London Borough of Hammersmith & Fulham CABINET 10 July 2017	
TREASURY OUTTURN REPORT 2016/17	
Report of the Cabinet Member for Finance - Councillor Max Schmid	
Open report	
Classification: For Decision **Key Decision: Yes**	
Wards Affected: All	
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1. EXECUTIVE SUMMARY

1.1. This report presents the Council's Outturn Treasury Report for 2016/17 in accordance with the Council's treasury management practices.

2. RECOMMENDATIONS

2.1. That this report be noted.

3. REASONS FOR DECISION

3.1. The Code of Practice on Treasury Management 2011, adopted by the Chartered Institute of Public Finance and Accountancy and later by the Council, requires the following:

- Creation and maintenance of a treasury management policy statement which sets out the policies and objectives of the Council's treasury management activities. This was reported to the Cabinet in January 2012;
- Creation and maintenance of treasury management practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by the full Council of an annual treasury management strategy report for the year ahead and a mid-year review of the strategy;

- Receipt by the Cabinet Member for Finance, the Audit, Pensions and Standards Committee and full Council of an annual review of the previous year (this report);
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and the execution and administration of treasury management decisions; and Delegation by the Council of the role of scrutinising of treasury management strategy and policy to a named body, which for this Council is the Audit, Pensions and Standards Committee.

4. INTRODUCTION AND BACKGROUND

4.1. Treasury management in this context is defined as:

"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."[1]

4.2. This annual treasury report covers:

- the treasury position as at 31 March 2017;
- the borrowing strategy for 2016/17;
- the borrowing outturn for 2016/17;
- compliance with treasury limits and prudential indicators;
- investment strategy for 2016/17; and
- investment outturn for 2016/17.

5. TREASURY POSITION AT YEAR END

5.1. The Council's debt (all held with the Public Works Loan Board - PWLB) and investment positions at the beginning and end of the year were as follows:

	31 March 2016 Principal £m	Rate/ Return at 31 March 2016	31 March 2017 Principal £m	Rate/ Return at 31 March 2017
Fixed Rate Borrowing				
General Fund (GF)	39.62	5.11%	38.40	5.01%
Housing Revenue Account (HRA)	192.28	5.11%	186.42	5.01%
Total / Weighted Average	**231.90**	**5.11%**	**224.82**	**5.01%**
Investments				
Total / Weighted Average	**299.24**	**0.59%**	**326.51**	**0.45%**

[1] Treasury Management Policy Statement adopted by Cabinet on the 31 January 2012 and continues to be adhered too.

5.2. The table below shows the allocation of interest paid and received during the year:

Fund	Interest Paid		Interest Received		Net £m
	Apportionment %	Amount £m	Apportionment %	Amount £m	
General Fund	17.1	(1.97)	95.6	1.48	(0.49)
Housing Revenue Account	82.9	(9.55)	4.4	0.07	(9.48)
Total	100	(11.52)	100	1.55	(9.97)

5.3. Following the implementation of the self-financing initiative for housing, the Housing Revenue Account (HRA) is responsible for servicing 82.9% of the Council's external debt and the General Fund is responsible for the remainder.

5.4. **The Strategy for 2016/17**

5.5. The treasury strategy for 2016/17, was approved by the Council on 22 February 2016.

5.6. Taking into account the worldwide economic climate it was considered appropriate to keep investments short-term and only invest with highly rated or UK Government backed institutions, resulting in relatively low returns compared to borrowing rates.

5.7. Due to the level of cash balances held by the Council at the start of the year (£327 million at 31 March 2016), it was anticipated that there would not be any need to borrow during 2016/17. For any new debt requirements, the use of these internal resources would be considered before applying for external borrowing through the Public Works Loans Board (PWLB).

