



**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2021/22**

**COUNCIL**

**24<sup>th</sup> November 2021**

**2021/22 MID YEAR TREASURY MANAGEMENT STEWARDSHIP REPORT**

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

**1.0 PURPOSE OF REPORT**

1.1 The CIPFA Code of Practice on Treasury Management requires a Mid Year Review to be presented to Council. This report provides Members with information on:-

- The Council's Treasury Management activity during the first six months of 2021/22; and
- Prudential and Treasury Indicators for the same period.

**2.0 RECOMMENDATIONS**

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

**3.0 INTRODUCTION**

3.1 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.

- 3.2 The Treasury Management function operates within the Treasury Management Strategy and Capital Strategy, both approved by Council on the 10<sup>th</sup> March 2021.
- 3.3 Treasury Management is defined as:  
*“The management of the organisation’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*
- 3.4 The Council sets a balanced budget to ensure that all planned expenditure is financed by various sources of income / reserves. Treasury Management is concerned with monitoring the cash flows of such income and expenditure and planning investments and borrowing prudently.
- 3.5 This report includes the following areas of treasury activity during the first six months of 2021/22:
- Economic background;
  - Borrowing activity and results;
  - Estimated and actual treasury position, treasury management and prudential indicators; and
  - Investment strategy, activity and results.

## **4.0 ECONOMIC BACKGROUND**

### **4.1 General Economic Background**

- 4.2 The economic recovery from Covid-19 pandemic dominated the first half of the financial year, alongside an easing of restrictions and the on-going roll-out of the vaccination programme. Over this period, Government initiatives continued to support the economy, notably through the Coronavirus Job Retention Scheme (Furlough), to the 30<sup>th</sup> September 2021.
- 4.3 GDP growth increased by 5.5% for the quarter ending 30<sup>th</sup> June 2021 and by 1.3% for the quarter ending 30<sup>th</sup> September 2021, and year-on-year GDP growth to the 30<sup>th</sup> September was 6.6%. In the 3 months June to August 2021, the unemployment rate fell to 4.5% (4.8% March to May 2021) and the Bank of England has indicated a high degree of uncertainty for the labour market in the short-term, with initial indicators suggesting a marginal rise in unemployment.
- 4.4 The 12 month Consumer Price Index (CPI) inflation fell slightly from 3.2% in August 2021 to 3.1% in September 2021 and the Bank of England expects inflation to rise to 4.5% through the winter, peaking at around 5% in April 2022. The upward pressure is expected to cease over time as supply disruption improves, global demand rebalances and energy prices stabilise, with the inflation rate target being maintained at 2%.

- 4.5 The Council's investment income is subject to changes in short term interest rates. The level of the Bank Base Rate or 'Bank Rate' is one of the main determinants of the rate of interest the Council receives on its short-term investments. The Bank of England Monetary Policy Committee has maintained the Bank Rate at 0.1% throughout this financial year to date. Following the November 2021 Monetary Policy Report, market implied expectations are that the Rate could rise to around 1% by the end of 2022.
- 4.6 The majority of the Council's borrowing is from the PWLB (Public Works Loans Board). Long-term borrowing rates are influenced by gilt yields and these have risen but are expected to stay constant before falling as inflation decreases.
- 4.7 PWLB maturity rates (certainty rate) during the first half of the financial year were as follows:

	<b>5 years</b>	<b>10 years</b>	<b>20 years</b>	<b>50 years</b>
Average	1.21%	1.63%	1.99%	1.81%
Highest	1.46%	1.84%	2.24%	2.06%
Lowest	1.08%	1.42%	1.74%	1.49%

- 4.8 Estimates of future rates are as follows:

	<b>Base Rate</b>	<b>PWLB Maturity Rates</b>			
		<b>5 years</b>	<b>10 years</b>	<b>20 years</b>	<b>50 years</b>
2021/22 (Act 6 mth Average)	0.10%	1.21%	1.63%	1.99%	1.81%
31/03/22	0.10%	1.45%	1.85%	2.20%	2.10%
31/03/23	0.50%	1.40%	1.85%	2.15%	2.05%

## **5.0 BORROWING ACTIVITY AND RESULTS**

- 5.1 The borrowing strategy for 2021/22, approved by Council in March 2021, reported that the Director of Finance and Digital Services, as Section 151 Officer (or in his absence the Deputy Section 151 Officer), under delegated powers, will take the most appropriate form of borrowing depending upon the prevailing interest rates at the time, and taking into account advice provided by our advisors.
- 5.2 In March, the borrowing requirement was estimated to be £19.3m based on the Capital Programme at that time. The borrowing requirement has slightly increased for 2021/22 due to revised delivery timescales, and is now £21.0m as at 30<sup>th</sup> September 2021.
- 5.3 It was also reported that the Council would monitor prevailing PWLB rates for any opportunities to reschedule debt to generate savings. I can report that to the 30<sup>th</sup> September this financial year, the Council has not had a

viable option to reschedule debt. Affordability and the cost of carry remained important influences on the Council's borrowing strategy. No short-term or long-term borrowing was taken during the first half of 2021/22.

