

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 30 NOVEMBER 2021
REPORT OF THE HEAD OF RESOURCES

TREASURY MANAGEMENT MID-YEAR REPORT 2021/22

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 2021, 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 Economic and regulatory update

- 3.1 Attached at Appendix B is comment on the UK economy, market activity and credit risk from the Council's treasury advisors Arlingclose Ltd.
- 3.2 In August 2021 HM Treasury published guidance to clarify that local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase "investment assets primarily for yield". The Council is not planning to purchase any assets which meet this definition, as all approved capital schemes are for the purpose of service delivery or regeneration.
- 3.3 Consultations on revisions to the CIPFA Treasury Management Code of Practice and the Prudential Code are ongoing at present to ensure the codes reflect this guidance. The revised Codes are expected to be published in December 2021 and are likely to include some changes to prudential indicators as well as a greater focus on the knowledge and skills of officers and members.

4 Investment Activity

- 4.1 In the first half of 2021/22 priority continued to be given to the security and liquidity of investments, with return expected to be minimal. Balances ranged between £13m and £51m, with a daily average of £32m.
- 4.2 General Fund borrowing of £20m, taken at the beginning of July due to extremely favourable rates, temporarily inflated cash balances, but balances will reduce going through the year as capital spend progresses. This borrowing has enabled the council to lock into long term favourable rates against those forecast in the medium term financial strategy for some of its borrowing requirement.
- 4.3 Money market funds continued to be utilised, along with short dated notice bank accounts, with one opened with Santander, paying an enhanced rate of 0.1%.

- 4.4 The weighted average return for investments in this period was 0.45% and total interest earned £69.8k, including a 3% estimated dividend on the CCLA Property Fund for Q2, which has yet to be confirmed. All investments were made in accordance with the treasury management strategy applicable at the time of the deposits.
- 4.5 The table below shows investment activity in the period 1 April to 30 September 2021:-

Investment Counterparty	Opening balance on 01/04/2021 £'000	Investments Made £'000	Maturities/ Investments Sold £'000	Closing balance on 30/09/2021 £'000
Banks – ST deposits/accounts	5,112	12,231	7,817	9,526
AAA rated Money Market Funds	7,360	46,660	38,020	16,000
UK Government	0	104,022	96,022	8,000
Pooled Property Fund	*4,000	0	0	4,000
TOTAL INVESTMENTS	16,472	162,913	141,859	37,526

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

- 4.6 For Members' information, the maturity structure of investments is detailed in the table below and Appendix A details investments at 30 September 2021

Matures in:	£'000
Instant access	25,526
0-3 Months	8,000
3-12 Months	0
Over 12 months*	4,000
Total	37,526

*CCLA Property Fund

- 4.7 For the remainder of this financial year, it is anticipated that the return on investments will continue to be very low, although on the upside, it appears the risk of negative interest rates has reduced.

5 **Borrowing Activity**

- 5.1 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.
- 5.2 Additional external borrowing has been required for the HRA, arising from this maturing debt and new capital investment. A further £59.5m of HRA long term borrowing has therefore been taken from the PWLB since 2018/19, on a fixed term, maturity basis to provide cost certainty, with repayment matching the capacity of the HRA business plan.
- 5.3 Up until this year the Council's General Fund long-term borrowing requirement had been met through internal borrowing, however as investment in the capital programme continues, it has become necessary to fund this through external borrowing. With advice from the Council's treasury advisers, £20m of external borrowing was taken from the PWLB in July this year on an EIP basis (Equal Instalment of Principal) over 21 years when interest rates fell. The EIP structure

ensures an even repayment which will be funded through the Council's minimum revenue provision each year.

- 5.4 The following table shows the movement in the first half of this financial year and Appendix A, the loans outstanding.

	Opening balance 01/04/21 £'000	Borrowing Matured £'000	New borrowing £'000	Closing balance 30/09/21 £'000	Average rate of borrowing on 30/09/21	Interest 01/04/21– 30/09/21 (accruals basis) £'000
HRA	234,399	10,600	5,800	229,599	2.55%	£2,874
General Fund	0	0	20,000	20,000	1.57%	£72
Temporary Borrowing	2,000	2,000	0	0	0	£0.1

6 Treasury Management and Prudential Indicators

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

6.2 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 30/09/21	% fixed borrowing at 30/09/21	Complied
Under 12 months	30%	0%	£22.10m	8.85%	✓
12 months and within 24 months	30%	0%	£23.45m	9.40%	✓
24 months and within 5 years	50%	0%	£80.00m	32.05%	✓
5 years and within 10 years	80%	0%	£87.25m	34.96%	✓
10 years and within 20 years	100%	0%	£16.80m	6.73%	✓
20 years and within 30 years	100%	0%	£20.00m	8.01%	✓

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.

6.3 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.

	2021/22 £'000	2022/23 £'000	2023/24 £'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 23/24

6.4 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 2021/22.

	Maximum in period £'000	30.9.21 Actual £'000	2021/22 Operational Boundary £'000	2021/22 Authorised Limit £'000	Complied
External Borrowing	254,899	249,599	309,323	339,323	✓
Other Long Term Liabilities	2,103	2,103	2,302	2,302	✓
External Borrowing for Now Housing	0	0	14,043	24,043	✓
TOTAL	257,002	251,702	325,668	365,668	✓

Implications

7 Legal Implications

7.1 There are no direct 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

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Background papers

WHBC Treasury Management Strategy 2021/22

Appendices

Appendix A – Investments and Borrowing at 30/09/2021

Appendix B – Economic Commentary and Outlook – Arlingclose Ltd