

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 6 DECEMBER 2022
REPORT OF THE EXECUTIVE DIRECTOR (FINANCE AND TRANSFORMATION)

TREASURY MANAGEMENT MID-YEAR REPORT 2022/23

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 2022, 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 2022 from the Council’s treasury advisors Arlingclose Ltd. The main theme is a rise in rates over the period and considerable volatility in borrowing rates, in particular in recent weeks.

4 Investment Activity

- 4.1 In the first half of 2022/23 priority continued to be given to the security and liquidity of investments, considering the Council’s significant borrowing requirement. Surplus balances ranged between £19m and £41m, with a daily average of £30.2m.
- 4.2 Money market funds continued to be utilised, along with short dated notice bank accounts.
- 4.3 The weighted average return for investments in this period was 1.43% and total interest earned £217.4k, which includes a 3% estimated dividend on the CCLA Property Fund for Q2, which has yet to be confirmed. All investments were made in accordance with the treasury management strategy applicable at the time of the deposits.
- 4.4 The table below shows investment activity in the period 1 April to 30 September 2022.

Investment Counterparty	Opening balance on 01/04/2022 £’000	Investments Made £’000	Maturities/ Investments Sold £’000	Closing balance on 30/09/2022 £’000
Banks – ST deposits/accounts	3,000	0	0	3,000
AAA rated Money Market Funds	19,079	94,327	98,884	14,522
UK Government	0	58,995	58,995	0
Pooled Property Fund	*4,000	0	0	4,000
TOTAL INVESTMENTS	26,079	153,322	157,879	21,522

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

- 4.5 The maturity structure of investments is detailed in the table below and Appendix A details investments at 30 September 2022

Matures in:	£'000
Instant access	14,522
0-3 Months	3,000
3-12 Months	0
No defined maturity date*	4,000
Total	21,522

*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 increase with expected rises in Bank Rate, but balances should reduce considering the underlying need of the Council to borrow.

5 Borrowing Activity

- 5.1 In the first 6 months of 2022/23 £11.3m of HRA debt matured and was repaid as scheduled. Due to this maturing debt and a requirement for new capital investment, further HRA long term borrowing is required. A total of £15m was borrowed from the Public Works Loans Board (PWLB) in June and July at an average rate of 3.15%.
- 5.2 Until last year the Council's General Fund long term borrowing requirement had been met through internal borrowing, however as investment in the capital programme continued, it became necessary to fund this through external borrowing. £20m of external borrowing was therefore taken from the PWLB in July 2021 on an EIP basis (Equal Instalment of Principal) over 21 years. No new long term borrowing for the General Fund has been entered into in the current financial year.
- 5.3 Given the recent increases in interest rates, the Council's treasury advisors Arlingclose Ltd have advised the Council to fund the borrowing requirement for the remainder of 2022/23 through short term borrowing. Short term borrowing can be secured and can be converted to long term when rates become more favourable.
- 5.4 The following table shows the movement in the first half of this financial year and Appendix B, the loans outstanding.

	Opening balance 01/04/22 £'000	Borrowing Matured £'000	New borrowing £'000	Closing balance 30/09/22 £'000	Average rate of borrowing on 30/09/22	Interest 01/04/22– 30/09/22 (accruals basis) £'000
HRA	222,799	11,300	15,000	226,499	2.60%	3,043
General Fund	19,524	476	0	19,048	1.57%	152

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 30/09/22	% fixed borrowing at 30/09/22	Complied
Under 12 months	30%	0%	£23.45m	9.6%	✓
12 months and within 24 months	30%	0%	£25.00m	10.2%	✓
24 months and within 5 years	50%	0%	£85.20m	34.7%	✓
5 years and within 10 years	80%	0%	£73.05m	29.7%	✓
10 years and within 20 years	100%	0%	£38.85m	15.8%	✓
20 years and within 30 years	100%	0%	£0m	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. Previously the CCLA Property Fund investment has been reported here, as it is being held on a long term basis, however the indicator actually applies to investments with defined maturity dates. Going forward only those principal sums invested with final maturities beyond the period end will be noted.

	2021/22 £'000	2022/23 £'000	2023/24 £'000
Limit on principal invested for more than one year	5,000	5,000	5,000
Actual principal invested for more than one year*	0	0	0
Complied	✓	✓	✓

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.

