


<b>London Borough of Hammersmith &amp; Fulham</b> <b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b> <b>14 December 2015</b>		 h&f hammersmith & fulham
<b>MID-YEAR TREASURY REPORT 2015-16</b>		
<b>Report of the Director for Finance – Hitesh Jolapara</b>		
<b>Open Report</b>		
<b>Classification:</b> For review and comment		
<b>Key Decision:</b> No		
<b>Wards Affected:</b> None		
<b>Accountable Director:</b> Hitesh Jolapara, Director for Finance		
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## 1. EXECUTIVE SUMMARY

- 1.1 This report presents the Council's Mid-Year Treasury Report for 2015/16 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:
- Treasury position as at 30 September 2015.
  - Investment activity to 30 September 2015.
  - Borrowing activity to 30 September 2015.
  - 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:

	<b>31 March 2014</b>	<b>31 March 2015</b>	<b>30 September 2015</b>
	£m	£m	£m
Total Borrowing	251	248	241
Total Cash Balances	(320)	(360)	(353)
<b>Net Surplus</b>	<b>(69)</b>	<b>(112)</b>	<b>(112)</b>

## 2. BACKGROUND

- 2.1 This report presents the Council's Treasury Management Mid Year Report to the 30 September 2015 in accordance with the Council's Treasury Management Practices.
- 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 This Council delegates the scrutiny of Treasury Management Strategy and policies to the Audit, Pensions and Standards Committee.

## 3. RECOMMENDATIONS

- 3.1 To note the Council's borrowing and investment activity up to the 30 September 2015.

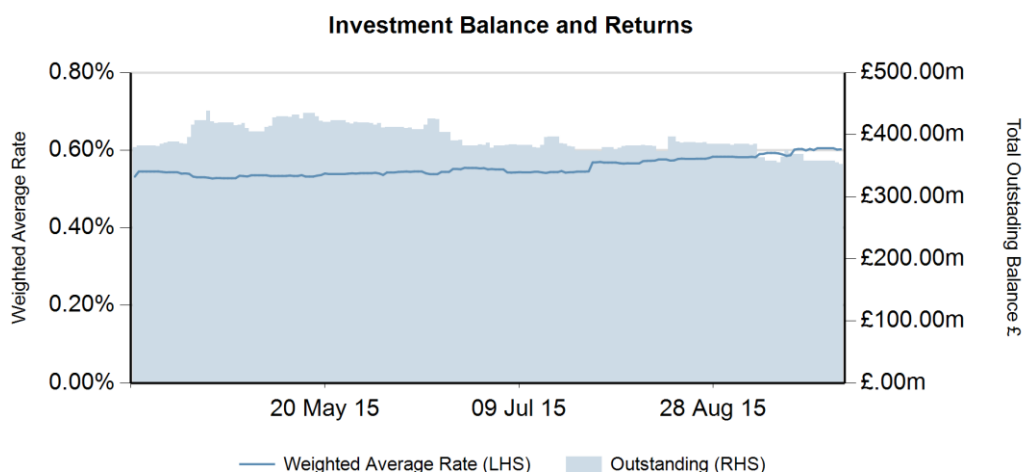
## 4. TREASURY POSITION AT 30 SEPTEMBER 2015

### Investment

- 4.1 The table below provides a schedule of the cash deposits, together with comparisons with 31<sup>st</sup> March 2015.

	31 March 2015		30 September 2015	
	Balance £m	Yield (%)	Balance £m	Yield (%)
Call Accounts	-	-	1	0.25
Money Market Funds (Constant NAV)	34	0.44	37	0.47
<b>Total Liquid Investments</b>	<b>34</b>	<b>0.44</b>	<b>38</b>	<b>0.47</b>
Notice Account	14	0.60	20	0.60
Term Deposit	100	0.64	100	0.75
Tradable securities (Cost value)	212	0.49	195	0.54
<b>Total other Investments</b>	<b>326</b>	<b>0.54</b>	<b>315</b>	<b>0.61</b>
<b>Grand Total/ Average Yield</b>	<b>360</b>	<b>0.53</b>	<b>353</b>	<b>0.60</b>

