	London Borough of Hammersmith & Fulham **COUNCIL** **28 JANUARY 2015**

TREASURY MID-YEAR REVIEW REPORT 2014/15

Report of the Leader of the Council: Councillor Stephen Cowan

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 2014/15 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 Council's borrowing and cash investments to the investments of surplus cash balances. This report covers:

- The Treasury position as at 30 September 2014.
- 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 2014	31 March 2014	31 March 2013
Total Borrowing	250	251	262
Total Cash Balances	356	320	206

2. BACKGROUND

2.1 This report presents the Council's Treasury Management Mid Year Report to the 30 September 2014 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 2014.

4. TREASURY POSITION AT 30 SEPTEMBER 2014

Investment

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

	30 September 2014		31 March 2014	
	Balance £m	**Yield (%)**	**Balance £m**	**Yield (%)**
Overnight access				
Term Deposit (Overnight)[1]	5	0.54	-	-
Money Market Funds (Constant NAV)	22	0.44	39	0.38
Total Liquid Investments	**27**	**0.46**	**39**	**0.38**
Notice Account	14	0.60	25	0.60
Term Deposit	70	0.64	67	0.78
Custodian Held Assets	245	0.46	189	0.40
Total other Investments	**323**	**0.49**	**281**	**0.50**
Grand Total	**356**	**0.49**	**320**	**0.49**

4.2 The Council has £22m invested in two money market funds run by Federated Investors and Goldman Sachs. The funds return between 0.42% to 0.44%, both 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 Treasury Bills and bonds issued by Network Rail (Government guaranteed), Transport for London (TfL), European Investment Bank (EIB) and International Bank of Reconstruction and Development (IBRD).

4.4 The weighted average interest rate of return on the investments over the half year was 0.49% (on a per annum basis), with a total interest received of £0.4m.

Borrowing

4.5 The borrowing strategy for the year 2014/15 was <u>not</u> 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 2014) is £250m split between General Fund and HRA at an average interest rate of 5.42%.

	General Fund (£m)	**Average rate**	**HRA (£m)**	**Average rate**	**Total external borrowing (£m)**	**Average Rate**
PWLB loans maturity	42.31	5.42%	207.20	5.42%	249.51	5.42%

[1] On the 1st October a £5 million deposit (six month) with Barclays Bank matured which has been treated as an overnight investment.

5. ANNUAL INVESTMENT STRATEGY

5.1 Cash management remains in a cautious stance in current economic climate. The Investment strategy for 2014/15 is to place cash investments with 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 are satisfied, investments would then be placed taking yield into account.

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

5.3 The Council also invested in short term Gilts, Treasury Bills and highly rated bonds (such as Network Rail, Transport for London, EIB and IBRD) 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 2014/15 as agreed by the Council in February 2014 is set below.

	2014/15 Limit (£m)	**30 September 2014 Actual (£m)**
Authorised Limit for external debt[2]	335	249.5
Operational Limit for external debt[3]	290	249.5
Limit of fixed interest rate exposure based on gross debt	335	256.4
Limit of variable interest rate exposure based on gross debt	70	Nil
Principal sum invested >364 days	70	Nil

Maturity structure of borrowing as at 31 March 14 is shown below, is designed to be a control over an authority having large

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

[3] Operational boundary for external debt is the limit against which external debt will be constantly monitored.

concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

	Upper Limit	**Lower Limit**	**Actual as at 31 March 2014**
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 International Monetary fund cut global growth forecasts in October but maintained previous forecasts for UK growth of 3.2% for 2014 and 2.7% for 2015.

7.2 The minutes for the July Monetary Policy Committee (MPC) showed a 7 – 2 voting pattern to keep rates on hold. This was the first time in three years that there has been a split in the voting pattern. Despite current low wage growth the dissenters felt that that rapidly falling unemployment made it more likely that salaries will rise in the coming months and a rise of 0.25% keeps monetary policy "extremely supportive". The latest minutes for the September meeting showed a consistent 7-2 voting pattern.

7.3 The MPC has kept bank rate at 0.5 per cent throughout the period while quantitative easing has remained at £375 billion. Consumer price inflation has remained benign, ranging between 1.5% and 1.9% for the period.

7.4 The Federal Reserve (Fed) decreased the quantitative easing program throughout 2014. The program is due to end at the end of October. The Fed has kept benchmark federal funds rate at 0% since the end of 2008.

7.5 The US unemployment rate fell to 5.9% in September, a six year low. Many economists see the job data as the key gauge of US economic health which could lead to the Fed increasing interest rates sooner rather than later.

7.6 In an attempt to spur economic growth, The European Central Bank (ECB) cut its benchmark rate to 0.05% from 0.25% and also became the first major central bank to introduce a negative interest rate on bank reserves. The benchmark rate determines what banks charge companies for credit and the reserve rate is what the ECB pays banks to keep deposits with them.

7.7 The ECB launched an asset purchase programme in September to buy debt products from banks. The move falls short of full scale quantitative easing and illustrates the difficulty of implementing policy across all European States.

7.8 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.

8 CAPITAL FINANCING REQUIREMENT

8.1 Appendix A reports the CFR projections for the General Fund for the first 2 quarters of 2014/15.

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 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, 16th Floor

Appendix A

Capital Financing Requirement

At as at Q2 2014/15, General Fund debt - as measured by **the Capital Financing Requirement (CFR)** - was forecast to be **£66.2m** by the end of the financial year. The four-year forecast indicates that the CFR will reduce to £43.2m by 2017/18.

There is no revenue incentive to reduce the CFR below £43.2m as Minimum Revenue Payments (MRP) are not payable below this point.

This forecast is based on an assumption that capital receipts continue to be generated via the asset disposal programme and that surplus receipts are used to pay-down debt.

Forecast Movement in the Capital Financing Requirement (CFR) at Q2 201415

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Opening Capital Financing Requirement (CFR)	74.2	66.2	52.1	43.2
Revenue Repayment of Debt (MRP)	(1.2)	(0.9)	(0.4)	-
Annual (Surplus) in Capital Programme	(6.7)	(13.2)	(8.5)	-
Closing CFR	**66.2**	**52.1**	**43.2**	**43.2**
Associated Revenue Savings assumed in MTFS*	1.3	1.9	2.5	2.7

**Savings arising from both the reduction of MRP and the external interest saved on loans maturing and not being refinanced.*