- 5.4 In line with the above strategy, this Council has not borrowed in advance of need during the first 6 months of the year and has no current intention to borrow in advance during the remainder of 2021/22.
- 5.5 No variance is being reported for net capital charges which have a budget for 2021/22 of £19.950m.

## **6.0 CERTAINTY RATE**

- 6.1 The "certainty rate", whereby local authorities are able to access borrowing at 0.2% below published PWLB rates was available from HM Treasury again for this year. Authorities were required to provide an indication of their potential borrowing requirements for the next 3 years. This Council provided such information to HM Treasury and will continue to be able to access the discounted rate up to 31<sup>st</sup> March 2022.

## **7.0 ESTIMATED AND ACTUAL TREASURY POSITION AND PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS**

- 7.1 During the six months to 30<sup>th</sup> September 2021, the Council operated within its prudential limits set out in the Prudential Code report approved by Council in March 2021. Details of limits and actual performance are as follows:

### **7.2 Capital Expenditure and the Capital Financing Requirement**

- 7.2.1 The Capital Expenditure plans of the Council are primarily financed by capital receipts and capital grants. The remaining element which cannot be immediately financed from other resources will constitute our borrowing requirement. The estimated level of available capital resources is provided in summary as the Capital Expenditure Indicator below.

#### **Indicator: Capital Expenditure**

	2021/22 Original Estimate £M	2021/22 Projected Outturn £M	2022/23 Revised Estimate £M	2023/24 Revised Estimate £M
Supported spend	68.904	129.007	46.263	20.321
Unsupported spend	12.409	14.090	5.408	0.244
Total spend	81.313	143.097	51.671	20.565
Financed by:-				
Borrowing	19.282	20.963	12.281	7.117

Other Capital Resources (Grants, Capital Receipts)	62.031	122.134	39.390	13.448
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7.2.2 The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow for capital purposes. The CFR is capital expenditure that has not yet been paid for from either revenue or capital resources.

7.2.3 The Council's expectation for the CFR for the next three years is shown below.

**Indicator: Capital Financing Requirement (CFR)**

	2021/22 31/03/22 Original Estimate £M	31/03/22 Projected Outturn £M	2022/23 31/03/23 Revised Estimate £M	2023/24 31/03/24 Revised Estimate £M
CFR	512.804	511.302	508.470	500.107
Net movement in CFR			(2.832)	(8.363)

7.2.4 The expected external debt for each year is as detailed below.

**Indicator: External Debt**

	30/09/21 Actuals £M	2021/22 31/03/22 Original Estimate £M	2021/22 31/03/22 Revised Estimate £M	2022/23 31/03/23 Revised Estimate £M	2023/24 31/03/24 Revised Estimate £M
Borrowing	310.017	477.807	361.807	367.842	363.876
Other long term liabilities	0.454	0.583	0.582	0.582	0.581
Total External Debt	310.471	478.390	362.389	368.424	364.457

7.2.5 Other Long Term Liabilities represents the Council's obligation under its finance leases.

**8.0 LIMITS TO BORROWING ACTIVITY**

8.1 The first key control over the Council's activity is to ensure that, over the medium term, borrowing will only be for a capital purpose. The Council needs to ensure that external borrowing does not exceed the total of the capital financing requirement in the preceding year plus the estimate of the additional capital financing requirement for the next three financial years. This allows some flexibility within a three-year period to deliver an effective Treasury Management strategy.

### Borrowing Activity (Gross Borrowing)

	2021/22 30/09/21 Actuals £M	2021/22 31/03/22 Original Estimate £M	2021/22 31/03/22 Revised Estimate £M	2022/23 31/03/23 Revised Estimate £M	2023/24 31/03/24 Revised Estimate £M
Gross Borrowing (inc. Other Long Term Liabilities)	310.471	478.390	362.389	368.424	364.457
Capital Financing Requirement		512.804	511.302	508.470	500.107

- 8.2 The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be set, monitored and revised by Members. It reflects the maximum level of borrowing to fund existing capital commitments, which could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some added headroom for unexpected movements. It is proposed that these limits be amended in line with increases to the underlying need to borrow, that is, the Capital Financing Requirement.

