

Committee: **Corporate Overview Scrutiny Committee**

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

Report Subject: **Treasury Management Mid-Year Review Report - 1<sup>st</sup> April 2020 to 30<sup>th</sup> September 2020**

Portfolio Holder: **Cllr 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)
	19.11.20	01.12.20			11.12.20		25.01.21	

**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 first half of the 2020/21 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 to 30<sup>th</sup> September 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 now 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 This report is therefore presented to Council to provide a mid-year review report (attached as Appendix 1) of the Treasury Management activities for the 2020/2021 financial year, in accordance with (c) above

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

#### 3.1 Option 1

Members scrutinise the treasury management activity undertaken during the 2020/21 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 2020/2021 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 under legislation the Local Government Act 2003), Welsh Government guidance and CIPFA codes of practice.

- 4.2 This report also supports the Corporate Plan Priority of being an efficient Council.

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

*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 pandemic

- 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 £3,000 have been achieved with an average interest rate of 0.07%. This is above the benchmark rate of -0.07% this is reflective of the impact the pandemic has had on the bank base rate and in turn the market interest rates offered for investments. The annual budgeted investment interest for the full year is £43,000. This is unlikely to be achieved this financial year, however the amount of interest paid has also significantly reduced which will counteract this.
- 5.1.5

An average interest rate of 0.67% has been paid on temporary borrowings against a benchmark of 1.00%, amounting to £159,000 for the six-month period. The budget for interest paid on short term borrowing is £660,000 for a full year - the full year interest payable is likely to be well within this budget.

- 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	108	159,000	0.67%
Short Term Investments made	242	3,000	0.07%
Long Term debt outstanding 30/9/20	97.9		3.63%
Short Term debt outstanding 30/9/20	46.2		0.58%

## 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 From September 2020 the Debt Management Account Deposit Facility (DMADF) started offering negative interest rates on investments placed with them. This limited the investment opportunities available to the Authority. Ultimately, there is a risk that, the Authority could exceed the limit it is able to hold in its own bank account. In order to mitigate this the Authority has signed up to a Public Sector Money Market fund in line with its Investment Strategy counterparty list. Furthermore, the Authority will continue to monitor other investment opportunities in the second part of the year. In addition, it is proposed that the existing Investment Strategy be amended and the amount able to be held in the Authority's bank account be increased from £6 Million to £10 million in order to mitigate this in full.
- 5.2.3 There is relatively little risk of increases or decreases in bank rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and

increases in Bank Rate are likely to be some years away given the underlying economic expectations.

### 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 During the first half of the 2020/2021 financial year, due to the advantageous interest rates, the Authority entered into long term debt arrangements of £9m with the Public Works Loan Board (PWLB)/ other public authorities. These arrangements were made either to replace maturing loans or to finance capital expenditure.

6.1.2 Despite the financial climate in relation to the pandemic, the Authority has performed well in terms of its Treasury Management activities during the first half of the year, as detailed in the report and summarised below:

- a. Investment returns of £3,000 have been achieved in the period with an average interest rate of 0.07%. This is above the benchmark rate of -0.07% but reflects the impact the pandemic has had on the bank base rate and in turn the market interest rates offered on investments. The annual budgeted investment interest is £43,000, this is unlikely to be achieved, however the amount of interest paid has also significantly reduced which counteracts this in its entirety.
- b. An average interest rate of 0.67% has been paid on temporary borrowings against a benchmark of 1.00%, amounting to £159,000 for the six-month period. The budget for interest paid on short term borrowing is £660,000 for a full year - the full year interest payable is likely to be well within this budget. The interest payable by the Authority has therefore been minimised as far as possible and is 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. However, the Debt Management Account Deposit Facility (DMADF) started offering negative interest rates from

September 2020 on investments placed with them. This limits the investment opportunities available to the Authority. The Authority will continue to monitor other investment opportunities, however proposes an increase in the amount able to be held in the Authority's bank account from £6 Million to £10 million to avoid exceeding the current limit.

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)*  
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*  
n/a

6.7 *Integration (across service areas)*  
n/a

6.8 *EqIA*  
n/a

**7. Monitoring Arrangements**

7.1 As the nominated Committee, Council 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*
- *Appendix A*
- *Appendix B*

