



RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2023/24

COUNCIL

29th November 2023

2023/24 MID YEAR TREASURY MANAGEMENT STEWARDSHIP REPORT

**REPORT OF THE DEPUTY CHIEF EXECUTIVE & GROUP DIRECTOR -
FINANCE, DIGITAL & FRONTLINE 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 2023/24; 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 REASON FOR RECOMMENDATION

3.1 To report to Council the Treasury Management Mid-Year Review in line with the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

4.0 INTRODUCTION

- 4.1 The Treasury Management function operates within the Treasury Management Strategy and Capital Strategy, both approved by Council on the 29th March 2023.
- 4.2 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.”
- 4.3 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.
- 4.4 This report includes the following areas of treasury activity during the first six months of 2023/24:
- Economic background;
 - Borrowing activity and results;
 - Estimated and actual treasury position, treasury management and prudential indicators;
 - Investments;
 - Treasury management advisors;
 - Training;
 - Minimum Revenue Provision; and
 - Sustainable Communities for Learning.

5.0 ECONOMIC BACKGROUND

5.1 General Economic Background

- 5.2 Economic growth in the UK remained relatively weak over the period with GDP growth increasing by 0.2% for the quarter ending 30th June 2023 and by 0% for the quarter ending 30th September 2023. Year-on-year GDP growth to 30th September 2023 was 0.6%.
- 5.3 In the 3 months June to August 2023, the unemployment rate rose to 4.2% from 4.0% the previous quarter. Annual growth in regular pay (excluding bonuses) was 7.8%.
- 5.4 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 Rate was 4.25% in April 2023 and has changed as follows for the year to date:

	% Increase	Interest Rate
May 23	0.25%	4.50%
June 23	0.50%	5.00%
August 23	0.25%	5.25%

- 5.5 The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking the Base Rate to 5.25% in August.
- 5.6 UK inflation remained high over much of the period, keeping expectations elevated of how much further the Bank of England would increase rates. However, inflation data published in the latter part of the period was lower than expectations, causing financial markets to reassess the peak in the Base Rate. This was followed very soon after by the Bank of England's Monetary Policy Committee voting 5-4 to maintain the Base Rate at 5.25% in September.
- 5.7 The majority of the Council's borrowing is from the PWLB (Public Works Loans Board). Long-term borrowing rates are influenced by gilt yields. Expectations are that the current gilt yields will fall by 2024/25 but remain relatively higher than in the recent past.
- 5.8 PWLB maturity rates (certainty rate) during the first half of the financial year were as follows:

	5 years	10 years	20 years	50 years
Average	5.12%	5.03%	5.29%	5.00%
Highest	5.86%	5.52%	5.74%	5.43%
Lowest	4.12%	4.22%	4.58%	4.27%

- 5.9 Estimates of future rates are as follows:

	Base Rate	PWLB Maturity Rates			
		5 years	10 years	20 years	50 years
2023/24 (current as at 7 th Nov 2023)	5.25%	5.08%	5.12%	5.58%	5.18%
31/03/24	5.25%	5.10%	5.15%	5.45%	5.05%
31/03/25	4.25%	4.55%	4.80%	5.05%	4.90%

6.0 BORROWING ACTIVITY AND RESULTS

- 6.1 The borrowing strategy for 2023/24, approved by Council in March 2023, reported that the Deputy Chief Executive & Group Director – Finance, Digital and Frontline 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 and forecasts at the time, and taking into account advice provided by our advisors and an assessment of risk.

- 6.2 In March, the borrowing requirement was estimated to be £19.6m based on the Capital Programme at that time. The borrowing requirement has increased for 2023/24 mainly due to the addition of schemes under the Sustainable Communities for Learning programme, and is now £35.5m as at 30th September 2023. Details of this funding is provided in section 16.
- 6.3 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 30th 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 2023/24.
- 6.4 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 2023/24.
- 6.5 No variance is being reported for net capital charges which have a budget for 2023/24 of £21.7m.

7.0 CERTAINTY RATE

- 7.1 The "certainty rate" allows local authorities to access borrowing at 0.2% below published PWLB rates. 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 therefore continue to be able to access the discounted rate up to 31st March 2024.

