

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Audit Committee

Date: 13/09/2022

Subject: Treasury Management Outturn Report 2021/22

Report of: Sukvinder Kalsi, Director of Finance

Report author: Phil Triggs, Director of Treasury and Pensions

Responsible Director: Sukvinder Kalsi, Director of Finance

SUMMARY

The purpose of this report is to present the Council's annual Treasury Management outturn for 2021/22, 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 as set out in the Treasury Management Strategy Statement approved by Council on 25 February 2021.

Cash remained steady throughout the financial year with balances increasing from £297.4m at 31st March 2021 to £328.9m at 31st March 2022. These funds were invested at competitive rates throughout the year with the average interest rate returns for the year increasing from 2020/21. The majority of investments were kept with money markets funds ensuring the security and liquidity of the Council's cash.

No new borrowing was undertaken during the 2021/22 financial year.

All prudential indicators were met.

RECOMMENDATIONS

1. That Cabinet note the annual Treasury Management Outturn Report for 2021/22.
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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 2021/22 (approved by Council on 25 February 2021)

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 2022;
- the borrowing strategy for 2021/22;
- the borrowing outturn for 2021/22;
- compliance with treasury limits and prudential indicators;
- investment strategy for 2021/22; and
- investment outturn for 2021/22.

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

	31 March 2022 (£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	328.9	0.54	297.4	0.05
Net Cash Invested	57.2		25.7	

4. The table below shows the allocation of interest paid and received during the year 2021/22:

	Interest Paid (£m)	Interest Received (£m)	Net (£m)
General Fund (GF)	2.0	(0.1)	1.9
Housing Revenue Account (HRA)	8.3	0.0	8.3
Other*	0.0	(0.1)	(0.1)
Total	10.3	(0.2)	10.1

* 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 2022:

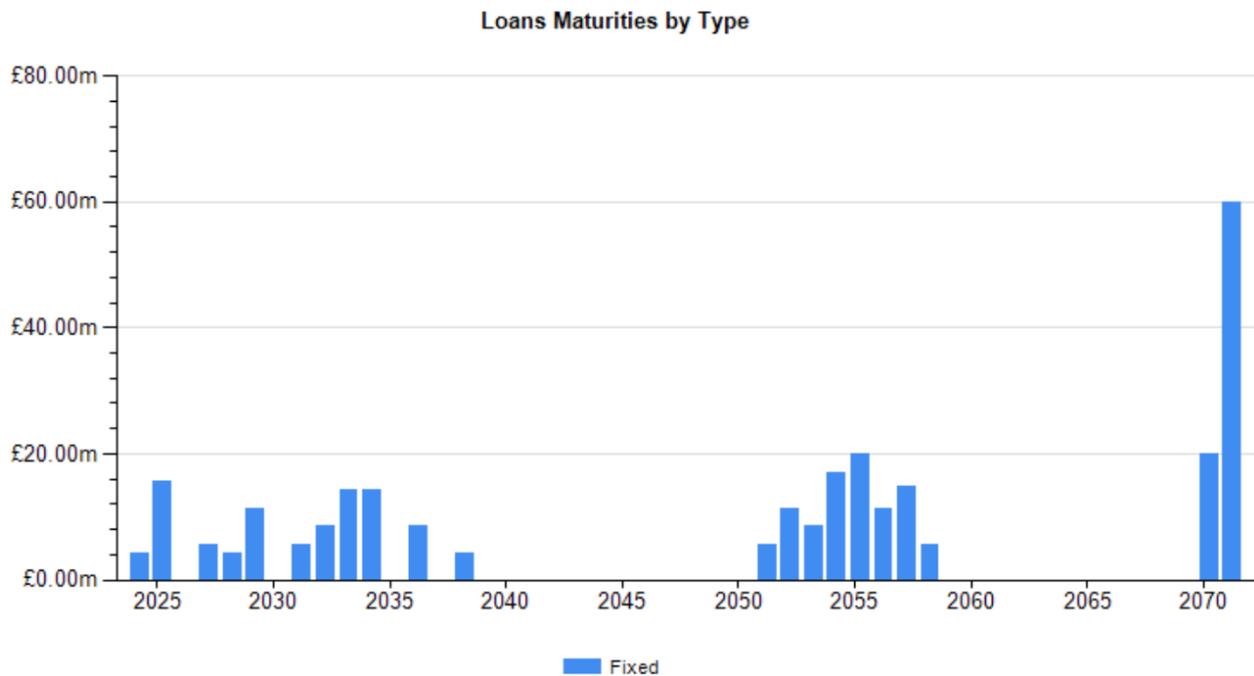
Maturity Period	Call (£m)	Fixed (£m)	MMF (£m)	Total (£m)
Liquidity	25.0	0.0	204.4	229.4
< 1 Month	0.0	30.0	0.0	30.0
1 – 3 Months	0.0	14.5	0.0	14.5
3 – 6 Months	0.0	35.0	0.0	35.0
6 – 12 Months	0.0	20.0	0.0	20.0
Total	25.0	99.5	204.4	328.9

