

WELWYN HATFIELD BOROUGH COUNCIL  
CABINET – 4 JUNE 2019  
REPORT OF THE CORPORATE DIRECTOR (RESOURCES, ENVIRONMENT AND  
CULTURAL SERVICES)

TREASURY MANAGEMENT ANNUAL REPORT 2018/19

**1 Executive Summary**

- 1.1 In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code), which requires the Council to approve a treasury management strategy before the start of each financial year, and also receive mid and end of year reports. This report therefore reviews the treasury management activity and prudential indicators for the 2018/19 financial year.

**2 Recommendation**

- 2.1 It is recommended that Cabinet note the report and actual treasury management prudential indicators for 2018/19.

**3 Background**

- 3.1 The 2018/19 Treasury Management Strategy was approved by Council at its meeting on 5 February 2018.
- 3.2 As the Council borrows and invests substantial sums of money it is exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.
- 3.3 The Corporate Director (Resources, Environment and Cultural Services) is pleased to report that treasury management activity undertaken during the financial year complied with the approved strategy, the CIPFA Code of Practice 2017 Edition, and the relevant legislative provisions.

**4 External context**

- 4.1 For context, the Council's treasury consultants, Arlingclose Ltd have provided a review of the year, attached at Appendix A.

**5 Borrowing and investment portfolio**

- 5.1 A summary of investments as at 31 March 2019 is attached at Appendix B, and Borrowing in Appendix C.

Borrowing

- 5.2 On 31 March 2019 the Council had net borrowing requirement of £275.192m arising from its capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR),

while useable reserves and working capital are the underlying resources available for investment. These factors are summarised below

	31.3.18 Actual £m	31.3.19 Actual £m
General Fund CFR	21.188	33.616
HRA CFR	242.248	241.576
<b>Total Borrowing Requirement</b>	<b>263.436</b>	<b>275.192</b>
External borrowing	(236.599)	(246.699)
<b>Under/(over) borrowing</b>	<b>26.837</b>	<b>28.493</b>
Less: Usable reserves	(51.270)	(45.697)
Less: Working capital	(9.952)	(9.615)
<b>Net borrowing / (investments)</b>	<b>(34.385)</b>	<b>(26.819)</b>

5.3 An analysis of borrowing repaid and undertaken in the year is shown below:

HRA loans	Balance on 01/04/2018 £000	Matured in 2018/19 £000	Borrowed in 2018/19 £000	Balance on 31/03/2019 £000	Average rate** on 31/03/19
Short term loans*	17,100	17,100	0	18,800	1.92%
Long term loans	219,499	0	27,200	227,899	2.65%
<b>Total</b>	<b>236,599</b>	<b>17,100</b>	<b>27,200</b>	<b>246,699</b>	<b>2.59%</b>

\*Loans with maturities within 1 year

\*\*Not time weighted

### Investments

5.4 The average investment balance during 2018/19 was £41.5 million. The tables below summarise the investment activity during 2018/19.

Investment Counterparty	Balance on 31/03/2018 £000	Investments Made £000	Maturities/ Investments Sold £000	Balance on 31/03/2019 £000
UK Local Authorities				
- Short term	4,000	2,000	6,000	0
- Long term	4,000	0	2,000	2,000
Banks & Building Societies				
- ST deposits/accounts	10,196	44,320	50,516	4,000
- ST negotiable	0	2,000	2,000	0
- LT negotiable (secured)	2,000	0	1,000	1,000
AAA rated Money Market Funds	8,004	146,175	140,545	13,634
Pooled Property Fund	*4,000	0	0	**4,000
Registered Providers				
- Long term	2,185	0	0	2,185
<b>TOTAL INVESTMENTS</b>	<b>34,385</b>	<b>194,495</b>	<b>202,061</b>	<b>26,819</b>

