Part I
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All Wards

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 15 JUNE 2021
REPORT OF THE HEAD OF RESOURCES

TREASURY MANAGEMENT AND INVESTMENT STRATEGY ANNUAL REPORT 2020/21

1 Executive Summary

1.1 The Council carries out its Treasury Management functions within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code). This 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 2020/21 financial year.

2 Recommendation

2.1 It is recommended that Cabinet note the report and actual treasury management prudential indicators for 2020/21.

3 Background

3.1 The 2020/21 Treasury Management Strategy was approved by Council at its meeting on 3 February 2020, as part of the "Medium Term Financial Strategy and Financial Governance Framework".

3.2 As the Council borrows and invests substantial sums of money it is exposed to financial risks, including the potential loss of invested funds and the revenue implications of changes in interest rates. The successful identification, monitoring and control of risk are therefore central to this strategy.

3.3 The Head of Resources is able 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 and borrowing as at 31 March 2021 is attached at Appendix B.

Borrowing

5.2 On 31 March 2021 the Council had a net borrowing requirement of £281.8m arising from its revenue and 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.

	31.3.20 Actual £m	31.3.21 Actual £m
General Fund CFR	35,545	36,495
Now Housing (General Fund) CFR	0	2,437
HRA CFR	241,127	245,587
Total	**276,672**	**284,519**
Borrowing		
External borrowing	-242,899	-236,399
Internal / (over) borrowing	33,773	48,120
Less: Usable reserves	-46,742	-55,688
Less: Working capital	-7,166	-8,904
Net investments	**-20,135**	**-16,472**

5.3 The Council continued to keep borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low.

5.4 In October 2019 the PWLB raised the cost of borrowing by 1% in response to concerns about the overall level of local authority debt. At the budget in March 2020, however, it was announced that the cost of HRA borrowing would be reduced back down to the original level and that a consultation on future lending terms between the PWLB and local authorities would commence.

5.5 The results of the consultation were published in November 2020 and included a reduction of 1% on all standard and certainty rate loans, with the condition that authorities confirm there is no intention to buy investment assets primarily for yield in the current and next two financial years. The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate.

5.5 The table overleaf summarises the borrowing activity throughout 2020/21. £16.5m out of the £20m of HRA borrowing which matured was replaced with further borrowing from the PWLB. This was taken at key times during the year, in consultation with Arlingclose, to manage cashflow and ensure the interest rate payable was as low as possible.

5.6 In March 2021 there was a cashflow requirement to fund primarily General Fund capital expenditure. On Arlingclose's advice, temporary borrowing from another local authority was taken to ensure continued liquidity.

*Loans with maturities within 1 year **Not time weighted

	Balance on 01/04/2020 £000	Matured in 2020/21 £000	Borrowed in 2020/21 £000	Balance on 31/03/2021 £000	Average rate** on 31/03/2021
HRA					
Short term loans*	20,000	20,000	0	21,400	2.36
Long term loans	217,899	0	16,500	212,999	2.58
General Fund					
Temporary borrowing	5,000	5,000	2,000	2,000	0.08
Total	**242,899**	**25,000**	**18,500**	**236,399**	**2.54**

Investments

5.7 The average investment balance during 2020/21 was £27.2 million. The tables below summarise the investment activity during this period.

Investment Counterparty	Balance on 31/03/2020 £000	Investments Made £000	Maturities/ Investments Sold £000	Balance on 31/03/2021 £000
UK Local Authorities - Long term	2,000	0	2,000	0
UK Government - Short term	0	47,262	47,262	0
Banks & Building Societies - ST deposits/accounts	6,675	11,870	13,433	5,112
AAA rated Money Market Funds	7,460	143,008	143,108	7,360
Pooled Property Fund	*4,000	0	0	*4,000
TOTAL INVESTMENTS	**20,135**	**202,140**	**205,803**	**16,472**

*Bid Value of shares at 31/03/20 = £3,776,632k
*Bid Value of shares at 31/03/21 = £3,749,781k

	Weighted average interest rate
Short term investments	0.146%
Long term investments	4.186%
All investments	0.744%
Total interest earned 2020/21	***£202,652**

*Includes estimated Q4 Property Fund dividend

5.8 The maturity profile of all investments at 31 March 2021 is shown below:

	£000
Up to 3 months	12,472
6+ months	*4,000
Total	**16,472**

*Property Fund investment – to be held long term; approx. 6 months redemption period

5.9 As the capital programme forecast a significant reduction in investment balances, the emphasis in 2020/21 was on maintaining liquidity for cashflow purposes. Money Market Funds provided high credit quality with instant access and UK bank notice accounts were also utilised. While the return on a number of funds dropped to 0%, this proved preferable on occasion to the government deposit facility, the DMADF, which at times charged a negative rate.

5.10 Despite the challenges presented by the pandemic, the CCLA Property Fund continued to pay a healthy dividend, averaging 4.2% over the year. Although the value of the fund dropped over the beginning of the year, it did broadly recover, with the BID price at 31 March 2021 being £3,750k, compared to £3,777k at the end of 2019/20.

6 Treasury Management indicators

6.1 The actual treasury management indicators for the 2020/21 financial year were as follows:-

6.2 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 31.3.21**	**Limit observed in year**
Under 12 months	20%	0%	9.1%	✓
12 months and within 24 months	30%	0%	9.7%	✓
24 months and within 5 years	50%	0%	33.1%	✓
5 years and within 10 years	80%	0%	41.1%	✓
10 years and within 20 years	100%	0%	7.0%	✓
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.

