Part I
Main author: Andrea Plucknett
Executive Member: Duncan Bell
All Wards

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 6 NOVEMBER 2018
REPORT OF THE CORPORATE DIRECTOR (RESOURCES, ENVIRONMENT AND CULTURAL SERVICES)

TREASURY MANAGEMENT MID-YEAR REPORT 2018/19

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 2018, including details of the investment and loans portfolios, confirms the Councils compliance with its Treasury Management approved indicators and provides an economic update from treasury advisors.

2 Recommendation

2.1 It is recommended that Members note the current treasury position and Treasury Management Indicators.

3 Investment Activity

3.1 Investment balances in the first half of the year ranged from £33m to £50m, with a daily average of £42m. The 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. Appendix A details investments at 30 September 2018.

3.2 As investment balances are forecast to reduce significantly in 2018/19 and beyond, the primary focus has been to maintain liquidity to minimise the risk of unnecessary borrowing at additional cost. The table below shows investment activity in the period 1 April to 30 September 2018:-

Investment Counterparty	Opening balance on 01/04/2018 £000	Investments Made £000	Maturities/ Investments Sold £000	Closing balance on 30/09/2018 £000
UK Local Authorities				
- Short term	4,000	2,000	6,000	0
- Long term	4,000	0	0	4,000
Banks & Building Societies				
- ST deposits/accounts	10,196	23,785	19,981	14,000
- ST negotiable	0	0	0	0
- LT negotiable (secured)	2,000	0	0	2,000
AAA rated Money Market Funds	8,004	81,171	79,900	9,275
Pooled Property Fund	**4,000	0	0	4,000
Registered Providers - Long term	2,185	0	0	2,185
TOTAL INVESTMENTS	**34,385**	**106,956**	**105,881**	**35,460**

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

3.3 The weighted average return for investments in this period was 1.26% and total interest earned £270k, assuming at least a 3.5% dividend on the CCLA Property Fund for Q2, which is yet to be confirmed. All investments were made in accordance with the treasury management strategy applicable at the time of the deposits.

3.4 For Member's information, the maturity structure of investments is detailed in the table below.

Matures in:	£'000
Instant access	15,275
3 Months	8,000
3-6 Months	3,000
6-12 Months	2,185
1-2 Years	3,000
Over 2 Years*	4,000
Total	**35,460**

*CCLA Property Fund

4 Borrowing Activity

4.1 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. The table below shows the movement in the first half of this financial year and Appendix B, the loans outstanding.

Opening balance 01/04/18 £'000	Borrowing Matured £'000	Closing balance 30/09/18 £'000	Average rate of borrowing on 30/09/18	Interest 01/04/18–30/09/18 (accruals basis) £'000
236,599	8,500	228,099	2.62%	3,041

4.2 Current budget forecasts suggest the Council will have an additional borrowing requirement of £29m by the end of this financial year, including £17.1m for refinancing of existing loans. This is expected to increase to a total of £114m by 2022/23 (including £91.1m refinancing of existing loans), in conjunction with advisors Arlingclose Ltd, work has commenced on identifying the most appropriate and sustainable means of funding this requirement.

4.3 It is anticipated that the maturity of any additional borrowing will be profiled beyond the existing HRA Self-Financing loans, to ensure affordability in the long term. Estimated borrowing costs have been included in 2018/19 budgets and future years.

5 Treasury Management and Prudential 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.

	2018/19	Maximum during period	Complied
Upper limit on fixed interest rate exposures	£320m	£215m	✓
Upper limit on variable interest rate exposures	£0m	-£11.5m	✓

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 30/09/18	% fixed borrowing at 30/09/18	Complied
Under 12 months	20%	0%	£18.0m	7.9%	✓
12 months and within 24 months	30%	0%	£19.4m	8.5%	✓
24 months and within 5 years	50%	0%	£66.2m	29.0%	✓
5 years and within 10 years	80%	0%	£124.5m	54.6%	✓
10 years and within 20 years	100%	0%	£0	0%	✓
20 years and within 30 years	100%	0%	£0	0%	✓

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.

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.

	2018/19 £'000	2019/20 £'000	2021/22 £'000
Limit on principal invested beyond year end	20,000	10,000	10,000
Actual principal invested beyond year end*	9,185	6,000	4,000
Complied	✓	✓	✓

*Intention is to hold £4m invested in CCLA Property Fund beyond 21/22

5.5 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 Authority'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, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

	Maximum in period £'000	30.09.18 Actual £'000	2018/19 Operational Boundary £'000	2018/19 Authorised Limit £'000	Complied
Borrowing	0	0	11,000	13,000	✓
Other Long Term Liabilities	2,103	2,103	2,103	2,103	✓
Housing Self Financing Borrowing	236,599	228,099	245,228	304,799	✓
TOTAL	238,702	230,202	319,902	319,902	✓

6 Economic review

6.1 Attached at Appendix C is comment on the UK economy, market activity and credit risk from the Council's treasury advisors Arlingclose Ltd.

Implications

7 Legal Implications

7.1 There are no legal implications contained in this report.

8 Financial Implications

There are no direct financial implications in the report, however levels of investment income 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 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.

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

Name of author	Andrea Plucknett
Title	Treasury, Insurance & Controls Lead Officer
Date	01/10/2018

Background papers

WHBC Treasury Management Strategy 2018/19

Appendices

Appendix A – Investments at 30/09/2018

Appendix B – Borrowing at 30/09/2018

Appendix C - Economic Commentary and Outlook – Arlingclose Ltd