Part I
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All Wards

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 11 JULY 2023
REPORT OF THE EXECUTIVE DIRECTOR (FINANCE AND TRANSFORMATION)

TREASURY MANAGEMENT AND INVESTMENT STRATEGY ANNUAL REPORT 2022/23

1 Executive Summary

1.1 The Council carries out its Treasury Management functions within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code). This 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 2022/23 financial year.

2 Recommendation

2.1 It is recommended that Cabinet note the report and actual treasury management prudential indicators for 2022/23.

3 Background

3.1 The 2022/23 Treasury Management Strategy was approved by Council at its meeting on 2 February 2022, as part of the "Medium Term Financial Strategy and Governance Framework".

3.2 As the Council borrows and invests substantial sums of money it is exposed to financial risks, including the potential loss of invested funds and the revenue implications of changes in interest rates. The successful identification, monitoring and control of risk are therefore central to this strategy.

3.3 The Executive Director (Finance and Transformation) is able to report that 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 Borrowing update

5.1 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. This Council though has no plans for this type of scheme, so can continue to access PWLB borrowing.

5.2 The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March 2023 around 2% - 4% higher than those at the beginning of April 2022. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Rates rose to a peak of 6% in September and although have fallen since then, they remain volatile and well above recent historical norms. The PWLB 10 year maturity certainty rate stood at 4.33% at 31st March 2023, 20 years at 4.70% and 30 years at 4.66%.

5.3 A new HRA PWLB rate of gilt yield plus 0.4% (0.4% below the currently available certainty rate) was announced on 15th March 2023. This discounted rate is to support local authorities borrowing for Housing Revenue Accounts and the delivery of social housing and will be available from 15th June 2023, initially for a period of one year.

6 Borrowing and investment portfolio

6.1 A summary of investments and borrowing as at 31 March 2023 is attached at Appendix B.

Borrowing

6.2 On 31 March 2023 the Council had a net borrowing requirement of £295.8m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while useable reserves and working capital are the underlying resources available for investment. These factors are summarised below.

	31.3.22 Actual £m	**31.3.23 Actual £m**
General Fund CFR	40.857	48.776
Now Housing (General Fund) CFR	2,437	0
HRA CFR	245.823	246.995
Total	**288.117**	**295.771**
Borrowing		
External borrowing	(242.323)	(269.670)
Internal / (over) borrowing	46.794	26.101
Less: Usable reserves	(38.983)	(34.191)
Less: Working capital	(33.889)	(19.558)
Net investments	**26.079**	**27.648**

6.3 The Council continued to keep borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low.

6.4 The table below summarises the borrowing activity throughout 2022/23. £22.7m of HRA borrowing that matured was replaced and added to with a total of £30m of new PWLB maturity loans. These were taken at key times during the year, in consultation with Arlingclose, to manage cashflow and ensure the interest rate payable was as low as possible.

An additional £8m in EIP loans (Equal Instalment of Principal) was taken to fund General Fund capital expenditure and £13m of short term borrowing from local authorities was entered into, when rates were at their most volatile, to manage interest rate risk.

	Balance on 01/04/2022 £m	Matured in 2022/23 £m	Borrowed in 2022/23 £m	Balance on 31/03/2023 £m	Average rate%** on 31/03/2023
HRA					
Short term loans*	22.700	22.700	0	34.200	3.017
Long term loans	200.099	0	30.000	195.899	2.625
General Fund					
Short term loans	0	0	13.000	13.000	4.027
Long term loans	19.524	0.953	8.000	26.571	2.275
Total	**242.323**	**23.653**	**51.000**	**269.670**	**2.708**

*Loans with maturities within 1 year **Not time weighted

6.5 The table below shows the interest payable on all borrowing during 2022/23.

	£m
HRA PWLB loans	6.014
General Fund PWLB loans	0.395
Short term borrowing from local authorities	0.186
Total interest payable 2022/23	**6.595**

Investments

6.6 The average investment balance during 2022/23 was £36.08 million. The tables overleaf summarise the investment activity during this period.

Investment Counterparty	Balance on 31/03/2022 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2023 £m
UK Government - Short term	0	205.145	195.145	10.000
Banks & Building Societies - ST deposits/accounts	3.000	0	3.000	0
AAA rated Money Market Funds	19.079	160.897	166.328	13.648
Pooled Property Fund	*4.000	0	0	*4.000
Total Investments	**26.079**	**366.042**	**364.473**	**27.648**

*Bid Value of shares at 31/03/22 = £4,407,951
*Bid Value of shares at 31/03/23 = £3,681,292

	Weighted average interest rate
Short term investments	2.37%
Long term investments*	3.98%
All investments	2.55%
Total interest earned 2022/23	**£919,179***

*Net of property fund management expenses of £27,847

6.7 The maturity profile of all investments at 31 March 2023 is shown below:

	£m
Up to 3 months	23.648
3-6 months	0.000
6+ months	*4,000
Total	**27.648**

*Property Fund investment – to be held long term; approx. 6 months redemption period

6.8 As the capital programme forecast a significant borrowing requirement, the emphasis in 2022/23 was on maintaining liquidity for cashflow purposes. Money Market Funds provided high credit quality with instant access, as did the government deposit facility (DMADF) and UK bank notice accounts were also utilised.