- 4.2 Liquid investments are managed through the Call accounts and Money Market Funds which offer same day liquidity. The Council has £38m invested in two money market funds run by Federated Investors and Blackrock and the Nat West Special Interest Bearing Account (SIBA). The funds return an average of 0.47%, both are rated AAA by at least two of the three main credit rating agencies.
- 4.3 The Council has a notice account with Handelsbanken which currently returns 0.60%.
- 4.4 The term deposits are invested with Lloyds Bank and Barclays Bank (£50 million each).
- 4.5 Tradable securities are highly rated short term investments that are held by Northern Trust (Custodian). Investments include UK Treasury Bills and bonds issued by Network Rail (Government guaranteed), Transport for London (TfL), Svenska Handelsbanken, Supranational banks and European Agencies.
- 4.6 The shaded area in the chart below<sup>1</sup> shows the daily investment balance during the first half year. The line shows the weighted average return of the investment portfolio, which has increased from 0.53% at the start of the year to 0.60% at the 30<sup>th</sup> September. This has been largely attributable to making longer duration investments.



- 4.7 All investment limits specified in the 2015/16 investment strategy have been adhered to. The table below shows the limits and exposures as at the 30<sup>th</sup> September 2015.

<sup>1</sup> LHS Left Hand Scale (Weighted Average rate) and RHS Right Hand Scale (Total outstanding balance).

Category	£ Limit per counterparty	Duration Limit	Counterparty Name	Exposure at 30/9/15 £m	Weighted Average Days (WAD)
UK Government	unlimited	unlimited	UK Government Treasury Bills	89.8	40
Supra national	£100m	5 years	Council of Europe Development Bank(COE)	10.5	68
			European Investment Bank (EIB)	15.2	68
European Agencies	£100m	5 years	Kreditanstalt fur Wiederaufbau (KfW)	15.7	68
Network Rail	£200m	37 years	Network Rail Infrastructure PLC	26.9	58
Transport for London	£100m	3 years	Transport For London	27.4	20
Money Market Funds	£25m per fund. £160m in total	n/a	Federated Investor	25.0	Instant
			Blackrock	11.5	Instant
UK Bank Deposit / Certificate of Deposit /Short Dated Bonds AA-/Aa3/AA-	£70m	5 years	Royal Bank of Scotland Plc (National Westminster Bank)	1.0	Instant
UK Bank Deposit / Certificate of Deposit /Short Dated Bonds A-/A3/A-	£50m	3 years	Lloyds Bank Plc	50.0	173
			Barclays Bank	50.0	130
Non-UK Bank A/A2/A	£30m	1 years	Svenska Handelsbanken <sup>2</sup>	19.9 9.9	35 239
<b>Total/ WAD</b>				<b>352.8</b>	<b>71</b>

### Borrowing

- 4.8 The borrowing strategy for the year 2015/16 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.
- 4.9 The table below shows the Council's external borrowing (as at 30 September 2015) is £241m split between General Fund and HRA at an interest rate of 5.27%. Principal repayments of £6 million pounds have reduced the average interest rates in both portfolios by 0.09%.

<sup>2</sup> As at the 30<sup>th</sup> September, the Council held two investments with Svenska Handelsbanken. £19.9m in a 35 Day Notice Account and £9.9m in a Bond(maturing 26/05/15).

	As at 31 <sup>st</sup> March 2015		As at 30 <sup>th</sup> September 2015	
	Principal Outstanding £m	Average Rate %	Principal Outstanding £m	Average Rate %
General Fund	42.2	5.38	41.1	5.27
HRA	205.0	5.38	199.9	5.27
Total	247.2	5.38	241.0	5.27

4.10 During the year in order to manage a liquidity position £5m was borrowed for 2 days at 0.40%.

## 5. COMPLAINEE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

5.1 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.

