



RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2021 / 2022

FINANCE AND PERFORMANCE SCRUTINY COMMITTEE
8th September 2021

2020/21 ANNUAL TREASURY MANAGEMENT REVIEW REPORT

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 14th July 2021 (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 2020/21 Annual Treasury Management Review was reported to and agreed by Council on 14th July 2021.
- 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 2020/21.

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).
- An underspend of £250k in the Net Capital Financing 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 6.1.7, 7.1 and 10.2).
- Details of the Council’s non-financial investments (para 11.7).

5.0 EQUALITY AND DIVERSITY IMPLICATIONS / SOCIO-ECONOMIC DUTY

5.1 The report provides an overview of the Council’s Treasury Management activities during 2020/21 in line with the Strategy reports approved by Council in March 2020. 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 now being presented to the Finance and Performance Scrutiny Committee in line with the laid down Codes of Practice and also the Terms of Reference for this committee.

7.0 FINANCIAL IMPLICATION(S)

7.1 The financial results / implications of the Council’s Treasury Management arrangements in 2020/21 have been incorporated into in-year quarterly Performance Reports during 2020/21, reported to Council on 25th November 2020 as part of the 2020/21 Mid-Year Treasury Management

Stewardship Report and also incorporated into the 2020/21 Year-end Council Performance Report reported to Cabinet on 20th July 2021.

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 – 'Making a Difference' 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 2020/21 activities of Treasury Management.



RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2021 / 2022

COUNCIL

14th July 2021

2020/21 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 2020/21; and
- the actual Prudential and Treasury Indicators for 2020/21.

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 2020/21, the Finance and Performance Scrutiny Committee undertook scrutiny of the Treasury Management function including the Treasury Management activity reported within the quarterly performance reports.
- 4.6 This annual report will cover the following areas of treasury activity during 2020/21:
- 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 During the last year the service has adapted to take into account the pandemic with strategy meetings taking place virtually and technical updates being carried out via webinars. 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 The coronavirus pandemic dominated 2020/21, with most countries imposing lockdowns or social restrictions during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut the Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the quantum of which has not been seen in peacetime.
- 6.1.2 In December 2020 two Covid-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The vaccine rollout process is continuing.
- 6.1.3 Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough Coronavirus Job Retention Scheme (furlough) until September 2021. Significant support packages for businesses were provided by Welsh Government during the year.
- 6.1.4 A Brexit trade deal was agreed with the European Union on Christmas Eve 2020.
- 6.1.5 Inflation has remained low over the 12 month period. The annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% for the year to February 2021 (0.8% in April 2020), well below the Bank of England's 2% target. As at May 2021, the CPI rate was 2.1%.

- 6.1.6 The Bank of England (BoE) held the Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme (Bank of England purchasing government bonds to stimulate the economy) by £150 billion (to £895 billion) at its November 2020 meeting. Alongside the March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to Covid-19 restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Whilst the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is withdrawn.
- 6.1.7 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 May 2021, is for the rate to remain at 0.1% until at least 2023/24, with the risk of movement in the Bank Rate in the short term being low.

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 loans are no longer available to Councils planning to acquire investment assets primarily for yield or solely for exploiting commercial opportunities.
- 6.3.4 PWLB rates during 2020/21 were as follows (these are the "certainty rates"):

	5 years	10 years	20 years	50 years
Average	1.53%	1.84%	2.29%	2.14%
Highest	1.98%	2.31%	2.81%	2.71%
Lowest	0.74%	1.04%	1.48%	1.32%

7.0 BORROWING STRATEGY

- 7.1 The borrowing strategy for 2020/21, as included in the 2020/21 Treasury Management Strategy and approved by Council on 18th March 2020, stated that the borrowing requirement to fund the 2020/21 Capital Programme was £29.0m. In line with the capital programme, the borrowing requirement decreased to £24.9m 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 maximise "internal borrowing", run down cash balances and forego 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 the year, no long term borrowing was taken during 2020/21.
- 7.4 The 2020/21 Treasury Management Strategy also reported that the Council has previously taken advantage of debt rescheduling opportunities, for example, to 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. PWLB loan redemption rates have reduced the attractiveness of early repayments associated with rescheduling and as a result no debt rescheduling took place during 2020/21.

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 2020	Movement	Closing Balance 31 st March 2021	Average Debt	Total Interest	Weighted Average Interest
	£M	£M	£M	£M	£M	%
PWLB*	240.145	(10.419)	229.726	235.258	7.102	3.02
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	47.000	(29.000)	18.000	12.668	0.130	1.03
Total	372.645	(39.419)	333.226	333.426	11.352	3.40

* 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 2021 was 3.35%.