5.8. **Outturn for 2016/17**

5.9. The main event influencing the UK financial markets in 2016/17 financial was the EU referendum on 23 June.

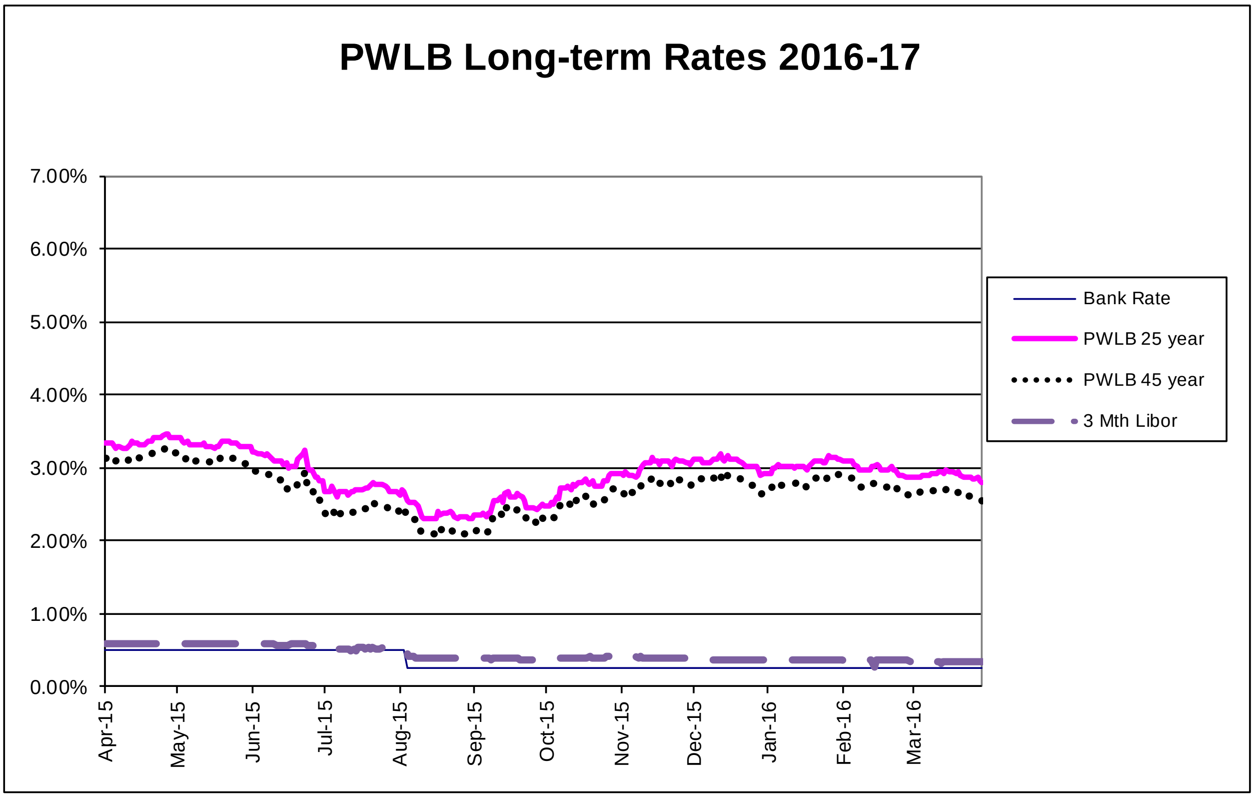
5.10. On the 4 August the Monetary Policy Committee (MPC) cut the Bank Rate from 0.50% to 0.25%. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

5.11. In the second half 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.07% respectively to produce an annual growth for 2016 of 1.8%.

5.12. **Treasury Borrowing**

5.13. No new long-term borrowing was undertaken during the year. PWLB debt maturing during the year, which was not refinanced, totalled £7.1 million with an average nominal interest rate of 8.2 per cent. This resulted in a reduction in debt to £224.8 million and the average interest rates went from 5.11% to 5.01%.

5.14. The following graph shows the levels of Bank of England Bank rate, three month London Interbank Offer Rate (LIBOR), PWLB 25 and 45 year rates during the year:



5.15. During 2016/17 there was significant volatility in PWLB rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising during quarter 3 and then partially easing back towards the end of the year.

