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| | **London Borough of Hammersmith & Fulham**<br><br>**AUDIT, PENSIONS AND STANDARDS COMMITTEE**<br><br>**17 June 2015** |
| **Treasury Report 2014/15 Outturn** | |
| **Report of the Director for Finance** | |
| **Open Report** | |
| **Classification:** For Information | |
| **Wards Affected:** All | |
| **Accountable Executive Director:** Hitesh Jolapara, Director of Finance | |
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## 1. EXECUTIVE SUMMARY

1.1. This report presents the Council's Outturn Treasury Report for 2014/15 in accordance with the Council's treasury management practices. 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:

(a) the treasury position as at 31 March 2015 which includes the investment and the borrowing strategy and outturn for 2014/15;

(b) the UK economy and interest rates; and

(c) Compliance with treasury limits and prudential indicators.

1.3. The borrowing and cash investment for the relevant periods are set out in the table below.

| £ million | 31/3/2012 | 31/3/2013 | 31/3/2014 | 31/3/2015 |
|---|---|---|---|---|
| **Total borrowing** | 262.17 | 262.07 | 250.51 | 247.60 |
| **Total cash balances** | 109.30 | 206.17 | 320.20 | 359.78 |

## 2. RECOMMENDATION

The Committee is asked to note this report.

## 3. TREASURY POSITION AS AT 31 MARCH 2014

### Investments

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

| (£m) | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|
| Liquid Deposits | 44.52 | - | - |
| Money Market Funds | 40.00 | 39.20 | 34.15 |
| Notice Accounts | - | 25.00 | 14.00 |
| Custodian Held Assets | - | 189.50 | 212.13 |
| Term Deposits | 121.65 | 66.50 | 99.50 |
| **Total** | **206.17** | **320.20** | **359.78** |

A breakdown of the Investment type is detailed below.

- The Council had £34.15 million invested in three money market funds run by Goldman Sachs, Blackrock and Prime Rate. The funds returned an average of 0.44 per cent (all rated AAA by at least two rating agencies) and allow for access on same or next day basis.
- £14 million in Handelsbanken 35 Day Notice account paid 0.60% throughout the year.
- The custodian based assets comprised of UK Government Treasury bills which offered better yields than the DMO. Commercial Paper issued by Network Rail Infrastructure (UK Government Guaranteed), Transport for London and European Investment Bank to introduce greater diversification.
- Eleven fixed term deals with three banks, with durations of five months. The investments were deposited with Lloyds Bank, Barclays Bank and The Royal Bank of Scotland.

3.2. The weighted average interest rate of return on the investments over the year was 0.50 per cent, with a total interest received of £1.85 million (compared with a weighted average of 0.48 per cent and a total interest £1.31 million for 2013/14).

3.3. The investment strategy for 2014/15 was to place cash investments with institutions as set out in the Treasury Management Strategy. The first objective was to place investments based on security and liquidity of the investments rather than to seek yield. Once security and liquidity criteria were satisfied, investments would then be placed taking yield into account.

### Borrowing

3.4. Total borrowings decreased by £2.91 million to £247.60 million due to maturing debt. The repayments were in line with the cash flow projection and paid by cash balances. No new borrowing was undertaken during the year.

3.5. As at 31 March 2014, the Council is had an under-borrowed position[1]. This means that the capital borrowing need was not fully funded by existing external loan debt and the balance

[1] The Capital Financing Requirement (CFR) represents the underlying cumulative need to borrow for the past, present and future (up to 2 years in advance) amounts of debt needed to fund capital expenditure (net of receipts). Debt can be met not only from external loans but also by the temporary use of internally generated cash from revenue balances i.e. internal borrowing.

is funded by cash reserves (Internal borrowing). As the accounts are being prepared for the auditors, the CFR figures for 2014/15 are not available at the time of writing.

## 4. THE ECONOMY AND INTEREST RATES

4.1 UK growth was robust in the first quarter of the year largely as a result of strong household spending, and confidence reached the highest levels seen since 2005 according to the Gesellschaft fur Konsumforschung (GfK) consumer confidence survey.

4.2 GDP posted a 3% annual increase over 2014, and forward looking indicators such as the Purchasing Managers Index were all in positive territory for the year for both Manufacturing and Services. Unemployment continued its fall over the year, dropping from 6.6% in April to 5.5% in February 2015. A large contributor of this growth was consumer spending, which was supported by very strong Consumer Confidence Surveys; the GfK figure for March showed the strongest seen for 13 years.

4.3 Oil had an interesting year, initially increasing on Q1 2014/15 as geopolitical risks in the Middle East caused worries over supply. However this was reversed over the following quarter as concerns over growth in China as well as a strengthening dollar exerted downward pressure. Over the rest of 2014 the decline steepened as North American attempts at fracking and extracting from Oil Sands reduced their overall demand from global markets. The decision taken by Saudi Arabia to maintain market share and allow the price to drop was a major contributor. Despite a small recovery in Q1 2015, Oil ended up at approximately half the value it started the year at.

4.4 This had a direct bearing on inflation, with CPI reaching a 12 year low in November 2014 of 1%. The decline continued, reaching zero in February and remaining at that level in March.

4.5 The market began the year with the expectation that interest rates would be unlikely to be raised until 2015 and, despite strongly positive messages from Governor Carney suggesting rises sooner than the market expects, and that the point at which interest rates begin to normalise was getting closer, the dipping of CPI proved more of a driving force behind the markets, and the consensus at the year-end was for the expectation of the first rate rise to occur in Q3 2016. Longer term rates fell over the course of 2014, and had a small bounce back in Q1 2015.

## 5. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

5.1. During the financial year to March 2015, the Council operated within the treasury limits as set out in the Treasury Management Strategy (TMS). The outturn for the Treasury Management Prudential Indicators is shown in Appendix A.

**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 |
|---|---|---|---|
| | None. | N/A | N/A |

**LIST OF APPENDICES:**

Appendix A – Treasury Management Prudential indicators

**APPENDIX A**

## LBHF – TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2014-15

Authorised Limit and Operational Boundary 31st March 2015

| Indicator | Approved Limit | Actual Debt | No. of days Limit Exceeded |
|---|---|---|---|
| Authorised Limit[2] | £345m | £247.6m | None |
| Operational Boundary[3] | £290m | £247.6m | None |

Limits on Interest Rate Exposure

| Interest Rate Exposure | Upper Limit | Lower Limit | Actual at 31 Mar 2015 |
|---|---|---|---|
| Fixed Rate Debt | £345m | £0m | £247.6m |
| Variable Rate Debt | £69m | £0m | £0m |

Maturity Structure of Borrowing

| Maturity Structure of Borrowing | Upper Limit | Lower Limit | Actual at 31 Mar 2015 |
|---|---|---|---|
| Under 1 year | 15% | 0% | 6% |
| 1 year to 2 years | 15% | 0% | 3% |
| 2 years to 5 years | 60% | 0% | 9% |
| 5 years to 10 years | 75% | 0% | 13% |
| Over 10 years | 100% | 0% | 69% |

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.