



London Borough of Hammersmith & Fulham

CABINET

2 SEPTEMBER 2013

TREASURY REPORT 2012/13 OUTTURN

Report of the Leader, Councillor Nicholas Botterill

Open Report

Classification - For Information

Key Decision: Yes

Wards Affected: All

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1. EXECUTIVE SUMMARY

- 1.1. This report presents the Council's Outturn Treasury Report for 2012/13 in accordance with the Council's treasury management practices (TMS). It is a regulatory requirement for this outturn report to be presented to the Committee by 30 September each year.
- 1.2. There are two aspects of Treasury performance – debt management and cash investments. Debt management relates to the Council's borrowing and cash investments to the investment of surplus cash balances. This report covers:
 - the treasury position as at 31 March 2013 which includes the investment and the borrowing strategy and outturn for 2012/13;
 - the UK economy and interest rates
 - compliance with treasury limits and prudential indicators

- 1.3. The borrowing amounts outstanding and cash investment for the relevant periods are as follows in the table below.

£ million	31/3/2013	31/3/2012	31/3/2011
Total borrowing	262.07	262.17	475.52
Total cash balances	206.17	109.30	70.00

2. RECOMMENDATIONS

- 2.1 To note that the Council has not undertaken any borrowing for the period 1st April 2012 to 31st March 2013.
- 2.2 To note the investment activity for the period 1st April 2012 to 31st March 2013.

3. INTRODUCTION AND BACKGROUND

- 3.1. This report presents the Council's Outturn Treasury Report for 2012/13 in accordance with the Council's treasury management practices. This report covers:
- the treasury position as at 31 March 2013 which includes the investment and the borrowing strategy and outturn for 2012/13;
 - the UK economy and interest rates
 - compliance with treasury limits and prudential indicators.

4. TREASURY POSITION AS AT 31 MARCH 2013

Investments

- 4.1. The table below provides a breakdown of the cash deposits, together with comparisons from the previous year.

Investment Type	Value 31 March 2013 (£million)	Value 31 March 2012 (£million)
Liquid Deposits	44.52	18.80
Term Deposits	121.65	69.50
Money Market Funds	40.00	21.00
Total	206.17	109.30

- 4.2. The total investments increased by £97 million in 2012/13, the increase was attributable to a rise in usable reserves and unapplied capital receipts.
- 4.3. Liquid deposits consisting of overnight deposits with the Debt Management Office (DMO) and a Call Bank A/c.

- 4.4. The Council had £40 million invested in four money market funds (£10 million in each) run by Goldman Sachs, Blackrock, Insight and Prime Rate. The funds return ranged from 0.29 per cent to 0.49 per cent (all are rated AAA by at least one, and in most cases two, rating agencies).
- 4.5. The term deposits comprise 15 fixed term deals with maturities ranging from April 2013 to August 2013. The investments were deposited with DMO, Lloyds Bank, Barclays Bank, London Borough of Islington and Woking Borough Council.
- 4.6. The weighted average interest rate of return on the investments over the year was 0.90 per cent, with a total interest received of £1.52 million (compared with a weighted average of 1.18 per cent and a total interest £1.19 million for 2011/12).
- 4.7. The investment strategy for 2012/13 was to place cash investments with certain institutions as set out in the Treasury Management Strategy, to focus on the security and liquidity of the investments rather than to seek yield. Where security and liquidity criteria could be satisfied, investments would then be placed taking yield into account.

Borrowing

- 4.8. All external borrowing is with the Public Work Loan Board (PWLB) at various fixed rates and split between the General Fund and Housing Revenue Account (HRA).
- 4.9. Total borrowings decreased by £0.1 million to £262.07 million due to maturing debt. No new borrowing was undertaken during the year.
- 4.10. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, has not been fully funded by external loan debt, the balance being funded by cash reserves. This strategy is prudent as investment returns are low and counterparty risk is high.
- 4.11. The closing General Fund debt as measured by the Capital Financing Requirement (CFR)¹ for 2012/13 at quarter 4 is £78.4 million (in quarter 3 £91.4 million), as shown in table below.

In accordance with the debt reduction strategy, all year-end surplus general fund receipts have been directed towards debt reduction. This maximises the revenue savings associated with debt reduction in the subsequent year.

¹ The Capital Financing Requirement is a measure of the Council's underlying need to borrow for capital expenditure or to finance its other long term liabilities.

Movement in the Capital Financing Requirement (CFR)

	Q3	Movement	Q4
	£million	£million	Outturn £million
Opening Capital Financing Requirement (CFR)	99.8		99.8
Revenue Repayment of Debt (MRP)	(2.3)		(2.3)
Net Impact of Appropriations between General Fund and HRA		0.5	0.5
Annual (Surplus) in Capital Programme	(6.1)	(13.5)	(19.6)
Closing CFR	91.4	(13)	78.4
<i>Net Movement from £99.8m</i>	<i>(8.4)</i>	<i>(13)</i>	<i>(21.4)</i>

4.12. Following the implementation of Housing Finance Reform on the 28th March 2012 Central Government abolished the Housing Subsidy System and replaced it with the “self financing” regime. The Housing Revenue Account (HRA) debt was reduced by £197.4 million (repayment of debt by DCLG) from £414.7 million to £217.3 million. This resulted in a reduction in annual interest costs of £10.2million. In return, the Council agreed to give up the annual Housing Subsidy payment (this was worth £10.4million in 2011/12). The end result is the HRA is now responsible for servicing 82.9 per cent of the Council’s external debt, the General Fund holds the remaining 17.1 per cent.