6.9 Bank Rate rose 8 times in the 2022/23 financial year, from 0.75% to 4.25%, resulting in an increase in investment return.

6.10 The CCLA Property Fund continued to pay a dividend averaging 3.98% over the year, however economic conditions saw commercial property values fall, leading to a drop in the net asset value of the fund. This was a strategic investment, however, made in the knowledge that capital values will move both up and down on months, quarters and even years, but with the confidence that over a three to five year period total returns should exceed cash interest rates. Since investing in December 2015, the rate of return has indeed consistently exceeded that of the Council's other investments until this year.

7 Treasury Management indicators

7.1 The actual treasury management indicators for the 2022/23 financial year were as follows:-

7.2 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 31.3.23**	**Limit observed in year**
Under 12 months	30%	0%	18.03%	✓
12 months and within 24 months	30%	0%	10.09%	✓
24 months and within 5 years	50%	0%	33.69%	✓
5 years and within 10 years	80%	0%	24.40%	✓
10 years and within 20 years	100%	0%	13.79%	✓
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.

7.3 Principal sums invested for periods longer than a year

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:

	2022/23 £m	**2023/24 £m**	**2024/2025 £m**
Limit on principal invested beyond year end as at 31/03/22	5.000	5.000	5.000
Actual principal invested beyond year end As at 31/03/22	0	0	0
Limit observed in year	✓	✓	✓

7.4 Borrowing Limits

The Council is required to set limits on its borrowing activity. The authorised limit is what we determine to be our maximum affordable borrowing in any one year. It is not the amount the Council expects to borrow to meet its capital expenditure requirements but provides headroom over and above our capital requirements to allow for unusual cash movements, or to take advantage of low interest rates and to borrow in advance of need.

The operational boundary is based on the Council's estimate of the most likely scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and is a key tool for in-year monitoring. The operational boundary is set based upon our expected year end position and may be exceeded during the year based on cashflow requirements and the timing of borrowing repayments.

Other long-term liabilities comprise finance leases and other liabilities that are not borrowing but form part of the Council's debt.

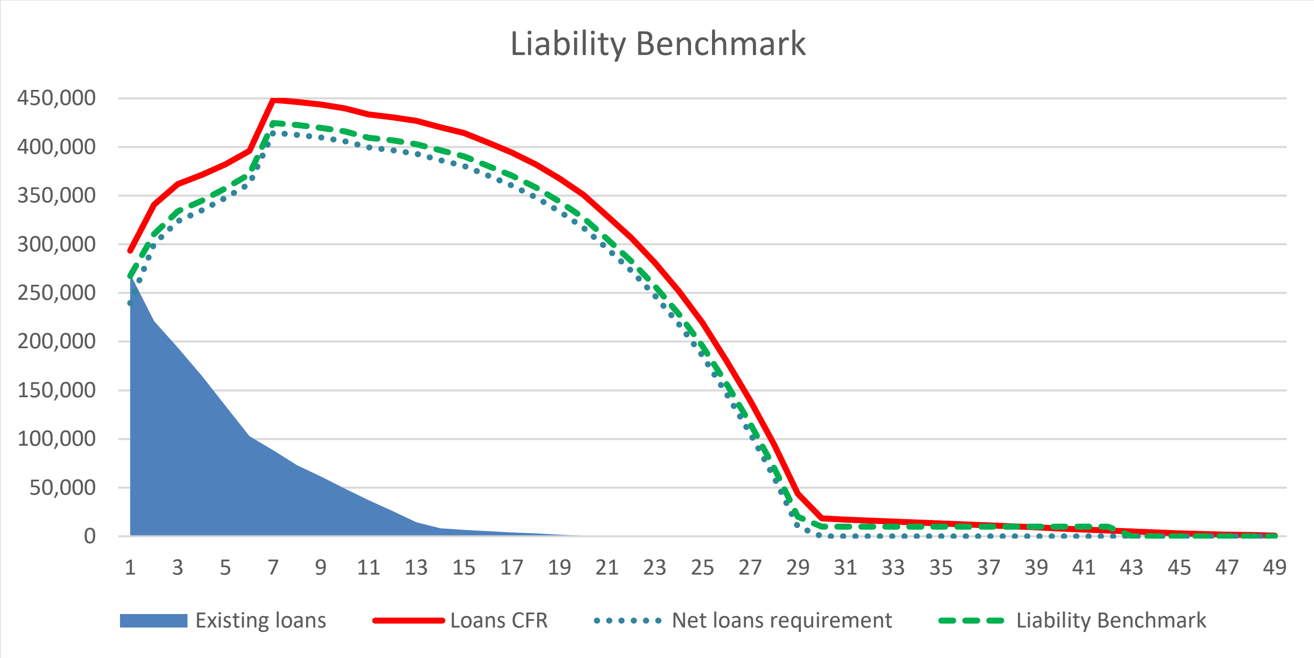
The table below shows that the authorised limits for borrowing have been complied with in the year 2022/23.

