

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO THE GOVERNANCE AND AUDIT COMMITTEE

12 NOVEMBER 2020

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

TREASURY MANAGEMENT – HALF YEAR REPORT 2020-21

1. Purpose of report

1.1 The purpose of this report is to:-

- Update the Governance and Audit Committee on the mid-year review and half year position for treasury management activities and treasury management indicators for 2020-21.
- Highlight compliance with the Council's policies and practices which have been reported to Cabinet and Council.
- Provide an update on the proposed changes to the Treasury Management Strategy 2020-21 to be presented to Council for approval.

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**:

- **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 deliver the Council's well-being objectives.

2.2 The work of the Governance and 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 contribute to smarter use of financial resources and hence assist in the achievement of the Council's well-being objectives.

3. Background

3.1 Governance and Audit Committee has been nominated to be responsible for ensuring effective scrutiny of the Treasury Management Strategy (TMS) and policies. During the 2020-21 financial year to date, in addition to the regular treasury management reports to Cabinet and Council, Audit Committee

received the Annual Treasury Management Outturn Report 2019-20 in September 2020.

- 3.2 The Council's treasury management activities are regulated by the Local Government Act 2003 which provides the powers to borrow and invest as well as providing controls and limits on this activity. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 as amended, develops the controls and powers within the Act. This requires the Council to undertake any borrowing activity with regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities and to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services (TM Code). The Council is required to operate the overall treasury function with regard to the TM Code and this was formally adopted by the Council in February 2012. This includes a requirement for the Council to approve a TMS before the start of each financial year which sets out the Council's and Chief Financial Officer's responsibilities, delegation, and reporting arrangements. Council approved the TMS 2020-21 on 26 February 2020.
- 3.3 Treasury investments covers all of the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. The Council's Capital Strategy includes the Prudential Indicators and the Council's non-Treasury investments. The Capital Strategy and TMS should be read in conjunction with each other as they are interlinked as borrowing and investments are directly impacted upon by capital plans. Both were approved by Council on 26 February 2020.
- 3.4 Following a recent re-tender exercise for the Council's treasury management advisors, Arlingclose were the successful tenderer and will continue to be the Council's advisors for the next 4 years. The 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

4. Current Situation/Proposal

- 4.1 The Council has complied with its legislative and regulatory requirements during the first half of 2020-21. The TMS 2020-21 was reported to Council on 26 February 2020 with the Half Year Outturn scheduled to be reported on 18 November 2020. In addition, a quarterly monitoring report was presented to Cabinet in July 2020.

- 4.2 A summary of the treasury management activities for the first half of 2020-21 is shown in Table 1 in **Appendix A**. The Council has not taken long term borrowing since March 2012 and it is not expected that there will be a requirement for any new long term borrowing in 2020-21. Favourable cash flows have provided surplus funds for investment and the balance on investments at 30 September 2020 was £64.29 million with an average rate of interest of 0.24%. This is a significant reduction from the same time last year when the average rate was 0.85%, and shows the impact of the reductions in interest rates during March 2020.
- 4.3 Restructuring of the debt portfolio, and in particular the Lender Option Borrower Option (LOBO) loans has been previously considered. The LOBOs have two trigger points during the year at which point the lender may consider offering the Council the option to repay the loan without penalty. At the current interest rates the lender is not likely to exercise that option. Any renegotiation of the LOBO would result in a premium payable by the Council. At current rates the premium would far outweigh the savings achievable. The Council will continue to review its long term lending and would take the option to repay these loans at no cost if it has the opportunity to do so.
- 4.4 Table 4 in section 4 of **Appendix A** details the movement of the investments by counterparty types and shows the average balances, interest received, original duration and interest rates for the first half of 2020-21.
- 4.5 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 2020-21 set out in the Council's TMS, against current projections, are shown in **Appendix A** and these show that the Council is operating in line with the approved limits.
- 4.6 The Council defines high credit quality as organisations and securities having a credit rating of A- or higher and **Appendix B** shows the equivalence table for credit ratings for Fitch, Moody's and Standard & Poor's and explains the different investment grades.
- 4.7 CIPFA's Code of Practice for Treasury Management requires all local authorities to conduct a mid-year review of its treasury management policies, practices and activities. The outcome of this review is that there are changes required to investment limits as below:
- Increase the investment limit to Registered Providers from £3 million to £5 million. As the Council has had positive cash balances this will provide the Council with wider scope in making investments at a practical level (Table 6 of the TMS).
 - Increase the total amount that can be invested in Money Market Funds (MMFs) from £20 million to £30 million. This is to enable the Council to increase the number of MMF's available to it thus assisting Treasury Management activities on a practical level, whilst also providing greater diversity of funds available to the Council (Table 9 of the TMS).

The proposed revised TMS is included at **Appendix C** and the proposed amendments highlighted in red. Both these amendments have been discussed with our Treasury Management Advisors.

5. Effect upon policy framework & 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 2020-21 as approved by Council with due regard to the requirements of the CIPFA's Code of Practice on Treasury Management in the Public Services.

6. Equality Impact Assessment

6.1 There are no equality implications.

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 only and is retrospective in nature it is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives as a result of this report.

8. Financial implications

8.1 The financial implications are reflected within the report.

9. Recommendations

9.1 It is recommended that the Committee:

- Note the treasury management activities for 2020-21 for the period 1 April 2020 to 30 September 2020 and the projected Treasury Management Indicators for 2020-21.
- Recommend that the proposed changes to the Treasury Management Strategy 2020-21 be presented to Council for approval in November 2020.

Gill Lewis

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30 October 2020

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Background documents:

Capital Strategy 2020-21