

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO THE GOVERNANCE AND AUDIT COMMITTEE

11 NOVEMBER 2021

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

TREASURY MANAGEMENT – HALF YEAR REPORT 2021-22

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 2021-22;
- highlight compliance with the Council's policies and practices which have been reported to Cabinet and Council.

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 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 The Governance and Audit Committee has been nominated to be responsible for ensuring effective scrutiny of the Treasury Management Strategy (TMS) and policies. During the 2021-22 financial year to date, in addition to the regular treasury management reports to Cabinet and Council, the Governance and

Audit Committee received the Annual Treasury Management Outturn Report 2020-21 in July 2021.

- 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.
- 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 24 February 2021.
- 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 The Council has complied with its legislative and regulatory requirements during the first half of 2021-22. The TMS 2021-22 was approved by Council on 24 February 2021 with the Half Year Report presented on 20 October 2021.
- 4.2 A summary of the treasury management activities for the first half of 2021-22 is shown in table 1 in **Appendix A**. Since the start of the financial year the Council has had surplus funds for investment. The Council receives two instalments of Welsh Government core funding (Revenue Settlement Grant) during April at

£12.6 million per instalment and was able to carry forward additional grant funding from 2020-21. As a result, the balance on investments at 30 September 2021 was £79.84 million with an average rate of interest of 0.06%. This is a significant reduction from the same time last year when the average rate was 0.24% and shows the impact of the reductions in interest rates as a result of the pandemic.

- 4.3 The Council has not taken long-term borrowing since March 2012. The TMS 2021-22 anticipated that the Council would need to borrow £30.37 million during the year, however, this was on an assumption that the Council would have £43 million held in usable reserves that it could use in the short term to finance expenditure. As at 31 March 2021 the Council's usable reserves stood at £114 million, an increase from £83 million as at 31 March 2020, which was not foreseen when the TMS was approved. The Council received £20.6 million from the Welsh Government Hardship Fund, which was more than had been anticipated during the year, as well as further additional grants from Welsh Government in the final quarter of 2020-21 of £8.9 million and capital receipts during the year of £2.9 million, as reported to Council in the Revenue Budget Outturn 2020-21 report on 23 June 2021. However, it is important to note that while the use of usable reserves in lieu of new borrowing is prudent, it is a short-term position and as the reserves are used for specific projects it will become necessary to borrow in the future to finance Capital expenditure. Based on the current capital programme and the expected use of reserves allocated therein, it is expected that there will not be a requirement for new long-term borrowing in 2021-22. Detail on forecast capital spend is provided in the Capital Strategy 2021-22 which was approved by Council on 24 February 2021 and the Quarter 2 Capital Monitoring position reported to Council on 20 October 2021.
- 4.4 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.
- 4.5 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 2021-22.
- 4.6 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 2021-22 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.
- 4.7 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.

- 4.8 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 no changes required.

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 2021-22 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 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 this report is for information 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 2021-22 for the period 1 April 2021 to 30 September 2021 and the projected Treasury Management Indicators for 2021-22.

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Background documents:

None