



RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2022 / 2023

COUNCIL

6th July 2022

2021/22 ANNUAL TREASURY MANAGEMENT REVIEW

REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES

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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 2021/22; and
- the actual Prudential and Treasury Indicators for 2021/22.

2.0 RECOMMENDATION

2.1 It is recommended that Members:

- a) note the content of the report; and
- b) agree the funding proposals for the Sustainable Communities for Learning programme as set out at section 13.

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 2021/22, 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 2021/22:
- Treasury Management advisors;
 - Revised CIPFA codes and updated PWLB lending guidance;
 - 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. Following a review of the service provision, the option to extend for a further two years has been agreed.

5.2 During the last two years the service provided has adapted effectively 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 REVISED CIPFA CODES & UPDATED PWLB LENDING GUIDANCE

6.1 In August 2021 HM Treasury revised guidance for the PWLB lending facility providing details of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

6.2 CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes relate to permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

7.0 ECONOMIC BACKGROUND

7.1 General Economic Background

- 7.1.1 The continuing economic recovery from the coronavirus pandemic, together with the war in Ukraine, higher inflation and higher interest rates were significant issues during 2021/22.
- 7.1.2 In the UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy prices and sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was expected to be temporary. However, price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport issues. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for March 2022 was 7.0% year on year, up from 6.2% and 5.5% in the previous months.
- 7.1.3 Having increased the Bank Rate from 0.10% to 0.25% in December 2021, the Bank of England continued with stepped increases to its current rate of 1.25% (June 2022).
- 7.1.4 In its March meeting, the Bank of England Monetary Policy Committee noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to higher levels than their previous month's forecast. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.
- 7.1.5 The conflict in Ukraine served to add further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.
- 7.1.6 Bond yields were similarly volatile as the tension between higher inflation and flight to quality impacted, with a general upward trend from higher interest rates dominating as yields generally climbed.
- 7.1.7 The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.
- 7.1.8 The Council continued to maintain a low risk strategy throughout the year to ensure exposure to risk of any capital loss was minimised.
- 7.2 Short term investment rates

7.2.1 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 latest (June 2022) forward looking estimate of the Bank Rate, provided by our Treasury Management advisors, is for the rate to rise to 2.25% by December 2022.

7.3 Longer term interest rates

7.3.1 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.

7.3.2 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.

7.3.3 PWLB loans are no longer available to Councils planning to acquire investment assets primarily for yield or solely for exploiting commercial opportunities.

7.3.4 PWLB maturity loan rates during 2021/22 were as follows (these are the "certainty rates"):

	5 years	10 years	20 years	50 years
Average	1.49%	1.81%	2.09%	1.85%
Highest	2.38%	2.55%	2.76%	2.49%
Lowest	1.08%	1.42%	1.69%	1.25%

8.0 BORROWING STRATEGY

8.1 The borrowing strategy for 2021/22, as included in the 2021/22 Treasury Management Strategy and approved by Council on 10th March 2021, stated that the borrowing requirement to fund the 2021/22 Capital Programme was £19.3m. In line with the capital programme, the borrowing requirement decreased to £12.4m during the year largely due to the re-profiling of the Sustainable Communities for Learning Programme (formerly 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).

- 8.2 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.
- 8.3 Affordability and the cost of carry remain important influences on the Council's borrowing strategy. Short term borrowing was taken during the year to manage cashflow volatility and no long term borrowing was taken other than £82.4M repayable funding from Welsh Government to support investment in rail infrastructure.
- 8.4 The 2021/22 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 2021/22.