External debt indicator	Approved limit (£m)	Maximum borrowing	Days exceeded
Authorised limit	320	247	None
Operational boundary	270	247	None

5.2 The Authorised Limit is a level for which the external borrowing cannot be exceeded without reporting back to Full Council. It therefore provides sufficient headroom such that in the event that the planned capital programme required new borrowing to be raised over the medium term, if interest rates were deemed favourable and a thorough risk analysis determined the cost of carry was appropriate, this borrowing could be raised ahead of when the spend took place.

5.3 The Operational Boundary is set at a lower level and should take account of the most likely level of external borrowing. Operationally, in accordance with CIPFA best practice for Treasury Risk Management, a liability benchmark is used to determine the point at which any new external borrowing should take place. As a result of the significant level of cash balances, it is deemed unlikely that any new borrowing will be required in the foreseeable future.

5.4 The maturity structure of borrowing shows the proportion of loans maturing in each time bucket. The purpose of this indicator is to highlight any potential refinancing risk that the authority may be facing if any one particular period had a disproportionate level of maturing loans. The maturity structure as at

30<sup>th</sup> September 2015 was well within the limits set and does not highlight any significant issues.

	Upper Limit	Lower Limit	Actual as at 30 September 2015
Under 12 months	15%	0%	4.97%
12 months and within 24 months	15%	0%	3.65%
24 months and within 5 years	60%	0%	7.10%
5 years and within 10 years	75%	0%	13.02%
10 years and above	100%	0%	71.26%

- 5.5 The purpose of the interest rate exposure indicators is to demonstrate the extent of exposure to the authority from any adverse movements in interest rates. The limits for 2015/16 were set to contain the exposure to rising interest rates which would have adverse implications for the cost of borrowing.

Upper limits on interest rate exposure	Approved maximum limit	Actual as at 30 September 2015
<b>Borrowing</b>		
Fixed interest rate exposures	100%	100%
Variable interest rate exposures	20%	0%

- 5.6 All borrowing undertaken is at fixed rates and therefore reduces exposure to rising interest costs. However, the Council is also exposed to interest rate risk within its investment portfolio and therefore the greatest contributor to net interest risk arises from this portfolio. As part of the strategic review of the investments outlined in Section 4 of this report and in recognition of a key risk management objective to reduce interest rate exposures, the mis-match between fixed and variable investment returns will be re-balanced in order to reduce interest rate risk to the organisation.

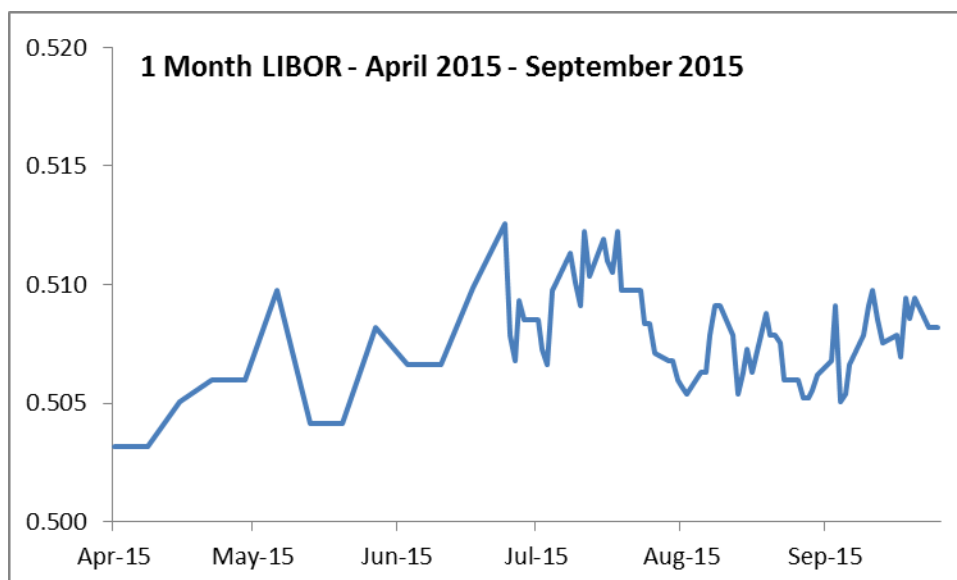
## 6. THE ECONOMY AND INTEREST RATES

- 6.1 UK GDP continued to rise in the first quarter of the financial year, posting a 2.4% year on year increase, resulting in the tenth consecutive quarter of increases. This is broadly in-line with pre-crisis averages over the last couple of years. Export growth has been hampered by weak domestic growth within the UK's main trading partners, but countered by healthy growth in household real incomes.

