



London Borough of Hammersmith & Fulham

AUDIT, PENSIONS AND STANDARDS COMMITTEE

13 December 2012

Treasury Mid-Year Review 2012-13

Report of the Executive Director of Finance and Corporate Governance

Open Report.

Classification: For Information

Key Decision: No

Wards Affected: ALL

Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Services

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## 1. EXECUTIVE SUMMARY

### 1.1 Annual Investment Strategy

Cash investment is focused on Security, Liquidity and Yield in that order.

### 1.2 Investment Summary

As at the 30<sup>th</sup> September 2012, the council had £162 million invested at an average interest rate of 0.94%. There is no change proposed to the current strategy. The list below sets out the investments as at the 30<sup>th</sup> September.

	Balance (£m)	Yield (%)
DMO	6	0.25
Money Market Funds (Constant NAV)	40	0.50
Bank Call Accounts	33	0.87
<b>Total Liquid Investments</b>	<b>79</b>	<b>0.64</b>
<b>Total other investments</b>	<b>83</b>	<b>1.21</b>
<b>Grand Total</b>	<b>162</b>	<b>0.94</b>

### 1.3 Borrowing

As at the 30<sup>th</sup> September, the total external borrowing all from the PWLB was £262m at an average interest rate of 5.60%. There have been no changes in borrowing since the start of the year.

### 1.4 Compliance with Treasury Limits and Prudential Indicators

All investments and borrowing operations were within the treasury limits and Prudential Indicators as set out in the Council's Treasury Strategy Report approved by the Council in February 2012

## 2. **RECOMMENDATIONS**

2.1 To note the Council's debt, borrowing and investment activity up to the 30<sup>th</sup> September 2012.

## 3. **REASON FOR DECISION**

3.1 This paper is a regulatory requirement in compliance with the CIPFA Code of Practice on Treasury Management and set out cash balances, investments and borrowing as at the 30<sup>th</sup> September 2012.

3.2 It reprises the information reported to Cabinet at its meeting on 10<sup>th</sup> December 2012. The Council has designated the Committee as the body responsible for the effective scrutiny of the Treasury Management Strategy and policies.

## 4. **BACKGROUND**

4.1 This report presents the Council's Treasury Management Mid Year Report up to the 30<sup>th</sup> September 2012 in accordance with the Council's Treasury Management Practice.

4.2 The CIPFA Code of Practice on Treasury Management has been adopted by the Council. This Mid Year review has been prepared in compliance with the Code of Practice. The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Receipt by the full Council of an Annual Treasury Management Strategy Statement, including the Annual Investment Strategy, for the year ahead, a Mid-Year Review Report (this report) and an Annual Report covering activities during the previous year.

Delegation by the Council of the role of scrutiny of Treasury Management Strategy and policies to a specific named body. For this

Council the delegated body is the Audit, Pensions and Standards Committee.

## 5. ANNUAL INVESTMENT STRATEGY

5.1 The Treasury Management Strategy for 2012/13 was approved by Council on 29th February 2012. The Council's Annual Investment Strategy, which is incorporated in the overall strategy, outlines the Council's investment priorities as follows:

- Security of capital
- Level of liquidity in its investments appropriate to the Council's need of funds over time.
- Subject to meeting the other two requirements, achieving an optimum return on investments.

5.2 In the current economic climate it is considered appropriate to keep all new investments short term, and only invest with highly credit rated financial institutions. The Council's policy has not changed this year.

## 6. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

6.1 During the first six months of the financial year the Council operated within its treasury limits and Prudential Indicators as set out in the Council's Treasury Strategy Report.

## 7. INVESTMENTS

7.1 The table below provides a breakdown of the cash Council deposits as at the 30<sup>th</sup> September 2012.

	<b>Balance (£m)</b>	<b>Yield (%)</b>
Bank Call Accounts	33	0.87
Money Market Funds	40	0.50
DMO	6	0.25
<b>Total Liquid Investments</b>	<b>79</b>	<b>0.64</b>
Banks and Local Authorities	83	1.22
<b>Total/ Average Rate</b>	<b>162</b>	<b>0.94</b>

Treasury officers are not making any investments for a period more than three months, without prior authorisations from the Executive Director of Finance and Corporate Governance.

