

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

7 FEBRUARY 2023

REPORT OF THE CHIEF OFFICER – FINANCE, PERFORMANCE AND CHANGE

TREASURY MANAGEMENT – QUARTER 3 REPORT 2022-23

1. Purpose of report

1.1 The purpose of this report is to:

- update Cabinet on the Quarter 3 position for treasury management activities and treasury management indicators for 2022-23.
- highlight compliance with the Council's policies and practices.

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 Treasury Management 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. 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 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. Scrutiny of the Council's Treasury management Strategy (TMS) and policies is delegated to the Governance and Audit Committee.

- 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. CIPFA issued a revised Code in December 2021, which will be implemented from 1 April 2023. 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 The Prudential Code for Capital Finance in Local Authorities (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. As has been previously reported, 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 existing 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 Treasury Management Strategy 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 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 the period 1 April to 31 December 2022.
- 4.2 A summary of the treasury management activities for April 2022 – December 2022 is shown at Table 1 in **Appendix A**. Since the start of the financial year the Council has had surplus funds for investment. The balance on investments at 31 December 2022 has decreased from £98.45 million at the half year position, to £94.05 million as a result of day to day cash movements, with an average rate of interest of 0.95%.
- 4.3 Other than Salix interest free borrowing for specific energy saving schemes the Council has not taken long-term borrowing since March 2012. The TMS 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 amount of reserves needed to be drawn down to fund capital expenditure in 2021-22 was 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. Details on forecast capital spend is provided in the Capital Programme Update report presented to Council 18 January 2023.
- 4.4 Restructuring of the debt portfolio, and in particular the Lender Option Borrower Option (LOBO) loans has been previously considered. The Public Works Loan Board allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate early redemption terms. 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. The Council may take advantage of early repayment and replace some of the loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. Whilst interest rates were low the lender is not likely to exercise the option to repay the loan, however the recent rise in interest rates means that more favourable debt rescheduling opportunities may arise than in previous years.
- 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 December 2022.

4.6 The TM Code requires the Council to set and report on a variety 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 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 31 December 2022 and the projected Treasury Management Indicators for 2022-23.

Carys Lord
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Background documents:

None