

# BRIDGEND COUNTY BOROUGH COUNCIL

## REPORT TO THE GOVERNANCE AND AUDIT COMMITTEE

26 JANUARY 2023

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

#### TREASURY MANAGEMENT STRATEGY 2023-24

#### 1. Purpose of report

1.1 The purpose of this report is to present to the Governance and Audit Committee the draft Treasury Management Strategy 2023-24, which includes the:-

- Borrowing Strategy 2023-24
- Investment Strategy 2023-24
- Treasury Management Indicators for the period 2023-24 to 2025-26.

#### 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 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 (2021) and to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services (2021) (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.

- 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) 2021 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 on 1 March 2023. 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 2023-24 at **Appendix A** confirms the Council's compliance with the CIPFA Treasury Management in the Public Services: Code of Practice (2021), 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, including the impact of higher inflation and higher interest rates which are currently at 3.5% following the increase by the Bank of England's Monetary Policy Committee on 15 December 2022.
- 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 3 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 In December 2021 CIPFA published an update to the Prudential Code for Capital Finance in Local Authorities (the Prudential Code). This update

included a significant change 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 investment properties are valued annually, to ensure that their values are reflected fairly within the Statement of Accounts. It is considered that the level of these investments are reasonable, and the Council does not intend to invest further purely for financial return.

- 4.5 The approved investment counterparties and limits (Table 6 in the Strategy) have been revised to reduce the total level of investments into other local authorities from £12 million to £10 million, and to set an investment period of no more than 2 years, to ensure a balanced level of risk for such investments.
- 4.6 The limit to non-Treasury investments has been amended to £3 million, to include loans to wholly owned subsidiaries and/or joint ventures. This is set out in Table 12 of the TMS.
- 4.7 The TMS 2023-24 will be presented to Council for approval in March 2023 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 22.3 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 22.8 of the FPRs sets the Governance and Audit Committee's responsibility to ensure effective scrutiny of the Treasury Management policies and practices.

## **6. Equality 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 strategy decisions, such as the development or the review of policies, strategies, services and functions. 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. The well-being objectives are designed to complement each other and are part of an integrated way of working to improve well-being 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 2023-24; and
- Recommend that the final updated Treasury Management Strategy is presented to Council for approval in March 2023.

**Carys Lord**  
**Chief Officer – Finance, Performance and Change**  
**January 2023**

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### **Background documents:**

CIPFA Code of Practice on Treasury Management in Local Authorities (2021)  
CIPFA Prudential Code for Capital Finance in Local Authorities (2021)  
Welsh Government Statutory Guidance on Local Government Investments (2019)