

LONDON BOROUGH OF HAMMERSMITH and FULHAM

Report to: Audit Committee

Date: 9 December 2024

Subject: Treasury Management Strategy: Mid-Year Review 2024/25

Report author: Sophie Green, Treasury Manager

Responsible Director: Sukvinder Kalsi, Director of Finance

SUMMARY

This report provides an update on the implementation (six months to 30 September 2024) of the 2024/25 Treasury Management Strategy, approved by full Council on 12 February 2024, and presents the Treasury Management Strategy 2024/25 mid-year review.

Treasury management comprises the management of the Council's cash balances, ensuring that funding for the Council's capital programme follows its

strategy and that surplus cash balances arising from the day-to-day financial operations of the Council are invested appropriately 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 2024/25 to include the treasury position as at 30 September 2024;
- a review of the Council's borrowing strategy for 2024/25;
- a review of compliance with Treasury and Prudential Limits for the first six months of 2024/25;
- an economic update for the first part of the 2024/25 financial year.

The Council's Treasury responsibilities are well managed and some of the key highlights so far in 2024/25 are set out below.

During the first six months of 2024/25, cash balances decreased marginally from £159.3m at 31 March 2024 to £116.9m at 30 September 2024. These funds were invested at competitive rates with an average yield of 5.21%. The average rate fell from 5.62% at 31 March 2024 following a 0.25% decrease in the Bank Rate.

The Council has also repaid some historic borrowing (£4.3m in total) and therefore external borrowing has reduced from £268.5m to £264.1m, with the average interest rate of all debt also reducing marginally from 3.72% to 3.67%.

The Council has operated within the Treasury Limits and Prudential Indicators.

RECOMMENDATIONS

1. The Committee is asked to note the Treasury Management Strategy 2024/25 mid-year review.

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 2024/25	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 at 30 September 2024;
- the borrowing strategy for 2024/25;
- the borrowing position at 30 September 2024;
- compliance with treasury limits and prudential indicators;
- the investment strategy for 2024/25; and
- the investment position at 30 September 2024.

3. The Council’s debt, all held with the Public Works Loan Board (PWLB), with the exception of a £1m Green Bond, and investment positions at the beginning of 2024/25 and at the six-month point were as follows:

	31 March 2024 (£m)	Rate (%)	30 September 2024 (£m)	Rate (%)
General Fund (GF)	53.0	3.69	52.2	3.65
Housing Revenue Account (HRA)	215.5	3.73	211.9	3.68
Total Borrowing	268.5	3.72	264.1	3.67
Total Cash Invested	159.3	5.62	116.9	5.21
Net Cash Invested	(109.2)		(147.2)	

4. The Housing Revenue Account (HRA) is responsible for servicing 80.2% of the Council’s external debt and the General Fund is responsible for the remaining 19.8%.

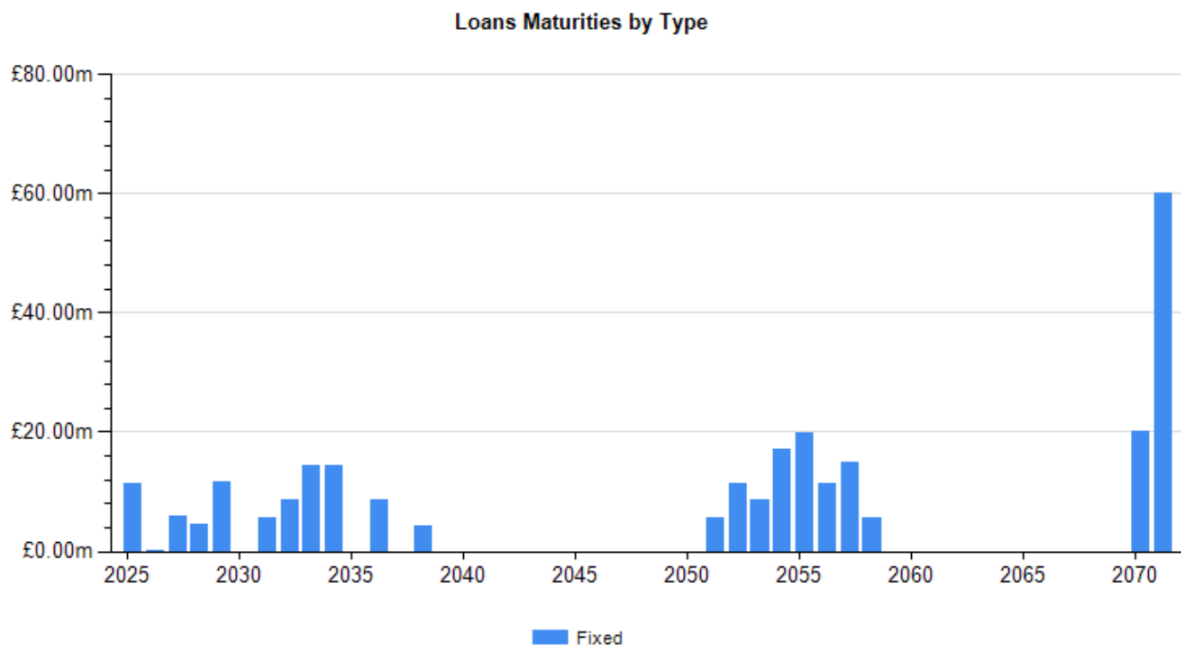
5. The table below shows the split of investments by duration as at 30 September 2024:

Maturity Period	Call (£m)	Fixed (£m)	MMF (£m)	Total (£m)
Liquidity	0.0	0.0	56.9	56.9
< 1 Month	0.0	15.0	0.0	15.0
1 – 3 Months	0.0	45.0	0.0	45.0
3 – 6 Months	0.0	0.0	0.0	0.0
6 – 12 Months	0.0	0.0	0.0	0.0
Total	0.0	60.0	56.9	116.9

- The Treasury Management Strategy Statement (TMSS) for 2024/25 was approved by Full Council on 12 February 2024. 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

- £4.4m of borrowing has been repaid in the first half of 2024/25. Total borrowing therefore dropped from £268.5m to £264.1m and an average interest rate of 3.72% to 3.67%. All the Council's loans are at a fixed rate of interest. The table below shows the debt profile as at 30 September 2024:



- In the first six months of 2024/25, the HRA PWLB debt of £211.9m remained below the HRA Capital Financing Requirement (CFR) of £451.2m, which generates internal borrowing of £239.3m. A charge for this is made based on the opportunity cost to the General Fund of providing this financing. HRA reserves and working capital, represent cash balances, on which interest is allocated from the general fund.
- As at 30 September 2024, 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).
- The Council is likely to borrow for the HRA before the end of 2024. Cash balances and interest rates are constantly being monitored to determine the optimal time to borrow. The proposed duration is seven to ten years as this duration is currently the cheapest point of the yield curve. An EIP (Equal Instalments of Principal) loan structure is being considered as this spreads refinancing risk and creates the opportunity to refinance throughout the loan duration at cheaper rates.

Closing Capital Financing Requirement analysed between General Fund and Housing Revenue Account

	31 March 2024 CFR £m	31 March 2024 External Debt £m	30 Sep 2024 CFR £m	30 Sep 2024 External Debt £m
GF (Excluding DSG funded Schools Windows borrowing)	163.1	0.0	187.3	0.0
GF (DSG funded Schools Windows borrowing)	88.3	0.0	89.8	0.0
Total GF Headline CFR	251.4	0.0	277.1	0.0
Finance leases/PFI	14.3	0.0	11.7	0.0
Total Closing GF CFR	265.7	53.0	288.8	52.2
HRA	348.3	0.0	451.2	0.0
HRA CFR Total	348.3	215.5	451.2	211.9
Total CFR/External Debt	614.0	268.5	740.0	264.1

Treasury Investments

11. At 30 September 2024, more than half of the Council's treasury investment portfolio (£60.0m) was held in fixed term deposits with local authorities and banks.

12. 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.

13. The investments outstanding at 30 September 2024 amounted to £116.9m invested in short-term deposits. This compares with £159.3m short-term investments at 31 March 2024.

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

	31 March 2024 £m	30 September 2024 £m
Money Market Funds	42.3	56.9
Term Deposits	117.0	60.0
Total	159.3	116.9

15. During the first six months of 2024/25, cash balances varied between £166.5m and £129.6m, 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).

16. The average return achieved on investments managed internally for the first six months was 5.21% compared with the average six-month SONIA rate of 5.25%. 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

17. During the year the Council operated within the Treasury Limits and Prudential Indicators set out in the TMSS.

18. The table below provides a breakdown of the indicators and actual position for the six-month period ending 30 September 2024:

Indicator	2024/25 Approved Limit	2024/25 Actual at 30 September 2024	Indicator Met
Authorised Limit for external debt ¹	£850m	£264m	Yes
Operational Debt Boundary ²	£805m		Yes
Capital Financing Requirement ³	£784m	£740m	Yes
Capital Expenditure	£264m	£94m	Yes
Working capital balance	£0m	£0m	Yes

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.

³ The limit for the Capital Financing Requirement is a guide not a hard limit, and actuals in excess are not a breach.

Limit on surplus funds invested for more than 364 days	£120m	£0m	Yes
Maturity Structure of Borrowing	Minimum	Maximum	Actual
Under 12 months	0%	15%	3%
12 > months < 24	0%	15%	0%
24 > months < 5 years	0%	60%	11%
5 > months < 10 years	0%	75%	20%
Over 10 years	0%	100%	66%

Indicator	2024/25 Forecast	2024/25 Actual at 30 September 2024
Ratio of financing costs to revenue stream	GF 2.82% HRA 35.42%	GF (2.38%) HRA (1.10%)
Ratio of commercial/service investment income to net revenue stream	GF 1.80% HRA 3.41%	GF (2.76%) HRA (3.91%)

19. The variance for the ratio of financing costs to revenue stream is driven by changes to the prudential code which 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 2024/25 forecast for ratio of commercial/service investment income to net revenue stream due to this being a new requirement of the code.

Reasons for Decision

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

Equality Implications

21. 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

22. The purpose of this report is to present the Council's mid-year Treasury Management Report for 2024/25 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.

23. Risk levels were set in accordance with the approved 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.

24. 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.

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

Consultation

None.

LIST OF APPENDICES

None.