7. 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

8. No new borrowing was undertaken in the 2021/22 financial year, leaving borrowing unchanged at £271.7m.

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 2022:



10. In 2021/22, the HRA PWLB debt of £218.9 million remained below the HRA Capital Financing Requirement (CFR) of £257.0 million, which generates internal borrowing of £38.1 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 2022, the HRA held cash balances of £218.9m over and above the £38.1m.
11. As at 31 March 2022, 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 2022 CFR £m	31 March 2022 External Debt £m	31 March 2021 CFR £m	31 March 2021 External Debt £m
GF CFR (Excluding DSG funded Schools Windows borrowing)	128.9	0.0	122.2	0.0
GF CFR (DSG funded Schools Windows borrowing)	28.7	0.0	21.5	0.0
Total GF Headline CFR	157.6	0.0	143.7	0.0
Finance leases/PFI	8.5	0.0	8.9	0.0
Total Closing GF CFR	166.1	52.8	152.6	52.8
HRA TOTAL	257.0	0.0	233.1	0.0
HRA CFR Total	257.0	218.9	233.1	218.9
Total CFR/External Debt	423.1	271.7	385.7	271.7

Treasury Investments

12. At 1 April 2022, a significant part of the Council's treasury investment portfolio (£124.5 million) was held in fixed term deposits with DMADF and bank notice accounts.
13. 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 £45 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.
14. The investments outstanding at 31 March 2022 amounted to £328.9 million invested in short-term deposits. This compares with £297.4 million short-term investments at 31 March 2021.
15. The table below provides an analysis of the cash deposits, together with comparisons from the previous year:

	31 March 2021 £m	31 March 2022 £m
Liquid Deposits	0.0	0.0
Money Market Funds	133.4	204.4
Notice Accounts	35.0	25.0
Custodian Held Assets	0.0	0.0
Term Deposits	129.0	99.5
Enhanced Cash Fund	0.0	0.0
Total	297.4	328.9

16. During 2021/22 cash balances varied between £304.6 million and £376.2 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).
17. The average return achieved on investments managed internally for the year was 0.13% compared with the average 7-day money market rate (uncompounded) of 0.14%. The total interest received of £0.2 million compares with a weighted average of 0.26% and a total interest received of £1.3 million for 2020/21. 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.

Inflation Rates

18. The below table shows the movement in inflation rates throughout the 2021/22 financial year.

Period end*	RPI		RPI-X		CPI	
	Index	%	Index	%	Index	%
Apr-21	301.1	2.9	302.5	3.2	110.1	1.5
May-21	301.9	3.3	303.3	3.4	110.8	2.1
Jun-21	304.0	3.9	305.5	3.9	111.3	2.5
Jul-21	305.5	3.8	306.9	3.9	111.3	2.0
Aug-21	307.4	4.8	309.0	4.9	112.1	3.2
Sep-21	308.6	4.9	310.2	5.0	112.4	3.1
Oct-21	312.0	6.0	313.6	6.1	113.6	4.2
Nov-21	314.3	7.1	316.0	7.2	114.5	5.1
Dec-21	317.7	7.5	319.5	7.7	115.1	5.4
Jan-22	317.7	7.8	319.5	8	114.9	5.5
Feb-22	320.2	8.2	322.0	8.3	115.8	6.2
Mar-22	323.5	9.0	325.2	9.1	117.1	7.0

RPI = Retail Price Index, RPI-X = RPI excluding mortgage interest payments,
CPI = Consumer Price Index

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 25 February 2021.
20. The table below provides a breakdown of the indicators and actual position for the year ending 31 March 2022:

Indicator	2021/22 Approved Limit	2021/22 Actual	Indicator Met?	
Capital Financing Requirement	£481m	£423.1m	Met	
Authorised Limit for external debt ¹	£550m	£271.7m	Met	
Operational Debt Boundary ²	£495m		Met	
Capital Expenditure	£162m	£95.0m	Met	
Ratio of financing costs to revenue stream	GF (0.61%) HRA 6.34%	GF (0.64%) HRA 6.23%	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%	3%	Met
24 Mths to within 5 years	0%	60%	9%	Met
5 years to within 10 years	0%	75%	11%	Met
Over 10 years	0%	100%	77%	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.

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.

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 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. 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

Consultation

None.

LIST OF APPENDICES

None.