- 6.2 Consumer Price Inflation continued to undershoot the Monetary Policy Committee's (MPC's) target of 2%, largely as a result of external factors but also as a result of domestic cost pressures remaining weak. The Bank of England's quarterly inflation report in August projected inflation to increase to the target in 2 years time. This is largely as a result of past falls in energy and food prices falling out of the annual comparison. However, falls in energy

prices since the May 2015 report exerted more downward pressure than was expected earlier in the year.

- 6.3 At the August meeting of the MPC, the committee voted 8-1 in favour of leaving the Bank Rate on hold, with one member voting for a 25bps increase; the first vote for an increase since December 2014. The MPC felt there were various headwinds facing the UK economy, not least the downside potential of risks to activity in China and Europe. As a result, the committee felt that when interest rate increases do begin to take place, it will be undertaken at a more gradual pace than in previous cycles.
- 6.4 Short term rates remained relatively stable throughout the first half of the financial year as shown by 1 month LIBOR in the chart below. However, the market's expectations of interest rate movements increased slightly over the first half of the year, which consequently had a positive impact on the Council's Net Interest Income.



## 7. THE WAY FORWARD

- 7.1 Officers have been actively considering a variety of treasury initiatives, predominantly focusing on active risk management of the portfolios. Whilst the work is still in progress, there are a number of points that can be factored into the current and future years' portfolio management.
- 7.2 Long term cash flow forecasts have been developed and are being actively used to assist the authority's strategic decision making. These projections are able to be continually updated with the evolving spending plans of the organisation.
- 7.3 Furthermore, it has been determined that a balance of £50m needs to be retained on a liquid basis to meet peaks and troughs of cash flows on a daily basis. Therefore, there is an expected balance of over £200m that is not needed in the foreseeable future and can therefore be invested on a more strategic basis.

- 7.4 There are several options being explored for the use of this available cash balance, and some of these initiatives are yet to be concluded. However, it is clear investing for longer duration can lock in gains above short term rates. Furthermore this strategy would reduce interest rate risk and uncertainty as a lower proportion of the portfolio would need to be re-invested at unknown future rates.
- 7.5 Any recommendation as result of the options being explored will be presented to Members for approval as part of the Treasury Management Strategy for 2016/17.

## **8. EQUALITY IMPLICATIONS**

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

## **9. FINANCE AND RESOURCES IMPLICATIONS**

- 9.1 The comments of the Director of Finance and Corporate Governance are contained within this report.

## **10. LEGAL IMPLICATIONS**

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

## **11. RISK MANAGEMENT**

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

## **12. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

- 12.1 There are no procurement or IT strategy implications as a result of this report.



## Capital Financing Requirement

At as at Q2 2014/15, General Fund debt - as measured by **the Capital Financing Requirement (CFR)** - was forecast to be **£45.2m** by the end of the financial year. The four-year forecast indicates that the CFR will rise to £58.3m by 2018/19.

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 2015/16

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
<b>Opening Capital Finance Requirement (CFR)</b>	<b>45.18</b>	<b>47.89</b>	<b>48.48</b>	<b>57.26</b>
Revenue Repayment of Debt (MRP)	(0.08)	(0.19)	(0.21)	(0.56)
Internal Borrowing (Schools Window Replacement)	6.67	6.67	6.66	-
Application of Mainstream Programme (Surplus)	(3.87)	(5.90)	2.34	1.64
<b>Closing Capital Finance Requirement (CFR)</b>	<b>47.89</b>	<b>48.48</b>	<b>57.26</b>	<b>58.34</b>