

# BRIDGEND COUNTY BOROUGH COUNCIL

## REPORT TO CABINET

17 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:

- comply with the requirement of the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice' to produce interim Treasury Management Reports.
- report on the projected Treasury Management Indicators for 2020-21.
- provide an update on the proposed changes to the Treasury Management Strategy 2020-21 and recommend that they 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 Treasury Management Report is integral to the delivery of all of the Council's well-being objectives as the allocation of resources determines the extent to which the well-being objectives can be delivered.

#### 3. Background

3.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council is exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

- 3.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy (TMS) before the start of each financial year. The CIPFA Code also requires the Council to set a number of Treasury Management Indicators, which are forward looking parameters and enable the Council to measure and manage its exposure to treasury management risks, and these are included throughout this report. In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in November 2019 that requires the Council to approve an Investment Strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Welsh Government Guidance.
- 3.3 In 2017 CIPFA also published a new version of the Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The updated Prudential Code includes a requirement for Local Authorities to provide a Capital Strategy, which is a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The definition of investments in the revised 2017 CIPFA Code now covers all the financial assets of the Council as well as other non-financial assets which the authority holds primarily for financial return. The Council's Capital Strategy 2020-21, complying with CIPFA's requirement includes the Prudential Indicators which in previous years were included in the TMS, along with details regarding 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 and were approved together 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 provided 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 – Appendix C).
  - 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 – Appendix C).

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 Cabinet:
- note the Council's 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 on 18 November 2020.

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**6 November 2020**

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**Background documents:**

Capital Strategy 2020-21