

WELWYN HATFIELD BOROUGH COUNCIL  
CABINET – 3 NOVEMBER 2020  
REPORT OF THE CORPORATE DIRECTOR (RESOURCES, ENVIRONMENT AND  
CULTURAL SERVICES)

TREASURY MANAGEMENT MID-YEAR REPORT 2020/21

**1 Executive Summary**

- 1.1 In accordance with the Treasury Management Strategy (TMS), this report provides a mid-year update on the Council’s treasury activities from 1 April to 30 September 2020, including details of the investment and borrowing portfolios and an economic review from treasury advisors.

**2 Recommendation**

- 2.1 It is recommended that Members note the current treasury position and Treasury Management Indicators.

**3 Investment Activity**

- 3.1 With uncertainty surrounding the economic implications of the coronavirus pandemic and the country in lockdown at the start of the financial year, priority was given to the security and liquidity of investments, with return expected to be minimal. Balances ranged between £21m and £43m, with a daily average of £30m, inflated in the early months by Government funding for Covid-19 financial assistance schemes.
- 3.2 Balances were higher than anticipated, mainly as a result of lockdown impeding ability to progress capital programme works, but were accommodated in the Council’s money market funds and instant access accounts. In the last couple of months of the period however, as the effect of the Bank rate move to 0.1% in March 2020 fully hit money market fund yields, investment rates fell to almost zero, with the Debt Management Account Deposit Facility (DMADF, the Government deposit facility for local authorities), actually imposing negative interest rates for investments up to one month at the end of September.
- 3.3 The weighted average return for investments in this period was 0.62% and total interest earned £93.8k, including a 2.5% estimated dividend on the CCLA Property Fund for Q2, which has yet to be confirmed. Trading in the CCLA Property Fund was suspended in March 2020 owing to the Covid 19 pandemic, however the suspension was lifted on 30 September 2020. All investments were made in accordance with the treasury management strategy applicable at the time of the deposits.

- 3.4 The table below shows investment activity in the period 1 April to 30 September 2020:-

<b>Investment Counterparty</b>	Opening balance on 01/04/2020 £000	Investments Made £000	Maturities/ Investments Sold £000	Closing balance on 30/09/2020 £000
UK Local Authorities - Long term	2,000	0	2,000	0
Banks & Building Societies - ST deposits/accounts	6,675	4,502	11,177	0
AAA rated Money Market Funds	7,460	84,184	75,185	16,459
Pooled Property Fund	**4,000	0	0	4,000
<b>TOTAL INVESTMENTS</b>	<b>20,135</b>	<b>88,686</b>	<b>88,362</b>	<b>20,459</b>

\*\* £4m invested – share value subject to market changes

- 3.5 For Members' information, the maturity structure of investments is detailed in the table below and Appendix A details investments at 30 September 2020

Matures in:	£'000
Instant access	16,459
3-6 Months	0
6-12 Months	0
Over 12 months*	4,000
<b>Total</b>	<b>20,459</b>

\*CCLA Property Fund

- 3.6 For the remainder of this financial year, the return on investments will be very low, as it is increasingly likely that negative interest rates will become more widespread in investment markets. This would mean that the Council may have to pay to lend investment balances in some cases. In such circumstances, consideration would be given to internal borrowing and counterparty limits to minimise such costs as appropriate. However, it should be noted that the Council does need to maintain a level of cash balances for liquidity purposes, irrespective of the level of returns.

#### **4 Borrowing Activity**

- 4.1 In March 2012 the Council borrowed £304,799k from the Public Works Loans Board (PWLB) to meet its obligations under the new Housing Self-Financing regime. The loans were structured so that, following the first year, debt was repaid every quarter.
- 4.2 Since 2018/19 additional external borrowing has been required for the HRA, arising from this maturing debt and new capital investment. A further £42.7m of HRA long term borrowing has therefore been taken from the PWLB since then, on a fixed term, maturity basis to provide cost certainty, with repayment matching the capacity of the HRA business plan.
- 4.3 The following table shows the movement in the first half of this financial year and Appendix A, the loans outstanding to the HRA.

Opening balance 01/04/20 £'000	Borrowing Matured £'000	New borrowing	Closing balance 30/09/20 £'000	Average rate of borrowing on 30/09/20	Interest 01/04/20–30/09/20 (accruals basis) £'000
237,899	(10,000)	5,500	233,399	2.59%	3,090

- 4.4 Given the current interest rate environment, the Council will continue to fund capital expenditure via internal borrowing where possible. However the current cashflow forecast for the remainder of 2020/21 shows that external borrowing is likely before the end of the financial year. Forecasting cashflow is difficult due to the uncertainty the pandemic brings and so will continue to be closely monitored. If external borrowing is required, officers will determine the most appropriate type and maturity period in conjunction with advisors Arlingclose Ltd.

