	London Borough of Hammersmith & Fulham **COUNCIL** **29 JANUARY 2014**
TREASURY MID-YEAR REVIEW 2013-14	
Report of the Leader of the Council: Councillor Nicholas Botterill	
Open Report	
Classification: For Information **Key Decision: No**	
Wards Affected: ALL	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
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1. EXECUTIVE SUMMARY

1.1 This report presents the Council's Half Year Treasury Report for 2013/14 in accordance with the Council's Treasury Management Practices. It is a regulatory requirement for this Report to be presented to Council.

1.2 There are two aspects of Treasury performance – debt management and cash investments. Debt management relates to the Councils borrowing and cash investments to the investments of surplus cash balances. This report covers:

- The Treasury position as at 30 September 2013.
- The Investment Strategy
- The Borrowing Strategy
- Compliance with the treasury limits and prudential indicators and
- The UK economy and interest rates.

The borrowing amounts outstanding and cash investments for the 30 September period are as follows:

£million	30 September 2013	31 March 2013
Total Borrowing	256	262
Total Cash Balances	260	206

2. BACKGROUND

2.1 This report presents the Council's Treasury Management Mid Year Report to the 30 September 2013 in accordance with the Council's Treasury Management Practice.

2.2 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.

2.3 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.

3. RECOMMENDATIONS

3.1 To note the Council's debt, borrowing and investment activity up to the 30 September 2013.

4. TREASURY POSITION AT 30 SEPTEMBER 2013

Investment

4.1 The table below provides a schedule of the cash deposits, together with comparisons from the year end.

	30 September 2013		31 March 2013	
	Balance £m	**Yield (%)**	**Balance £m**	**Yield (%)**
Overnight access				
DMO (Overnight)	10	0.25	13	0.25
Money Market Funds (Constant NAV)	40	0.36	40	0.36
Call Account	-	-	32	0.65
Total Liquid Investments	**50**	**0.33**	**84**	**0.45**
Term Deposit	146	0.59	122	0.78
Custodian Held Assets	64	0.35	-	-
Total other Investments	**210**	**0.51**	**122**	**0.78**
Grand Total	**260**	**0.48**	**206**	**0.64**

4.2 The Council has £40m invested in four money market funds run by Federated Prime Rate, Insight, Goldman Sachs and Blackrock. The funds return between 0.29% to 0.42%, all are rated AAA by at least two of the three main credit rating agencies.

4.3 Custodian Held Assets are highly rated short term investments that are held by Northern Trust. Investments include UK Gilts, UK Treasury Bills and bonds issued by Network Rail (Government guaranteed).

4.4 The weighted average interest rate of return on the investments over the half year was 0.48% (on a per annum basis), with a total interest received of £0.5m.

Borrowing

4.5 The borrowing strategy for the year 2013/14 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.

4.6 The table below shows the Council's external borrowing (as at the 30 September 2013) is £256m split between General Fund and HRA at an average interest rate of 5.60%.

	General Fund (£m)	Average rate	HRA (£m)	Average rate	Total external borrowing (£m)	Average Rate
PWLB loans maturity	43.79	5.60%	212.58	5.60%	256.37	5.60%

5. ANNUAL INVESTMENT STRATEGY

5.1 The Investment strategy for 2013/14 is to place cash investments with institutions as set out in the Treasury Management Strategy (TMS), to focus on the security and liquidity of the investments rather than to seek yield. Where security and liquidity criteria are satisfied, investments would then be placed taking yield into account.

5.2 During the year to date, cash has been placed with the Debt Management Office, Barclays Bank, Lloyds, Royal Bank of Scotland and NatWest Bank (part of RBS Group). Four money market funds were also used; Federated Prime Rate, Insight, Goldman Sachs and Blackrock.

5.3 The Council also began to invest in short term Gilts, Treasury Bills and highly rated bonds (such as Network Rail) as allowed under the TMS.

5.4 In the current economic climate all new investments are kept short term, and are with high credit rated financial institutions. The Council policy has not changed this year.

6. 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.

6.2 As part of the strategy the Council sets a number of prudential limits for borrowing. This position against the prudential indicators for 2013/14 as agreed by the Council in February 2013 is set below.

£m	**2013/14 Limit**	**30 September 2013 Actual**
Authorised Limit for external debt[1]	345	256.4
Operational Limit for external debt[2]	287	256.4
Limit of fixed interest rate exposure based on gross debt	320	256.4
Limit of variable interest rate exposure based on gross debt	64	Nil
Principal sum invested >364 days	20	Nil

Maturity structure of borrowing as shown below, 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.

	Upper Limit	**Lower Limit**	**Actual**
Under 12 months	15%	0%	4.41%
12 months and within 24 months	15%	0%	1.11%
24 months and within 5 years	60%	0%	11.52%
5 years and within 10 years	75%	0%	9.8%
10 years and above	100%	0%	73.16%

7. THE ECONOMY AND INTEREST RATES

7.1 The economy grew by 0.3 per cent in the first quarter of 2013 and by 0.7 per cent in quarter two. In August, both the Bank of England and the International Monetary Fund upgraded their forecasts for the rate of growth over the rest of 2013. The UK economy is of course influenced by worldwide economic developments, particularly in the Eurozone where ongoing problems could affect the UK's economic performance.

