



RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2020 / 2021

**FINANCE AND PERFORMANCE
SCRUTINY COMMITTEE**

19th October 2020

AGENDA ITEM 6
ANNUAL TREASURY MANAGEMENT REVIEW 2019/20

REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES

Author: Barrie Davies (01443) 424026

1.0 PURPOSE OF REPORT

1.1 This report provides Members with the opportunity to scrutinise the Annual Treasury Management Review presented to Council on 29th July 2020 (Appendix 1).

2.0 RECOMMENDATIONS

It is recommended that Members:

- 2.1 Scrutinise and comment on the information provided.
- 2.2 Consider whether they wish to receive further detail on any matters contained in the report.

3.0 BACKGROUND INFORMATION

- 3.1 The 2019/20 Annual Treasury Management Review was reported to and agreed by Council on 29th July 2020.
- 3.2 The Finance and Performance Scrutiny Committee has responsibility for scrutinising the Council's treasury management activity, as set out in its Terms of Reference, this being consistent with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and Prudential Code Guidance Notes.

- 3.3 For Members information, the Treasury Management Code of Practice sets out that *“The treasury management strategy should be supplemented by the provision of monitoring information and regular review by board members/councillors in both executive and scrutiny functions. CIPFA considers clearly defined responsibilities for the approval and scrutiny of treasury management activities to be an essential element of a public service organisation’s treasury management arrangements.”*

4.0 ANNUAL TREASURY MANAGEMENT REVIEW (Appendix 1)

- 4.1 This report details the activities undertaken by the Treasury Management function during 2019/20.

- 4.2 I would like to highlight key points as follows:

- The Council has complied with all relevant Codes of Practice, regulations and guidance (para 4.2).
- Details of Public Works Loan Board long term borrowing taken (para 8.2).
- Net Capital Charges for the year were within budget (para 8.4).
- Compliance has been achieved in terms of all Prudential and Treasury indicators (para 9.1).
- The Council continues to adopt a low risk strategy in terms of investing and borrowing (paras 6.1.5, 7.1 and 10.2).

5.0 EQUALITY AND DIVERSITY IMPLICATIONS

- 5.1 The report provides an overview of the Council’s Treasury Management activities during 2019/20 in line with the Strategy reports approved by Council in March 2019. As a result, no Equality Impact Assessment is required for the purposes of this report.

6.0 CONSULTATION

- 6.1 Following consideration by Council, this report (Appendix 1) is subject to review by the Finance and Performance Scrutiny Committee.

7.0 FINANCIAL IMPLICATION(S)

- 7.1 The financial results / implications of the Council’s Treasury Management arrangements in 2019/20 have been incorporated into quarterly Performance Reports during 2019/20, reported to Council on 27th November 2019 as part of the 2019/20 Mid-Year Treasury Management Stewardship Report and also incorporated into the 2019/20 Year-end Council Performance Report reported to Cabinet on 28th July 2020.

8.0 LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED

- 8.1 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.

9.0 LINKS TO CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT

- 9.1 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.
- 9.2 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.

10.0 CONCLUSION

- 10.1 This report, together with Appendix 1, provides Members with the opportunity to scrutinise the 2019/20 activities of Treasury Management.



RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2019 / 2020

COUNCIL

29th July 2020

2019/20 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 2019/20; and
- the actual Prudential and Treasury Indicators for 2019/20.

2.0 RECOMMENDATION

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

3.0 REASON FOR RECOMMENDATION

3.1 To report to Council the Annual Treasury Management Review in line with the requirements of the CIPFA Code of Practice on Treasury Management.

4.0 INTRODUCTION

4.1 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”.

