

## London Borough of Hammersmith & Fulham

**Report to:** Cabinet

**Date:** 04/09/2023

**Subject:** Treasury Management Outturn Report 2022/23

**Report of:** Councillor Rowan Ree, Cabinet Member for Finance and Reform

**Report author:** Phil Triggs, Tri-Borough Director of Treasury & Pensions  
Sophie Green, Treasury Manager

**Responsible Director:** Sukvinder Kalsi, Strategic Director of Finance

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### SUMMARY

The purpose of this report is to present the Council's annual Treasury Management outturn for 2022/23, in accordance with the Council's treasury management practices. It is a regulatory requirement for this outturn report to be presented to Audit Committee and Cabinet during September of the relevant year.

Over the 2022/23 financial year, the Council operated within the Treasury Limits and Prudential Indicators. Despite the significant external financial challenges, the Council met all of its prudential indicators, and undertook no new borrowing.

During the year, cash balances decreased from £328.9m at 31st March 2022 to £270.2m at 31st March 2023. These funds were invested at competitive rates throughout the year with the average interest rate returns for the year increasing significantly from 2021/22, ending the year at 4.02%.

The majority of investments were kept with money markets funds ensuring the security and liquidity of the Council's cash. Treasury Limits and Prudential Indicators are set out in the Treasury Management Strategy Statement, approved by Council on 24 February 2022.

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### RECOMMENDATIONS

1. That the Committee note the annual Treasury Management Outturn Report for 2022/23.

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**Wards Affected:** None

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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.

## Contact Officers

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## Background Papers Used in Preparing This Report

- Treasury Management Strategy Statement 2022/23 (published and approved by Council on 24 February 2022)

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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 2023;
- the borrowing strategy for 2022/23;
- the borrowing outturn for 2022/23;
- compliance with treasury limits and prudential indicators;
- investment strategy for 2022/23; and
- investment outturn for 2022/23.

3. The Council's debt, all held with the Public Works Loan Board (PWLB), and investment positions at the beginning and end of the 2022/23 year were as follows:

	<b>31 March 2022 (£m)</b>	<b>Rate (%)</b>	<b>31 March 2023 (£m)</b>	<b>Rate (%)</b>
General Fund (GF)	52.8	3.71	52.8	3.71
Housing Revenue Account (HRA)	218.9	3.77	218.9	3.77
<b>Total Borrowing</b>	<b>271.7</b>	<b>3.76</b>	<b>271.7</b>	<b>3.76</b>
Total Cash Invested	328.9	0.54	270.2	4.02
<b>Net Cash Invested</b>	<b>57.2</b>		<b>1.5</b>	

4. The table below shows the allocation of interest paid and received during the year 2022/23:

	<b>Interest Paid (£m)</b>	<b>Interest Received (£m)</b>	<b>Net (£m)</b>
General Fund (GF)	2.0	(6.8)	(4.8)
Housing Revenue Account (HRA)	10.2	(2.0)	8.2
Other*	0.0	(0.0)	0.0
<b>Total</b>	<b>12.2</b>	<b>(8.8)</b>	<b>3.4</b>

\* 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 2023:

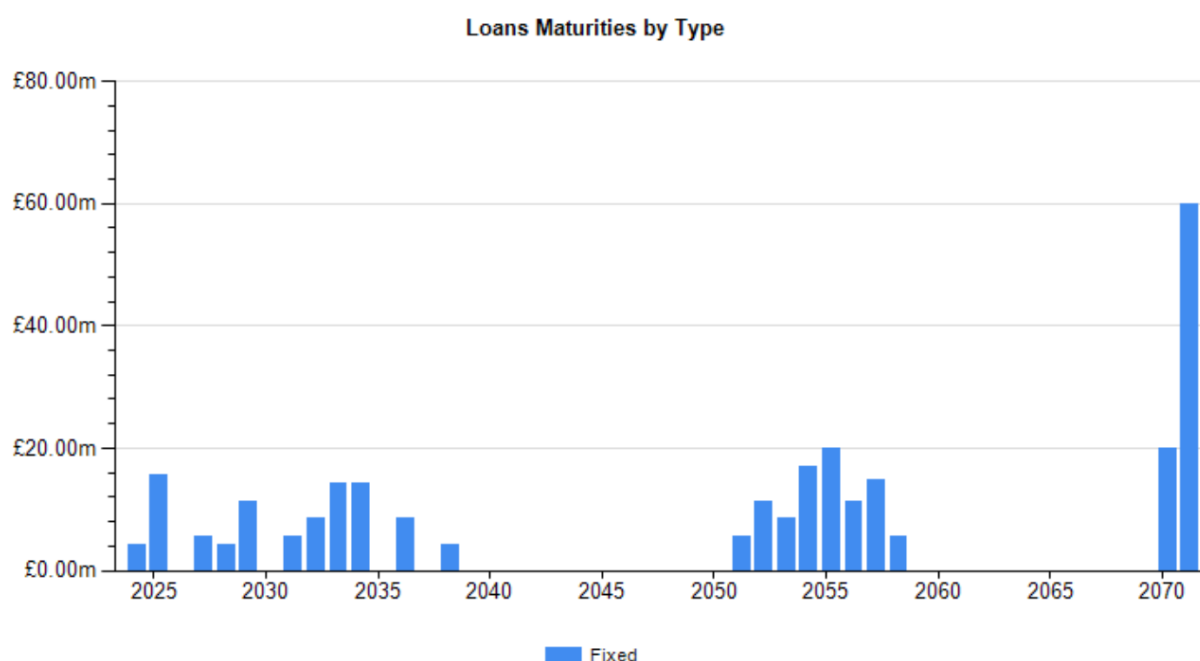
<b>Maturity Period</b>	<b>Call (£m)</b>	<b>Fixed (£m)</b>	<b>MMF (£m)</b>	<b>Total (£m)</b>
Liquidity	0.0	0.0	151.6	<b>151.6</b>
< 1 Month	0.0	52.0	0.0	<b>52.0</b>
1 – 3 Months	0.0	31.6	0.0	<b>31.6</b>
3 – 6 Months	0.0	15.0	0.0	<b>15.0</b>
6 – 12 Months	0.0	20.0	0.0	<b>20.0</b>