5.16. **Housing Revenue Account (HRA) Self Financing**

5.17. In 2016/17, the HRA PWLB debt of £186 million has dropped below the HRA Capital Financing Requirement (CFR) of £211 million, which generates internal borrowing of £25 million. This difference does not, as yet, exceed the value of HRA working balances. As such, the HRA could be considered to be borrowing from itself. Moving forwards, a policy will need to be considered concerning the charging of interest in the event that the HRA is internally borrowing from the general fund. HRA reserves and working capital, in excess of the internal borrowing, represents cash balances on which interest is allocated from the general fund. As at 31 March 2017, the HRA held cash balances of £14.9 million over and above the £25 million internal borrowing.

5.18. **Capital Financing Requirement (CFR)**

5.19. As at 31 March 2017, the Council had an under-borrowed position[2]. 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).

The Closing Capital Financing Requirement analysed between General Fund and Housing Revenue Account.

£m	31st March 2016 CFR	31st March 2016 EXTERNAL DEBT	31st March 2017 CFR	31st March 2017 EXTERNAL DEBT
GF CFR (Excluding DSG funded Schools Windows borrowing)	44.179	-	47.250	-
GF CFR (DSG funded Schools Windows borrowing)	1.117	-	3.570	-
GF TOTAL	45.296	39.614	50.820	38.406
HRA TOTAL	204.846	192.282	204.846	186.416
TOTAL CFR/DEBT	**250.142**	**231.896**	**255.666**	**224.822**

NB: The 'headline' CFR shown above is the consistent with capital reports. The annual accounts disclose CFR of £272.544 million (of which General Fund £61.865m and HRA £210.679m) due to the inclusion of PFI, finance leases and deferred cost of disposal.

5.20. **Annual Investment Strategy for 2016/17**

5.21. Throughout the year the Council's strategy maintain higher rated and more tradable investments like Government Treasury Bills (T/Bills), Supra-Nationals Banks and European Agencies, close to maturity Bonds, Certificates of Deposit and Commercial Paper. The Council strategy allowed investment in the following areas:

- An unlimited investment limit with the UK Government (DMO) deposits, UK gilts, Repos and T/Bills.
- Up to a maximum of £100 million per counterparty in Supra-national Banks, European Agencies and covered bonds debt on a buy to hold basis with maturity dates of up to five years, Transport for London(TfL) and Greater London Authority (GLA) bonds for up to three years;

[2] 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.

- A limit of £10 million to be invested with any UK Local Authority (subject to internal counterparty approval by the Director of Treasury and Pensions);
- No more than £30 million to be invested with any individual Money Market Fund;
- Any financial instrument held with a UK bank limited to £70 million depending on Credit rating and Government ownership above 25% (limit of £50 million was implemented);
- Any financial instrument held with a Non-UK bank limited to £50 million.

5.22. A small deposit was held in a National Westminster Bank call account to aid cash flow.

5.23. **Investment Outturn for 2016/17**

5.24. The investments outstanding at 31 March 2017 amounted to £326.51 million invested in short-term deposits. This compares with £299.24 million short-term investments at 1 April 2016. This balance is made up of working capital balances (debtors and creditors), deferred liabilities, unused grants and receipts, reserves and provisions.

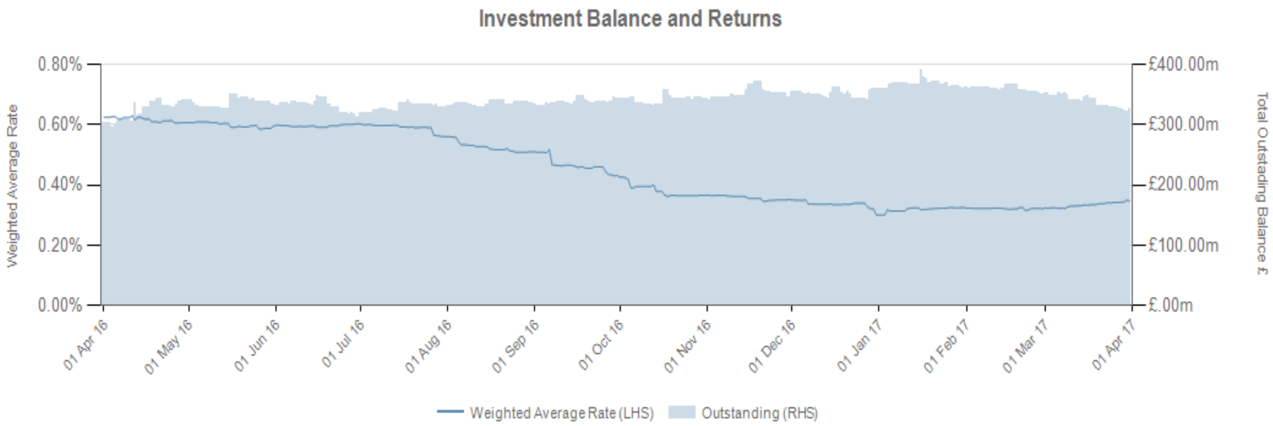
5.25. The table below provides a breakdown of the cash deposits, together with comparisons from the previous year.

