



## RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2019 / 2020

COUNCIL

31<sup>st</sup> July 2019

## 2018/19 ANNUAL TREASURY MANAGEMENT REVIEW

**REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES**  
**AUTHOR:- Barrie Davies (01443) 424026**

### **1.0 PURPOSE OF REPORT**

- 1.1 This report constitutes the statutory requirement to provide Members with information on :-
- the Council's Treasury Management activity during 2018/19; and
  - the actual Prudential and Treasury Indicators for 2018/19.

### **2.0 RECOMMENDATIONS**

- 2.1 It is recommended that Members note the content of the report.

### **3.0 INTRODUCTION**

- 3.1 Treasury Management is defined as:

*"The management of a local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".*

- 3.2 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.
- 3.3 The primary requirements of the Codes are as follows:
- Creation and maintenance of a Treasury Management Policy;
  - Creation and maintenance of Treasury Management Practices, which set out the manner in which the Council will seek to achieve stated policies and objectives;
  - Approval by Council (by 31<sup>st</sup> March) of a Treasury Management Strategy Report (including Prudential and Treasury Indicators and an Investment Strategy) for the year ahead, an Annual Treasury Management Review Report of the previous year and a Mid-Year Treasury Management Stewardship Report;
  - Effective scrutiny of the Treasury Management function; and
  - From 2019/20, approval by 31<sup>st</sup> March (prior to the start of the financial year) of a Capital Strategy Report to support the Council's strategic and financial planning arrangements.
- 3.4 Rhondda Cynon Taf C.B.C. complies with these requirements and supplements this by including detail of our treasury activities and prudential indicators in the quarterly Council performance reports to Members.
- 3.5 During 2018/19, the Finance and Performance Scrutiny Committee has continued to scrutinise the Treasury Management function via quarterly performance reports and reviews of the strategy and mid-year position.
- 3.6 This annual report will cover the following areas of treasury activity during 2018/19:
- Treasury Management advisors;
  - Economic background;
  - Borrowing strategy;
  - Borrowing activity and results;
  - Estimated and actual treasury position and prudential and treasury indicators;
  - Investment strategy; and
  - Investment activity and results.
- 3.7 It should be noted that the accounting practice to be followed by the Council requires financial instruments in the statutory accounts (debt, investments, etc) to be measured in a method compliant with International Financial Reporting Standards. The figures in this report are based on the principal amounts borrowed and invested and so may differ from those in the Council's Statement of Accounts.

#### **4.0 TREASURY MANAGEMENT ADVISORS**

- 4.1 The Council appointed Arlingclose as its Treasury Management Advisors during March 2014. The contract was for an initial 3 year period, with the option taken to extend for a further 2 years up to 31<sup>st</sup> March 2019.
- 4.2 Following the conclusion of a tender process during March 2019, the Council appointed Arlingclose as its Treasury Management Advisors from 1<sup>st</sup> April 2019 for the 3 year period up to 31<sup>st</sup> March 2022, again with the option to extend for up to 2 years.
- 4.3 To date the service provided has been good. The Council will continue to monitor the advisor's performance. If any adverse performance or contractual issues arise, Members will be advised accordingly.
- 4.4 The Council recognises that although information and advice is provided via the contract, responsibility for Treasury Management decisions remains with the Council.

#### **5.0 ECONOMIC BACKGROUND**

##### **5.1 General Economic Background**

- 5.1.1 The UK economy still faces Brexit uncertainties and this is reflected in the subdued pace of UK economic growth. UK GDP was 1.4% compared to 1.8% last year.
- 5.1.2 The Consumer Prices Index 12 month rate to March 2019 was 1.9%, broadly in line with the Bank of England's February 2019 inflation report, that forecast the rate to remain close to Central Government's inflation target of 2%.
- 5.1.3 The Bank of England's Monetary Policy Committee increased the Bank Rate by 0.25% to 0.75% on 2<sup>nd</sup> August 2018 and it is currently forecast to remain at this rate until at least 2022/23.
- 5.1.4 In the three months to March 2019, the labour market showed a fall in the unemployment rate to a new low of 3.8% whilst the employment rate of 76.1% was the highest on record. Real wages (that is, after allowing for inflation), excluding bonuses, increased by 1.5% during the year.
- 5.1.5 The Council continued to maintain a low risk strategy throughout the year to ensure exposure to any capital loss was minimised.

