

Committee: **Council**

Date of Meeting: **21<sup>st</sup> March, 2024**

Report Subject: **Treasury Management Mid-Year Review – September 2023 & Quarter 3 Update**

Portfolio Holder: **Councillor Stephen Thomas, Leader/Cabinet Member - Corporate Overview & Performance**

Report Submitted by: **Rhian Hayden, Chief Officer Resources**

| Reporting Pathway           |                           |                          |                            |                               |                    |         |          |                      |
|-----------------------------|---------------------------|--------------------------|----------------------------|-------------------------------|--------------------|---------|----------|----------------------|
| Directorate Management Team | Corporate Leadership Team | Portfolio Holder / Chair | Governance Audit Committee | Democratic Services Committee | Scrutiny Committee | Cabinet | Council  | Other (please state) |
|                             | 07/03/2024                |                          |                            |                               | 14/03/2024         |         | 21/03/24 |                      |

## 1. Purpose of the Report

- 1.1 The purpose of this report is to provide members with the mid year review and quarter three update of Treasury Management activities during 2023/2024 and the Council's performance against approved Prudential and Treasury Indicators.

## 2. Scope and Background

- 2.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. The Mid year review is attached as Appendix 1 with the quarter 3 update provided at Appendix 2.
- 2.2 This report and attached appendices will provide information on the Council's Borrowing and Investment activity, Economic updates, Interest Rate forecasts, as well as the Council's performance against approved performance indicators.

### 3. **Options for Recommendation**

#### 3.1 **Option 1 (Preferred Option)**

Members consider the treasury management activity undertaken during the first nine months of 2023/24 and do not consider any amendments to the previously agreed Treasury strategies and performance indicators.

#### **Option 2**

3.2 Members consider the treasury management activity undertaken during the first nine months of 2023/24 and consider amendments to the previously agreed Treasury strategies and performance indicators.

### 4. **Evidence of how this topic supports the achievement of the Corporate Plan / Statutory Responsibilities / Blaenau Gwent Well-being Plan**

4.1 The report is written under legislation (the Local Government Act 2003), Welsh Government guidance and CIPFA codes of practice.

4.2 This topic also supports the Corporate Plan Priority of being an ambitious and innovative council delivering the quality services at the right time and in the right place.

### 5. **Implications Against Each Option**

#### 5.1 **Impact on Budget (short and long-term impact)**

5.1.1 The Authority has complied with the CIPFA Treasury Management in the Public Services: Code of Practice 2021, and in doing so has strived for effective risk management and control, whilst at the same time pursuing best value as far as possible.

5.1.2 The Authority has effectively managed credit risk throughout the period, so ensuring that it has not been subjected to any financial loss.

5.1.3 The Authority has maximised investment returns as far as is possible whilst managing the associated risk and minimised borrowing costs throughout the period.

#### 5.1.4 **Mid Year Position**

Investment returns of £1.17m have been achieved with an average interest rate of 4.49%. This is lower than the benchmark rate of 4.64% but reflects that the Authority no longer invest in counterparties that pay a higher rate, due to credit rating reductions. Of this return, £470,714 relates to investments made from the receipt of the £70million Rail Infrastructure Loan. There is a condition of the funding approval that states any interest earned from holding the loan must be added to the works programme. Therefore, this income will be placed in a reserve until such time it is used to fund works or can be transferred to the Authority. The remaining return of £702,600 relates to interest from the investment of the Authority's own funds. The annual

budgeted investment interest for the full year is £320,500, which reflects the interest rates forecast at that time and the extraordinary increases in bank base rate which continued during 2023/24.

5.1.5 An average interest rate of 2.43% has been paid on temporary borrowings against a benchmark of 4.5%, amounting to £520,717 for the six-month period. The budget for interest paid on short term borrowing is £1.9m for a full year - the full year interest payable is forecast to be £1.5m

#### 5.1.7 **Quarter 3 Position**

Investment returns of £1.5m have been achieved with an average interest rate of 4.78%, remaining lower than the benchmark rate of 4.96%. Returns relating to the railway loan have increased to £651,544 whilst the returns due from investment of the Council's own funds have increased to £847,399.