(£m)	**31/03/14**	**31/03/15**	**31/03/16**	**31/03/17**
Liquid Deposits	-	-	0.90	2.35
Money Market Funds	39.20	34.15	33.70	38.10
Notice Accounts	25.00	14.00	19.90	33.00
Custodian Held Assets	189.50	212.13	204.74	208.06
Term Deposits	66.50	99.50	40.00	45.00
Total	**320.20**	**359.78**	**299.24**	**326.51**

General Fund and Housing Revenue Account

(£m)	**31/03/14**	**31/03/15**	**31/03/16**	**31/03/17**
General Fund (GF)	243.6	296.0	253.6	311.9
Housing Revenue Account (HRA)	76.6	63.8	45.6	14.6
Total	**320.2**	**359.8**	**299.2**	**326.5**

5.26. The investments outstanding during the year together with the average return are shown in the diagram below. Cash balances varied between £390 million and £299 million reflecting the timing of the Council's income (council tax, no-domestic rates, government grants and capital receipts, etc) and expenditure (precept payments, payroll costs, supplier payments and capital projects).



5.27. The average return achieved on investments managed internally for the year was 0.45 per cent compared to the average 7-day money market rate (uncompounded) of 0.36 per cent. The total interest received of £1.55 million (compared with a weighted average of 0.50 per cent and a total interest £1.85 million for 2015/16). Interest rates remained low throughout the year; the Council follows a low risk strategy and does not seek potential higher returns which would increase counterparty risk.

6. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

6.1. During the financial year the Council operated within the treasury limits set out in the Council's Treasury Policy Statement and Treasury Strategy Statement. The outturn for Treasury Management Prudential Indicators is shown in **appendix A**.

6.2. Non Treasury related Prudential Indicators are set and monitored as part of the Council's Budget process.

7. CONSULTATION

7.1. N/A.

8. EQUALITY IMPLICATIONS

8.1. N/A.

9. LEGAL IMPLICATIONS

9.1. N/A.

10. FINANCIAL IMPLICATIONS

10.1. The report is wholly of financial nature.

11. RISK MANAGEMENT

11.1. N/A.

12. IMPLICATIONS FOR BUSINESS

12.1 N/A.

13. PROCUREMENT AND IT STRATEGY IMPLICATIONS

13.1. N/A.

LOCAL GOVERNMENT ACT 2000

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES:

Appendix A – Treasury Management Prudential indicators

APPENDIX A

LBHF – TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2016/17

Indicator	Approved Limit	Actual Debt	No. of days Limit Exceeded
Authorised Limit[3]	£345m		None
Operational Boundary[4]	£290m	£224.8m	None
Interest Rate Exposure	**Lower Limit**	**Upper Limit**	**Actual at 31 Mar 2017**
Fixed Rate Debt	£0m	£345m	£224m
Variable Rate Debt	£0m	£69m	£0m
Maturity Structure of Borrowing	**Lower Limit**	**Upper Limit**	**Actual at 31 Mar 2017**
Under 12 Months	0%	15%	3%
12 Mths to within 24 Mths	0%	15%	2%
24 Mths to within 5 years	0%	60%	9%
5 years to within 10 years	0%	75%	11%
Over 10 years	0%	100%	75%

[3] 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.

[4] The Operational Boundary is the expected normal upper requirement for borrowing in the year.