is at optimal cost and investing surplus cash balances arising from the day-to-day financial operation of the Council to obtain an optimal return, while ensuring security of capital and liquidity.

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 2021/22 to include the treasury position as at 30 September 2021;
 - a review of the Council's borrowing strategy for 2021/22;
 - a review of compliance with Treasury and Prudential Limits for the first six months of 2021/22;
 - an economic update for the first part of the 2021/22 financial year.
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RECOMMENDATIONS

1. The Committee is asked to note the Treasury Management Strategy 2021/22 mid-year review.
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Wards Affected: None

Our Priorities	Summary of how this report aligns to the H&F Priorities
Building shared prosperity	Achieve best value for money in investment and borrowing decisions.
Being ruthlessly financially efficient	Effective management of the Council's cash flow resources.

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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
	Treasury Management Strategy Statement 2021/22	Phil Triggs	Tri-Borough Treasury and Pensions

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 treasury monitoring report covers:

- the treasury position as at 30 September 2021;
- the borrowing strategy for 2021/22;
- the borrowing position at 30 September 2021;
- compliance with treasury limits and prudential indicators;
- the investment strategy for 2021/22; and
- the investment position at 30 September 2021.

3. The Council’s debt, all held with the Public Works Loan Board (PWLB), and investment positions at the beginning of 2021/22 and at the six month point were as follows:

	30 September 2021 (£m)	Rate (%)	31 March 2021 (£m)	Rate (%)
General Fund (GF)	52.8	3.71	52.8	3.71
Housing Revenue Account (HRA)	218.9	3.77	218.9	3.77
Total Borrowing	271.7	3.76	271.7	3.76
Total Cash Invested	340.2	0.04	297.4	0.05
Net Cash Invested	68.5		25.7	

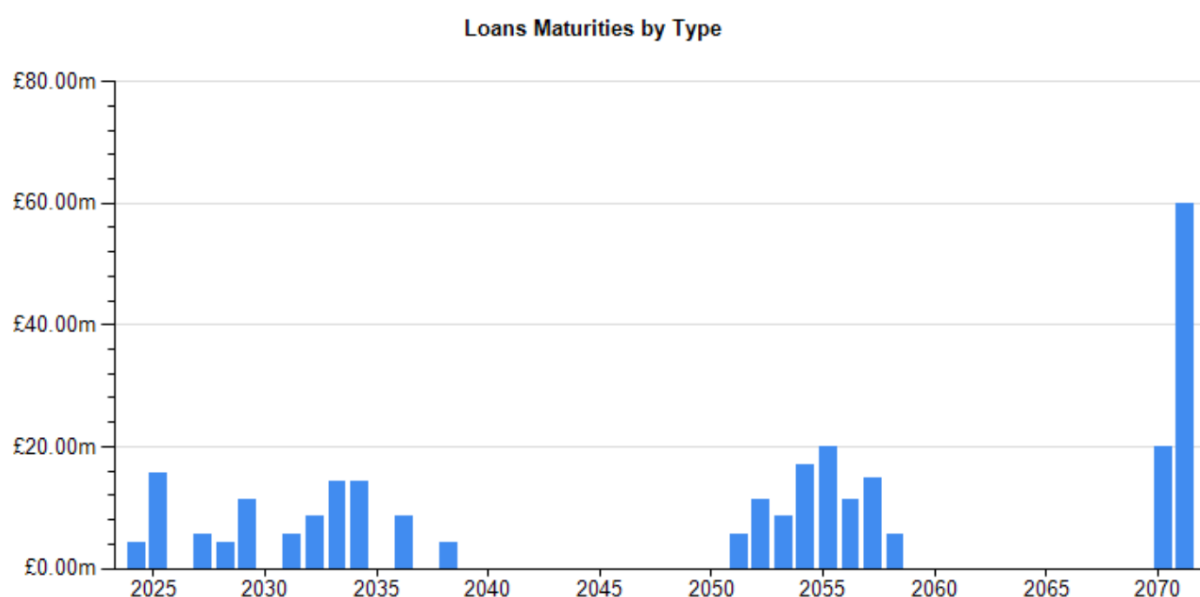
4. The Housing Revenue Account (HRA) is responsible for servicing 80.6% of the Council’s external debt and the General Fund is responsible for the remaining 19.4%.
5. The table below shows the split of investments by duration as at 30 September 2021:

Maturity Period	Call (£m)	Fixed (£m)	MMF (£m)	Total (£m)
Liquidity	35.0	0.0	174.6	209.6
< 1 Month	0.0	0.0	0.0	0.0
1 – 3 Months	0.0	0.0	0.0	0.0
3 – 6 Months	0.0	10.3	0.0	10.3
6 – 12 Months	0.0	120.3	0.0	120.3
Total	35.0	130.6	174.6	340.2

6. The Treasury Management Strategy Statement (TMSS) for 2021/22 was approved by Full Council on 25 February 2021. The TMSS has kept investments short-term and invested with highly rated or UK Government backed institutions, resulting in low returns compared with borrowing rates.

