	London Borough of Hammersmith & Fulham **CABINET** **7 SEPTEMBER 2015**
TREASURY REPORT 2014/15 OUTTURN	
Report of the Cabinet Member for Finance : Councillor Max Schmid	
Open report	
Classification: For Decision **Key Decision: Yes**	
Wards Affected: All	
Accountable Director: Hitesh Jolapara – Strategic Director for Financial Corporate Services	
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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 investment of surplus cash balances. This report covers:

- the treasury position as at 31 March 2015 which includes the investment and the borrowing strategy and outturn for 2014/15;
- the UK economy and interest rates; and
- 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

2.1 That the report be noted.

3. TREASURY POSITION AS AT 31 MARCH 2015

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 Debt Management Office (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 primary 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.

3.4. Total investments increased by £40 million in 2014/15. This increase was largely attributable to a rise in overall usable reserves (£9.5m) and the surplus on the capital programme - primarily surplus capital receipts (£27.8m).

3.5. The current Investment Strategy permits investments with institutions in which the Government owns a holding in excess of 25%. In June 2015, the government announced their intention to seek to sell their 80% stake in the Royal Bank of Scotland (RBS). As a result, with the exception of maintaining a working balance in a liquidity account with RBS, no further deposits will be made with that institution. As RBS are the authority's banker, it is necessary to retain a working balance in the account. Therefore it should be noted that in the event that the government withdraws their support for RBS, the Investment Strategy will be amended and put before Full Council for approval to continue to maintain this balance.

Borrowing

3.6. 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.

3.7. As at 31 March 2015, 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 is funded by cash reserves (Internal borrowing).

3.8. General Fund debt - as measured by the Capital Financing Requirement (CFR) – reduced by £29 million in year to £45.2 million at year end. An explanation of the movement is shown in table below.

Movement in the GF Capital Financing Requirement (CFR)

	2014/15 £m
Opening Capital Financing Requirement (CFR)	74.2
Revenue Repayment of Debt (MRP)	(1.2)
Annual (Surplus) in Capital Programme	(27.8)
Closing CFR	**45.2**

The above calculation CFR excludes items such as finance leases and PFIs, the MRP cost of which is funded through revenue budgets.

3.9. HRA is responsible for servicing 82.9 per cent of the Council's external debt and the General Fund holds the remaining 17.1 per cent. The table below the details of the Council's external borrowing (as at 31 March 2015), split between the General Fund and HRA.

	General Fund £m	Average Interest rate	HRA £m	Average Interest rate	Total external borrowing £m	Combined Average Interest Rate
Total / average	42.3	5.38%	205.3	5.38%	247.6	5.38%

[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.

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 taken in May.

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 15 continued to rise; showing the strongest 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.

6. CONSULTATION

6.1. N/a – for information only.

7. EQUALITY IMPLICATIONS

7.1. N/a – for information only.

8. LEGAL IMPLICATIONS

8.1. N/a – for information only.

9. FINANCIAL AND RESOURCES IMPLICATIONS

9.1. This report is wholly of a financial nature.

10. RISK MANAGEMENT

10.1. N/a – for information only.

11. PROCUREMENT AND IT STRATEGY IMPLICATIONS

11.1. N/a – for information only.

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.	Treasury Management Strategy (published)	Halfield Jackman Tri Borough Treasury Manager Tel 0207 641 4354	Tri Borough Treasury and Pensions 16th Floor, Westminster City Hall

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.