9.0 **BORROWING ACTIVITY AND RESULTS**

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

	Opening Balance 01/04/21	Movement	Closing Balance 31/03/2022	Average Debt	Total Interest	Weighted Average Interest
	£M	£M	£M	£M	£M	%
PWLB*	229.726	(10.419)	219.307	224.839	6.962	3.10
Banks LOBO**	31.000		31.000	31.000	1.396	4.50
Banks Fixed Term	54.500		54.500	54.500	2.749	5.00
Local Auths	18.000	(13.000)	5.000	3.485	0.008	0.22
Other***	0	82.400	82.400	0.452	0.00	0.00
Total	333.226	58.981	392.207	314.276	11.115	3.54

* 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.

*** "Other" relates to Welsh Government repayable funding for investment in transport (rail) infrastructure works.

- 9.2 The average interest rate of debt as at 31st March 2022 was 2.81%

- 9.3 Short term borrowing of £5M at the 31st March 2022 was in place to meet day-to-day cash-flow requirements at a rate of 0.15%.
- 9.4 At the end of the year there was no variance reported in the Council's Net Capital Financing Budget of £19.950M.
- 9.5 There were no opportunities to further reduce the cost of our borrowing via rescheduling during the year.

10.0 ESTIMATED AND ACTUAL TREASURY POSITION AND PRUDENTIAL AND TREASURY INDICATORS

- 10.1 During the financial year 2021/22, 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 10th March 2021. Details of limits and actual performance are as follows:

	£	2021/22 Actual £
Capital Expenditure 2021/22		105.946M
Capital Financing Requirement (CFR) as at 31 st March 2022		502.763M

Limit / Indicator	2021/22 Limit / Indicator	2021/22 Actual
Authorised Limit (£) (Limit beyond which borrowing is prohibited)	614.400M	392.660M (at highest point in year)
Operational Boundary (£) (Indicator to ensure Authorised Limit not breached)	563.400M	392.660M (at year end)
External Debt (£)	560.207M	392.207M
Other Long Term Liabilities	<u>0.383M</u>	<u>0.071M</u>
Sub total	560.590M	392.278M
Other: Finance Lease	<u>0.200M</u>	<u>0.382M</u>
Borrowing + Other Long Term Liabilities	560.790M	392.660M
Ratio of Financing Costs to Net Revenue Stream	5.10%	4.88%

Funds invested for greater than 1 year (£)	25M	2.2M
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 11% 12 mths – 2 yrs 24% 2-5 years 8% 5-10 years 12% 10-20 years 4% 20-30 years 0% 30-40 years 41% 40-50 years 0%

10.2 The indicators and limits have been updated in line with Council approval of 9th March 2022 detailing the funding arrangements for Transport (Rail) Infrastructure works.

11.0 **INVESTMENT STRATEGY**

11.1 The Council manages its investments in-house, investing during 2021/22 in line with the lender criteria as set out in the Treasury Management Strategy approved by Council on the 10th March 2021. Investment policy is governed by Welsh Government guidance.

11.2 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.

11.3 During the year, the Council has complied with the approved 2021/22 Treasury Management Strategy and there have been no liquidity difficulties.

12.0 **INVESTMENT ACTIVITY AND RESULTS**

12.1 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	0.040	45.181	0.09	0.146

** The benchmark return for Local Authority internally managed funds is the average 7-day Sterling Overnight rate (SONIA).*

- 12.2 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.
- 12.3 The average return on investments has slightly under-performed the benchmark return over the year.
- 12.4 The £2.20m for “funds invested for greater than 1 year” represents a loan to Cynon Taf Community Housing Group (£2.3m outstanding, £0.1m of which to be repaid within 12 months).
- 12.5 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	0.508

- 12.6 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 draft balance sheet as £3.032m, under “Investments in Subsidiaries”.
- 12.7 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 £2.980m, with an annual rental of £322k. 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 £17.5m, with an annual rental of £1.3m. They relate to:
 - 50-53 Taff St, Pontypridd;
 - Unit 1 Cambrian Industrial Estate, Clydach Vale;
 - Rhos Surgery, Mountain Ash;
 - Coed Ely Business Units;
 - Llys Cadwyn, Pontypridd, and;
 - 96-102 Taff Street, Pontypridd.