- 8.2 On 26th November 2020, after the response to its consultation on future lending terms, HM Treasury reduced PWLB interest rates by 1%, thereby reversing the previous increase on 9th October 2019.
- 8.3 Short term loans were taken to meet day-to-day cash-flow requirements at an average rate of 1.03% during 2020/21.
- 8.4 At the end of the year there was an underspend of £250k reported in the Council's Net Capital Financing Budget of £19.7m. This has been due to lower than forecasted borrowing costs, due to lower interest rates and effective cashflow management.
- 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 2020/21, 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 18th March 2020 (note a revised Authorised Limit and Operational Boundary were approved by Council on 25th November 2020). Details of limits and actual performance are as follows:

	£	2020/21 Actual £
Capital Expenditure 2020/21		102.320M
Capital Financing Requirement (CFR) as at 31 st March 2021		504.848M

Limit / Indicator	2020/21 Limit / Indicator	2020/21 Actual
Authorised Limit (£) (Limit beyond which borrowing is prohibited)	532.000M	373.099M (at highest point in year)
Operational Boundary (£) (Indicator to ensure Authorised Limit not breached)	426.000M	333.680M (at year end)
External Debt (£)	417.226M	333.226M
Other Long Term Liabilities	<u>0.071M</u>	<u>0.071M</u>
Sub total	417.297M	333.297M
Other: Finance Lease	<u>2.389M</u>	<u>0.383M</u>
Borrowing + Other Long Term Liabilities	419.686M	333.680M
Ratio of Financing Costs to Net Revenue Stream	5.11%	4.86%
Funds invested for greater than 1 year (£)	25M	6.30M
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 13% 12 mths – 2 yrs 4% 2-5 years 10% 5-10 years 16% 10-20 years 6% 20-30 years 0% 30-40 years 51% 40-50 years 0%

10.0 INVESTMENT STRATEGY

- 10.1 The Council manages its investments in-house, investing during 2020/21 in line with the lender criteria as set out in the Treasury Management Strategy approved by Council on the 18th March 2020. 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 2020/21 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	0.022	56.749	0.04	-0.07

* 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.
- 11.3 However the average return on investments has out-performed the benchmark return over the year.
- 11.4 The £6.30m for "funds invested for greater than 1 year" represents a 10-year loan to Trivallis of £4.00m (£4.25m outstanding, £0.25m of which to be repaid within 12 months), and the Cynon Taf Community Housing Group loan of £2.3m (£2.4m outstanding, £0.1m of which to be repaid within 12 months).
- 11.5 For measuring the Council's exposure to interest rate risk, the following table shows the revenue impact of a 1% rise or fall in interest rates:

Interest Rate Risk	Impact £M
One year revenue impact of a 1% rise/fall in interest rates	0.086

11.6 The Council also holds non-specified investments in Cynon Valley Waste Disposal Company Ltd, trading as Amgen Cymru Ltd and Amgen Rhondda Ltd. These are shown in the Council's balance sheet as £3.035m, under "Investments in Subsidiaries".

11.7 The Council also holds non-financial investments.

- Non-financial commercial investment in Ty Dysgu, Cefn Coed Business Park, Nantgarw. The building and site has a fair value of £3.6m, with an annual rental of £320k. This asset was reclassified as an investment property on the balance sheet following a change in use of the building.
- The Council has investments it categorises as non-financial and other investments relevant to Council functions. These buildings have a fair value of £17.9m, with an annual rental of £1.1m. They relate to 50-53 Taff St, Pontypridd; Unit 1 Cambrian Industrial Estate, Clydach Vale; Rhos Surgery, Mountain Ash; Llys Cadwyn, Pontypridd, and 96-102 Taff Street, Pontypridd.

12.0 EQUALITY AND DIVERSITY IMPLICATIONS / SOCIO-ECONOMIC DUTY

12.1 The report provides an overview of the Council's Treasury Management activities during 2020/21 in line with the Strategy reports approved by Council in March 2020. 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 2020/21 have been incorporated into quarterly Performance Reports during the year and also reported to Council on 25th November 2020 as part of the 2020/21 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 – 'Making a Difference' 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 2020/21 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 14th JULY 2021

REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES

Item: 2020/21 ANNUAL TREASURY MANAGEMENT REVIEW

Background Papers

- 18th March 2020 Council meeting – Report: Treasury Management Strategy Incorporating Investment Strategy, Treasury Management Indicators and MRP Statement for 2020/21.
- 18th March 2020 Council meeting – Report: 2020/21 Capital Strategy Report Incorporating Prudential Indicators.
- 25th November 2020 Council meeting – Report: 2020/21 Mid-Year Treasury Management Stewardship Report.

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