8.0 ESTIMATED AND ACTUAL TREASURY POSITION AND PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

- 8.1 During the six months to 30th September 2023, the Council operated within its prudential limits set out in the Prudential Code report approved by Council in March 2023. Details of limits and actual performance are as follows:

8.2 Capital Expenditure and the Capital Financing Requirement

- 8.2.1 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

	2023/24 Original Estimate £M	2023/24 Projected Outturn £M	2024/25 Revised Estimate £M	2025/26 Revised Estimate £M
Supported spend	107.980	191.545	69.984	15.153
Unsupported spend	12.762	28.662	8.856	0.550
Total spend	120.742	220.207	78.840	15.703
Financed by:-				
Borrowing	19.612	35.512	15.706	7.400
Other Capital Resources (Grants, Capital Receipts)	101.130	184.695	63.134	8.303

8.2.2 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.

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

Indicator: Capital Financing Requirement (CFR)

	2023/24 31/03/24 Original Estimate £M	31/03/24 Projected Outturn £M	2024/25 31/03/25 Revised Estimate £M	2025/26 31/03/26 Revised Estimate £M
CFR	512.444	523.285	552.108	591.373
Net movement in CFR			28.823	39.265

The CFR estimate for 2024/25 onwards includes the impact of IFRS16 and the Mutual Investment Model (MIM).

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

Indicator: External Debt

	30/09/23 Actuals £M	2023/24 31/03/24 Original Estimate £M	2023/24 31/03/24 Revised Estimate £M	2024/25 31/03/25 Revised Estimate £M	2025/26 31/03/26 Revised Estimate £M
Borrowing	371.032	440.823	365.823	402.404	425.985
Other long term liabilities	0.455	0.581	0.581	29.584	48.790
Total External Debt	371.487	441.404	366.404	431.988	474.775

8.2.5 Other Long Term Liabilities represents the Council's obligation under its finance leases and liabilities in relation to Sustainable Communities for Learning Mutual Investment Model (MIM) schemes.

9.0 **LIMITS TO BORROWING ACTIVITY**

9.1 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)

	2023/24 30/09/23 Actuals £M	2023/24 31/03/24 Original Estimate £M	2023/24 31/03/24 Revised Estimate £M	2024/25 31/03/25 Revised Estimate £M	2025/26 31/03/26 Revised Estimate £M
Gross Borrowing (inc. Other Long Term Liabilities)	371.487	441.404	366.404	431.988	474.775
Capital Financing Requirement		512.444	523.285	552.108	591.373

9.2 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

	2023/24 30/09/23 Actuals £M	2023/24 Limit £M	2024/25 Limit £M	2025/26 Limit £M
Gross Borrowing	371.032	585.000	570.000	575.000
Other long term liabilities	0.455	40.000	60.000	60.000

Authorised Limit	371.487	625.000	630.000	635.000
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- 9.3 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

	2023/24 30/09/23 Actuals £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
Gross Borrowing Limit	371.032	450.000	480.000	510.000
Other long term liabilities	0.455	1.000	30.000	50.000
Operational Boundary	371.487	451.000	510.000	560.000

10.0 AFFORDABILITY PRUDENTIAL INDICATORS

- 10.1 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.
- 10.2 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

	2023/24 Original Estimate	2023/24 Revised Estimate	2024/25 Revised Estimate	2025/26 Revised Estimate
General Fund	4.54%	4.13%	4.82%	5.26%

- 10.3 The Ratio of Net Income from Commercial and Service Investments to Net Revenue Stream identifies the net income from financial and commercial investments (other than treasury management investments) and is intended to show the financial exposure of the Council to the loss of income. Direct costs of the investment may be netted off.

Indicator: Ratio of Net Income from Commercial and Service Investments Financing Costs to Net Revenue Stream

	2023/24 Original Estimate	2023/24 Revised Estimate	2024/25 Revised Estimate	2025/26 Revised Estimate
General Fund	0.28%	0.29%	0.35%	0.28%

- 10.4 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. No banks exercised their option during the six months to September.
- 10.5 The amount of LOBO debt held in 2023/24 is £31m, 8% of total debt as at 30th 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

- 10.6 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.