\*Bid Value of shares at 31/03/18 = £3,857k

\*\*Bid Value of shares at 31/03/19 = £3,917k

	Weighted average interest rate
Short term investments	0.67%
Long term investments	3.04%
All investments	1.34%
Total interest earned 2018/19	£555k

5.5 The maturity profile of all investments at 31 March 2019 is shown below:

	£000
Up to 3 months	19,634
3-6 months	185
6 months-1 year	1,000
1-2 years	2,000
2-3 years	*4,000
Total	26,819

\*Property Fund investment period originally anticipated to be at least 3-5 years

5.6 As the Capital and Affordable Housing Programmes forecast a reduction in cash balances, investments made in 2018/19 were generally of a short term nature. Often dividend yields in instant access money market funds were just as favourable as short term fixed deposits and offered greater diversity and liquidity, so fewer term deposits were made this year. Bank rate increased on 2 August 2018, however, to 0.75%, leading to a minor increase in call account and investment rates.

5.7 The CCLA Property Fund continued to pay a healthy dividend of over 4% each quarter, with an increase in the bid market value (ie the price we would receive if shares were sold) at 31 March resulting in shares worth £3.971m, against the initial investment of £4m.

## 6 Treasury Management indicators

6.1 The actual treasury management indicators for the 2018/19 financial year were as follows:-

### 6.2 Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest exposures, expressed as an amount of net principal borrowed were:

	Limit	Maximum in 18/19	Limit observed in year
Upper limit on fixed interest rate exposures	£320m	£243m	✓
Upper limit on variable interest rate exposures	£0m	-£16m	✓

### 6.3 Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	Upper Limit	Lower Limit	Actual at 31.3.19	Limit observed in year
Under 12 months	20%	0%	7.6%	✓
12 months and within 24 months	30%	0%	8.1%	✓
24 months and within 5 years	50%	0%	27.7%	✓
5 years and within 10 years	80%	0%	50.9%	✓
10 years and within 20 years	100%	0%	5.7%	✓
20 years and above	100%	0%	0%	✓

Time periods for this indicator start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

### 6.4 Principal sums invested for periods longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits were:

	2018/19 £000	2019/20 £000	2020/2021 £000
Limit on principal invested beyond year end as at 31/03/19	20,000	10,000	10,000
Actual principal invested beyond year end As at 31/03/19*	9,185	6,000	4,000
Limit observed in year	✓	✓	✓

**Implications**

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#### **Legal Implications**

7.1 This report contains no legal implications.

### **8 Financial Implications**

8.1 This report is for information only so has no direct financial implications. The impact of investment income and loan interest payments is regularly reviewed as part of budget monitoring processes.

### **9 Risk Management Implications**

9.1 Management of risk associated with investment and borrowing is the main objective of the Council's treasury management strategy. This is achieved through robust counterparty monitoring and selection criteria, prudent cash flow forecasting, a range of exposure limits and indicators, and procedures designed to prevent fraud and error.

### **10 Security & Terrorism Implications**

10.1 This report contains no security or terrorism implications.

**11 Procurement Implications**

11.1 This report contains no procurement implications.

**12 Climate Change Implications**

12.1 This report contains no climate change implications.

**13 Link to Corporate Priorities**

13.1 The subject of this report is linked to the Council's Corporate Priority 'Engage with our communities and provide value for money' and specifically to the achievement of 'Deliver value for money'.

**14 Equality and Diversity**

14.1 An Equality Impact Assessment (EIA) was not completed because this report does not propose changes to existing service-related policies or the development of new service-related policies.

**15 Health and Wellbeing**

15.1 There are no direct implications in relation to health and wellbeing arising from this report.

**16 Communication and Engagement**

16.1 There are no direct requirements for communication and engagement arising from this report.

**17 Human Resources**

17.1 There are no direct implications in relation to human resources arising from this report.

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Date                                        8 May 2019

Appendix A – Arlingclose Ltd – Economic Context  
Appendix B – Investments at 31 March 2019  
Appendix C – Loans at 31 March 2019