<b>Total</b>	<b>0.0</b>	<b>118.6</b>	<b>151.6</b>	<b>270.2</b>
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- The TMSS kept investments short-term and invested with highly rated or UK Government backed institutions, resulting in lower returns compared to borrowing rates.

### Treasury Borrowing

- No new borrowing was undertaken in the 2022/23 financial year, leaving borrowing unchanged at £271.7m.
- All of the Council's loans are at a fixed rate of interest. The table below shows the debt profile as at 31 March 2023:



- In 2022/23, the HRA PWLB debt of £218.9 million remained below the HRA Capital Financing Requirement (CFR) of £300.6 million, which generates internal borrowing of £81.7 million. This difference does not 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 2023, the HRA held cash balances of £218.9m over and above the £81.7m.
- As at 31 March 2023, 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 2023 CFR £m	31 March 2023 External Debt £m
GF CFR (Excluding DSG funded Schools Windows borrowing)	128.9	0.0	134.0	0.0
GF CFR (DSG funded Schools Windows borrowing)	28.7	0.0	55.4	0.0
<b>Total GF Headline CFR</b>	<b>157.6</b>	<b>0.0</b>	<b>189.4</b>	<b>0.0</b>
Finance leases/PFI	8.5	0.0	13.5	0.0
<b>Total Closing GF CFR</b>	<b>166.1</b>	<b>52.8</b>	<b>202.9</b>	<b>52.8</b>
HRA TOTAL	257.0	0.0	300.6	0.0
<b>HRA CFR Total</b>	<b>257.0</b>	<b>218.9</b>	<b>300.6</b>	<b>218.9</b>
<b>Total CFR/External Debt</b>	<b>423.1</b>	<b>271.7</b>	<b>503.5</b>	<b>271.7</b>

### Treasury Investments

12. At 31 March 2023, a significant part of the Council's treasury investment portfolio (£118.6 million) was held in fixed term deposits with the Debt Management Agency Deposit Facility (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 £50 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, 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 2023 amounted to £270.2 million invested in short-term deposits. This compares with £328.9 million short-term investments at 31 March 2022.
15. The table below provides an analysis of the cash deposits, together with comparisons from the previous year:

	<b>31 March 2022 £m</b>	<b>31 March 2023 £m</b>
Money Market Funds	204.4	151.6
Notice Accounts	25.0	0.0
Term Deposits	99.5	118.6
<b>Total</b>	<b>328.9</b>	<b>270.2</b>

16. During 2022/23 cash balances varied between £271.8 million and £349.1 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 2.05% compared with the average 7-day money market rate (uncompounded) of 2.23%. The total interest received of £5.0 million compares with a weighted average of 0.13% and a total interest received of £0.2 million for 2021/22. 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 2022/23 financial year.

	<b>CPI Index (UK, 2015 =100)</b>	<b>CPI 12- month rate</b>
<b>2022 Mar</b>	117.1	7.0
<b>Apr</b>	120.0	9.0
<b>May</b>	120.8	9.1
<b>Jun</b>	121.8	9.4
<b>Jul</b>	122.5	10.1
<b>Aug</b>	123.1	9.9
<b>Sep</b>	123.8	10.1
<b>Oct</b>	126.2	11.1
<b>Nov</b>	126.7	10.7
<b>Dec</b>	127.2	10.5
<b>2023 Jan</b>	126.4	10.1
<b>Feb</b>	127.9	10.4
<b>Mar</b>	128.9	10.1

Source: Consumer price inflation from the Office for National Statistics

## 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 24 February 2022.
20. The table below provides a breakdown of the indicators and actual position for the year ending 31 March 2023:

Indicator	2022/23 Approved Limit	2022/23 Actual		Indicator Met?
Capital Financing Requirement	£557m	£504m		Met
Authorised Limit for external debt <sup>1</sup>	£650m	£271.7m		Met
Operational Debt Boundary <sup>2</sup>	£570m			Met
Capital Expenditure	£191m	£140m		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%	2%	Met
12 Mths to within 24 Mths	0%	15%	6%	Met
24 Mths to within 5 years	0%	60%	4%	Met
5 years to within 10 years	0%	75%	15%	Met
Over 10 years	0%	100%	74%	Met

Indicator	2022/23 Forecast	2022/23 Actual
Ratio of financing costs to revenue stream	GF (0.13%) HRA 6.18%	GF (3.76%) HRA 6.48%

## 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.

<sup>1</sup> 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.

<sup>2</sup> The Operational Boundary is the expected normal upper requirement for borrowing in the 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 2022/23 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.
25. 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.
26. Implications verified by: David Hughes, Director of Audit, Risk and Fraud, tel. 020 7361 2389.

## **Consultation**

None.

## **LIST OF APPENDICES**

None.