



RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2023 / 2024

COUNCIL

12th JULY 2023

2022/23 ANNUAL TREASURY MANAGEMENT REVIEW

**REPORT OF THE DEPUTY CHIEF EXECUTIVE & GROUP DIRECTOR -
FINANCE, DIGITAL & FRONTLINE 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 2022/23; and
- the actual Prudential and Treasury Indicators for 2022/23.

2.0 RECOMMENDATION

2.1 It is recommended that Members:

- a) note the content of the report; and
- b) note the funding arrangements for the Sustainable Communities for Learning programme as set out at section 12.

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 2022/23, the Governance and Audit Committee undertook scrutiny of the Treasury Management function, including treasury / capital strategy and annual / mid-year performance reports.
- 4.6 This annual report will cover the following areas of treasury activity during 2022/23:
- 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. Following a review of the service provision, the option to extend for a further two years has been agreed.
- 5.2 Since March 2020, the service provided has adapted with strategy meetings taking place virtually and technical updates being carried out via webinars. This practice has continued effectively post pandemic. 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 UK economic backdrop during 2022/23 was one of high energy and commodity prices and inflation that in turn impacted on household budgets and spending. The conflict in Ukraine was a key factor in contributing to the UK's economic position and relatively weak outlook, and more widely also contributed to keeping global inflation above central bank targets.
- 6.1.2 Central Bank actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, taking into account the potential for economic slowdowns in these regions.
- 6.1.3 Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose to 10.1% in July 2022 and then 11.1% in October 2022. Inflation remained high in subsequent months and appeared to be past the peak, albeit, remained at 10.1% in March 2023. During the last quarter of the financial year, food and housing costs were some of the largest upward contributors to the annual rate.

- 6.1.4 The unemployment rate eased from 3.8% at the beginning of the year to 3.7% toward the end of the financial year.
- 6.1.5 Earnings were robust throughout the year, with earnings growth in December 2022 to February 2023 at 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, both measures were negative for that period.
- 6.1.6 The Bank of England official Bank Rate was 4.25% as at March 2023, up from 0.75% at March 2022. The Monetary Policy Committee (MPC) have increased the Bank Rate at each meeting during the year. The February 2023 Bank of England Monetary Policy Report noted that inflationary pressures remain elevated with growth stronger than was expected.
- 6.1.7 In the financial markets uncertainty continued to be a key driver of market sentiment. Bond yields remained relatively volatile due to concerns over elevated inflation, higher interest rates, the risk of the UK entering a recession and how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.
- 6.1.8 The Council continued to maintain a low-risk strategy throughout the year to ensure exposure to risk of any capital loss was minimised.

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 latest (June 2023) forward looking estimate of the Bank Rate (currently 5%), provided by our Treasury Management advisors, is for the rate to rise to 5.5% in the autumn and start reducing in quarter 2 of 2024 before falling to a low of around 3% by mid-2025.

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 maturity loan rates during 2022/23 were as follows (these are the “certainty rates”):

	5 years	10 years	20 years	50 years
Average	3.62%	3.76%	4.09%	3.74%
Highest	5.44%	5.45%	5.87%	5.51%
Lowest	2.18%	2.36%	2.55%	2.25%

7.0 BORROWING STRATEGY

7.1 The borrowing strategy for 2022/23, as included in the 2022/23 Treasury Management Strategy and approved by Council on 9th March 2022, stated that the borrowing requirement to fund the 2022/23 Capital Programme was £18.4m. In line with the capital programme, the borrowing requirement decreased to £15.6m during the year largely due to the re-profiling of the Sustainable Communities for Learning Programme (formerly 21st Century Schools schemes) and slippage in other capital schemes. It was also reported that the Council’s policy will continue to maximise “internal borrowing”, run down cash balances and forego interest earned. 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. No new long or short term borrowing was taken during the year.

7.4 The 2022/23 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 2022/23.

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 01/04/22	Movement	Closing Balance 31/03/2023	Average Debt	Total Interest	Weighted Average Interest
	£M	£M	£M	£M	£M	%
PWLB*	219.307	(10.966)	208.341	213.894	6.797	3.18
Banks LOBO**	31.000		31.000	31.000	1.395	4.50
Banks Fixed Term	54.500		54.500	54.500	2.725	5.00
Local Auths	5.000	(5.000)	0.000	0.425	0.001	0.15
Other***	82.400		82.400	82.400	0.00	0.00
Total	392.207	(15.966)	376.241	382.219	10.918	2.86****

* 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 (WG) repayable funding for investment in transport (rail) infrastructure works.

**** 3.64% excluding WG repayable funding

8.2 The average interest rate of debt as at 31st March 2023 was 2.87% (3.68% excluding WG repayable funding).

8.3 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% and was repaid 1st May 2022.

