

# LONDON BOROUGH OF HAMMERSMITH and FULHAM

**Report to:** Audit Committee

**Date:** 27 November 2023

**Subject:** Treasury Management Strategy: Mid-Year Review 2023/24

**Report author:** Sophie Green, Treasury Manager

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

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## SUMMARY

This report provides an update on the implementation (six months to 30 September 2023) of the 2023/24 Treasury Management Strategy, approved by Council on 23 February 2023 and presents the Treasury Management Strategy 2023/24 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 2023/24 to include the treasury position as at 30 September 2023;
- a review of the Council's borrowing strategy for 2023/24;
- a review of compliance with Treasury and Prudential Limits for the first six months of 2023/24;
- an economic update for the first part of the 2023/24 financial year.

The Council's Treasury and Pensions responsibilities are well managed (reflected in the recent national award) and some of the key highlights so far in 2023/24 are set out below:

During the first six months of 2023/24, cash balances decreased marginally from £270.2m at 31 March 2023 to £241.8m at 30 September 2023 (partly reflecting property acquisitions and debt repayment). These funds were invested at competitive rates with average interest rate returns increasing from 4.02% to 5.20%.

The Council has also repaid some historic borrowing (£4.3m in total) and therefore external borrowing has reduced from £271.7m to £267.4m, with the average interest rate of all debt also reducing marginally from 3.76% to 3.72%.

The Council has operated within the Treasury Limits and Prudential Indicators

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## RECOMMENDATIONS

1. The Committee is asked to note the Treasury Management Strategy 2023/24 mid-year review.
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**Wards Affected:** None

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<b>Our Priorities</b>	<b>Summary of how this report aligns to the H&amp;F Priorities</b>
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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## Contact Officers

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## Background Papers Used in Preparing This Report

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext of holder of file/copy</b>	<b>Department/ Location</b>
	Treasury Management Strategy Statement 2023/24	Phil Triggs	Tri-Borough Treasury and Pensions

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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 treasury monitoring report covers:

- the treasury position at 30 September 2023;
- the borrowing strategy for 2023/24;
- the borrowing position at 30 September 2023;
- compliance with treasury limits and prudential indicators;
- the investment strategy for 2023/24; and
- the investment position at 30 September 2023.

3. The Council’s debt, all held with the Public Works Loan Board (PWLB), and investment positions at the beginning of 2023/24 and at the six-month point were as follows:

	<b>31 March 2023 (£m)</b>	<b>Rate (%)</b>	<b>30 September 2023 (£m)</b>	<b>Rate (%)</b>
General Fund (GF)	52.8	3.71	52.0	3.67
Housing Revenue Account (HRA)	218.9	3.77	215.4	3.73
<b>Total Borrowing</b>	<b>271.7</b>	<b>3.76</b>	<b>267.4</b>	<b>3.72</b>
Total Cash Invested	270.2	4.02	241.8	5.20
<b>Net Cash Invested</b>	<b>(1.5)</b>		<b>(25.6)</b>	

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%.

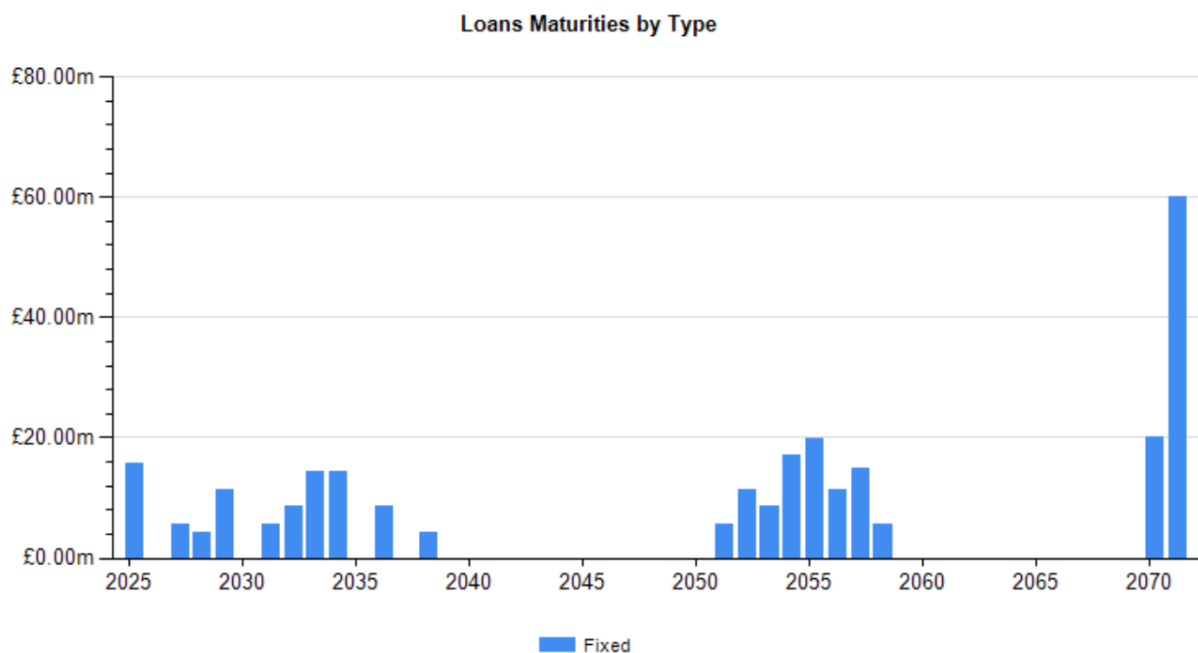
5. The table below shows the split of investments by duration as at 30 September 2023:

<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	63.0	<b>63.0</b>
< 1 Month	0.0	46.0	0.0	<b>46.0</b>
1 – 3 Months	0.0	112.8	0.0	<b>112.8</b>
3 – 6 Months	0.0	20.0	0.0	<b>20.0</b>
6 – 12 Months	0.0	0.0	0.0	<b>0.0</b>
<b>Total</b>	<b>0.0</b>	<b>178.8</b>	<b>63.0</b>	<b>241.8</b>

6. The Treasury Management Strategy Statement (TMSS) for 2023/24 was approved by Full Council on 23 February 2023. 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. £4.3m of borrowing has been repaid in the first half of 2023/24. Total borrowing therefore dropped from £271.7m to £267.4m and an average interest rate of 3.76% to 3.72%. All the Council's loans are at a fixed rate of interest. The table below shows the debt profile as at 30 September 2023:



8. In the first six months of 2023/24, the HRA PWLB debt of £215.4m remained below the HRA Capital Financing Requirement (CFR) of £358.0m, which generates internal borrowing of £142.6m. 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.
9. As at 30 September 2023, 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

	31 Mar 2023 CFR £m	31 Mar 2023 External Debt £m	30 Sep 2023 CFR £m	30 Sep 2023 External Debt £m
GF (Excluding DSG funded Schools Windows borrowing)	134.0	0.0	181.1	0.0
GF (DSG funded Schools Windows borrowing)	55.4	0.0	89.0	0.0
<b>Total GF Headline CFR</b>	<b>189.4</b>	<b>0.0</b>	<b>270.1</b>	<b>0.0</b>
Finance leases/PFI	13.5	0.0	12.4	0.0
<b>Total Closing GF CFR</b>	<b>202.9</b>	<b>52.8</b>	<b>282.5</b>	<b>52.0</b>
HRA	300.6	0.0	358.0	0.0
<b>HRA CFR Total</b>	<b>300.6</b>	<b>218.9</b>	<b>358.0</b>	<b>215.4</b>
<b>Total CFR/External Debt</b>	<b>503.5</b>	<b>271.7</b>	<b>640.5</b>	<b>267.4</b>

### Treasury Investments

10. At 30 September 2023, a significant part of the Council's treasury investment portfolio (£178.8m) was held in fixed term deposits with the Debt Management Agency Deposit Facility (DMADF), local authorities and banks.
11. The TMSS allows 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 £50m 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 £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 2023 amounted to £241.8m invested in short-term deposits. This compares with £270.2m short-term investments at 31 March 2023.

13. The table below provides an analysis of the cash deposits, together with comparisons from financial year-end:

	<b>31 March 2023 £m</b>	<b>30 September 2023 £m</b>
Liquid Deposits	0.0	0.0
Money Market Funds	151.6	63.0
Notice Accounts	0.0	0.0
Custodian Held Assets	0.0	0.0
Term Deposits	118.6	178.8
Enhanced Cash Fund	0.0	0.0
<b>Total</b>	<b>270.2</b>	<b>241.8</b>

14. During the first six months of 2023/24, cash balances varied between £242.5m and £281.6m, 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).
15. The average return achieved on investments managed internally for the first six months was 5.20% compared with the average six-month SONIA rate of 5.26%. 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 24 February 2023.
17. The table below provides a breakdown of the indicators and actual position for the year ending 30 September 2023:

<b>Indicator</b>	<b>2023/24 Approved Limit</b>	<b>2023/24 Actual at 30 September 2023</b>	<b>Indicator Met</b>
Capital Financing Requirement	£684m	£641m	Yes
Authorised Limit for external debt <sup>1</sup>	£650m	£272m	Yes
Operational Debt Boundary <sup>2</sup>	£705m		Yes
Capital Expenditure	£203m	£63m	Yes

<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.

Working capital balance	£0m	£0m	Yes	
Limit on surplus funds invested for more than 364 days	£120m	£0m	Yes	
<b>Maturity Structure of Borrowing</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Actual</b>	<b>Indicator Met</b>
Under 12 Months	0%	15%	3%	Yes
12 Mths to within 24 Mths	0%	15%	3%	Yes
24 Mths to within 5 years	0%	60%	7%	Yes
5 years to within 10 years	0%	75%	16%	Yes
Over 10 years	0%	100%	71%	Yes

<b>Indicator</b>	<b>2023/24 Forecast</b>	<b>2023/24 Actual at 30 September 2023</b>
Ratio of financing costs to revenue stream	GF (0.13%) HRA 6.18%	GF 2.96% HRA 31.55%
Ratio of commercial/service investment income to net revenue stream	GF N/A HRA N/A	GF 1.88% HRA 3.48%

18. The variance for the ratio of financing costs to revenue stream is driven by changes to the prudential code means there is no longer a provision to include investment interest, which previously gave rise to the negative GF ratio. For the HRA, it is confirmed that depreciation costs would be included. There was no 2023/24 forecast for ratio of commercial/service investment income to net revenue stream due this being a new requirement of the code.

### **Reasons for Decision**

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

### **Equality Implications**

20. 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**

21. The purpose of this report is to present the Council's mid-year Treasury Management Report for 2023/24 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.

22. 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.
23. 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.
24. Implications verified by: David Hughes, Director of Audit, Fraud, Risk and Insurance, tel. 07817 507 695

### **Consultation**

None

### **LIST OF APPENDICES**

None