## 5 Treasury Management and Prudential Indicators

- 5.1 The Council measures its exposure to treasury management risks using the following indicators:

### Maturity structure of borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

	Upper Limit	Lower Limit	Actual fixed borrowing at 30/09/20	% fixed borrowing at 30/09/19	Complied
Under 12 months	20%	0%	£20.6m	8.8%	✓
12 months and within 24 months	30%	0%	£22.1m	9.5%	✓
24 months and within 5 years	50%	0%	£75.0m	32.1%	✓
5 years and within 10 years	80%	0%	£115,699m	49.6%	✓
10 years and within 20 years	100%	0%	£0	0%	✓
20 years and within 30 years	100%	0%	£0	0%	✓

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

- 5.2 Principal sums invested for periods longer than one year

The purpose of this indicator is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

	2020/21 £'000	2021/22 £'000	2022/23 £'000
Limit on principal invested for more than one year	5,000	5,000	5,000
Actual principal invested for more than one year*	4,000	4,000	4,000
Complied	✓	✓	✓

\* Intention is to hold £4m invested in CCLA Property Fund beyond 22/23

### 5.3 Borrowing Limits

The Council is required to set limits on its borrowing activity. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements. Other long-term liabilities comprise finance leases and other liabilities that are not borrowing but form part of the Council's debt.

The table below shows that the operational boundary for all borrowing has been complied with in the first half of 2020/21.

	Maximum in period £'000	30.9.20 Actual £'000	2020/21 Operational Boundary £'000	2020/21 Authorised Limit £'000	Complied
External Borrowing	243,399	233,399	273,483	303,483	✓
Other Long Term Liabilities	2,103	2,103	2,103	2,103	✓
External Borrowing for Now Housing	0	0	26,000	26,000	✓
<b>TOTAL</b>	<b>245,502</b>	<b>235,502</b>	<b>301,586</b>	<b>331,586</b>	✓

## 6 Economic review

- 6.1 Attached at Appendix B is comment on the UK economy, market activity and credit risk from the Council's treasury advisors Arlingclose Ltd.

### Implications

## 7 Legal Implications

- 7.1 There are no legal implications contained in this report.

## 8 Financial Implications

There are no direct financial implications in the report, however levels of investment income and cost of borrowing are reviewed and adjusted accordingly through budget monitoring processes.

## 9 Risk Management Implications

- 9.1 The Council's TMS adheres to the CIPFA Code of Practice on Treasury Management, which promotes the assessment and control of risk related to treasury activities. It is believed the Strategy represents an appropriate balance between risk management and cost effectiveness. Utilising the Treasury Management Practices and information provided by advisors Arlingclose, the

Council continues to review the national outlook for interest rates and changing factors affecting the Council's position in order to minimise risk.

- 9.2 Budgets relating to investments and borrowing are monitored monthly and any major variances affecting the Council's financial standing would be escalated through appropriate methods and reported to members if significant.

## **10 Security and Terrorism Implications**

- 10.1 There are no security or terrorism implications contained in this report.

## **11 Procurement Implications**

- 11.1 There are no procurement implications contained in this report.

## **12 Climate Change Implications**

- 12.1 There are no climate change implications contained in this report.

## **13 Human Resources Implications**

- 13.1 There are no human resources implications contained in this report.

## **14 Health and Wellbeing Implications**

- 14.1 There are no health and wellbeing implications contained in this report.

## **15 Communication and Engagement Implications**

- 15.1 There are no communication and engagement implications contained in this report.

## **16 Link to Corporate Priorities**

- 16.1 The subject of this report is linked to the Council's Corporate Priority 'Our Council' and specifically to the achievement of 'Value for Money'.

## **17 Equality and Diversity**

- 17.1 An EqIA was not completed because this report does not propose changes to existing service-related policies or the development of new service-related policies

Name of author	Helen O'Keeffe
Title	Service Manager (Financial Services)
Date	30/09/2020

Background papers

WHBC Treasury Management Strategy 2020/21

### **Appendices**

Appendix A – Investments and Borrowing at 30/09/2020

Appendix B - Economic Commentary and Outlook – Arlingclose Ltd