

WELWYN HATFIELD BOROUGH COUNCIL  
CABINET – 5 NOVEMBER 2024  
REPORT OF THE EXECUTIVE DIRECTOR (FINANCE AND TRANSFORMATION)

TREASURY MANAGEMENT MID-YEAR REPORT 2024/25

**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 2024, 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 A is comment on the UK economy, market activity and credit risk over the period April to September 2024 from the Council’s treasury advisors, Arlingclose Ltd.

**4 Investment Activity**

- 4.1 In the first half of 2024/25 priority continued to be given to the security and liquidity of investments, considering the Council’s significant borrowing requirement. Surplus balances ranged between £19.6m and £41.5m, with a daily average of £30.3m.
- 4.2 Money market funds continued to be utilised, along with deposits in the DMADF, the government facility for investments within the Debt Management Office. The financial year began with the Bank of England base rate at 5.25%. At the beginning of August it was cut to 5% and the markets’ expectations of further cuts were priced into the rates in the later part of this period.
- 4.3 The weighted average return for investments in this period was 5.05% and total interest earned £765.3k, assuming a prudent 4% dividend on the CCLA Property Fund for Q2, which has yet to be determined. The interest earned for the same period in 2023/24 was estimated at £853.8k, however balances were higher at that time. All investments were made in accordance with the treasury management strategy applicable at the time of the deposits.
- 4.4 The table overleaf shows investment activity in the period 1 April to 30 September 2024.

<b>Investment Counterparty</b>	Opening balance on 01/04/2024 £'000	Investments Made £'000	Maturities/ Investments Sold £'000	Closing balance on 30/09/2024 £'000
AAA rated Money Market Funds	9,234	65,051	-57,980	16,305
UK Government	5,000	82,545	-78,443	9,102
Pooled Property Fund	3,538*	0	0	3,525*
<b>TOTAL INVESTMENTS</b>	<b>17,772</b>	<b>147,596</b>	<b>-136,423</b>	<b>28,932</b>

\*Bid Value of shares. Original investment £4m.

- 4.5 The maturity structure of investments is detailed in the table below and Appendix B details investments at 30 September 2024.

Matures in:	£'000
Instant access	16,305
0-3 Months	9,102
3-12 Months	0
No defined maturity date*	3,525
<b>Total</b>	<b>28,932</b>

\*CCLA Property Fund – this is being held for the long term

- 4.6 For the remainder of this financial year, it is anticipated that the return on investments will reduce as the Bank of England base rate is expected to fall further, and balances should reduce considering the underlying need of the Council to borrow.

## **5 Borrowing Activity**

- 5.1 In the first 6 months of 2024/25 £12.85m of HRA debt and £0.7m of General Fund debt matured and was repaid as scheduled. New borrowing totalling £15m for the HRA was undertaken in 3 loans to refinance maturing debt and fund the capital programme.
- 5.2 The effect of the Council's capital programme and the repayment of another £13.91m of maturing loans will, lead to a need for further borrowing during the second half of the financial year. The Council's treasury advisors, Arlingclose Ltd, therefore continue to monitor rates to alert treasury staff as and when it is recommended that borrowing be undertaken. Depending on the perceived trajectory for interest rates at that time, this may be short or long term borrowing, as appropriate.

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

	Opening balance 01/04/24 £'000	Borrowing Matured £'000	New borrowing £'000	Closing balance 30/09/24 £'000	Average rate of borrowing on 30/09/24	Interest 01/04/24– 30/09/24 (accruals basis) £'000
HRA	220,899	(12,850)	15,000	223,049	2.94%	3,173
General Fund	25,152	(709)	0	24,443	2.27%	238
<b>TOTAL</b>	<b>246,051</b>	<b>(13,559)</b>	<b>15,000</b>	<b>247,492</b>	<b>2.87%</b>	<b>3,411</b>

## 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 30/09/24 £'000	% fixed borrowing at 30/09/24	Complied
Under 12 months	30%	0%	28,469	11.5%	✓
12 months and within 24 months	30%	0%	30,369	12.3%	✓
24 months and within 5 years	50%	0%	77,506	31.3%	✓
5 years and within 10 years	80%	0%	65,895	26.6%	✓
10 years and within 20 years	100%	0%	45,253	18.3%	✓
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.