- 4.2 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.
- 4.3 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 31st March) of:
 - A Treasury Management Strategy Report including Treasury Indicators and an Investment Strategy for the year ahead; and
 - A Capital Strategy Report (including Prudential Indicators) to support the Council’s strategic and financial planning arrangements.
 - Council approval of a Mid-Year Treasury Management Stewardship Report and an Annual Treasury Management Review Report for the previous year.
 - Effective scrutiny of the Treasury Management function.
- 4.4 Rhondda Cynon Taf County Borough Council complies with these requirements and supplements this by including information on treasury activities and prudential indicators in the quarterly Council performance reports to Members.
- 4.5 During 2019/20, the Finance and Performance Scrutiny Committee reviewed the 2019/20 Strategy and Mid-Year Review, and scrutinised the Treasury Management function via quarterly performance reports for quarters 1 and 2. Due to the outbreak of the coronavirus pandemic (COVID-19), the quarter 3 report was published as a delegated decision and the quarter 4 update is scheduled to be reported to Cabinet on 28th July 2020 and then reviewed by the Overview and Scrutiny Committee on 30th July 2020.
- 4.6 This annual report will cover the following areas of treasury activity during 2019/20:
- 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.

- 4.7 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.

5.0 TREASURY MANAGEMENT ADVISORS

- 5.1 The Council appointed Arlingclose as its Treasury Management Advisors from 1st April 2019 for the 3 year period up to 31st March 2022, with the option to extend for up to 2 years.
- 5.2 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.
- 5.3 The Council recognises that although information and advice is provided via the contract, responsibility for Treasury Management decisions remains with the Council.

6.0 ECONOMIC BACKGROUND

6.1 General Economic Background

- 6.1.1 During the course of 2019/20, the United Kingdom's exit from the European Union remained one of the major influences on the UK economy with the initial 29th March 2019 Brexit deadline extended on a number of occasions until the eventual withdrawal on the 31st January 2020. Over this period, the United Kingdom's negotiations on exiting the European Union and future trading arrangements also drove volatility, particularly in foreign exchange markets. The outcome of the UK General Election held on 12th December 2019 removed a lot of market uncertainty.
- 6.1.2 The World Health Organisation determined COVID-19 to be a Global Pandemic on the 11th March 2020 and resulted in significant falls in financial markets. Government measures put in place to slow the spread of COVID-19 had and continue to have a significant impact on the United Kingdom and many other countries around the world, with decreasing economic activity.
- 6.1.3 The medium-term global economic outlook is weak. While containment measures taken by national governments are being eased, it is likely to be some time before demand recovers to pre-pandemic levels due to increased unemployment, the ongoing need for virus control measures and the impact upon business and consumer confidence. The Consumer Prices Index (CPI)

annual increase to March 2020 was 1.5%, which reduced to 0.6% in June 2020.

6.1.4 The Bank of England had held interest rates at 0.75% throughout 2019/20 before reducing rates on 11th March 2020 to 0.25% and then on 19th March 2020 reducing rates further to the record low of 0.1%. The value of quantitative easing (Bank of England purchasing government bonds to stimulate the economy) increased by £210bn in March 2020 and by a further £100bn in June 2020.

6.1.5 The Council continued to maintain a low risk strategy throughout the year to ensure exposure to any capital loss was minimised.

6.2 Short term investment rates

6.2.1 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, provided by our Treasury Management advisors in July 2020, is for the rate to remain at 0.1% until at least 2022/23, whilst not ruling out further reductions.

6.3 Longer term interest rates

6.3.1 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.

6.3.2 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.

6.3.3 PWLB rates during 2019/20 were as follows (these are the "certainty rates"):

	5 years	10 years	20 years	50 years
Average	1.78%	2.03%	2.51%	2.40%
Highest	2.48%	2.79%	3.21%	3.05%
Lowest	0.99%	1.15%	1.66%	1.57%