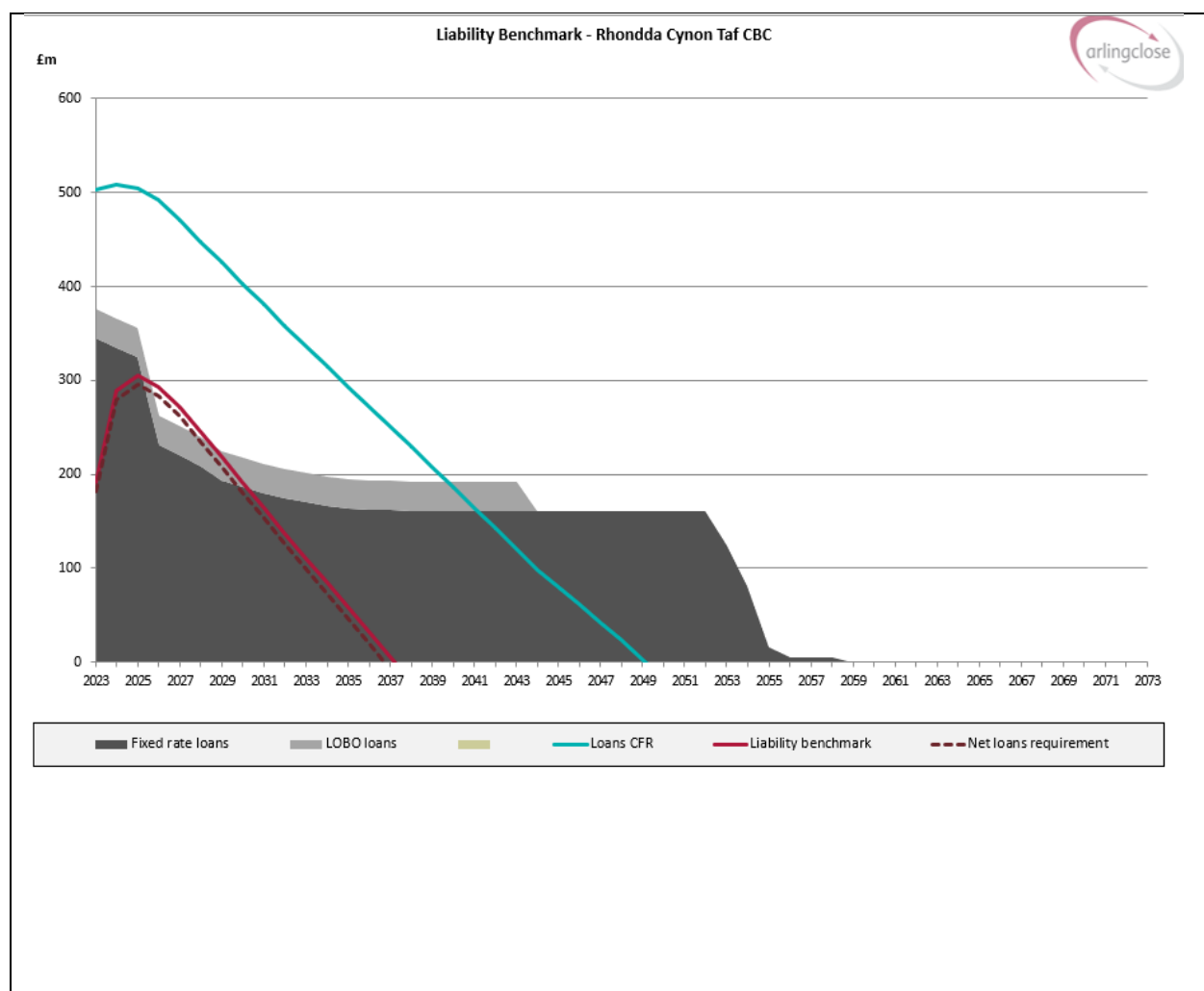
Indicator: Maturity Structure

	2023/24 Actuals as at 30/09/23	Upper Limit	Lower Limit
Under 12 months	33%	70%	0%
12 months to 2 years	3%	70%	0%
2 years to 5 years	10%	60%	0%
5 years to 10 years	8%	70%	0%
10 years to 20 years	2%	90%	0%
20 years to 30 years	18%	90%	0%
30 years to 40 years	26%	90%	0%
40 years to 50 years	0%	90%	0%

Indicator: Liability Benchmark

	31/03/23 Actual £M	31/03/24 Original Estimate £M	31/03/24 Revised Estimate £M	31/03/25 Revised Estimate £M	31/03/26 Revised Estimate £M
Loans CFR *	502.8	593.5	507.9	504.7	497.4
Less: Balance sheet resources	(321.0)	(198.6)	(229.0)	(209.0)	(209.0)
Net loans requirement	181.8	394.9	278.9	295.7	288.4
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	191.8	404.9	288.9	305.7	298.4

* The loans CFR in the above table does not include any finance leases or the MIM schemes as there is no net cash effect.