### 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. Although the CCLA Property Fund investment is being held on a long term basis, it is not included because the indicator only applies to investments with defined maturity dates.

	2024/25 £'000
Limit on principal invested for more than one year	5,000
Actual principal invested for more than one year*	0
Complied	✓

\*Investments, such as the CCLA Property Fund have no fixed maturity date and therefore do not count towards this limit

#### 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.

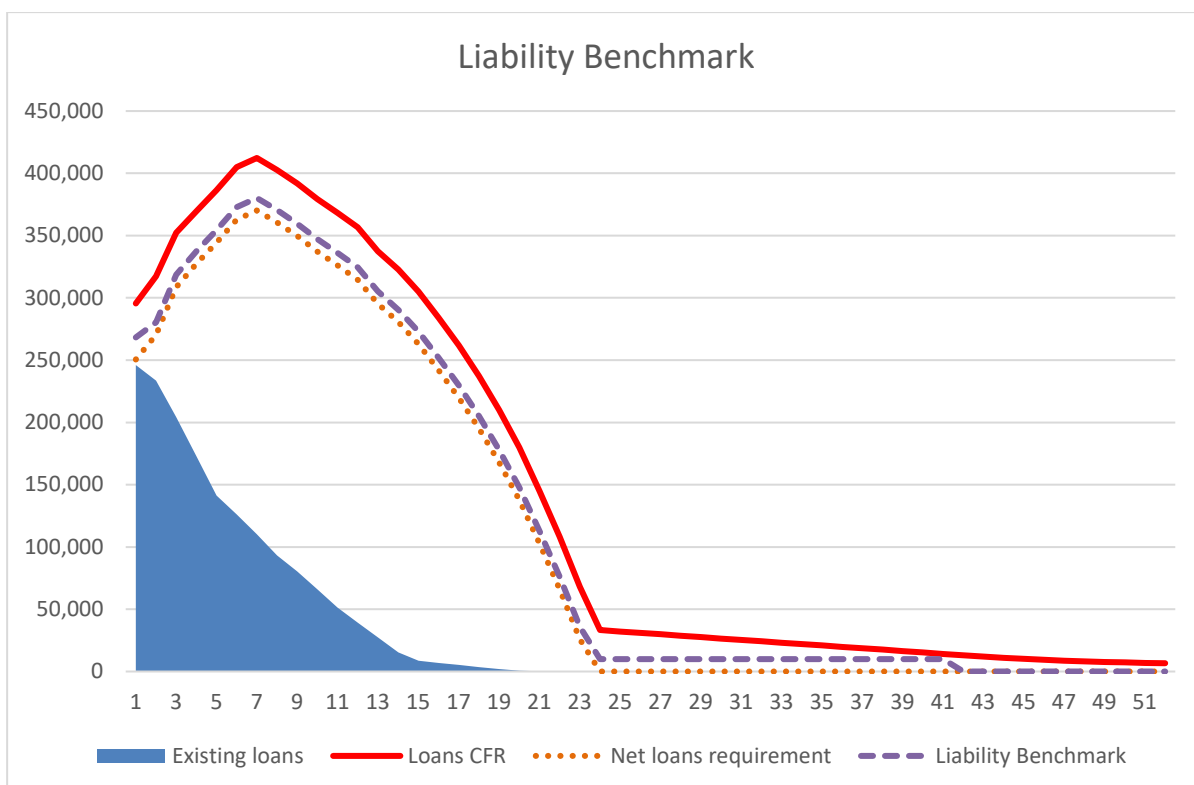
The table below shows that the operational boundary and authorised limit for all borrowing have been complied with in the first half of 2024/25.