7.2 The Council makes use of a number of MMF's as set out in the list below. Money Market Funds (MMF) are pooled investment vehicle with

assets of various cash type instruments. All the Money Market Funds with which the Council has investments with are AAA rated and have instant access.

<b>Fund</b>	<b>Weighted Average Life (Days)</b>	<b>Weighted Average Maturity (Days)</b>	<b>Amount Invested (£m)</b>	<b>Net Return (%)</b>
Blackrock	83	57	10	0.47
Goldmans	45	45	10	0.45
Insight	38	38	10	0.46
Prime Rate	35	35	10	0.61

- 7.3 The DMO is part of the Treasury, guaranteed by the Government. As a result the DMO is rated AAA by all three credit ratings agencies. Council funds are invested with the DMO between a minimum of overnight to a maximum of six months at a rate of 0.25%.
- 7.4 The Council has number of term deposits with two UK Banks, as set out below. The Council has a call account with Nat West which provides instant access at a rate of 0.87%.

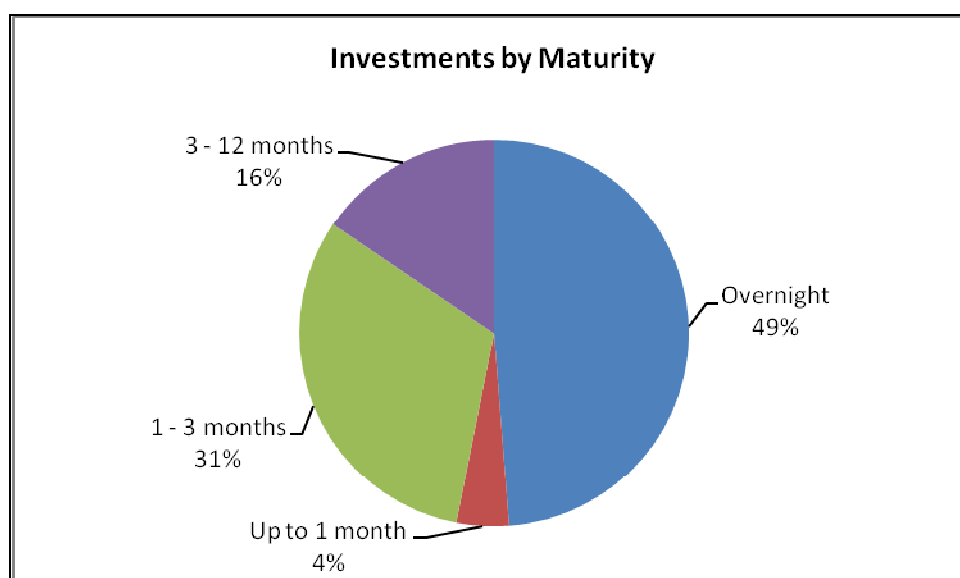
<b>Counterparty</b>	<b>Credit Rating (S&amp;P/Moody's /Fitch)</b>	<b>Maturity Date</b>	<b>Balance (£m)</b>	<b>Return (%)</b>	<b>Days to maturity</b>
Lloyds	A/A2/A	05/11/2012	5	1.35	36
Barclays	A+/A2/A	08/11/2012	5	0.67	39
Barclays	A+/A2/A	15/11/2012	5	0.67	46
Lloyds	A/A2/A	16/11/2012	5	1.35	47
Lloyds	A/A2/A	14/02/2013	5	1.75	137
Lloyds	A/A2/A	04/06/2013	5	3.00	247
Lloyds	A/A2/A	04/07/2013	15	3.10	277
<b>Total/Average</b>			<b>45</b>	<b>1.70</b>	<b>118</b>

- 7.5 Lloyds and RBS (as owners of Nat West) are on the Council's lending list, with limits of £35 million because of their credit ratings but because of the fact that they are part nationalised.