6.3 Principal sums invested for periods longer than a year

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:

	2020/21 £000	**2021/22 £000**	**2022/2023 £000**
Limit on principal invested beyond year end as at 31/03/21	5,000	5,000	5,000
Actual principal invested beyond year end As at 31/03/21*	4,000	4,000	4,000
Limit observed in year	✓	✓	✓

*Includes £4m in CCLA Property Fund

6.4 Borrowing Limits

The Council is required to set limits on its borrowing activity. The authorised limit is what we determine to be our maximum affordable borrowing in any one year. It is not the amount the Council expects to borrow to meet its capital expenditure requirements, but provides headroom over and above our capital requirements to allow for unusual cash movements, or to take advantage of low interest rates and to borrow in advance of need.

The operational boundary is based on the Council's estimate of most likely scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and is a key tool for in-year monitoring. The operational boundary is set based upon our expected year end position and may be exceeded during the year based on cashflow requirements and the timing of borrowing repayments.

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 authorised limits for borrowing have been complied with in the year 2020/21.

	Maximum in period £'000	31.3.21 Actual £'000	2020/21 Operational Boundary £'000	Complied	2020/21 Authorised Limit £'000	Complied
External Borrowing	243,399	236,399	273,483	✓	303,483	✓
Other Long Term Liabilities	2,103	2,103	2,103	✓	2,103	✓
External Borrowing for Now Housing	2,437	2,437	26,000	✓	26,000	✓
TOTAL	**247,939**	**245,002**	**262,983**	✓	**333,958**	✓

7 Investment Strategy indicators

7.1 The actual Investment Strategy indicators for 2020/21 were as follows:

7.2 Service Based Investments – Loans

There are a number of loan arrangements with local charities, residents, the Council's joint venture, employees and the wholly owned housing company, Now Housing.

The main risk associated with service loans is that the borrower will be unable to repay the principal amount lent and/or interest due. In order to limit the risk and ensure exposure remains appropriate and proportionate, limits are set and monitored, as in the table below:

Category of borrower	2020/21 Forecast Balance £000	2020/21 Actual Balance £000
Joint Venture	107	107
Local Charities	114	114
Local residents	4,528	4,024
Employees	82	97
Now Housing	2,494	2,437
Total	**7,325**	**6,779**

7.3 Service Based Property Investments

The Council holds a large portfolio of assets for service reasons which also generate returns for the Council. Whilst the primary purpose of holding these assets is not financial return, they do face similar risks to those assets held purely for financial return.

The Council monitors performance and risks of service-based property investments:

	2019/20 Actual £'m	2020/21 Estimate £'m	2020/21 Actual £'m
Income Generating Assets held for service purposes			
Ratio: Loan to value (CFR to asset base)	£1 : £2.54	£1 : £2.44	£1 : £2.71
Ratio: Principal cover (MRP to income stream)	£1 : £11.81	£1 : £11.54	£1 : £9.71
Ratio: Interest cover (interest cost to income)	N/A	£1 : £18.54	£1 : £982.33
Non-Income Generating Assets held for service purposes			
Cost of borrowing in relation to council tax	£2.11	£9.87	£9.87

7.4 The Loan to Value ratio (CFR to Asset Base) reflects the Council's borrowing in relation to its asset base. This is favourably lower than originally forecast, due to an upward revaluation of assets, in particular commercial properties in town centre and neighbourhood centres.

7.5 The Principal cover ratio (MRP to income stream) reflects how much income is generated by the operational assets of the Council, against the annual charge to revenue for the principal repayment of debt. Due to lower income generation in 2020/21, wholly attributable to the pandemic, this is adversely impacted.

7.6 The Interest Cover ratio (interest cost to income) monitors the risks around interest cover and links to income. Whilst income was lower than expected due to the pandemic, the additional grant receipts and delays in capital expenditure had a positive impact on cash balances. These factors combined to provide a favourable position on the ratio.

7.7 The cost of borrowing in relation to council tax was as expected for the year.

8 CIPFA Consultations

8.1 In February 2021 CIPFA launched two consultations on changes to its Prudential and Treasury Management Codes of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles based consultations and will be followed by more specific proposals later in the year.

8.2 In the Prudential Code the key area being address is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, i.e. recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.

8.3 Proposed changes to the Treasury Management Code include requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

Implications

9 Legal Implications

9.1 This report contains no legal implications.

10 Financial Implications

10.1 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.

11 Risk Management Implications

11.1 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.

12 Security & Terrorism Implications

12.1 This report contains no security or terrorism implications.

13 Procurement Implications

13.1 This report contains no procurement implications.

14 Human Resources Implication(s)

14.1 There are no direct human resources implications associated with this report.

15 Health and Wellbeing Implication(s)

15.1 There are no direct health and wellbeing implications associated with this report.

16 Communication and Engagement Implication(s)

16.1 There are no direct communication and engagement implications associated with this report.

17 Climate Change Implications

17.1 This report contains no climate change implications.

18 Link to Corporate Priorities

18.1 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'.

19 Equality and Diversity

19.1 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.

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Appendix A – Arlingclose Ltd – Economic Context
Appendix B – Investments and Loans at 31 March 2021