

Committee: Corporate and Performance Scrutiny Committee

Date of meeting: **3rd September 2024**

Report Subject: **Treasury Management Annual Review Report 1st April 2023 to 31st March 2024**

Portfolio Holder: **Cllr Stephen Thomas, Leader, Cabinet Member – Corporate and Performance**

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

Report Written by: **Cerian Powell, Business Partner**

Reporting Pathway								
Directorate Management Team	Corporate Leadership Team	Portfolio Holder / Chair	Governance & Audit Committee	Democratic Services Committee	Scrutiny Committee	Cabinet	Council	Other (please state)
	22/08/24				03/09/24		26/09/24	

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 2023/2024 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 1st April 2023 to 31st March 2024 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 (this report).

- 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 & Performance Scrutiny Committee.

2.4 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 2023/2024 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 2023/24 financial year and provide comment prior to its submission to full Council.

3.2 Option 2

Members scrutinise the treasury management activity undertaken during the 2023/2024 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.

4.2 The topic in the report also supports the Corporate Plan Priority of being an ambitious and innovative council delivering 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 by investing funds with approved counterparties in line with the Authority's risk appetite.
- 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. Whilst interest paid on borrowing during the year was significantly higher than the previous financial year, interest received from investments also exceeded expectations.
- 5.1.4 Investment returns of £2.043m have been achieved with an average interest rate of 4.73%. This is lower than the benchmark rate (based on market forces) of 5.02% but reflects the fact that the Authority no longer invest in counterparties that pay a higher rate, due to credit rating reductions. Of this return, £713,000 related to investments made from the available balances of the Rail Infrastructure Loan. A condition of the funding approval is that 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.. The remaining return of £1,330,000 relates to interest due from the investment of the Authority's own funds. The estimate for investment interest was £320,500, which has been far exceeded due to the Bank of England maintaining interest rates at an elevated level throughout the year in order to tackle the challenge of inflation in the UK economy.
- 5.1.5 An average interest rate of 3.61% has been paid on temporary borrowings against a benchmark rate (based on market forces) of 4.50%, amounting to £1,454,000. The average rate was below the benchmark in part due to loan balances carried forward from the previous financial year with lower interest rates. Due to the extraordinary rise in interest rates, market rates available throughout the financial year meant loans taken out later in 2023/2024 were above this benchmark rate, which was not anticipated when the benchmark rate was estimated. However, the average rate balanced out over the year when carried forward loan balances were considered. Interest costs have been kept as low as possible throughout the year, and the Authority benefited from borrowing earlier in the year when rates were lower. The estimate for interest on short term borrowing was £1,980,000.
- 5.1.6 At the beginning of the 2023/24 financial year, the Authority held a £4,000,000 long-term Lender Option Borrowers Option (LOBO) loan. These loans allow the lender to exercise an option to adjust the interest rate of the loan at specific intervals during the loan term. Due to the increases in interest rates seen across the UK and European economies, the lender exercised its option in December 2023 to increase the interest rate from 4.50% to 5.94%. The Authority in January 2024 then exercised its option to repay the loan early.

A summary of the Treasury Management activities for the period are shown in the table below:

5.1.7

	Value	Interest	Average Interest Rate
	£	£	
Short Term Loans raised	112,720,000	1,453,558	3.61%
Short Term Investments made	369,985,993	2,043,227	4.73%
Long Term debt outstanding 31/3/24	156,352,533		3.73%
Short Term debt outstanding 31/3/24	38,450,000		3.61%

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.

5.5 *Health & Safety*

5.5.1 Not applicable to this report

6. **Supporting Evidence**

6.1 *Performance Information and Data*

6.1.1 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.

6.1.2 During 2023/24 in an attempt to control high levels of inflation, the Bank of England increased interest rates incrementally from 4.25% to 5.25%, this impacted significantly upon both interest paid and received during the year.

- 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 £2,043,000 have been achieved with an average interest rate of 4.73%. This is lower than the benchmark rate of 5.02% 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 3.61% has been paid on temporary borrowings against a benchmark of 4.50%. The Bank of England base rate ranged from 4.25% to 5.25% throughout the year, therefore the Authority has minimised as far as possible the interest payable by the Authority. 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 & 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)*

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 ***Decarbonisation and Reducing Carbon Emissions***

6.8.1 Local authority investing, incorporates Environmental, Social and Corporate Governance (ESG) metrics into credit rating agency assessments and a growing number of financial institutions and fund managers/money market funds promote ESG products. Therefore, where appropriate the Authority considers ESG factors when setting up any investment arrangements.

6.9 ***Integrated Impact Assessment (IIA)*** *(All decisions, policy reviews or policy implementation will now require a completed Integrated Impact Assessment) To note a screening template no longer needs to be completed*

6.9 *n/a*

7. **Monitoring Arrangements**

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

7.1 As the nominated scrutiny Committee, Corporate & Performance Scrutiny will receive a minimum of five reports in every annual cycle:-

- A Treasury Management Policy report prior to the start of every financial year – [Link to report](#)
- 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 (this report).

Background Documents /Electronic Links

- *Appendix 1*
- *Appendix A*
- *Appendix B*