7.2 The new governor of the Bank of England, Mark Carney, delivered his first inflation report and announced the introduction of forward guidance. The guidance effectively indicates that the bank does not intend to raise the 0.5 per cent bank rate until unemployment has fallen to a threshold of seven per cent (currently 7.7 per cent), which the Monetary Policy Committee (MPC) forecasts would not be achieved until 2016.

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

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

7.3 The MPC has kept the bank rate at 0.5 per cent throughout the period while quantitative easing has remained at £375 billion.

7.4 The United States Congress was initially unable to agree a compromise to allow the Federal Government to continue spending in the new fiscal year, resulting in the first Government shutdown in 17 years. Agreement was eventually reached on 17 October to extend the Treasury's borrowing authority until 7 February and funding the Government to 15 January. Gilt and US treasury yields have been volatile as markets came to terms with the uncertainty.

7.5 The Eurozone saw economic growth of 0.3 per cent for the second quarter of 2013, ending an 18 month recession. This was widely anticipated given strong growth in Germany and France. Spain, Italy and the Netherlands saw output fall.

7.6 The European Central Bank (ECB) has kept interest rates unchanged at 0.5 per cent since May 2013.

7.7 The longer run prospect for Public Works Loan Board (PWLB) borrowing rates is an eventual 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, mitigating any increase in yield.

8. CAPITAL FINANCING REQUIREMENT (CFR)

8.1 Appendix A reports the CFR projections for the General Fund for the first 2 quarters of 2013/14.

9. EQUALITY IMPLICATIONS

9.1 There are no equality implications as a result of this report.

10. FINANCE AND RESOURCES IMPLICATIONS

10.1 The comments of the Executive Director of Finance and Corporate Governance are contained within this report.

11. LEGAL IMPLICATIONS

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

12. RISK MANAGEMENT

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

13. PROCUREMENT AND IT STRATEGY IMPLICATIONS

13.1 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

No.	Description of Background Papers	Name/Ext of File/Copy	Department/Location
1	Borrowings and Investment spread sheets	Halfield Jackman 0207 641 4354	Westminster City Hall, Treasury and Pensions, 16^{th} Floor

Appendix A

Capital Financing Requirement

At quarter 1 2013/14, **General Fund debt** - as measured by the Capital Financing Requirement (CFR) was forecast to be **£80.8m** by the end of 2013/14. This represents an increase of **£2.4m** from the 2012/13 year end CFR of £78.4m. This increase is largely as a consequence of the slippage of £16.2m of capital receipts into future years and a ruling by the government which now limits the ability to transfer housing receipts towards General Fund debt reduction.

Q1 Forecast Movement in the CFR

	2012/13 Outturn	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£m	**£m**	**£m**	**£m**	**£m**
Opening Capital Financing Requirement (CFR)	*99.8*	78.4	80.8	61.5	61.7
Revenue Repayment of Debt (MRP[3])	*(2.3)*	(1.4)	(1.5)	(0.7)	(0.7)
Net Impact of Appropriations between General Fund and HRA	*0.5*	-	-	-	-
Annual (Surplus) in Capital Programme	*(19.6)*	3.8	(17.7)	0.9	2.1
Closing CFR	***78.4***	**80.8**	**61.5**	**61.7**	**63.0**
Net Movement from £78.4m	-	2.4	(16.8)	(16.7)	(15.4)
Budget Council CFR	*94.0*	71.4	50.7	43.6	39.5

At quarter 2 2013/14, **General Fund debt** - as measured by the CFR is currently forecast to be **£80.2m** by the end of 2013/14. This represents a small **decrease** of **£0.6m** compared with the quarter 1 CFR projection of £80.8m. The slippage of receipts has increased the anticipated debt reduction into future years and the long-term CFR projection remains downwards - **£51.6m** by 2016/17.

Q2 Forecast Movement in the CFR

	2012/13 Outturn	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£m	**£m**	**£m**	**£m**	**£m**
Opening Capital Financing Requirement (CFR)	*99.8*	78.4	80.2	60.2	60.6
Revenue Repayment of Debt (MRP[3])	*(2.3)*	(1.4)	(1.5)	(0.7)	(0.7)
Net Impact of Appropriations between General Fund and HRA	*0.5*	-	-	-	-
Annual (Surplus) in Capital Programme	*(19.6)*	3.2	(18.5)	1.0	(8.26)
Closing CFR	***78.4***	**80.2**	**60.2**	**60.6**	**51.6**
Net Movement from £78.4m	-	*1.8*	*(18.1)*	*(17.8)*	*(26.8)*

[3] Minimum Revenue Provision (MRP)