

Committee: **Corporate Overview Scrutiny Committee**

Date of meeting: **11<sup>th</sup> September 2020**

Report Subject: **Treasury Management Annual Review 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020**

Portfolio Holder: **Councillor N Daniels  
Leader, Executive Member Corporate Services**

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

Reporting Pathway								
Directorate Management Team	Corporate Leadership Team	Portfolio Holder / Chair	Audit Committee	Democratic Services Committee	Scrutiny Committee	Executive Committee	Council	Other (please state)
	20/08/20				11/09/20		24/09/20	

**1. Purpose of the Report**

- 1.1 The purpose of the report is to give Members the opportunity to scrutinise the Treasury Management activities carried out by the Authority during the 2019/2020 financial year.

**2. Scope and Background**

- 2.1 The report provides a summary of the Treasury Management activities carried out under delegated powers by the Chief Officer Resources in the period 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020 in accordance with the CIPFA Treasury Management Code of Practice.

- 2.2 Treasury Management can be defined as:

“The management of the local authority’s 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.”

- 2.3 The primary requirements of the CIPFA Code of Practice are currently as follows:

- a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
- b. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- c. Receipt by the Council of an annual Treasury Management Strategy report (including the annual investment strategy report) for the year ahead, a mid-year review and an annual review report of the previous year.

- d. Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of treasury management decisions, which in this Council is the Chief Officer Resources.
  - e. Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body which in this Council is the Corporate Overview Scrutiny Committee.
- 2.4 In accordance with (e) above the Corporate Overview Scrutiny Committee is the committee with delegated responsibility for undertaking the scrutiny of the Treasury Management strategy and related reports
- 2.5 This report is therefore presented to this scrutiny committee to provide an annual review report (attached as Appendix 1) of the Treasury Management activities for the 2019/2020 financial year, in accordance with (c) above, and to enable Members to scrutinise the contents prior to it being presented to full Council.
- 3. **Options for Recommendation**
- 3.1 Option 1  
Members scrutinise the treasury management activity undertaken during the 2019/20 financial year and provide comment prior to its submission to full Council.
- 3.2 Option 2 (preferred option)  
Members scrutinise the treasury management activity undertaken during the 2019/2020 financial year and do not provide comment prior to its submission to full Council.
- 4. **Evidence of how does this topic supports the achievement of the Corporate Plan / Statutory Responsibilities / Blaenau Gwent Well-being Plan**
- 4.1 The report is written in compliance with legislation ( the Local Government Act 2003),Welsh Government guidance and CIPFA codes of practice.
- 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 2017 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 as a result of the credit crisis.

- 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 Investment returns of £61,000 have been achieved with an average interest rate of 0.46%. This is slightly lower than the benchmark rate (based on market forces) of 0.54% but reflects the fact that the Authority can no longer invest in previous counterparties that paid higher rates, due to credit rating reductions. The estimate for investment interest was zero
- 5.1.5 An average interest rate of 1.09% has been paid on temporary borrowings against a benchmark rate (based on market forces) of 1.00%, amounting to £488,000. This is higher than the estimated interest on short term borrowing (£428,000) and is a result of the impact on market rates of the 1% increase in the PWLB rates.
- 5.1.6 A summary of the Treasury Management activities for the period are shown in the table below:

	Value	Interest	Average Interest Rate
	£m	£	%
Short Term Loans raised	193	488,000	1.09%
Short Term Investments made	321	61,000	0.46%
Long Term debt outstanding 31/3/19	97.430		4.10%
Short Term debt outstanding 31/3/9	60.699		0.86%

## 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.

## 5.3 ***Legal***

- 5.3.1 The Council carries out Treasury Management activities in compliance with the Local Government Act 2003, and in accordance with the CIPFA Treasury Management Code of Practice and Welsh Government guidance

## 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 During 2019/2020, the Authority took £10m in long term debt from other public authorities (PWLB) to replace maturing loans or to finance capital expenditure.
- 6.1.2 Over the past few years the credit rating agencies have downgraded a number of financial institutions such that they no longer meet the Authority's required approved criteria
- 6.1.3 Despite this financial climate, the Authority has performed well in terms of its Treasury Management activities during the year, as detailed in the report and summarised below:
- a. Investment returns of £61,000 have been achieved with an average interest rate of 0.46%. This is slightly lower than the benchmark rate of 0.54% but reflects the fact that the Authority cannot invest in counterparties that pay higher rates, due to credit rating reductions. This is however in line with the Authority's risk averse policy whereby the security of the capital sum is the number one priority at the expense of more competitive investment returns.
  - b. An average interest rate of 1.09% has been paid on temporary borrowings against a benchmark of 1.00%, minimising as far as possible the interest payable by the Authority. This is despite the impact (increase) in market rates following the 1% increase to PWLB rates in October 2019 and has an impact on market rates. This is therefore evidence of good performance.
  - c. All of the Treasury limits and Treasury Management prudential indicators set for the financial year have been complied with during the year.
  - d. No institutions in which investments were made during the period had any difficulty in repaying investments and interest in full, so the Authority has not been exposed to any financial loss as a result of the difficult economic climate.

### **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 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 *n/a*

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 ***EqIA (screening and identifying if full impact assessment is needed)***

*n/a*

7. **Monitoring Arrangements**

7.1 *State how the work will be monitored e.g. through scrutiny or directorate performance management arrangements*

As the nominated scrutiny Committee, Corporate Overview will receive three reports in every annual cycle:-

- A Treasury Management Policy report prior to the start of every financial year
- A mid-year progress report on Treasury Management activity
- An end of year out turn report on Treasury Management activity.

**Background Documents /Electronic Links**

- *Appendix 1 – Treasury Management Annual Review Report 2019/20 (detailed)*
- *Appendix A - Schedule of Temporary Loans during 2019/20*
- *Appendix B – Schedule of Temporary Investments Made 2019/20*