### Indicator: The Authorised Limit

	2021/22 30/09/21 Actuals £M	2021/22 Limit £M	2022/23 Limit £M	2023/24 Limit £M
Gross Borrowing	310.017	530.000	530.000	530.000
Other long term liabilities	0.454	2.000	2.000	2.000
Authorised Limit	310.471	532.000	532.000	532.000

- 8.3 The Operational Boundary is based on the probable external debt during the course of the year; actual borrowing could vary around this boundary, for short times, during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

### Indicator: The Operational Boundary

	2021/22 30/09/21 Actuals £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M
Gross Borrowing Limit	310.017	480.000	480.000	480.000
Other long term liabilities	0.454	1.000	1.000	1.000
Operational Boundary	310.471	481.000	481.000	481.000

## 9.0 **AFFORDABILITY PRUDENTIAL INDICATORS**

- 9.1 Previous sections have covered overall capital and control of borrowing indicators, but there is also a requirement to assess the affordability of capital investment plans. This provides an indication of the impact of the capital investment plans on the overall Council finances.
- 9.2 The Ratio of Financing Costs to Net Revenue Stream identifies the trend in the cost of capital (borrowing costs net of interest and investment income) against the "net revenue stream". The net revenue stream for the General Fund is the amount collectable from Council Tax payers added to the Council's Revenue Support Grant (RSG) and Non Domestic Rates (NDR). The key use of this indicator is to compare trends in the ratio of financing costs to the net revenue stream, over time.

### Indicator: Ratio of Financing Costs to Net Revenue Stream

	2021/22 Original Estimate	2021/22 Revised Estimate	2022/23 Revised Estimate	2023/24 Revised Estimate
General Fund	5.10%	4.94%	5.01%	5.06%

- 9.3 A LOBO is a financial instrument called a "Lender's Option Borrower's Option". It provides a lower rate of interest for the initial period and a higher rate for the rest of its term (reversionary period), albeit that the higher rate was comparable with interest rates prevailing at the time the loans were taken. At the end of the initial period and at six monthly intervals, the lender has the option to increase the interest rate payable. This provides the Council with the option to repay the loan if the terms are not acceptable. It is the view of our Treasury Management Advisors that it is unlikely the LOBO's will be called within this financial year.
- 9.4 The amount of LOBO debt held in 2021/22 is £31m, 10% of total debt as at 30<sup>th</sup> September. Although not a requirement of the Prudential Code, an internal limit of LOBO debt is set as follows:

	£M	% of Debt Portfolio
LOBO Limits	50	20

- 9.5 The maturity structure indicator sets gross limits to reduce the Council's exposure to large fixed rate sums falling due for refinancing annually. The Code of Practice requires LOBO's to be represented in the maturity structure at the next option date, hence the table below demonstrates a high maturity within 12 months.

**Indicator: Maturity Structure**

	2021/22 Actuals as at 30/09/21	Upper Limit	Lower Limit
Under 12 months	14%	70%	0%
12 months to 2 years	4%	70%	0%
2 years to 5 years	10%	60%	0%
5 years to 10 years	15%	70%	0%
10 years to 20 years	5%	90%	0%
20 years to 30 years	0%	90%	0%
30 years to 40 years	52%	90%	0%
40 years to 50 years	0%	90%	0%

- 9.6 In order to maximise investment returns there could be opportunities for sums to be invested for longer than one year. This would only be undertaken with a prudent view of the primary considerations of security and liquidity.

**10.0 FINANCIAL INVESTMENTS**

- 10.1 The Investment Strategy enables lending to organisations upon which we undertake appropriate due diligence and put in place appropriate security arrangements. Such loans could result in the Council being able to achieve better investment returns at an acceptable level of risk and to secure base budget savings over the short to medium term to protect frontline services.
- 10.2 These investment decisions are classed as "Financial Investments" and are subject to S151 officer determination, following appropriate due diligence and subject to appropriate and acceptable security arrangements being in place as part of the commercial agreement.
- 10.3 The maximum exposure for this type of investment is set at £25m with a maximum maturity limit of 30 years.
- 10.4 Such transactions will be included in the indicators reported as part of the quarterly performance reports and statutory Treasury Management Reports.



**Indicator: Total principal funds invested for periods longer than 1 year:**

	Limit	30/09/21 Actual
Maximum principal sums invested over 1 year	£25m	£6.30m

- 10.5 The £6.30m represents a 10-year loan to Trivallis of £4.00m (£4.25m outstanding, £0.25m of which to be repaid within 12 months) and a 25-year loan to Cynon Taf Housing Community Group of £2.30m (£2.40m outstanding, £0.10m of which to be repaid within 12 months).
- 10.6 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 (based on borrowing and investments as at 30<sup>th</sup> September 2021):

Interest Rate Risk	Impact £M
One year revenue impact of a 1% rise/fall in interest rates	0.108