8.4 At the end of the year there was no variance reported in the Council's Net Capital Financing Budget of £21.308M.

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 2022/23, 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 9th March 2022. Details of limits and actual performance are as follows:

	£	2022/23 Actual £
Capital Expenditure 2022/23		135.095M
Capital Financing Requirement (CFR) as at 31 st March 2023		503.255M

Limit / Indicator	2022/23 Limit / Indicator	2022/23 Actual
Authorised Limit (£) (Limit beyond which borrowing is prohibited)	612.400M	392.660M (at highest point in year)
Operational Boundary (£) (Indicator to ensure Authorised Limit not breached)	455.400M	376.696M (at year end)
External Debt (£)	440.242M	376.242M
Other Long Term Liabilities	<u>0.200M</u>	<u>0.072M</u>
Sub total	440.442M	376.314M
Other: Finance Lease	<u>2.258M</u>	<u>0.382M</u>
Borrowing + Other Long Term Liabilities	442.700M	376.696M
Ratio of Financing Costs to Net Revenue Stream	4.76%	4.60%
Ratio of Net Income from Commercial and Service Investments to Net Revenue Stream	0.28%	0.35%
Long Term Treasury Management Investments (greater than 1 year) (£)	25M	2.1M
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 33% 12 mths – 2 yrs 3% 2-5 years 9% 5-10 years 10% 10-20 years 2% 20-30 years 10% 30-40 years 33% 40-50 years 0%

9.2 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 and as reported in the Treasury Management mid-year review.

10.0 INVESTMENT STRATEGY

10.1 The Council manages its investments in-house, investing during 2022/23 in line with the lender criteria as set out in the Treasury Management Strategy approved by Council on the 9th March 2022. 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 2022/23 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	1.597	86.965	1.84	2.38

** The benchmark return for Local Authority internally managed funds is the average 7-day money market 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 have remained relatively low, albeit, have increased in the latter part of the financial year.

11.3 The average return on investments has slightly under-performed the benchmark return over the year.

- 11.4 The £2.1m for “funds invested for greater than 1 year” represents a loan to Cynon Taf Community Housing Group (£2.2m 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	0.831

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 draft balance sheet as at 31st March 2023 as £3.045m, 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 £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 £22.2m, with an annual rental of £1.7m. They relate to:
 - 50-53 Taff St, Pontypridd;
 - Unit 1 Cambrian Industrial Estate, Clydach Vale;
 - Rhos Surgery, Mountain Ash;
 - Coed Ely Business Units;
 - Robertstown Units;
 - Llys Cadwyn, Pontypridd;
 - 103-110 Taff Street, Pontypridd, and;
 - 13-17 Sardis Road.

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

12.1 This Council continues to successfully deliver new, improved and modern schools to make a significant improvement to the learning environment for our young people.

- 12.2 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 83.66%). 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. The Council's capital envelope has subsequently been increased by £40.5M.
- 12.3 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.
- 12.4 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.
- 12.5 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. On the 6th July 2022, via the 2021/22 Annual Treasury Management Review report, Council agreed the overall level of contribution of £43.2M borrowing to fund the full programme in line with the detail set out above and up to and within the original overall envelope. Set against this, current borrowing amounts to £30.0M.

13 EQUALITY AND DIVERSITY IMPLICATIONS / SOCIO-ECONOMIC DUTY

- 13.1 The report provides an overview of the Council's Treasury Management activities during 2022/23 in line with the Strategy reports approved by Council in March 2022. As a result, no Equality Impact Assessment is required for the purposes of this report.

14.0 WELSH LANGUAGE IMPLICATIONS

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

15.0 CONSULTATION

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

16.0 FINANCIAL IMPLICATION(S)

- 16.1 The financial results / implications of the Council's Treasury Management arrangements in 2022/23 have been incorporated into quarterly Performance Reports during the year and also reported to Council on 23rd November 2022 as part of the 2022/23 Mid-Year Treasury Management Stewardship Report.

17.0 LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED

- 17.1 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.

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

- 18.1 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.
- 18.2 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.

19.0 CONCLUSION

- 19.1 The 2022/23 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 12th JULY 2023

**REPORT OF THE DEPUTY CHIEF EXECUTIVE & GROUP DIRECTOR -
FINANCE, DIGITAL & FRONTLINE SERVICES**

Item: 2022/23 ANNUAL TREASURY MANAGEMENT REVIEW

Background Papers

- 9th March 2022 Council meeting – Report: Treasury Management Strategy Incorporating Investment Strategy, Treasury Management Indicators and Minimum Revenue Provision (MRP) Statement for 2022/23.
[Report.pdf \(moderngov.co.uk\)](#)
- 9th March 2022 Council meeting – Report: 2022/23 Capital Strategy Report Incorporating Prudential Indicators.
[Report.pdf \(moderngov.co.uk\)](#)
- 23rd November 2022 Council meeting – Report: 2022/23 Mid-Year Treasury Management Stewardship Report.
[Report.pdf \(moderngov.co.uk\)](#)

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