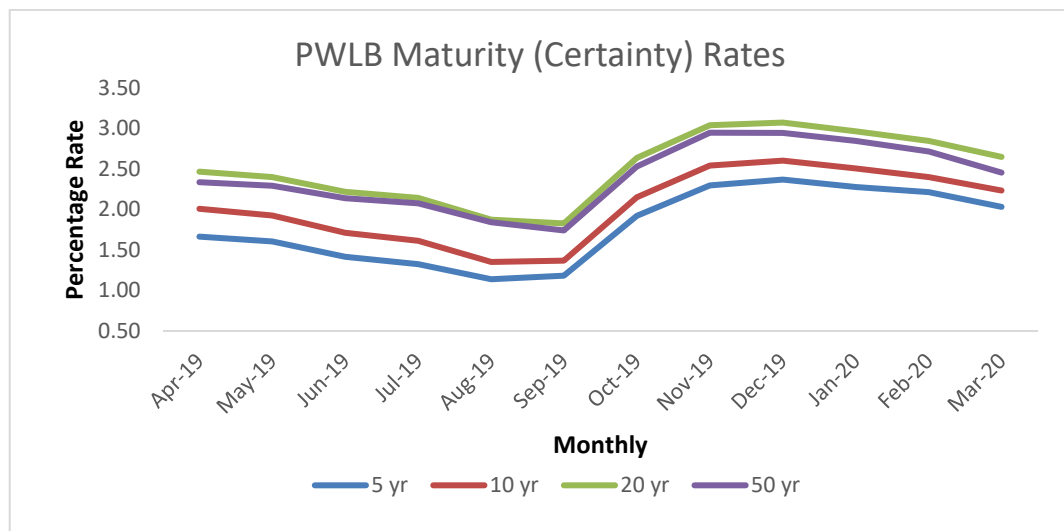
7.0 **BORROWING STRATEGY**

7.1 The borrowing strategy for 2019/20, as included in the 2019/20 Treasury Management Strategy and approved by Council on 27th March 2019, stated that the borrowing requirement to fund the 2019/20 Capital Programme was

£44.0m. In line with the capital programme, the borrowing requirement decreased to £36.5m during the year largely due to the re-profiling of the 21st Century Schools schemes. It was also reported that the Council’s policy will continue to be to maximise “internal borrowing”, running down cash balances and foregoing interest earned at historically low rates. This also minimises counterparty risk (risk that an investment may become irrecoverable).

7.2 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.

7.3 Affordability and the cost of carry remain important influences on the Council’s borrowing strategy. Whilst short term borrowing was taken during 2019/20, the Council also took the opportunity, in line with advice, to take longer term debt to take advantage of lower PWLB rates. This borrowing was taken before Her Majesty’s Treasury raised PWLB interest rates by 1% in October 2019. The graph below shows the changes in the longer term PWLB borrowing rates during 2019/20:



7.4 The 2019/20 Treasury Management Strategy also reported that the Council has previously taken advantage of maximising debt rescheduling opportunities to, for example, generate savings at minimum risk, and that the Section 151 Officer would monitor prevailing rates for any opportunities during the year based upon information provided by the Council’s Treasury advisors. For 2019/20, changes in PWLB rate calculations reduced the attractiveness of early repayments associated with rescheduling and as a result no debt rescheduling took place.

8.0 BORROWING ACTIVITY AND RESULTS

8.1 A summary of the Council's borrowing activity (excluding Finance Leases) is set out in the table below:

	Opening Balance 1 st April 2019	Movement	Closing Balance 31 st March 2020	Average Debt	Total Interest	Weighted Average Interest
	£M	£M	£M	£M	£M	%
PWLB*	168.697	71.448	240.145	217.454	6.932	3.19
Banks LOBO**	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 Authority Bodies	77.000	(30.000)	47.000	40.380	0.398	0.99
Total	331.197	41.448	372.645	343.334	11.450	3.33

* The movements in PWLB debt include the repayment of instalments of existing Equal Instalment of Principal (EIP) loans.

** A "LOBO" loan is one where the lender has options to vary the interest rate. If the lender chooses to exercise that option, the borrower has an option to repay.

The average interest rate of debt as at 31st March 2020 was 3.15%.

8.2 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		%
5 th July 2019	EIP (Certainty Rate)	30.000	15 years	1.41
5 th August 2019	EIP (Certainty Rate)	10.000	15 years	1.30
6 th August 2019	EIP (Certainty Rate)	10.000	15 years	1.25
29 th August 2019	EIP (Certainty Rate)	10.000	12 years 4 months	1.06
3 rd September 2019	EIP (Certainty Rate)	20.000	12 years 4 months	1.00
Total		80.000		

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

8.3 Short term loans were taken to meet day-to-day cash-flow requirements at an average rate of 0.99% during 2019/20.

8.4 During the year there was no variance reported in the Council's Net Capital Financing Budget of £18.9m, despite the challenges faced with investment income and maintaining our low risk strategy.