	Maximum in period £'000	30/09/24 Actual £'000	2024/25 Operational Boundary £'000	2024/25 Authorised Limit £'000	Complied
External Borrowing	250,951	247,492	335,272	365,272	✓
Other Long Term Liabilities	2,248	2,248	2,248	2,248	✓
<b>TOTAL</b>	<b>253,199</b>	<b>249,740</b>	<b>337,520</b>	<b>367,520</b>	✓

#### 6.5 Liability Benchmark

The liability benchmark is effectively the net borrowing requirement of the Council plus a liquidity allowance and shows the lowest risk level of borrowing. The objective is to show the optimum level of borrowing in order to ensure appropriate funding and liquidity for both longer term projects and short term cashflow needs. The benchmark has been updated to reflect the borrowing at 30th September 2024 and the latest forecast of capital spend to be funded from borrowing. It is shown overleaf in table and graphical form.

	31.03.24 Actual £'000	31.03.25 Estimate £'000	31.03.26 Estimate £'000	31.03.27 Estimate £'000
Loans CFR	295,555	317,342	352,338	369,625
Less: Balance sheet resources	(45,029)	(47,113)	(43,652)	(42,339)
<b>Net loans requirement</b>	<b>250,526</b>	<b>270,229</b>	<b>308,686</b>	<b>327,286</b>
Plus: liquidity allowance	17,772	10,000	10,000	10,000
<b>Liability Benchmark</b>	<b>268,298</b>	<b>280,229</b>	<b>318,686</b>	<b>337,286</b>



## **Implications**

### **7 Legal Implications**

7.1 No specific legal implications arise from the recommendations 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 Treasury Management Strategy 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

Name of author                      Helen O'Keeffe  
Title                                      Assistant Director (Finance)  
Date

### Background papers

WHBC Treasury Management Strategy 2024/25

### Appendices

Appendix A – Economic Commentary and Outlook – Arlingclose Ltd

Appendix B – Investments and Borrowing at 30<sup>th</sup> September 2024

## **Appendix A – Economic Commentary and Outlook – provided by Arlingclose Ltd.**

### **Economic background**

UK headline consumer price inflation remained around the Bank of England (BoE) target later in the period, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally to June to 2.2% in July and August, as was expected, due to base effects from energy prices. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August.

With headline inflation lower, the BoE cut Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. At the September MPC meeting, committee members voted 8-1 for no change at 5.00%, with the lone dissenter preferring Bank Rate to be cut again to 4.75%. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern among policymakers.

The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025 and remaining there until early 2027.

Arlingclose, the Council's treasury adviser, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, with November 2024 the likely next one, taking Bank Rate down to around 3% by the end of 2025.

### **Financial markets**

Sentiment in financial markets continued to mostly improve over the period, but the ongoing trend of bond yield volatility remained. The general upward trend in yields in the early part of the period was reversed in the later part, and yields ended the half-year not too far from where they started. However, the volatility in response to economic, financial and geopolitical issues meant it was a bumpy ride for bond investors during that time.

Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.00% but hit a high of 4.41% in May and a low of 3.76% in mid-September. While the 20-year gilt started at 4.40% and ended at 4.51% but hit a high of 4.82% in May and a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.12% over the period to 30th September.

### **Credit review**

Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remain under constant review.

## Appendix B – Investments and Borrowing at 30<sup>th</sup> September 2024

### B1: Investments at 30<sup>th</sup> September 2024

Counterparty	Type* <sup>1</sup>	Start Date	Maturity	Interest Rate* <sup>2</sup>	Principal £'000
<b><u>Long Term</u></b>					
CCLA Property Fund * <sup>3</sup>	PF	01/12/2015	-	4.864%	3,525
<b><u>Short Term</u></b>					
Aberdeen MMF	PF	10/01/2012	-	5.008%	4,000
Blackrock MMF	PF	13/05/2014	-	4.972%	571
Insight MMF	PF	30/06/2016	-	4.994%	3,888
Aviva MMF	PF	01/04/2019	-	5.009%	4,000
Federated MMF	PF	05/12/2019	-	5.027%	3,846
DMADF	FD	05/09/2024	21/10/2024	4.900%	5,000
DMADF	FD	11/09/2024	17/10/2024	4.910%	4,102
<b><u>Total / Weighted Average</u></b>				<b>4.958%</b>	<b>28,932</b>

\*1 PF=Pooled fund; FD=Fixed Deposit

\*2 Interest shown to three decimal places

\*3 The interest rate for the CCLA Fund shown is for the quarter to 30<sup>th</sup> June 2024, which is the latest available data.