10.8 The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

11.0 FINANCIAL INVESTMENTS

11.1 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.

11.2 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.

11.3 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.

11.4 The maximum exposure for this type of investment is set at £25m with a maximum maturity limit of 30 years.

11.5 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	30/09/23 Actual
Maximum principal sums invested over 1 year	£25m	£2.10m

11.6 The £2.10m represents a 25-year loan to Cynon Taf Housing Community Group (£2.20m outstanding in total, £0.10m of which to be repaid within 12 months).

11.7 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 30th September 2023):

Interest Rate Risk	Impact £M
One year revenue impact of a 1% rise/fall in interest rates	1.555

12.0 INVESTMENT STRATEGY, ACTIVITY & RESULTS

- 12.1 The Council manages its investments in-house, investing in line with the Council's approved lender criteria as approved by Council on the 29th March 2023.
- 12.2 Members will recall that since the 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.
- 12.3 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.
- 12.4 The following table shows the overall result of the investment activities undertaken by the Council:

	Interest Received (6 mths) £M	Average Cash Balance £M	Return on Investments %	Benchmark Return %
General Balances	2.758	117.789	4.62	4.76

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

- 12.5 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 2022/23 balance sheet as £3.045m, under "Investments in Subsidiaries".
- 12.6 The Council also holds non-financial investments.
- Non-financial commercial investment in Ty Dysgu, Cefn Coed Business Park, Nantgarw. The building and site have a fair value of £2.980m, 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 £22.4m, 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; Llys Cadwyn, Pontypridd; Coed Ely Units; 103-110 Taff Street, Pontypridd; 13-17 Sardis Road, Pontypridd and Robertown Units, Aberdare.
- 12.7 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 and Democratic Services.

13.0 TREASURY MANAGEMENT ADVISORS

13.1 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 subsequent extension for 2 years. The procurement process has now commenced for the contract period after 31st March 2024.

14.0 TRAINING

14.1 Officers regularly attend 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 June and September. 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 hybrid training event facilitated by Arlingclose on 4th September 2023.

15.0 MINIMUM REVENUE PROVISION (MRP)

15.1 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.

15.2 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 29th March 2023.

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

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

- 16.2 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.
- 16.3 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.
- 16.4 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.
- 16.5 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. Council have previously 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 overall envelope. Set against this, current borrowing amounts to £41.6M.

17.0 EQUALITY AND DIVERSITY IMPLICATIONS AND SOCIO-ECONOMIC DUTY

- 17.1 The report provides an overview of the Council's Treasury Management activities during the first six months of 2023/24 in line with the Treasury Management and Capital Strategies approved by Council in March 2023. As a result, there are no equality and diversity or socio-economic duty implications to report.

18.0 WELSH LANGUAGE IMPLICATIONS

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

19.0 CONSULTATION

- 19.1 Following consideration by Council, this report will be presented to the Governance and Audit Committee in line with the laid down code of practice

“CIPFA Treasury management in the Public Services” and Terms of Reference for the Committee.

20.0 FINANCIAL IMPLICATION(S)

20.1 The financial results / implications of the Council’s Treasury Management arrangements during the first six months of 2023/24 have been incorporated into quarterly Performance Reports during the year.

21.0 LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED

21.1 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.

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

22.1 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.

22.2 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.

23.0 CONCLUSION

23.1 The 2023/24 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 2023.

**Other information:
Relevant Committee – Governance and Audit Committee**

LOCAL GOVERNMENT ACT 1972

AS AMENDED BY

THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

COUNCIL 29th NOVEMBER 2023

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

**Item: 2023/24 MID YEAR TREASURY MANAGEMENT STEWARDSHIP
REPORT**

Background Papers

- 29th March 2023 Council meeting – Reports:
 - Treasury Management Strategy Incorporating Investment Strategy, Treasury Management Indicators and Minimum Revenue Provision (MRP) Statement for 2023/24.

[Report.pdf \(moderngov.co.uk\)](#)

- 2023/24 Capital Strategy Report Incorporating Prudential Indicators.

[Report.pdf \(moderngov.co.uk\)](#)

Officer to contact: Barrie Davies (Deputy Chief Executive & Group Director - Finance, Digital & Frontline Services)