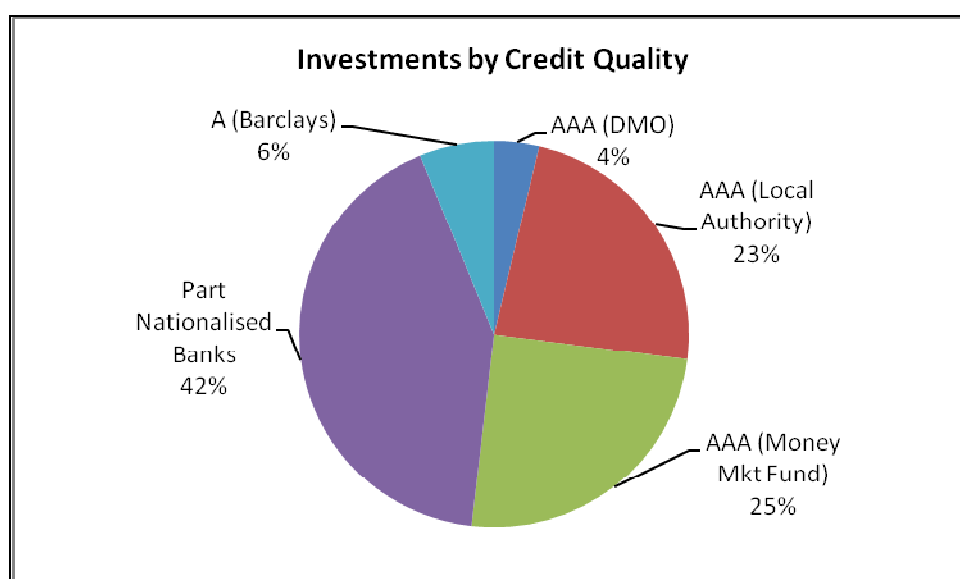
7.6 The Council will first invest surplus funds with UK bank and Money Market Funds as approved in the Council's Strategy Report. When the Council has reached its limits with these counterparties it will look to invest with certain local authorities. Under the guidance issued by CLG investing with local authorities is defined as high credit quality (LG Act s23) and that the credit risk attached to these authorities is an acceptable one. Below is the list of local authorities that the Council invested with as at 30<sup>th</sup> September 2012.

Counterparty	Maturity Date	Balance (£m)	Return (%)	Days to Maturity
Herefordshire	15/10/2012	2	0.27	15
Kingston Upon Hull	31/10/2012	5	0.31	31
Cornwall	02/11/2012	7	0.31	33
Aylesbury Vale	05/11/2012	5	0.27	36
Salford	29/11/2012	4	0.27	60
Wolverhampton	30/11/2012	5	0.30	61
Dumfries & Galloway	05/12/2012	2	0.27	66
Woking	10/12/2012	3	0.29	71
Salford	21/12/2012	5	0.27	82
<b>Total</b>		<b>38</b>	<b>0.28</b>	<b>51</b>

7.7 The chart below shows the duration exposure of the Council. 53% of investments can be accessed within one month's notice.



- 7.8 The chart below shows the Credit rating exposure of the Council's investment by counterparty. Part Nationalised banks refers to RBS and Lloyds (both rated A/A3/A).



## 8. BORROWING

- 8.1 The borrowing strategy for the year 2012/13 was not to incur any new borrowing and given the prevailing low levels of interest rates, consider voluntary early repayments of borrowing as a way of making more efficient use of funds in the short term.
- 8.2 The table below shows the details around the Council's external borrowing (as at the 30th September 2012) is £262m split between General Fund and HRA at an average rate of 5.60%

Loan Type	General Fund (£m)	Average rate	HRA (£m)	Average rate	Total external borrowing (£m)	Average Rate
PWLB loans maturity	44.78	5.60%	217.38	5.60%	262.16	5.60%

## 9. ECONOMY AND INTEREST RATES

- 9.1 In August the Bank of England lowered its forecast for the rate of growth over the coming months and amended its forecasts for 2012 and 2013. The UK economy is influenced by worldwide economic developments, particularly in the Eurozone where ongoing problems could affect the UK's economic performance.