##### **5.2 Short term investment rates**

- 5.2.1 The Council's investment income is subject to changes in short term interest rates. The level of the Bank Rate is one of the main determinants of the rate

of interest the Council receives on its short term investments. The forward looking estimate of the Bank Rate, currently provided by our Treasury Management advisors, is for the rate to remain at 0.75% until at least 2022/23.

### 5.3 Longer term interest rates

- 5.3.1 The majority of the Council's borrowing is from the PWLB (Public Works Loan Board). Long-term borrowing rates are influenced by gilt yields which are driven by inflation and demand/supply considerations.
- 5.3.2 During August 2012, HM Treasury introduced "the certainty rate", whereby local authorities are able to access borrowing at 0.2% cheaper than published PWLB rates. In order to access the discounted rate, authorities were required to provide Welsh Government (and onward, the Debt Management Office) with an indication of their potential borrowing requirements for the next 3 years.
- 5.3.3 In December 2017, the UK Government announced plans to make available an amount of lending at the Local Infrastructure Rate whereby local authorities are able to access borrowing at 0.4% cheaper than published PWLB rates. A corresponding share has been made available to local authorities in Wales and Welsh Government has allocated a set amount across all 22 Welsh authorities. In November 2018 the Council borrowed up to its allocated amount of £4.4m for a period of 10 years at 1.97%.
- 5.3.4 PWLB rates during 2018/19 were as follows (these are the "certainty rates"):

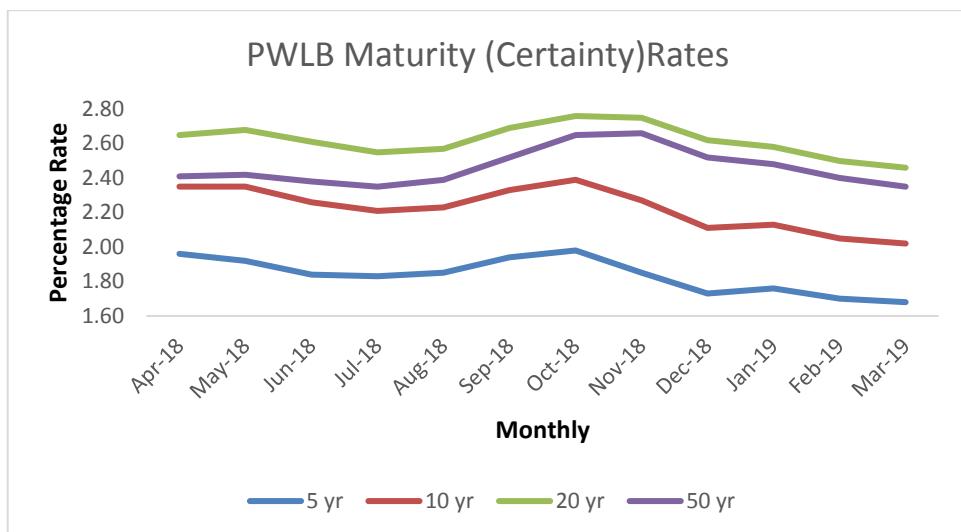
	<b>5 years</b>	<b>10 years</b>	<b>20 years</b>	<b>50 years</b>
Average	1.84%	2.23%	2.62%	2.46%
Highest	2.12%	2.53%	2.90%	2.79%
Lowest	1.52%	1.84%	2.29%	2.16%

## 6.0 BORROWING STRATEGY

- 6.1 The borrowing strategy for 2018/19 approved by Council in March 2018 stated that the borrowing requirement to fund the 2018/19 Capital Programme was £48.9m. In line with the capital programme, the borrowing requirement decreased to £45.1m during the year largely due to the re-profiling of the 21<sup>st</sup> Century Schools schemes. It was also reported that the cheapest form of borrowing would be "internal borrowing" by running down cash balances and foregoing interest earned at historically low rates. This also minimises counterparty risk (risk that an investment may become irrecoverable).
- 6.2 The strategy also reported that the Section 151 Officer, under delegated powers, would take the most appropriate form of borrowing depending upon

the prevailing interest rates at the time, taking into account advice provided by our advisors and an assessment of risk.

- 6.3 Affordability and the cost of carry remain important influences on the Council's borrowing strategy. Whilst short term borrowing was taken during 2018/19, the Council also took the opportunity, in line with advice, to take longer term debt to take advantage of lower PWLB rates. The graph below shows the changes in the longer term PWLB borrowing rates during 2018/19:



- 6.4 In the 2018/19 strategy approved by Council in March 2018 it was also reported that the Council may reschedule debt where there is an opportunity to generate savings. However, changes in PWLB rate calculations have reduced the attractiveness of early repayments associated with rescheduling.

