

# BRIDGEND COUNTY BOROUGH COUNCIL

## REPORT TO CABINET

18 OCTOBER 2022

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

#### TREASURY MANAGEMENT – QUARTER 1 REPORT 2022-23

#### 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 2022-23.

#### 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 December 2021 CIPFA published a new edition of the Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The Prudential Code requires Local Authorities to determine 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 covers all the financial assets of the Council as well as other non-financial assets which the authority holds primarily for financial return. However, a significant change in the Code is that, in order to comply with the Code, an authority must not borrow to invest primarily for financial return. The Code does not require existing commercial investments, including property, to be sold, however it does set out that authorities who have a need to borrow should review options for exiting their financial investments for commercial purposes. The Council's Capital Strategy 2022-23, 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 23<sup>rd</sup> February 2022.

3.4 The Council's treasury management advisors are Arlingclose Ltd. 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 2022-23. The TMS 2022-23 was approved by Council on 23<sup>rd</sup> February 2022. The Half Year Report for 2022-23 will be reported to Council for noting in November 2022.

4.2 A summary of the treasury management activities for April 2022 – June 2022 is shown at table 1 in **Appendix A**. Since the start of the financial year the Council

has had surplus funds for investment. At the 2021-22 year end the Council was able to set aside additional reserves and during April the Council received two instalments of Welsh Government core funding (Revenue Support Grant) of £14.6 million per instalment. As a result, the balance on investments at 30 June 2022 has increased from £84.07 million in the previous quarter 4 for 2021-22, to £102.2 million with an average rate of interest of 0.61%.

- 4.3 The Council has not taken long-term borrowing since March 2012. The TMS approved for 2022-23 included an assumption that the Council would need to borrow £9.36 million during the year, based on the Council holding £76 million usable reserves that it could use in the short term to finance expenditure. These figures were based on the assumption that the Council's reserves would reduce by £11.04 million from balances held at 31 March 2021. However, as a result of slippage in the Capital Programme 2021-22, the actual use of reserves during 2021-22 was much lower and the amount needed to be drawn down to fund the capital programme in 2022-23 significantly lower than anticipated. In addition the Council received £20.6 million from the Welsh Government Hardship Fund during 2021-22, which was more than had been anticipated during the year, as well as further additional grants from Welsh Government in the final quarter of 2021-22 which enabled the Council to set aside £27.62 million in additional reserves in 2021-22. 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 2022-23. Detail on forecast capital spend is provided in the Capital Strategy 2022-23 which was approved by Council on 23 February 2022 and the 2021-22 Capital Monitoring Outturn.
- 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 and is cost effective 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, investment income received, average original duration and weighted average interest rates from April 2022 to June 2022.
- 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 2022-23 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.

## **5. Effect upon policy framework and procedure rules**

5.1 As required by Financial Procedure Rule 22.3 within the Council's Constitution, all investments and borrowing transactions have been undertaken in accordance with the TMS 2022-23 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 the 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 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 2022-23 for the period 1 April 2022 to 30 June 2022 and the projected Treasury Management Indicators for 2022-23.

**Carys Lord**  
**Chief Officer – Finance, Performance and Change**  
**September 2022**

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**Background documents:**

None