8.5 There were no opportunities to further reduce the cost of our borrowing via rescheduling during the year.

9.0 ESTIMATED AND ACTUAL TREASURY POSITION AND PRUDENTIAL AND TREASURY INDICATORS

9.1 During the financial year 2019/20, the Council operated within its limits set out in the 'Capital Strategy Report Incorporating Prudential Indicators' and 'Treasury Management Strategy', both of which were approved by Council on 27th March 2019. Details of limits and actual performance are as follows:

	£	2019/20 Actual £
Capital Expenditure 2019/20		121.284M
Capital Financing Requirement (CFR) as at 31 st March 2020		493.487M

Limit / Indicator	2019/20 Limit / Indicator	2019/20 Actual
Authorised Limit (£) (Limit beyond which borrowing is prohibited)	512.000M	373.600M (at highest point in year)
Operational Boundary (£) (Indicator to ensure Authorised Limit not breached)	381.000M	373.100M (at year end)
External Debt (£)	378.447M	372.645M
Other Long Term Liabilities	<u>0.200M</u>	<u>0.071M</u>
Sub total	378.647M	372.716M
Other: Finance Lease	<u>0.384M</u>	<u>0.384M</u>
Borrowing + Other Long Term Liabilities	379.031M	373.100M
Ratio of Financing Costs to Net Revenue Stream	4.86%	4.91%
Funds invested for greater than 1 year (£)	25M	4.25M

LOBO Limit	£50M / 20% of debt portfolio	£31M / 8% 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 13% 12 mths – 2 yrs 3% 2-5 years 10% 5-10 years 17% 10-20 years 8% 20-30 years 0% 30-40 years 49% 40-50 years 0%

10.0 **INVESTMENT STRATEGY**

10.1 The Council manages its investments in-house, investing during 2019/20 in line with the lender criteria as set out in the Treasury Management Strategy approved by Council on the 27th March 2019. Investment policy is governed by Welsh Government guidance.

10.2 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 Section 151 officer determination, following appropriate due diligence and subject to appropriate and acceptable security arrangements being put in place. This low risk strategy was determined balancing risk and return. It is acknowledged that low risk investment strategies result in lower investment returns.

10.3 During the year, the Council has complied with the approved 2019/20 Treasury Management Strategy and there have been no liquidity difficulties.

11.0 **INVESTMENT ACTIVITY AND RESULTS**

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

	Interest Received	Average Cash Balance	Return on Investments	Benchmark Return*
	£M	£M	%	%
Cash Balances	0.151	37.116	0.41	0.53

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

11.2 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.

12.0 EQUALITY AND DIVERSITY IMPLICATIONS

12.1 The report provides an overview of the Council's Treasury Management activities during 2019/20 in line with the Strategy reports approved by Council in March 2019. As a result, no Equality Impact Assessment is required for the purposes of this report.

13.0 CONSULTATION

13.1 Following consideration by Council, this report will be subject to review via the Council's scrutiny arrangements.

14.0 FINANCIAL IMPLICATION(S)

14.1 The financial results / implications of the Council's Treasury Management arrangements in 2019/20 have been incorporated into quarterly Performance Reports during the year and also reported to Council on 27th November 2019 as part of the 2019/20 Mid-Year Treasury Management Stewardship Report.

15.0 LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED

15.1 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.

16.0 LINKS TO CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT

16.1 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.

16.2 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.

17.0 CONCLUSION

17.1 The 2019/20 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 29th JULY 2020

REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES

Item: 2019/20 ANNUAL TREASURY MANAGEMENT REVIEW

Background Papers

- 27th March 2019 Council meeting – Report: Treasury Management Strategy Incorporating Investment Strategy, Treasury Management Indicators and MRP Statement for 2019/20. This report was also reported to the Finance and Performance Scrutiny Committee on 2nd April 2019.
- 27th March 2019 Council meeting – Report: 2019/20 Capital Strategy Report Incorporating Prudential Indicators. This report was also reported to the Finance and Performance Scrutiny Committee on 2nd April 2019.
- 27th November 2019 Council meeting – Report: 2019/20 Mid-Year Treasury Management Stewardship Report. This report was also reported to the Finance and Performance Scrutiny Committee on 29th January 2020.

Officer to contact: Barrie Davies (Director of Finance and Digital Services)