## **7.0 BORROWING ACTIVITY AND RESULTS**

- 7.1 A summary of the Council's borrowing activity (excluding Finance Leases) can be seen in the table below:

	<b>Opening Balance 1<sup>st</sup> April 2018</b>	<b>Movement</b>	<b>Closing Balance 31<sup>st</sup> March 2019</b>	<b>Average Debt</b>	<b>Total Interest</b>	<b>Weighted Average Interest</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>%</b>
PWLB	109.297	59.400	168.697	122.831	5.518	4.49
Banks LOBOS	31.000	0	31.000	31.000	1.395	4.50
Banks Fixed Term	54.500	0	54.500	54.500	2.725	5.00

Local Authorities	76.000	1.000	77.000	77.324	0.672	0.87
Total	270.797	60.400	331.197	285.655	10.310	3.62

The average interest rate of debt as at 31<sup>st</sup> March 2019 was 3.34%.

- 7.2 A more detailed breakdown of PWLB long term borrowing undertaken during the year is set out below:

Date	Loan Type	PWLB Loan Amount	Period	Rate
		£M		%
22 <sup>nd</sup> November 2018	Maturity Rate (Infrastructure Rate )	4.400	10 years	1.97
22 <sup>nd</sup> November 2018	EIP(Certainty Rate)	20.000	10 years	1.76
7 <sup>th</sup> December 2018	EIP(Certainty Rate)	15.000	20 years	2.08
11 <sup>th</sup> March 2019	EIP(Certainty Rate)	10.000	10 years	1.67
21 <sup>st</sup> March 2019	EIP(Certainty Rate)	10.000	10 years	1.60
<b>Total</b>		<b>59.400</b>		

*The EIP rate refers to the half yearly equal instalments of principal repayments of the loan.*

- 7.3 Short term loans were taken to meet day to day cashflow requirements at an average rate of 0.87% during the year.
- 7.4 During the year there was no variance reported in the Council's Net Capital Financing Budget of £19.9m, despite the challenges faced with investment income and maintaining our low risk strategy.
- 7.5 There were no opportunities to further reduce the cost of our borrowing via rescheduling during the year.

## **8.0 ESTIMATED AND ACTUAL TREASURY POSITION AND PRUDENTIAL AND TREASURY INDICATORS**

- 8.1 During the financial year 2018/19, the Council operated within its limits set out in the Prudential Code report approved in March 2018. Details of limits and actual performance are as follows:

		<b>2018/19 Actual £</b>
Capital Expenditure 18/19		121.149M
Capital Financing Requirement (CFR) as at 31 <sup>st</sup> March 2019		469.183M

<b>Limit / Indicator</b>	<b>2018/19 Limit / Indicator</b>	<b>2018/19 Actual</b>
Authorised Limit (£) (Limit beyond which borrowing is prohibited)	502.000M	331.657M (at highest point in year )
Operational Boundary (£) (Indicator to ensure Authorised Limit not breached)	326.000M	331.657M (at year end)
External Debt (£) Other Long Term Liabilities Sub total Other : Finance Lease Borrowing + Other Long Term Liabilities	358.797M <u>0.450M</u> 359.247M <u>0.385M</u> 359.632M	331.197M <u>0.075M</u> 331.272M <u>0.385M</u> 331.657M
Ratio of Financing Costs to Net Revenue Stream	4.65%	4.61%
Limit on Fixed Interest Rates	45% - 125%	85%
Limit on Variable Interest Rates	-25% - 55%	15%
Funds invested for greater than 1 year (£)	25M	4.75M
LOBO Limit	£50M / 20% of debt portfolio	£31M / 9% of debt portfolio
Maturity Structure of Fixed Rate Debt	Under 12 mths 0-70% 12 mths – 2 yrs 0-70% 2-5 years 0-60% 5-10 years 0-70% 10-20 years 0-90% 20-30 years 0-90% 30-40 years 0-90% 40-50 years 0-90%	Under 12 mths 14% 12 mths – 2 yrs 2% 2-5 years 6% 5-10 years 12% 10-20 years 3% 20-30 years 0% 30-40 years 63% 40-50 years 0%

8.2 Members will note that the Operational Boundary has been exceeded as at 31<sup>st</sup> March 2019. The 2018/19 Operational Boundary was set at the start of the financial year based on the probable external debt during the course of the year and actual borrowing can vary around this boundary during the 12 month period. As referenced previously, borrowing activity during the year was higher than estimated at the time the strategy and indicators were originally approved. Although gross debt was above the estimated Operational Boundary as at 31<sup>st</sup> March 2019, it remained well below the Authorised Limit of maximum borrowing.

