

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 6 JUNE 2017
REPORT OF THE EXECUTIVE DIRECTOR (RESOURCES, ENVIRONMENT AND
CULTURAL SERVICES)

TREASURY MANAGEMENT ANNUAL REPORT 2016/17

1 Executive Summary

- 1.1 In February 2012 the Council adopted the 2011 edition of the *CIPFA Treasury Management in the Public Services: Code of Practice*, 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 2016/17 financial year.
- 1.2 The report also seeks approval of amendments to the Treasury Management Practices (TMPs) which support the strategy, due to the recent appointment of the Executive Director (Resources, Environment and Cultural Services) as Section 151 Chief Finance Officer.

2 Recommendation

- 2.1 It is recommended that Cabinet
- a) note the report and actual treasury management prudential indicators for 2016/17; and
 - b) agree the amendments to the TMPs.

3 Background

- 3.1 The 2016/17 Treasury Management Strategy was approved by Council at its meeting on 1 February 2016.
- 3.2 As the Council has borrowed and invested 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 Executive Director (Resources, Environment and Cultural Services) is pleased to report that all treasury management activity undertaken during the financial year complied with the approved strategy, the CIPFA Code of Practice, 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, which is attached at Appendix A.

5 Borrowing and investment portfolio

Borrowing

- 5.1 A summary of investments and borrowing as at 31 March 2017 is attached at Appendix B.
- 5.2 No new external borrowing was entered into during 2016/17 so the table below shows the movement in year relating to the HRA self funding debt, with the Public Works Loan Board (PWLB). Total interest paid in the year amounted to £6.452m.

HRA loans	Balance on 01/04/2016 £'000	Matured in 2016/17 £'000	Balance on 31/03/2017 £'000	Average rate** on.31/03/17 %
Short term loans*	13,500	13,500	15,300	1.44
Long term loans	251,899	0	236,599	2.58
Total	265,399	13,500	251,899	2.51

*Loans with maturities within 1 year

**Not time weighted

Investments

- 5.3 The average investment balance during 2016/17 was £70 million. The tables below summarise the investment activity, weighted average investment rates and total interest earned during 2016/17.

Investment Counterparty	Balance on 31/03/2016 £'000	Investments Made £'000	Maturities/ Investments Sold £'000	Balance on 31/03/2017 £'000
UK Central Government - Short term	0	22,985	22,985	0
UK Local Authorities - Short term	2,000	14,000	10,000	6,000
- Long term	4,000	0	0	4,000
Banks & Building Societies - ST deposits/accounts	20,733	72,027	79,760	13,000
- ST negotiable	9,005	11,738	15,743	5,000
- LT fixed deposits	1,000	0	1,000	0
- LT negotiable	0	1,015	10	1,005
- LT negotiable (secured)	4,078	1,000	2,078	3,000
AAA rated Money Market Funds	11,000	131,321	131,583	10,738
Pooled Property Fund	*4,000	0	0	**4,000
Corporates - ST negotiable	71	4,910	2,215	2,766
Registered Providers - Long term	185	2,000	0	2,185
TOTAL INVESTMENTS	56,072	260,996	265,374	51,694

*Net Asset Value of shares at 31/03/16 = £3.799m

**Net Asset Value of shares at 31/03/17 = £3.739m

Short term & pooled investments	0.49%
Long term investments	2.57%
All investments at 31/3/17	0.94%
Total interest earned 16/17	£655k

5.4 The maturity profile of all investments at and from 31 March 2017 is shown below:

	£'000
Up to 1 month	16,738
1-3 months	12,765
3-6 months	5,000
6 months-1 year	4,005
1-2 years	4,000
2-3 years	3,185
3-5 years	*6,000
Total	51,693

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

5.5 The type of investments made in 2016/17 did not essentially differ to the previous year, with opportunities taken, when available, to diversify from fixed bank and building society deposits into negotiable instruments such as secured and high quality fixed bonds, certificates of deposits and floating rate notes.

5.6 Investments of note include one made with a registered provider of social housing, Network Homes Ltd, in the amount of £2m for 3 years at an interest rate of 3.4%. This, together with a dividend return on last year's property fund investment of 4.28% and two existing long term deposits with other local authorities at an average rate of 2.525%, supported investment return which amounted to £655k, as reported above.

5.7 Short term investment rates lowered even further following the cut in Bank Rate to 0.25% in August 2016, as a result of which some value was found in rates offered by other local authorities, leading to more investments being made in this sector than in previous years. Instant access and notice account rates remained competitive, despite reducing in line with Bank Rate, though it is anticipated these are likely to be withdrawn at some point in the near future. A number of corporate bond purchases were also made, where additional risk compared to money market funds was considered minimal in return for the rate achieved.

6 Treasury Management indicators

6.1 The actual treasury management indicators for the 2016/17 financial year were as follows:-

6.2

	Limit	Maximum in 16/17	Limit observed in year
Upper limit on fixed interest rate exposures	£300m	£247m	✓
Upper limit on variable interest rate exposures	£0m	-£29m	✓

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:

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate and investments are treated as negative borrowing.

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 31.3.17	Limit observed in year
Under 12 months	15%	0%	7.2%	✓
12 months and within 24 months	20%	0%	8.0%	✓
24 months and within 5 years	40%	0%	27.1%	✓
5 years and within 10 years	70%	0%	57.7%	✓
10 years and within 20 years	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:

	2016/17 £'000	2017/18 £'000	2018/19 £'000
Limit on principal invested beyond year end as at 31/03/17	25,000	23,000	20,000
Actual principal invested beyond year end As at 31/03/17	14,190	12,185	9,185
Limit observed in year	✓	✓	✓

7 Future treasury activity

- 7.1 It is to be noted that proposals relating to the authority's Affordable Housing Programme and the prospective establishment of a Property Company will have some effect on treasury management activity in forthcoming years. Members will therefore receive further details as and when appropriate on these matters.

8 Treasury Management Practices – Amendments to schedules

- 8.1 At its meeting on 20 March 2017 the Council approved the appointment of the Executive Director (Resources, Environment and Cultural Services) as the new Section 151 Chief Finance Officer. As a result of this it is now necessary to amend the schedules to the Treasury Management Practices (TMPs) which set out officer roles and responsibilities for treasury management, in accordance with the above mentioned CIPFA Code of Practice.
- 8.2 Appendix C contains the relevant extract duly amended to reflect that the Head of Resources post is no longer the Section 151 Officer. The changes are as follows:-

Responsibilities transferred from:	To:
Head of Resources	Executive Director (Resources, Environment and Cultural Services)
Finance Manager	Head of Resources
Corporate Finance Business Partner	Finance Manager

- 8.3 All references to Head of Resources in the TMPs will also therefore be changed to the Executive Director (Resources, Environment and Cultural Services).

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.

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 Climate Change Implications

14.1 This report contains no climate change implications.

15 Link to Corporate Priorities

15.1 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'.

16 Equality and Diversity

16.1 An Equality Impact Assessment (EIA) has not been carried out in connection with the proposals that are set out in this report.

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Appendix A – Arlingclose Ltd – Economic Context

Appendix B – Investments and Loans at 31 March 2017

Appendix C – Treasury Management Practices – extract from schedules