- 9.2 In the UK Consumer Prices Index (CPI) inflation has fallen to 2.5 per cent in August, however Gross Domestic Product (GDP) also fell by 0.4 per cent in the quarter to 30 June, the third quarterly fall in succession.
- 9.3 The Monetary Policy Committee (MPC) has kept bank rate at 0.5 per cent throughout the period while quantitative easing was increased by £50 billion to £375 billion in July. In addition, in June, the Bank of England and the Government announced schemes to free up banking funds for business and consumers.
- 9.4 UK sovereign debt however remains a safe haven and gilt yields, prior to the European Central Bank (ECB) bond buying announcement in early September, were close to zero for periods out to five years and not much higher out to ten years.
- 9.5 World economies remain unstable. The United States will need to take action in early 2013 to address its debt position. In the Eurozone, whilst the ECB measures regarding short term bank purchase increased confidence it is uncertain if all Governments concerned will accept the conditions attached to this initiative.
- 9.6 In the UK the Bank of England has adjusted its financial forecast for a return to growth. Weak export markets (mainly in the EU, the UK's main trading partner) will continue to affect recovery.
- 9.7 Low growth in the UK is expected to continue, bank rate is unlikely to rise in the next 24 months this, coupled with a possible further extension of quantitative easing, will keep investment returns depressed.
- 9.8 The longer run trend for Public Works Loan Board (PWLB) borrowing rates is for them to eventually rise, primarily due to the need for a high volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries. However, the current safe haven status of the UK may continue for some time, tempering any increase in yield.

## **10. PRUDENTIAL INDICATORS**

- 10.1 As part of the Strategy the Council sets a number of prudential limits for borrowing. This section shows the Council's position against the prudential indicators for 2012/13 agreed by Council in February 2012. These are outlined below.
- 10.2 During the half year to the end of September 2012, the Council operated within the treasury limits as set out in the Treasury Management Strategy. The outturn for the Treasury Management Prudential Indicators are shown below.

<b>£000's</b>	<b>2012/13 Limit</b>	<b>30 September 2012 Actual</b>
Authorised Limit for external debt <sup>1</sup>	350,451	100,620*
Operational Limit for external debt <sup>2</sup>	283,537	100,620*
Limit of fixed interest rate exposure based on net debt	330,000	100,620*
Limit of variable interest rate exposure based on net debt	66,000	Nil
Principal sum invested >364 days	20,000	Nil

\*PWLB debt minus investments

- 10.3 Maturity structure of borrowing – This indicator is designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. It is not necessary to include variable rate debt because local authorities do not face substantial refinancing risks.

	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Actual</b>
Under 12 months	15%	0%	0.04%
12 months and within 24 months	15%	0%	4.41%
24 months and within 5 years	60%	0%	9.80%
5 years and within 10 years	75%	0%	12.62%
10 years and above	100%	0%	73.13%

<sup>1</sup> Authorised limit for external debt is the limit above which external debt must not go without changing Council Policy.

<sup>2</sup> Operational boundary for external debt is the limit against which external debt will be constantly monitored.



## **11. EQUALITY IMPLICATIONS**

11.1 There are no equality implications as a result of this report

## **12. FINANCE AND RESOURCES IMPLICATIONS**

12.1 The comments of the Director of Finance and Corporate Services are contained within this report.

## **13. LEGAL IMPLICATIONS**

13.1 There are no direct legal implications for the purpose of this report.

## **14. RISK MANAGEMENT**

14.1 There are no direct risk management implications as a result of this report.

## **15. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

15.1 There are no procurement or IT strategy implications as a result of this report.

### **LOCAL GOVERNMENT ACT 2000** **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext of File/Copy</b>	<b>Department/Location</b>
<b>1</b>	<b>Borrowings and Investment spread sheets</b>	<b>Rosie Watson Ext. 2563</b>	<b>Westminster City Hall, Treasury and Pensions, 16<sup>th</sup> Floor</b>