

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 1 NOVEMBER 2016
REPORT OF THE HEAD OF RESOURCES

TREASURY MANAGEMENT STRATEGY MID-YEAR REPORT 2016/17

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 2016, including details of the investment and loans portfolios and an economic review from treasury advisors.
- 1.2 Approval is also sought for amendments to Treasury Management Practice schedules to reflect recent organisational changes. These schedules support the TMS and detail roles and responsibilities for the treasury function, and daily processes undertaken.

2 Recommendation

- 2.1 It is recommended that Members
- i) note the current treasury position and Treasury Management Indicators; and
 - ii) approve the amendments to the Treasury Management Practice schedules as detailed in the report, to reflect recent organisational changes.

3 Investment activity

- 3.1 Cash balances in the first half of the financial year ranged from £62 to £76 million, with a daily average £69.1m. The investment portfolio continued to contain short term deposits with banks, building societies and money market funds; and tradeable instruments such as bonds, certificates of deposit and floating rate notes which allowed diversification across a wider spectrum of institutions. One long and two medium term investments were also made as follows:-

Counterparty	Start	Maturity	Amount	Rate	Notes
Network Homes	28/04/2016	28/04/2019	£2,000,000	3.4%	
Bank of Nova Scotia	08/08/2016	02/11/2017	£999,921	0.699%	Covered floating rate note - 0.205% above 3m libor
Prudential PLC	24/08/2016	19/01/2018	£1,015,126	0.873%	

- 3.2 As Members are aware, official Bank Rate was cut from 0.50% to 0.25% on 4 August 2016. This led to an immediate drop in interest rate on a number of

instant access accounts but money market returns experienced a slower decrease due to the fixed term nature of many of their underlying investments.

- 3.3 Appendix A details investments as at 30 September 2016. The weighted average interest rate for the period from 1 April to 30 September was 1.05% and total investment income earned, £352k (estimating a 4.259% dividend on the CCLA Property Fund for Q2). All investments were made in accordance with the treasury management strategy applicable at the time of deposit.
- 3.4 As detailed in the covering report to the 2016/17 Strategy, submitted to Cabinet on 5 January 2016, the forecast average rate for investments for the year was 1.16%, based on an average daily balance of £45m. This would provide investment income of £522k.
- 3.5 As balances are generally higher in the first part of the year, more investments are made in short term deposits at lower rates, which bring the average rate down. As balances reduce towards the end of the year, the average rate improves. Based on current performance then, it is anticipated that investment income will meet this forecast.
- 3.6 The maturity structure of investments at 30 September 2016 was as follows:-

Matures in:	£'000
Instant access	23,101
3 Months	17,929
3-6 Months	8,000
6-12 Months	999
Over 12 months	14,201
Total	64,230

- 3.7 The table below shows investment activity in the period:-

Investment Counterparty	Opening balance 01/04/2016 £'000	Investments Made £'000	Maturities/ Investments Sold £'000	Closing balance 30/09/2016 £'000
UK Government	0	11,060	11,060	0
UK Local Authorities				
- Short term	2,000	3,000	5,000	0
- Long term	4,000	0	0	4,000
UK Banks				
- Short term	10,644	20,366	25,010	6,000
- Long term	1,000	0	1,000	0
UK Building Societies				
- Short term	11,000	11,000	12,000	10,000
- Long term	0			
Foreign Banks				
- Short term	6,000	7,995	6,995	7,000
- Long term	0			
AAA rated Money Market Funds	11,000	74,745	65,644	20,101
Property Fund*	4,000	0	0	4,000

Registered Providers of Social Housing	185	2,000	0	2,185
Bonds issued by Multilateral Development Banks	0	3,838	0	3,838
Covered Bonds	4,078	1,000	0	5,078
Corporate Bonds	2,164	4,059	4,195	2,028
TOTAL INVESTMENTS	56,071	139,063	130,904	64,230

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

4 Borrowing

4.1 Since the Housing self-financing changes in 2012, HRA debt has reduced in total by £46,100k from £304,799k to £258,699k with loans of £5,800k having matured and been repaid between 1 April and 30 September 2016. Interest payments made in that period amounted to £3,299k. The average interest rate for the remaining loans at 30 September was 2.48%.

4.2 No new borrowing was undertaken during the period.

5 Treasury Management Indicators

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

5.2 Interest rate exposures

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short term rates on investments.

	2016/17	Maximum during period	Met?
Upper limit on fixed interest rate exposures	£300m	£246.7m	✓
Upper limit on variable interest rate exposures	£0m	-£40.9m	✓

For definition purposes, fixed rate investments and borrowings are those where the interest rate is fixed for the next 365 days or more. Instruments that mature during the period are classed as variable rate. Investments are treated as having negative value in this instance and are netted off against borrowing. By setting a £0 value on variable exposures, the Council seeks to always hold more variable rate investment than borrowing.

5.3 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 30/9/16	% fixed borrowing at 30/9/16	Met?
Under 12 months	15%	0%	£14.4m	5.6%	✓
12 months and within 24 months	20%	0%	£16.2m	6.3%	✓
24 months and within 5 years	40%	0%	£58.0m	22.4%	✓
5 years and within 10 years	70%	0%	£125.6m	48.5%	✓
10 years and within 20 years	100%	0%	£44.5m	17.2%	✓
20 years and within 30 years	100%	0%	£0	0%	✓

5.4 Principal sums invested for periods longer than 364 days

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.

	Budget 2016/17 £'000	Budget 2017/18 £'000	Budget 2018/19 £'000
Limit on principal invested beyond year end	25,000	23,000	20,000
Actual principal invested beyond year end	10,186	10,186	7,185
Within limit?	✓	✓	✓

6 Economic review

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

7 Treasury Management Practices

- 7.1 At its meeting on 3 October 2016, Council approved the appointment of the Head of Resources to the post of Chief Finance Officer. As a result of this and other organisational changes within the Council and Housing Trust, a number of posts that hold treasury management responsibilities have been subject to some change in duties. The Treasury Management Practices and Schedules (TMPs) that support the Treasury Management Strategy have therefore been amended to reflect those changes, as attached at Appendix C, and require Cabinet approval.

- 7.2 Below is a table summarising the movement of responsibilities

Previously	Now
Director (Finance and Operations)	Head of Resources
Head of Resources	Finance Manager
Finance Manager	Corporate Finance Business Partner

- 7.3 In addition, the new Executive Directors will have authority to approve payments up to £10m, alongside the Chief Executive, Head of Resources and Finance Manager and be authorised treasury management signatories.
- 7.4 The post of Accounting Services Manager also no longer exists so day to day cover for the Treasury Management & Insurance Officer will be provided by the Corporate Finance Assistant Business Partner and the CIPFA Trainee.
- 7.5 These schedules are designed to ensure continuity of service, transparency of processes and appropriate segregation of duties.

Implications

8 Financial Implications

- 8.1 There are no direct financial implications to this report. Levels of investment income are reviewed and adjusted accordingly through budget monitoring processes.

9 Link to Corporate Priorities

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

10 Legal Implications

- 10.1 There are no legal implications contained within this report.

11 Climate Change Implications

- 11.1 There are no climate change implications contained within this report.

12 Risk Management Implications

- 12.1 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.
- 12.2 Investment budgets are significant in terms of their financial value and the level of risk that may occur due to interest rate variations. Budgets relating to investments 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

13 Equality and Diversity

- 13.1 An Equality Impact Assessment (EIA) is not required in relation to the proposals that are set out in this report.

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Background papers

None