

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO THE GOVERNANCE AND AUDIT COMMITTEE

28 JANUARY 2021

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

TREASURY MANAGEMENT STRATEGY 2021-22

1. Purpose of report

1.1 The purpose of this report is to present the draft Treasury Management Strategy 2021-22, which includes the:-

- Borrowing Strategy 2021-22
- Investment Strategy 2021-22
- Treasury Management Indicators for the period 2021-22 to 2023-24.

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 To ensure effective scrutiny of treasury management in accordance with the Treasury Management Strategy (TMS), the Governance and Audit Committee has been nominated to be responsible for ensuring effective scrutiny of the TMS and policies in accordance with the Treasury Policy Statement and Treasury Management Prudential Indicators.

- 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 (2017) and to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services (2017) (TM Code). 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 (**Appendix A**).
- 3.3 In addition the Welsh Government (WG) issued revised Guidance on Local Authority Investments in November 2019, which requires the Council to approve an Investment Strategy prior to the start of each financial year.
- 3.4 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 Prudential Code for Capital Finance in Local Authorities (the Prudential Code) 2017 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 Council's Capital Strategy and TMS will be presented for approval by Council in February 2021. The Capital Strategy and TMS are interlinked as borrowing and investments are directly impacted by capital plans.

4. Current situation/proposal

- 4.1 The TMS 2021-22 at Appendix A confirms the Council's compliance with the CIPFA Code, which requires that formal and comprehensive objectives, policies and practices, strategies and reporting arrangements are in place for the effective management and control of treasury management activities, and that the effective management and control of risk are the prime objectives of these activities.
- 4.2 The TMS has been updated to reflect the current economic context, not least the holding of interest rates at 0.10% by the Bank of England, but also the challenges of the exit from the European Union and the impact of the coronavirus pandemic.
- 4.3 The maturity of long term debt has been included, and the forecast is that the Council may need to borrow over the next 2 years to support the Capital Programme. To date the Council has been able to use reserves to support its capital expenditure, known as internal borrowing. However this position is a short-term one and as reserves are used and balances reduced, it will be necessary to borrow. This will be closely monitored during the year as changes to the Capital Programme will influence this.

- 4.4 An important amendment to the TMS reflects the revised lending terms for Public Works Loan Board (PWLB) borrowing by local authorities, which sets out that local authorities purchasing assets primarily for yield in the current or future two financial years will be precluded from borrowing from the PWLB. Given the need to support the capital programme through borrowing it is unlikely that that Council would therefore seek to invest in any land or buildings primarily for a financial return.
- 4.5 The approved investment counterparties and limits (Table 6 in the strategy) has been simplified and amended to take account of the latest advice from the Council's Treasury Advisors, Arlingclose. In addition there has been a change to the limits for Money Market Funds, which had been increased to £30 million at the mid-year review of the TMS, and approved by Council in November 2020, with the advice now being an unlimited limit. It is proposed that no more than £6 million would be invested in any single Fund, to minimise any potential impact of default risk to the Council.
- 4.6 The proposed limit to non-Treasury investments has been increased from £1 million to £2 million. This is to support proposed investment in a Special Purpose Vehicle that is to be established to deliver the proposed Bridgend Town Heat Network.
- 4.7 The TMS 2021-22 will be presented to Council for approval in February 2021 and whilst the main body will remain unchanged, there may be variations to some of the figures if there are any changes (such as to the capital programme) to reflect the most up to date information.

5. Effect upon policy framework and procedure rules

- 5.1 Paragraph 20.3 of the Financial Procedure Rules (FPRs) within the Council's Constitution requires that all investments and borrowing transactions shall be undertaken in accordance with the Council's Treasury Management Strategy as approved by Council.
- 5.2 Paragraph 20.8 of the FPRs sets the Governance and Audit Committee's responsibility to ensure effective scrutiny of the Treasury Management policies and practices.

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. The well-being objectives are designed to complement each other and are part of an integrated way of working to improve wellbeing for the people

of Bridgend. In developing the TMS, officers have considered the importance of balancing short term needs for cash flow management and minimising the revenue costs of debt, with longer-term objectives of managing the Council's long term debt maturity profile.

8. Financial implications

8.1 The financial implications are reflected within the report.

9. Recommendations

9.1 It is recommended that the Committee:

- Give due consideration to the draft Treasury Management Strategy for 2021-22 (**Appendix A**); and
- Recommend that it is presented to Council for approval in February 2021.

Gill Lewis

Interim Chief Officer – Finance, Performance and Change

28 January 2021

Contact Officer: Nigel Smith
Group Manager – Chief Accountant

Telephone: 01656 643605

E-mail: nigel.smith@bridgend.gov.uk

Postal Address: Civic Offices, Angel Street, Bridgend, CF31 4WB

Background documents:

CIPFA Code of Practice on Treasury Management in Local Authorities (2017)

CIPFA Prudential Code for Capital Finance in Local Authorities (2017)

Welsh Government Statutory Guidance on Local Government Investments (2019)