13.0 FUNDING OF PROJECTS SUPPORTED BY THE SUSTAINABLE COMMUNITIES FOR LEARNING PROGRAMME (FORMERLY, 21ST CENTURY SCHOOLS AND COLLEGES PROGRAMME)

- 13.1 This Council continues to successfully deliver new, improved and modern schools to make a significant improvement to the learning environment for our young people.
- 13.2 On the 4th October 2021, Cabinet considered a report which detailed a significant increase in the approved Strategic Outline Programme (SOP) for Band B of the programme from £167M to £252M. The individual school projects were reported as part of that update, which are being funded by a combination of WG Grant Funding (at 65%) and the WG Mutual Investment Model (MIM) Funding (at 81%, subsequently updated to 82.3%). The Council is also responsible for funding fit out costs at 35% for the MIM projects. The Council's contributions are funded using prudential borrowing and revenue funding respectively.
- 13.3 The individual schemes continue to evolve through the Welsh Government's five case business model and approval process, with procurement processes running alongside to enable the delivery of timetabled on-site development.
- 13.4 Whilst absolute costs are not known until the completion of procurement processes and WG approvals, the overall envelope has previously been agreed by WG and accordingly the Council's contributions in line with the agreed envelope likewise need to be secured to avoid unnecessary delays to the programme.
- 13.5 The Council's contributions to the respective funding packages are and will continue to be built into the Council's Medium Term Financial Plan and Capital Programme accordingly, and it is proposed that Council agrees the Council's overall level of contribution to funding the full programme in line with the detail set out above and up to and within the overall envelope. The detail will be subsequently reported through our existing Treasury Management reporting processes.
- 13.6 The latest modelled Council contribution level would be £43.2M in respect of the 35% grant funding contribution and £2.2M in respect of our revenue costs for the MIM projects. Council has previously agreed to £13.9M of borrowing in respect of the Band B envelope.

14.0 EQUALITY AND DIVERSITY IMPLICATIONS / SOCIO-ECONOMIC DUTY

- 14.1 The report provides an overview of the Council's Treasury Management activities during 2021/22 in line with the Strategy reports approved by Council in March 2021. As a result, no Equality Impact Assessment is required for the purposes of this report.

15.0 WELSH LANGUAGE IMPLICATIONS

15.1 There are no Welsh language implications as a result of the recommendations in this report.

16.0 CONSULTATION

16.1 Following consideration by Council, this report will be subject to review by the Council's Governance and Audit Committee.

17.0 FINANCIAL IMPLICATION(S)

17.1 The financial results / implications of the Council's Treasury Management arrangements in 2021/22 have been incorporated into quarterly Performance Reports during the year and also reported to Council on 24th November 2021 as part of the 2021/22 Mid-Year Treasury Management Stewardship Report.

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 – '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 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.

LOCAL GOVERNMENT ACT 1972

AS AMENDED BY

THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

COUNCIL 6th JULY 2022

REPORT OF THE DIRECTOR OF FINANCE AND DIGITAL SERVICES

Item: 2021/22 ANNUAL TREASURY MANAGEMENT REVIEW

Background Papers

- 10th March 2021 Council meeting – Report: Treasury Management Strategy Incorporating Investment Strategy, Treasury Management Indicators and MRP Statement for 2021/22.
<https://rctcbc.moderngov.co.uk/documents/s25360/Report.pdf?LLL=0>
- 10th March 2021 Council meeting – Report: 2021/22 Capital Strategy Report Incorporating Prudential Indicators.
[Report.pdf \(moderngov.co.uk\)](https://rctcbc.moderngov.co.uk/documents/s25360/Report.pdf?LLL=0)
- 24th November 2021 Council meeting – Report: 2021/22 Mid-Year Treasury Management Stewardship Report.
<https://rctcbc.moderngov.co.uk/documents/s32184/Report.pdf?LLL=0>

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