BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

18 OCTOBER 2022

REPORT OF THE CHIEF OFFICER – FINANCE, PERFORMANCE AND CHANGE

ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2021-22

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 2021-22.

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 Annual Treasury Management Outturn Report is integral to the delivery of all 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's) 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, and, as a minimum, a semi-annual and annual treasury outturn report. 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, 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 an updated 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 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 2021-22, complying with CIPFA's requirement, includes the Prudential Indicators along with the 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 both were approved together 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 Economic Context

4.1.1 The continuing economic recovery from the coronavirus pandemic, together with the war in Ukraine, rising inflation, and higher interest rates were major issues over the 2021-22 financial year. The Bank Base rate was 0.1% at the beginning of the reporting period. April and May 2021 saw the economy gathering momentum as the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay interest rate rises until 2022. However, continually rising inflation changed that. UK CPI was 0.7% in March 2021 but thereafter steadily increased. Initially driven by increases in energy prices and by inflation in sectors such as retail and hospitality which were reopening after the pandemic lockdowns, at that time increases to inflation were believed to be temporary. However, CPI for February 2022 registered 6.2% year on year, up from 5.5% the previous month.

4.1.2 The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the three months to March 2022 showed the unemployment rate at 3.7% while the employment rate rose to 75.7%.

4.1.3 Having increased the Bank Base rate from 0.1% to 0.25% in December 2021, the Bank of England raised it further to 0.5% in February 2022 and 0.75% in March 2022. In its March interest rate announcement, the Monetary Policy Committee (MPC) noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022. The Committee also noted that although Gross Domestic Product (GDP) in January 2022 was stronger than expected, consumer confidence had fallen due to the squeeze in real household incomes.

4.2 Revised CIPFA Codes, Updated Public Works Loan Board (PWLB) Lending Facility Advice

4.2.1 In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility. Authorities that are purchasing or intending to purchase investment assets primarily for yield, or financial return, will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

4.2.2 CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20 December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The Codes will be fully implemented in the 2023-24 financial year. To comply with the Prudential Code authorities must not borrow to invest primarily for financial return. The Prudential Code also states it is not prudent for local authorities to make investment or spending decisions that will increase the Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold, however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments. Unlike the Prudential Code, there is no mention of the date of the initial application in the Treasury Management Code. The Council will follow the same process as the Prudential Code, i.e. delaying changes in reporting requirements to the 2023-24 financial year.

4.3 Treasury Management Outturn 2021-22

4.3.1 The Council has complied with its legislative and regulatory requirements during 2021-22. The TMS 2021-22 was approved by Council on 23 February 2021 with the Half Year Report presented to Council on 20 October 2021. Quarterly reports were also presented to Cabinet, and Governance and Audit Committee for scrutiny, during 2021-22.

4.3.2 A summary of the treasury management activities for 2021-22 is shown in **Appendix A**. The Council's external debt and investment position for 1 April 2021 to 31 March 2022 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 2021-22 and no debt rescheduling was undertaken as there were no significant savings to be made. However, should the opportunity arise to reschedule any loans at a preferential rate, this would be done. Favourable cash flows have provided surplus funds for investment and the balance on investments at 31 March 2022 was £84.07 million, with an average interest rate of 0.43%. This was an increase from the balances at 31 March 2021, when the balance held was £51.55 million at a weighted average interest rate of 0.21%. Table 4 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 2021-22.

Table 1: Council's external debt and investment position 1 April 2021 to 31 March 2022

	Principal 01/04/2021 £m	Average Rate 01/04/2021 %	Principal 31/03/2022 £m	Average Rate 31/03/2022 %
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
Salix Loans	1.64	0.00	2.68	0.00
Total External Borrowing	**98.51**	**4.69**	**99.55**	**4.69**
Other Long Term Liabilities (LTL):				
Private Finance Initiative (PFI)*	14.77		13.90	
Other LTL	0.69		0.23	
Total Other Long Term Liabilities	**15.46**		**14.13**	
Total Gross External Debt	**113.97**		**113.68**	
Treasury Investments:				
Debt Management Office	0.00	0.00	30.20	0.54
Local Authorities	48.50	0.22	45.50	0.34
Banks	1.00	0.05	8.37	0.53
Money Market Fund**	2.05	0.02	0.00	0.00
Total Treasury Investments	**51.55**	**0.21**	**84.07**	**0.43**
Net Debt	**62.42**		**29.61**	

* Arrangement for the provision of a Secondary School in Maesteg 13.25 years remaining term
** These funds provide instant access

4.3.3 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 though these may be rescheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending on 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. Although there has been recent interest rate rises, rates are still sufficiently low that it is anticipated that the lender is unlikely to exercise this option in the current low interest rate environment.

4.3.4 The Total Other Long Term Liabilities figure of £14.13 million at 31 March 2022 includes £13.90 million for the Council's Private Finance initiative (PFI) arrangement for the provision of a Secondary School in Maesteg. The Other Long Term Liabilities are for the Innovation Centre and Waste Contract.

4.3.5 Both the CIPFA Code and Welsh Government (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 Councils' agreed minimum credit rating.

4.3.6 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 and Poor's and explains the different investment grades.

4.3.7 There were no long-term investments (original duration of 12 months or more) outstanding as at 31 March 2022. All investments at 31 March 2022 were short term deposits including instant access and notice accounts.

4.3.8 The Treasury Management 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 compared to the actual at year end are shown in **Appendix A** and these show that the Council operated within the approved limits throughout the year.

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 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 Cabinet:

- Note the annual treasury management activities for 2021-22.
- Note the actual Treasury Management Indicators for 2021-22 against those approved in the Treasury Management Strategy 2021-22.

Carys Lord
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Background documents:

None