	Maximum in period £m	31.3.23 Actual £m	2022/23 Operational Boundary £m	Complied	2022/23 Authorised Limit £m	Complied
External Borrowing	277.547	267.670	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	**279.831**	**269.954**	**414.598**	✓	**454.598**	✓

7.5 Liability Benchmark

The liability benchmark is effectively the net borrowing requirement of a local authority plus a liquidity allowance and shows the lowest risk level of borrowing. The objective of the liability benchmark 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 table below shows the actual figures for 2022-23 where the liquidity allowance is equal to the investments held at 31 March 2023 as well as the forecast for the coming years. They are also produced in graphical format overleaf.

	31.3.23 Actual £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Loans CFR	293.488	340.708	362.247	372.297
Less: Balance Sheet Resources	(53.749)	(40.472)	(38.156)	(36.616)
Net Loans requirement	**239.739**	**300.236**	**324.091**	**335.681**
Plus: Liquidity allowance	27.648	10.000	10.000	10.000
Liability Benchmark	**267.387**	**310.438**	**333.751**	**344.737**



8 Investment Strategy indicators

8.1 The actual Investment Strategy indicators for 2022/23 were as follows:

8.2 Service Based Investments – Loans

There are a number of loan arrangements with local charities, residents, the council's joint venture, employees and the wholly owned housing company, Now Housing.

The main risk associated with service loans is that the borrower will be unable to repay the principal amount lent and/or interest due. In order to limit the risk and ensure exposure remains appropriate and proportionate, limits are set and monitored, as in the table below:

	2022/23	**2022/23**
Category of borrower	**Limit £000**	**Actual Balance £000**
Joint Venture	172	107
Local Charities	114	82
Local residents	4,515	4,199
Employees	500	8
Now Housing	60,570	0
Total	**65,871**	**4,396**

8.3 Service Based Property Investments

The council holds a large portfolio of assets for service reasons which also generate returns for the Council. Whilst the primary purpose of holding these assets is not financial return, they do face similar risks to those assets held purely for financial return.

The council monitors performance and risks of service based property investments:

	2021/22 Actual £m	2022/23 Estimate £m	2022/23 Actual £m
Income Generating Assets held for service purposes			
Ratio: Loan to value (CFR to asset base)	£1 : £2.85	£1 : £2.19	£1 : £2.87
Ratio: Principal cover (MRP to income stream)	£1 : £12.06	£1 : £12.67	£1 : £11.47
Ratio: Interest cover (interest cost to income)	£1 : £16.03	£1 : £11.14	£1 : £11.01
Non-Income Generating Assets held for service purposes			
Cost of borrowing in relation to council tax	£5.96	£5.96	£5.96

8.4 The Loan to Value ratio (CFR to Asset Base) reflects the council's borrowing in relation to its asset base. This is favourably lower than originally forecast, due to an upward revaluation of assets.

8.5 The Principal cover ratio (MRP to income stream) reflects how much income is generated by the operational assets of the council, against the annual charge to revenue for the principal repayment of debt. As income generation in 2022/23 continues to recover from the pandemic, this is adversely impacted.

8.6 The Interest Cover ratio (interest cost to income) monitors the risks around interest cover and links to income. Whilst income was lower than expected due to ongoing recovery from the pandemic, and increasing interest rates during the year increased the cost of borrowing. These factors combined to provide an adverse position on the ratio.

8.7 The cost of borrowing in relation to council tax was as expected for the year.

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. The impact of investment income and loan interest payments is regularly reviewed as part of budget monitoring processes.

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 Human Resources Implication(s)

14.1 There are no direct human resources implications associated with this report.

15 Health and Wellbeing Implication(s)

15.1 There are no direct health and wellbeing implications associated with this report.

16 Communication and Engagement Implication(s)

16.1 There are no direct communication and engagement implications associated with this report.

17 Climate Change Implications

17.1 This report contains no climate change implications.

18 Link to Corporate Priorities

18.1 The subject of this report is linked to the Council's Corporate Priority 'Our Council' and specifically to the achievement of 'Value for Money'.

19 Equality and Diversity

19.1 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.

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Appendix A – Arlingclose Ltd – Economic Context
Appendix B – Investments and Loans at 31 March 2023