

BRIDGEND COUNTY BOROUGH COUNCIL

INFORMATION REPORT TO CABINET

15 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:-

- Comply with the requirement of the Chartered Institute of Public Finance (CIPFA) and Accountancy 'Treasury Management in the Public Services: Code of Practice' (the Code) to report an overview of treasury activities for the preceding financial year;
- Report on the actual Treasury Management indicators for 2019-20.

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 Annual Treasury Management Outturn Report is integral to the delivery of the Corporate Improvement Objectives as the allocation of resources determines the extent to which the Corporate Objectives can be delivered.

3. Background

3.1 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 (TMS) before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. Council approved the TMS 2019-20 on 20 February 2019 and received a half-year position report on 24 October 2019. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, as amended, requires the Council to undertake any borrowing activity with regard to the CIPFA Code. This report fulfils this requirement.

3.2 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.

3.3 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 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 2019, then to 31 October 2019 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% in February 2020, below the Bank of England's target of 2%. Gross Domestic Product (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 2020 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 increases 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 below and more detail is provided in **Appendix A** section 2, Borrowing Strategy and Outturn, and section 3, 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.

Table 1: External debt and investment position 1 April 2019 to 31 March 2020

	Principal 01/04/2019 £m	Average Rate 01/04/2019 %	Principal 31/03/2020 £m	Average Rate 31/03/2020 %
External Long Term Borrowing:				
Public Works Loan Board	77.62	4.70	77.62	4.70
Lender's Option Borrower's Option	19.25	4.65	19.25	4.65
Total External Borrowing	96.87	4.69	96.87	4.69
Other Long Term Liabilities (LTL):				
Private Finance Initiative (PFI)*	17.00		16.31	
Other LTL	0.88		1.12	
Total Other Long Term Liabilities	17.88		17.43	
Total Gross External Debt	114.75		114.30	
Treasury Investments:				
Banks	5.40	0.86	5.00	0.67
Building Societies	1.00	0.90	2.00	0.78
Local Authorities	21.00	0.96	21.00	0.94
DMO	-	-	2.00	0.06
Total Treasury Investments	27.40	0.94	30.00	0.82
Net Debt	87.35		84.30	

* (PFI) arrangement for the provision of a Secondary School in Maesteg 13 years remaining ter

- 4.2.3 The £19.25 million in Table 1 above relates to Lender's Option Borrower's Option (LOBO) loans which have a maturity date of 2054, however these may be rescheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending upon the prevailing rates at one of the bi-annual trigger points (these being July and January) and, therefore, the Council being given the option to accept the increase or repay the loan without incurring a penalty. The next trigger point is January 2021 although it is anticipated that the lender is unlikely to exercise this option in the current low interest rate environment.
- 4.2.4 The other long term liabilities figure of £17.43 million at 31 March 2020 includes £16.31 million for the Council's Private Finance Initiative (PFI) arrangement for the provision of a Secondary School in Maesteg.
- 4.2.5 Both the CIPFA Code and WG Guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return. Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard and Poor's to ensure that this lies within the Council's agreed minimum credit rating.
- 4.2.6 The Council defines high credit quality as organisations and securities having a credit rating of A- (A3 for Moody's) or higher and the Council does 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.
- 4.2.7 There were two long-term investments (original duration of 12 months or more) outstanding as at 31 March 2020 totalling £4 million with Local Authorities included in the £30 million in Table 1, which will mature during 2020-21. All other investments at 31 March 2020 were short term deposits including instant access and notice accounts.
- 4.2.8 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.

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 Cabinet:

- Note the annual treasury management activities for 2019-20.
- Note the actual Treasury Management indicators for 2019-20 against the ones approved in the Treasury Management Strategy 2019-20.

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September 2020

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Background documents: None