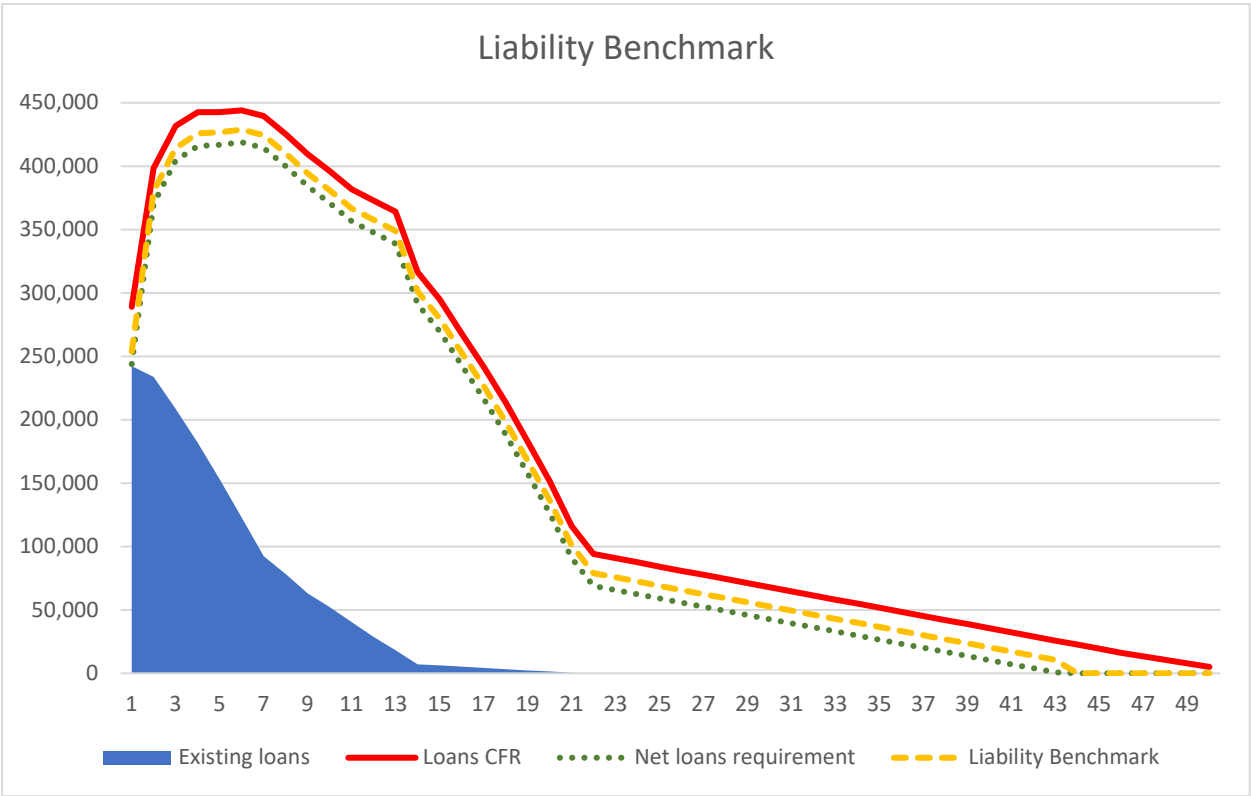
The table below shows that the operational boundary for all borrowing has been complied with in the first half of 2022/23.

	Maximum in period £'000	30/9/22 Actual £'000	2022/23 Operational Boundary £'000	2022/23 Authorised Limit £'000	Complied
External Borrowing	251,247	245,547	337,759	367,759	✓
Other Long Term Liabilities	2,284	2,284	2,284	2,284	✓
External Borrowing for Now Housing	0	0	74,555	84,555	✓
TOTAL	253,531	247,831	414,598	454,598	✓

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 2022 and the latest forecast of capital spend to be funded from borrowing. It is shown below in table and graphical form.

	31.03.22 Actual £'000	31.03.23 Estimate £'000	31.03.24 Estimate £'000	31.03.25 Estimate £'000
Loans CFR	289,117	398,344	431,729	442,526
Less: Balance sheet resources	-45,272	-28,071	-27,392	26,608
Net loans requirement	243,845	370,273	404,337	415,918
Plus: liquidity allowance	10,000	10,000	10,000	10,000
Liability Benchmark	253,845	380,273	414,337	425,918



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 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

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Background papers

WHBC Treasury Management Strategy 2022/23

Appendices

Appendix A – Economic Commentary and Outlook – Arlingclose Ltd

Appendix B – Investments and Borrowing at 30/09/2022

