BRIDGEND COUNTY BOROUGH COUNCIL

INFORMATION REPORT TO CABINET

20 JULY 2021

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

ANNUAL TREASURY MANAGEMENT OUTTURN 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' (the Code) to report an overview of treasury activities for the preceding financial year;

- Report on the actual Treasury Management Indicators for 2020-21.

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 to 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 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 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

4. Current situation/proposal

4.1 Economic Context

4.1.1 The coronavirus pandemic dominated 2020-21, leading to almost the entire world being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut the Bank Rate to 0.1% in March 2020 and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime. Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The

UK vaccine rollout started in earnest and by 31 March 2021 over 31 million people had received their first dose.

4.1.2 The Brexit transition period, which has kept the UK temporarily attached to most EU rules, expired on 31 December 2020. After months of negotiations, the UK and European Union finally agreed a last minute trade deal.

4.1.3 The Bank of England (BoE) held the Bank Rate at 0.1% throughout the year. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term, due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

4.1.4 Government initiatives supported the economy and in the 2021 Budget on 3 March 2021 the Chancellor announced a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020 the government schemes have helped to protect more than 11 million jobs.

4.1.5 Since the outbreak of the COVID-19 pandemic, the UK and Welsh Government have announced a wide range of financial support schemes to try and mitigate the impact on the economy, businesses and individuals. These include:

- Job Retention Scheme (furlough) (UK)
- Self Employed Income Support Scheme (UK)
- Small Charities Business Rates Grants (WG)
- Local Government Hardship Fund (WG),
- Business Support Grants (WG)
- Economic Resilience Fund (WG)

The local authority has administered a number of the Welsh Government Schemes including payment of over 2,400 business and charity Business Rates Grants worth over £30 million; over 1,700 Lockdown Grants totalling just over £5.4 million; and 4500 Business Restrictions Grants totalling £14.96 million, as well as bearing the upfront costs of additional support required throughout the pandemic in advance of receiving WG funding. This has clearly had an impact on the Council's cash flow during the year and measures have had to be put in place to manage the significant sums of money flowing into and out of the Council's bank account, including receiving earlier payments of Revenue Support Grant and interim business grant payments from Welsh Government, making short term deposits until funding is required and increasing our daily BACS limits to enable more payments to be processed quickly. As the year progressed more Welsh Government grants were announced and paid, so close management of the Council's cash flow was a priority.

4.2 Treasury Management Outturn 2020-21

4.2.1 The Council has complied with its legislative and regulatory requirements during 2020-21. The TMS 2020-21 and the Half Year Report were reported to Council on 26 February 2020 and 18 November 2020 respectively. In addition, quarterly monitoring reports were presented to Cabinet during 2020-21.

4.2.2 A summary of the treasury management activities for 2020-21 is shown in **Appendix A.** The Council's external debt and investment position for 1 April 2020 to 31 March 2021 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 2020-21 and no debt rescheduling was undertaken as there were no significant savings to be made, however, the loan portfolio will be reviewed during 2021-22. Favourable cash flows have provided surplus funds for investment and the balance on investments at 31 March 2021 was £51.5 million, with an average interest rate of 0.21%. This was a decrease in investments outstanding from the start of the financial year where investments were £62.0 million (average interest rate 0.37%), which was as a consequence of the significant amount of grant funding paid to the Council just as the first National Lockdown commenced in March 2020. 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 2020-21.

Table 1: Council's external debt and investment position 1 April 2020 to 31 March 2021

	Principal 01/04/2020 £m	Average Rate 01/04/2020 %	Principal 31/03/2021 £m	Average Rate 31/03/2021 %
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)*	**16.30**		**15.57**	
Other LTL	**1.10**		**1.66**	
Total Other Long Term Liabilities	**17.40**		**17.22**	
Total Gross External Debt	**114.27**		**114.09**	
Treasury Investments:				
Debt Management Office	37.00	0.06	0.00	0.00
Local Authorities	18.00	0.97	48.50	0.22
Banks	5.00	0.34	1.00	0.05
Building Societies	2.00	0.78	0.00	0.00
Money Market Fund***	-	-	2.05	0.02
Total Treasury Investments	**62.00**	**0.37**	**51.55**	**0.21**
Net Debt	**52.27**		**62.54**	

***** (PFI) arrangement for the provision of a Secondary School in Maesteg 13.5 years remaining term
******the funds provide instant access

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 July 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 Total Other Long Term Liabilities figure of £17.22 million at 31 March 2021 includes £15.57 million for the Council's Private Finance Initiative (PFI) arrangement for the provision of a Secondary School in Maesteg. It also includes an increase in respect of increased Salix borrowing for phase 2 of the Street Lighting replacement programme.

4.2.5 As mentioned in paragraph 4.2.2 a significant amount of cash came into the Council at the end of 2019-20, mainly funding for the first tranche of business grants and advanced payments of revenue support grant, and this had to be invested quickly. A large amount was invested in the Debt Management Office, but over the year this was used either to pay the business grants or surplus funds reinvested in alternative, higher interest earning counterparties.

4.2.6 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.

4.2.7 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.

4.2.8 There were no long-term investments (original duration of 12 months or more) outstanding as at 31 March 2021. All investments at 31 March 2021 were short term deposits including instant access and notice accounts.

4.2.9 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, 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 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 Act 2010 implications

6.1 The protected characteristics identified within the Equality Act, Socio-economic Duty and the impact on the use of the Welsh Language have been considered in the preparation of this report. As a public body in Wales the Council must consider the impact of strategic decisions, such as the development or the review of policies, strategies, services and functions. This is an information report, therefore it is not necessary to carry out an Equality Impact assessment in the production of this report. It is considered that there will be no significant or unacceptable equality impacts as a result of 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 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 annual treasury management activities for 2020-21.
- Note the actual Treasury Management indicators for 2020-21 against the ones approved in the Treasury Management Strategy 2020-21.

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July 2021

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Background documents: None