### B2: General Fund Borrowing at 30<sup>th</sup> September 2024

Loan Date	Maturity Date	Type	Interest Rate	Principal £'m
09/07/2021	01/07/2042	EIP	1.57%	17.143
01/12/2022	07/11/2042	EIP	3.90%	3.700
15/12/2022	11/12/2037	EIP	3.92%	3.600
<b>Total/ Average</b>			<b>2.27%</b>	<b>24.443</b>



### B3: HRA Borrowing at 30<sup>th</sup> September 2024

Loan Date	Maturity Date	Type	Interest Rate	Principal £'000
28/03/2012	16/12/2024	Maturity	2.82%	6,450
28/03/2012	17/03/2025	Maturity	2.82%	6,500
28/03/2012	16/06/2025	Maturity	2.87%	6,800
28/03/2012	15/09/2025	Maturity	2.87%	6,800
28/03/2012	15/12/2025	Maturity	2.92%	6,900
28/03/2012	16/03/2026	Maturity	2.92%	7,000
28/03/2012	15/06/2026	Maturity	2.97%	7,250
28/03/2012	15/09/2026	Maturity	2.97%	7,300
28/03/2012	15/12/2026	Maturity	3.01%	7,350
28/03/2012	15/03/2027	Maturity	3.01%	7,400
28/03/2012	15/06/2027	Maturity	3.05%	7,700
28/03/2012	15/09/2027	Maturity	3.05%	7,750
28/03/2012	15/12/2027	Maturity	3.08%	7,900
28/03/2012	15/03/2028	Maturity	3.08%	6,449
11/01/2019	11/07/2028	Maturity	2.06%	7,000
11/01/2019	11/01/2029	Maturity	2.10%	6,100
28/01/2019	28/07/2029	Maturity	2.13%	7,100
25/03/2019	25/09/2029	Maturity	1.93%	7,000
30/08/2019	01/08/2030	Maturity	1.31%	5,000
11/03/2020	01/03/2031	Maturity	2.11%	5,000
15/05/2020	01/09/2031	Maturity	1.12%	5,500
11/03/2021	01/03/2032	Maturity	1.66%	5,500
11/03/2021	01/09/2032	Maturity	1.69%	5,500
25/06/2021	01/06/2033	Maturity	1.81%	5,800
01/03/2022	15/02/2034	Maturity	2.15%	4,000
22/06/2022	01/06/2032	Maturity	3.28%	5,000
11/07/2022	11/07/2034	Maturity	3.13%	5,000
29/07/2022	01/10/2034	Maturity	3.04%	5,000
01/12/2022	21/05/2035	Maturity	3.98%	5,000
09/11/2023	08/11/2035	Maturity	4.92%	5,000
22/11/2023	22/04/2036	Maturity	4.71%	5,000
20/12/2023	02/12/2030	Maturity	4.19%	5,000
21/12/2023	20/06/2036	Maturity	4.29%	5,000
29/12/2023	28/06/2032	Maturity	3.89%	2,000
29/12/2023	28/06/2033	Maturity	3.95%	3,000
23/05/2024	07/05/2037	Maturity	4.61%	5,000
11/09/2024	01/09/2044	EIP*	4.36%	5,000
18/09/2024	01/09/2044	EIP*	4.18%	5,000
<b>Total/ Average</b>			<b>2.936%</b>	<b>223,049</b>

\*Equal Instalment of Principal