**11.0 INVESTMENT STRATEGY, ACTIVITY & RESULTS**

- 11.1 The Council manages its investments in-house, investing in line with the Council's approved lender criteria as approved by Council on the 10<sup>th</sup> March 2021.
- 11.2 Members will recall that following the onset of the unprecedented national and international economic crisis in 2008, all of this Council's cash flows are currently being invested in the Debt Management Account Deposit Facility and other Government backed public sector bodies, in line with the aforementioned approved strategy. This strategy ensures we prioritise **S**ecurity (protecting monies invested), then **L**iquidity (cashflow) and finally **Y**ield (return on investment). The order of these "SLY" priorities are detailed in Investment Guidance produced by the Welsh Government.
- 11.3 I have kept this under constant review subsequently with a view to returning to market investment activity at an appropriate time. To date, the Council has not returned to market investments. Members will be kept informed of any changes as part of the Council's quarterly performance reports.
- 11.4 The following table shows the overall result of the investment activities undertaken by the Council:

	Interest Received £M	Average Cash Balance £M	Return on Investments %	Benchmark Return %
General Balances	0.002	20.678	0.01	-0.08

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

11.5 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 2020/21 balance sheet as £3.035m, under "Investments in Subsidiaries".

11.6 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 £322k.
- 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.

11.7 Decision making on commercial activities will be regeneration led in line with Council's Constitution, approved strategies and policies and will in all instances be with the express approval of the Council's Section 151 Officer and the Director of Legal Services.

## **12.0 TREASURY MANAGEMENT ADVISORS**

12.1 The Council appointed Arlingclose as its Treasury Management Advisors during March 2019 and they continue to support the Council's Treasury Management function. The initial period of the existing contract ends March 2022 and preparatory work is underway to assess whether or not to extend the current arrangements, in line with the contract in place.

## **13.0 TRAINING**

13.1 Officers have attended webinars hosted by Arlingclose which provide an overview of the economic environment, investment advice, updates on Codes of Practice and technical guidance. A virtual online strategy meeting has also been held between Arlingclose and officers in July. Officers continue to receive interest rate information, economic data, credit ratings and general market environment information on a regular basis. All Elected

Members were invited to a virtual training event facilitated by Arlingclose on 8<sup>th</sup> September 2021.

#### **14.0 MINIMUM REVENUE PROVISION (MRP)**

- 14.1 In accordance with legislative requirements applicable to local government (Local Government Act 2003), there is a requirement to charge an amount to revenue each year in respect of capital expenditure that is funded by borrowing. This charge is known as Minimum Revenue Provision (MRP) and must be a prudent amount in accordance with Welsh Government Statutory Guidance.
- 14.2 The method of charging MRP for Supported Borrowing is a straight line policy over 40 years. With regard to finance leases MRP is equivalent to the principal value of repayments. With regard to the method of charging MRP to Council Fund Balances in respect of Unsupported Borrowing only, the method used is dependent upon the type of asset being created as set out in the approved MRP Policy statement approved by Council on the 10<sup>th</sup> March 2021.

#### **15.0 EQUALITY AND DIVERSITY IMPLICATIONS AND SOCIO-ECONOMIC DUTY**

- 15.1 The report provides an overview of the Council's Treasury Management activities during the first six months of 2021/22 in line with the Treasury Management and Capital Strategies approved by Council in March 2021. As a result, there are no equality and diversity or socio-economic duty implications to report.

#### **16.0 CONSULTATION**

- 16.1 Following consideration by Council, this report will be presented to the Finance and Performance Scrutiny Committee in line with the laid down code of practice "CIPFA Treasury management in the Public Services 2017" and also the Terms of Reference for this Committee.

#### **17.0 FINANCIAL IMPLICATION(S)**

- 17.1 The financial results / implications of the Council's Treasury Management arrangements during the first six months of 2021/22 have been incorporated into quarterly Performance Reports during the year.

## **18.0 LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED**

- 18.1 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.

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

- 19.1 This report evidences the progress made in delivering the Council's Corporate Plan 2020-24 – '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.
- 19.2 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.

## **20.0 CONCLUSION**

- 20.1 The 2021/22 financial year continues to be a challenging period for Treasury Management and this report highlights for Members the Treasury Management activities that have been undertaken between April and September 2021.

### **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 24<sup>TH</sup> NOVEMBER 2021**

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

**Item: 2021/22 MID YEAR TREASURY MANAGEMENT STEWARDSHIP  
REPORT**

**Background Papers**

- 10<sup>th</sup> March 2021 Council meeting – Reports:
  - Treasury Management Strategy Incorporating Investment Strategy, Treasury Management Indicators and Minimum Revenue Provision Statement for 2021/22.
  - 2021/22 Capital Strategy Report Incorporating Prudential Indicators.

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