4.13. The table below shows the details around the Council’s external borrowing (as at 31 March 2013), split between the General Fund and HRA.

	General Fund (£million)	Average Interest rate	HRA (£million)	Average Interest rate	Total external borrowing (£million)	Combined Average Interest Rate
Total / average	44.77	5.61%	217.30	5.61%	262.07	5.61%

5. THE ECONOMY AND INTEREST RATES

5.1. Given the rapidly moving state of the European debt crisis, the details below focus on the last financial year, and it should be recognised that events have moved on since.

5.2 **Sovereign debt crisis.** During 2012-13 financial markets remained apprehensive, fearful of the potential for another financial crisis prompted by a European Sovereign Government debt default. The European Authorities were keen to do whatever it took to stabilise the Euro and financial markets. The European Central Bank (ECB) cut rates and in September committed to unlimited purchases of peripheral sovereign debt.

- 5.3 This action was mirrored in the US where the Federal Reserve implemented further quantitative easing measures by increasing the amount of open-ended purchases from \$40 billion to \$85 billion per month. The Monetary Policy Committee (MPC) increased the quantitative easing program by a further £50 billion in July 2012 but has not acted further.
- 5.4 The UK coalition Government maintained its fiscal policy stance. Both Fitch and Moody's downgraded the UK long term debt rating due to the weaker economic and fiscal outlook. The downgrades had little market impact.
- 5.5 **UK growth** proved mixed over the year. In quarter 2, GDP growth was -0.4 per cent, but then quarter 3 showed a return to growth of 0.9 per cent quarter on quarter before moving back into decline (-0.3 per cent) in quarter 4. The UK grew by 0.3 per cent in the first three months of 2013 and avoided a triple dip recession. The Office for National Statistics said that strong growth in the services sector and a recovery in North Sea oil/gas output helped the economy grow in the first quarter of 2013. Falling real incomes, the deficit reduction plan and the poor state of the European economy are holding back economic growth. However, there was also a return of some optimism for growth outside the EU as the Federal Reserve in America continued to provide quantitative easing to boost growth.
- 5.6 **UK CPI inflation** peaked at the start of the year at 3 per cent before ending the year at 2.8 per cent. Inflation is forecast to exceed 3 per cent over the next year.
- 5.7 In the latest Budget, the MPC were given more flexibility to make tradeoffs to support the economy. The implication is that the MPC will be able to justify above target inflation over the medium term if the broader economic backdrop is deemed to require measures to boost growth.
- 5.8 **Gilt yields** fell for much of the year, as concerns continued over the EU debt crisis. This resulted in safe haven flows into UK gilts.
- 5.9 **Bank Rate** was unchanged at 0.5 per cent throughout the year while expectations of when the first increase would occur were steadily pushed back to the second half of 2015 at the earliest. Deposit rates fell throughout the year as the government implemented its Funding for Lending scheme
- 5.10 **Risk premiums** remained throughout the year. Widespread and multiple downgrades of the credit ratings of many banks and sovereigns, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.

6. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

- 6.1. During the financial year to March 2013, the Council operated within the treasury limits as set out in the TMS. The outturn for the Treasury Management Prudential Indicators are shown in Appendix A.

7. COMMENTS OF THE EXECUTIVE DIRECTOR OF FINANCE AND CORPORATE GOVERNANCE

7.1 These are contained within the report.

8. COMMENTS OF THE DIRECTOR OF LAW

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

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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Loans and Investments ledger	Halfield Jackman. Tel: 020 7651 4354	Tri-borough Treasury Manager, Westminster City Council
2.	CIPFA Treasury Management Code of Practice (published)	Halfield Jackman. Tel: 020 7651 4354	Tri-borough Treasury Manager, Westminster City Council

APPENDIX A

LBHF – TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2012-13

Authorised Limit and Operational Boundary 12/13

Indicator	Approved Limit	Actual Debt	No. of days Limit Exceeded
Authorised Limit ²	£351m	£262.07m	None
Operational Boundary ³	£284m	£262.07m	None

Limits on Interest Rate Exposure

Interest Rate Exposure	Upper Limit	Lower Limit	Actual at 31 Mar 2013
Fixed Rate Debt	£330m	£0m	£262.07m
Variable Rate Debt	£66m	£0m	£0m

Maturity Structure of Borrowing

Maturity Structure of Borrowing	Upper Limit	Lower Limit	Actual at 31 Mar 2013
Under 1 year	15%	0%	4%
1 year to 2 years	15%	0%	1%
2 years to 5 years	60%	0%	12%
5 years to 10 years	75%	0%	10%
Over 10 years	100%	0%	73%

² 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.

³ The Operational Boundary is the expected normal upper requirement for borrowing in the year.