

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

10 SEPTEMBER 2020

REPORT OF THE INTERIM CHIEF OFFICER – FINANCE, PERFORMANCE AND CHANGE

ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2019-20

1. Purpose of report

- 1.1 The purpose of the report is to update the Audit Committee on the outturn position for treasury management activities, the Treasury Management Indicators for 2019-20 and to highlight compliance with the Council's policies and practices before they are reported to Cabinet and Council.

2. Connection to corporate well-being objectives / other corporate priorities

- 2.1 This report assists in the achievement of the following corporate well-being objective under the **Well-being of Future Generations (Wales) Act 2015:-**

1. **Smarter use of resources** – ensure that all resources (financial, physical, ecological, human and technological) are used as effectively and efficiently as possible and support the creation of resources throughout the community that can help to deliver the Council's well-being objectives.

- 2.2 The work of the Audit Committee supports corporate governance and assists in the achievement of all corporate and service objectives. Prudent treasury management arrangements will ensure that investment and borrowing decisions made by officers on behalf of the Council make best use of financial resources and hence assist achievement of well-being objectives.

3. Background

- 3.1 Audit Committee has been nominated to be responsible for ensuring effective scrutiny of the Treasury Management Strategy (TMS) and policies. During the 2019-20 financial year, Audit Committee received the Annual Treasury Management Outturn Report 2018-19 in June 2019, the Half Year Treasury Management Report 2019-20 in November 2019 and the TMS 2020-21 in January 2020.

- 3.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

- 3.3 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital

expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by Council on 20 February 2019.

- 3.4 The Welsh Government (WG) issues Guidance on Local Authority Investments, which was most recently revised in November 2019, which requires the Council to approve an Investment Strategy prior to the start of each financial year and this is included in the TMS.
- 3.5 The Council's treasury management advisors are Arlingclose. The current services provided to the Council include:
- advice and guidance on relevant policies, strategies and reports
 - advice on investment decisions
 - notification of credit ratings and changes
 - other information on credit quality
 - advice on debt management decisions
 - accounting advice
 - reports on treasury performance
 - forecasts of interest rates
 - training courses

Following a recent tender process, the contract for Arlingclose has been renewed for a period of 4 years, until August 2024.

4. Current situation / proposal

4.1 Economic Context

- 4.1.1 The UK's exit from the European Union and future trading arrangements had remained one of the major influences on the UK economy during 2019-20. The original Brexit deadline of 29 March 2019 was extended to 12 April, then to 31 October and finally to 31 January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union, together with its future trading arrangements, drove volatility, particularly in foreign exchange markets. The outcome of the December 2019 UK General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.
- 4.1.2 The headline rate of UK Consumer Price Inflation fell to 1.7% year-on-year in February 2020, below the Bank of England's target of 2%. GDP growth in quarter 4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.
- 4.1.3 The Bank of England, which had held policy rates steady at 0.75% through most of 2019-20, moved in March to cut rates from 0.75% to 0.25% and then swiftly thereafter brought them down further to the record low of 0.1%.
- 4.1.4 Towards the end of the financial year, the Covid-19 pandemic swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started

spreading across the globe causing falls in financial markets. In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

4.2 Treasury Management Outturn 2019-20

4.2.1 The Council has complied with its legislative and regulatory requirements during 2019-20. The TMS 2019-20 and the Half Year Report were reported to Council on 20 February 2019 and 23 October 2019 respectively. In addition, quarterly monitoring reports were presented to Cabinet during 2019-20.

4.2.2 A summary of the treasury management activities for 2019-20 is shown in **Appendix A**. The Council's external debt and investment position for 1 April 2019 to 31 March 2020 is shown in Table 1 and more detail is provided in section 3, Borrowing Strategy and Outturn, and section 4, Investment Strategy and Outturn. No long term borrowing was taken out in 2019-20 and no debt rescheduling was undertaken as there were no significant savings to be made, however, the loan portfolio will be reviewed during 2020-21. Favourable cash flows have provided surplus funds for investment and the balance on investments at 31 March 2020 was £30 million, with an average interest rate of 0.82%. This was an increase in investments outstanding from the start of the financial year where investments were £27.4 million (average interest rate 0.94%). Table 2 in Appendix A details the movement of the investments by counterparty types and shows the average balances, interest received, original duration and interest rates for 2019-20.

4.2.3 The TM Code requires the Council to set and report on a number of Treasury Management Indicators. The indicators either summarise the expected activity or introduce limits upon the activity. Details of the estimates for 2019-20 set out in the Council's TMS, compared to the actual at year end, are shown in section 4 in Appendix A and these show that the Council is operating in line with the approved limits.

4.2.4 The Council defines high credit quality as organisations and securities having a credit rating of A- (A3 for Moody's) or higher and we do not invest in any organisation below this level. **Appendix B** shows the equivalence table for credit ratings for Fitch, Moody's and Standard & Poor's and explains the different investment grades.

5. Effect upon policy framework and procedure rules

5.1 As required by Financial Procedure Rule 20.3 within the Council's Constitution, all investments and borrowing transactions have been undertaken in accordance with the TMS 2019-20 as approved by Council with due regard to the requirements of the CIPFA Code of Practice on Treasury Management in the Public Services.

6. Equality Impact Assessment

6.1 There are no equality implications arising from this report.

7. Well-being of Future Generations (Wales) Act 2015 implications

7.1 The well-being goals identified in the Act were considered in the preparation of this report. As the report is for information it is considered that there will be no significant or unacceptable impacts upon the achievement of wellbeing goals/objectives as a result of this report.

8. Financial implications

8.1 These are reflected in the body of the report.

9. Recommendation

9.1 It is recommended that the Committee:

- Note the annual treasury management activities for 2019-20.

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Background documents: None