## **9.0 INVESTMENT STRATEGY**

- 9.1 The Council manages its investments in-house, investing during 2018/19 in line with the lender criteria as approved by Council on the 28<sup>th</sup> March 2018. Investment policy is governed by Welsh Government guidance.
- 9.2 The Council's temporary cash flows are currently being invested in the Debt Management Account Deposit Facility and other Government backed public sector bodies. The Council supplements this strategy with lending to organisations subject to S151 officer determination, following appropriate due diligence and subject to appropriate and acceptable security arrangements. This low risk strategy was determined balancing risk and return. It is acknowledged that low risk investment strategies result in lower investment returns.
- 9.3 A number of money market funds have been set up to provide further diversification options if the opportunity arises in the future. These accounts have not been used during 2018/19. Members will be kept informed of any changes as part of the Council's quarterly performance reports.
- 9.4 During the year, the Council has complied with the approved strategy and there have been no liquidity difficulties.

## **10.0 INVESTMENT ACTIVITY AND RESULTS**

- 10.1 The following table shows the overall result of the investment activities undertaken by the Council:

	<b>Interest Received</b>	<b>Average Cash Balance</b>	<b>Return on Investments</b>	<b>Benchmark Return</b>
Cash Balances	£M 0.117	£M 23.443	% 0.50	% 0.51

*The benchmark return for Local Authority internally managed funds is the average 7-day LIBID rate.*

- 10.2 The Economic Background section of this report set out the continuing challenging economic conditions during this period. As a result of these conditions and our low risk strategy, interest rates on investments remain low, although only slightly lower than the benchmark rate.

## **11.0 EQUALITY AND DIVERSITY IMPLICATIONS**

- 11.1 The report provides an overview of the Council's Treasury Management activities during 2018/19 in line with the Strategy approved by Council in March 2018. As a result, no Equality Impact Assessment is required for the purposes of this report.

## **12.0 CONSULTATION**

- 12.1 Following consideration by Council, this report will be presented to the Finance and Performance Scrutiny Committee in line with codes of practice and also the Terms of Reference for this Committee.

## **13.0 FINANCIAL IMPLICATION(S)**

- 13.1 The financial results / implications of the Council's Treasury Management arrangements in 2018/19 have been incorporated into quarterly Performance Reports during the year and also reported to Council on 28<sup>th</sup> November 2018 as part of the 2018/19 Mid-Year Treasury Management Stewardship Report.

## **14.0 LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED**

- 14.1 The report ensures the Council complies with its legal duty under the Local Government Act 2003 and in doing so is in line with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

## **15.0 LINKS TO CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT**

- 15.1 This report evidences the progress made in delivering the Council's Corporate Plan – '*The Way Ahead*' in particular through supporting the 'Living Within Our Means' theme by pursuing optimum treasury management performance or return at the same time as managing associated risk.
- 15.2 The report also supports the Well-being of Future Generations Act in particular 'a globally responsible Wales' through responsible management and investment of the Council's resources.

## **16.0 CONCLUSION**

- 16.1 The 2018/2019 financial year has continued to be challenging in relation to Treasury Management and this report highlights for Members that all related activities have operated effectively and within budgetary and prudential limits.

**Other information:**

**Relevant Scrutiny Committee – Finance and Performance Scrutiny Committee**

**LOCAL GOVERNMENT ACT 1972**

**AS AMENDED BY**

**THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**COUNCIL 31<sup>st</sup> JULY 2019**

**REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES**

**Item: 2018/19 ANNUAL TREASURY MANAGEMENT REVIEW**

**Background Papers**

- 28<sup>th</sup> March 2018 Council meeting – Report: Treasury Management Strategy Incorporating Investment Strategy, Prudential Indicators and MRP Statement for 2018/19. This report was also reported to the Finance and Performance Scrutiny Committee on 23<sup>rd</sup> April 2018.
- 28<sup>th</sup> November 2018 Council meeting – Report: 2018/19 Mid-Year Treasury Management Stewardship Report. This report was also reported to the Finance and Performance Scrutiny Committee on 28<sup>th</sup> January 2019.

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