Treasury Borrowing

7. No borrowing has been undertaken or repaid in the first half of 2021/22. Total borrowing therefore remained at £271.7m at an average interest rate of 3.76%. All of the Council's loans are at a fixed rate of interest. The table below shows the debt profile as at 30 September 2021:



8. In the first six months of 2021/22, the HRA PWLB debt of £218.9 million remained below the HRA Capital Financing Requirement (CFR) of £233.1m, which generates internal borrowing of £14.2m. This difference does not, as yet, exceed the value of HRA working balances. HRA reserves and working capital, in excess of internal borrowing, represent cash balances, on which interest is allocated from the general fund. As at 30 September 2021, the HRA held cash balances of £218.9m over and above the £14.2m.
9. As at 30 September 2021, the Council had an under-borrowed position. This means that the capital borrowing requirement 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

	30 Sep 2021 CFR £m	30 Sep 2021 External Debt £m	31 March 2021 CFR £m	31 March 2021 External Debt £m
GF (Excluding DSG funded Schools Windows borrowing)	147.6	0.0	122.2	0.0
GF (DSG funded Schools Windows borrowing)	40.2	0.0	21.5	0.0
Total GF Headline CFR	187.8	0.0	143.7	0.0
Finance leases/PFI	7.8	0.0	8.9	0.0
Total Closing GF CFR	195.6	52.8	152.6	52.8
HRA	258.3	0.0	233.1	0.0
HRA CFR Total	258.3	218.9	233.1	218.9
Total CFR/External Debt	453.9	271.7	385.7	271.7

Treasury Investments

10. At 30 September 2021, a significant part of the Council's treasury investment portfolio (£340.2m) was held in fixed term deposits with other local authorities, the Debt Management Agency Deposit Facility (DMADF) and bank notice accounts.
11. 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 £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 £30m 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 £45m to be invested with any individual Money Market Fund;
 - any financial instrument held with a UK bank limited to £70m depending on the credit rating and Government ownership above 25% (limit of £50m);
 - any financial instrument held with a non-UK bank limited to £50m.
12. The investments outstanding at 30 September 2021 amounted to £340.2m invested in short-term deposits. This compares with £299.4m short-term investments at 1 April 2021.
13. The table below provides an analysis of the cash deposits, together with comparisons from the previous year:

	31 March 2019 £m	31 March 2020 £m	31 March 2021 £m	30 Sep 2021 £m
Liquid Deposits	0.0	0.0	0.0	0.0
Money Market Funds	57.9	47.1	133.4	174.6
Notice Accounts	56.0	25.0	35.0	35.0
Custodian Held Assets	0.0	0.0	0.0	0.0
Term Deposits	212.5	137.0	129.0	130.6
Enhanced Cash Fund	0.0	0.0	0.0	0.0
Total	326.4	209.1	297.4	340.2

14. During the first six months of 2021/22, cash balances varied between £304.0m and £330.0m, 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 in the first half of 2021/22 is due to Government grants received for Covid-19 support.
15. The average return achieved on investments managed internally for the first six months was 0.05% compared with the average 7-day money market rate (uncompounded) of -0.08%. Interest rates remained low throughout the period with the Council following a low risk strategy and avoiding potentially higher returns which would increase counterparty risk.

Prudential Indicators

16. During the year the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS approved by Council on 25 February 2021.
17. The table below provides a breakdown of the indicators and actual position for the year ending 30 September 2021:

Indicator	2021/22 Approved Limit	2021/22 Actual at 31 st September 2021		Indicator Met?
Capital Financing Requirement	£481m	£453.9m		Met
Authorised Limit for external debt ¹	£550m	£271.7m		Met
Operational Debt Boundary ²	£495m			Met
Capital Expenditure	£162m	£134.9m		Met
Ratio of financing costs to revenue stream	GF (0.61%) HRA 6.34%	GF (0.62%) HRA 6.04%		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%	2%	Met
24 Mths to within 5 years	0%	60%	8%	Met
5 years to within 10 years	0%	75%	8%	Met
Over 10 years	0%	100%	82%	Met

Reasons for Decision

18. 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

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

Risk Management Implications

20. The purpose of this report is to present the Council's mid-year Treasury Management Report for 2021/22 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.

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.

21. Risk levels were set in accordance with the approved Treasury Management Strategy Statement (TMSS). 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.
22. 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, both at national and global level, during the Covid-19 outbreak.
23. Implications verified by: David Hughes, Director of Audit, Fraud, Risk and Insurance, tel. 07817 507 695

Consultation

None

LIST OF APPENDICES

None