

WELWYN HATFIELD BOROUGH COUNCIL  
CABINET – 5 JUNE 2018  
REPORT OF THE CORPORATE DIRECTOR (RESOURCES, ENVIRONMENT AND  
CULTURAL SERVICES)

TREASURY MANAGEMENT ANNUAL REPORT 2017/18

**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 2017/18 financial year.

**2 Recommendation**

- 2.1 It is recommended that Cabinet note the report and actual treasury management prudential indicators for 2017/18.

**3 Background**

- 3.1 The 2017/18 Treasury Management Strategy was approved by Council at its meeting on 6 February 2017.
- 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 Corporate 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, attached at Appendix A.

**5 MiFID II**

- 5.1 As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could "opt up" to professional client status, providing certain criteria were met. These included having an investment balance of at least £10 million and officers authorised to make investment decisions on behalf of the authority having at least one year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to

assess that these officers have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

- 5.2 The Council met these conditions to opt up to professional status and has therefore done so in order to maintain its erstwhile MiFID II status prior to January 2018. The Council continues then to have access to products including money market funds, pooled funds, treasury bills, bonds and shares, and to financial advice.

## 6 Borrowing and investment portfolio

- 6.1 A summary of investments and borrowing as at 31 March 2018 is attached at Appendix B.

### Borrowing

- 6.2 No new external borrowing was entered into during 2017/18 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 and accrued for the 2017/18 financial year amounted to £6,242k.

HRA loans	Balance on 01/04/2017 £000	Matured in 2017/18 £000	Balance on 31/03/2018 £000	Average rate** on 31/03/18 %
Short term loans*	15,300	13,500	17,100	1.70
Long term loans	236,599	0	219,499	2.65
<b>Total</b>	<b>251,899</b>	<b>13,500</b>	<b>236,599</b>	<b>2.58</b>

\*Loans with maturities within 1 year

\*\*Not time weighted

### Investments

- 6.3 The average investment balance during 2017/18 was £56 million. The tables below summarise the investment activity during 2017/18.

Investment Counterparty	Balance on 31/03/2017 £000	Investments Made £000	Maturities/ Investments Sold £000	Balance on 31/03/2018 £000
UK Local Authorities				
- Short term	6,000	23,000	25,000	4,000
- Long term	4,000	0	0	4,000
Banks & Building Societies				
- ST deposits/accounts	13,000	45,825	48,629	10,196
- ST negotiable	5,000	4,016	9,016	0
- LT negotiable (secured)	3,000	0	1,000	2,000
AAA rated Money Market Funds	10,738	148,568	151,302	8,004
Pooled Property Fund	*4,000	0	0	**4,000
Corporates				
- ST negotiable	2,766	1,744	4,510	0
- LT negotiable	1,005	0	1,005	0
Registered Providers				
- Long term	2,185	0	0	2,185
<b>TOTAL INVESTMENTS</b>	<b>51,694</b>	<b>223,153</b>	<b>240,462</b>	<b>34,385</b>

\*Net Asset Value of shares at 31/03/17 = £3,739k

\*\*Net Asset Value of shares at 31/03/18 = £3,918k

	Weighted average interest rate
Short term investments	0.40%
Long term investments	2.79%
All investments	0.98%
Total interest earned 2017/18	£548k

6.4 The maturity profile of all investments from 31 March 2018 is shown below:

	£000
Up to 3 months	15,200
3-6 months	6,000
6 months-1 year	4,000
1-2 years	3,185
2-3 years	2,000
3-5 years	*4,000
Total	34,385

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

6.5 The type of investments made in 2017/18 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. Bank rate increased on 2 November 2017 to 0.5%, leading to a minor increase in call account and investment rates and some added value continued to be found in inter-authority short term lending.

6.6 As investment balances reduced due to the effect of the Council's Capital and Affordable Housing Programmes, and are likely to continue to do so in forthcoming years, no new long term investments were made. The CCLA Property Fund, Housing Association loans and two local authority long term investments, however, continued to support investment return.

## 7 Treasury Management indicators

7.1 The actual treasury management indicators for the 2017/18 financial year were as follows:-

### 7.2 Interest 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:

	Limit	Maximum in 17/18	Limit observed in year
Upper limit on fixed interest rate exposures	£300m	£230m	✓

Upper limit on variable interest rate exposures	£0m	-£13m	✓
---	-----	-------	---

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.

### 7.3 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 31.3.18	Limit observed in year
Under 12 months	20%	0%	7%	✓
12 months and within 24 months	30%	0%	8%	✓
24 months and within 5 years	50%	0%	27%	✓
5 years and within 10 years	80%	0%	58%	✓
10 years and within 20 years	100%	0%	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.

### 7.4 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:

	2017/18 £000	2018/19 £000	2019/20 £000
Limit on principal invested beyond year end as at 31/03/18	30,000	28,000	25,000
Actual principal invested beyond year end As at 31/03/18	12,185	9,185	6,000
Limit observed in year	✓	✓	✓

## Implications

### **8 Legal Implications**

8.1 This report contains no legal implications.

### **9 Financial Implications**

9.1 This report is for information only so has no direct financial implications.

### **10 Risk Management Implications**

10.1 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.

## **11 Security & Terrorism Implications**

11.1 This report contains no security or terrorism implications.

## **12 Procurement Implications**

12.1 This report contains no procurement implications.

## **13 Climate Change Implications**

13.1 This report contains no climate change implications.

## **14 Link to Corporate Priorities**

14.1 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'.

## **15 Equality and Diversity**

15.1 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.

Name of author	Andrea Plucknett 01707 357453
Title	Treasury Management & Insurance Officer
Date	18 April 2018

Appendix A – Arlingclose Ltd – Economic Context  
Appendix B – Investments and Loans at 31 March 2018