5.1.8 An average interest rate of 3.24% has been paid on temporary borrowings against a benchmark of 4.5%, amounting to £903,980 for the nine-month period.

#### 5.2 **Risk including Mitigating Actions**

5.2.1 The main risk in relation to Treasury Management is that of credit risk and protecting the Authority's cash. This is effectively managed through the Authority's risk averse Treasury Management policy that seeks to protect the capital sum rather than maximise investment returns.

5.2.2 Following the increases in the Bank of England base rate beginning in December 2021, the base rate has risen from 4.25% to 5.25% in the first nine months of the year. The Authority has benefitted from only entering into short-term borrowing and taking advantage of lower interest rates in the first half of the year. However, the increase in market rates will have a significant impact on borrowing costs during the remainder of 2023/24 and into 2024/25.

#### 5.3 **Legal**

5.3.1 The report is written under legislation (the Local Government Act 2003), Welsh Government guidance and CIPFA codes of practice.

#### 5.4 **Human Resources**

5.4.1 There are no direct staffing implications to report. Staff directly involved with Treasury Management activities will continue to monitor the credit situation on a daily basis and will notify the Chief Officer Resources accordingly. Any consequential changes required to be made to the borrowings or investment strategy as a result will be reported to the Council.

## 6. **Supporting Evidence**

### 6.1 **Performance Information and Data**

6.1.1 The Performance information is contained within the Appendices to the report.

### 6.2 **Expected outcome for the public**

6.2.1 The Council's Treasury Management activities support delivery of services to the public.

### 6.3 **Involvement (consultation, engagement, participation)**

6.3.1 Members of the Corporate Overview and Performance Scrutiny Committee and full Council are involved in developing and monitoring compliance with the Council's Treasury Management Strategy.

### 6.4 **Thinking for the Long term (forward planning)**

6.4.1 The Treasury Management Strategy Statement sets out policies to ensure that any decisions in relation to Treasury Management Activity are affordable and proportionate, and risk is managed as much as possible, over both the short and long-term.

### 6.5 **Preventative focus**

6.5.1 The Authority's Treasury Management policy prioritises protecting the capital sum rather than achieving higher interest returns.

### 6.6 **Collaboration / partnership working**

6.6.1 N/A

### 6.7 **Integration (across service areas)**

6.7.1 N/A.

### 6.8 **Decarbonisation and Reducing Carbon Emissions**

6.8.1 The Council is committed to the Decarbonisation Plan to achieve a carbon neutral public sector by 2030. The Capital Programme currently contains schemes which promote the reduction of carbon emissions such as ReFIT, Electric Vehicle Charge Points and Carbon reduction schemes. New Council buildings should be designed to the latest energy efficiency standards.

6.8.2 The Authority also considers Environmental, Social and Corporate Governance (ESG) factors when setting up any investment arrangements.

## 6.9 **Integrated Impact Assessment**

See above

## 7. **Monitoring Arrangements**

7.1 Corporate Overview & Performance Scrutiny and Council will receive the following reports in every annual cycle: -

- A Treasury Management Policy report prior to the start of every financial year
- A quarterly report on performance against set Prudential Indicators
- A mid-year progress report on Treasury Management activity
- An end of year out turn report on Treasury Management activity.

## 8. **Background Documents / Electronic Links**

- Appendix 1 – Half Yearly Update
- Appendix 1b – Quarter 3 Update
- Appendix 2 – Prudential Indicators (Q2 & Q3)
- Appendix A1 – Temporary Investments – Q2
- Appendix A2 – Temporary Investments – Q3
- Appendix B1 – Temporary Loans – Q2
- Appendix B2 – Temporary Loans – Q3