

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

22 FEBRUARY 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 Cabinet the Treasury Management Strategy 2023-24 (**Appendix A**), which includes the Treasury Management Indicators before submitting to Council for approval.

2. Connection to corporate well-being objectives / other corporate priorities

- 2.1 This report assists in the achievement of the following corporate well-being objectives under the **Well-being of Future Generations (Wales) Act 2015**:

1. **Supporting a successful sustainable economy** – taking steps to make the county borough a great place to do business, for people to live, work, study and visit, and to ensure that our schools are focused on raising the skills, qualifications and ambitions of all people in the county borough.
2. **Helping people and communities to be more healthy and resilient** – taking steps to reduce or prevent people from becoming vulnerable or dependent on the Council and its services. Supporting individuals and communities to build resilience, and enable them to develop solutions to have active, healthy and independent lives.
3. **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 Prudent treasury management arrangements will ensure that investment and borrowing decisions made by officers on behalf of the Council support smarter use of financial resources and hence assist in the achievement of our corporate well-being objectives.

3. Background

- 3.1 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, develop 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 Treasury Management Strategy (TMS) before the start of each financial year which sets out the Council's and Chief Financial Officer's responsibilities, delegation, and reporting arrangements. The proposed TMS for 2023-24 is attached as **Appendix A**.

- 3.2 The 2003 Regulations also contain detailed provisions for the capital finance and accounting controls, including the rules on the use of capital receipts and what is to be treated as capital expenditure. They modify accounting practice in various ways to prevent adverse impacts on authorities' revenue resources. The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2018 relaxed the constraints around loan capital transactions, specific share capital transactions and bonds placing for local authorities in Wales and enables the Council to invest in certain instruments which were previously treated as capital expenditure (for example Money Market Funds (MMF)) without the potential revenue cost of Minimum Revenue Provision (MRP) and without the proceeds from sale being considered a capital receipt.
- 3.3 As well as the aforementioned legislation, the Council manages its Treasury Management activities in accordance with the Welsh Government (WG) revised Statutory Guidance on Local Authority Investments.

4. Current situation/proposal

- 4.1 The Treasury Management Strategy 2023-24 at **Appendix A** confirms the Council's compliance with the TM Code, 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. It also contains the Treasury Management Indicators for a three year rolling period.
- 4.2 The Treasury Management Strategy has been updated to reflect the current economic context, including the ongoing impact on the UK from the war in the Ukraine, and a deteriorating economic outlook with higher inflation and higher interest rates following the Bank of England's increase in interest rates to 4.0% in February 2023.
- 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 cash set aside for 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 position.

- 4.4 In December 2021 CIPFA published a new edition of the Prudential Code for Capital Finance in Local Authorities (the Prudential Code). This update includes a significant change in the Code, which 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. Given the investment and borrowing requirement to support the Capital Programme, the Council does not intend to invest purely for financial return.
- 4.5 The approved investment counterparties and limits (Table 6 in the Strategy) are in line with the latest advice from the Council's Treasury Advisors Arlingclose. The maximum lending limit to other local authorities has been separately identified and has been reduced to £10 million per authority and 2-year maximum duration. Formerly it was included with other Government entities with a £12 million limit for up to 25 years.

5. Effect upon policy framework and procedure rules

- 5.1 As required by paragraph 22.2 of the Financial Procedure Rules, contained within the Council's Constitution, the Chief Finance Officer will be responsible for preparing and presenting an annual Treasury Management Strategy for Council to approve prior to the start of each financial year. Paragraph 22.3 of the Financial Procedure Rules requires that all investments and borrowing transactions shall be undertaken in accordance with the Council's Treasury Management Strategy as approved by Council.

6. Equality Impact 2010 implications

- 6.1 The protected characteristics 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 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 Act provides the basis for driving a different kind of public service in Wales, with 5 ways of working to guide how public services should work to deliver for people. The following is a summary to show how the 5 ways of working to achieve the well-being goals have been used to formulate the recommendations within this report:

- **Long-term:** the consideration and approval of this report will assist in the treasury management activities in both the short and long-term. The

Prudential Indicators are forward looking and are set to support future sustainability.

- **Prevention:** ensuring the Council has in place an approved Treasury Management Strategy will ensure that the Council manages its cash flows appropriately.
- **Integration:** the report supports all the well-being objectives.
- **Collaboration:** the Treasury Management Strategy ensures that funding is available to deliver services across the Council, including those jointly with other organisations. Ensuring effective cash management is crucial to the delivery of services.
- **Involvement:** publication of the report ensures that the public and stakeholders can review the strategy, which is considered by Governance and Audit Committee as part of its role of the scrutiny of Treasury Management activities.

8. Financial implications

8.1 The financial implications are reflected within the report.

9. Recommendation

9.1 Cabinet is recommended to consider the report and recommend that the Treasury Management Strategy at **Appendix A** be presented to Council for approval.

Carys Lord
Chief Officer – Finance, Performance and Change
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Background documents: None