To:
All members of the Corporate Policy and Resources Committee

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Date: 1 July 2024

Supplementary Agenda

Corporate Policy and Resources Committee - Monday, 8 July 2024

Dear Councillor

I enclose the following items which have been updated since publication of the agenda for the Corporate Policy and Resources Committee meeting to be held on Monday, 8 July 2024:

Yours sincerely

Karen Wyeth
Corporate Governance

To the members of the Corporate Policy and Resources Committee

Councillors:

J.R. Sexton (Chair)	N. Islam	M. Beecher
C. Bateson (Vice-Chair)	K. Howkins	H.R.D. Williams
J.R. Boughtflower	M. Bing Dong	J. Button
M.J. Lee	L. E. Nichols	R.V. Geach
O. Rybinski	K.M. Grant	S.M. Doran

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Staines-upon-Thames TW18 1XB

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Substitute Members:	Councillors: M.M. Attewell, D.C. Clarke, S.A. Dunn, M. Gibson, A. Gale, S.N. Beatty and J.T.F. Doran

Corporate Policy and Resources Committee

07/06/2024

Title	Treasury Management Annual Outturn Report 2023/24
Purpose of the report	To note
Report Author	Prithiva Janaka Treasury Management and Capital Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Addressing Housing Need Resilience Environment Service delivery
Recommendations	**Committee is asked to:** Note the Treasury Management outturn position for 2023/24.
Reason for Recommendation	Not applicable

What is the situation	Why we want to do something

• Treasury Management has the statutory duty to present the Annual Treasury management outturn report to the Committee and the council to show the performance of Treasury activities during the financial year. • The Council has both a significant debt portfolio (most of which is at fixed rates) of £1,087m (£1,054m Long term and £33m of short term) and investment funds of £33m and cash balances currently averaging £10m. • This scale of activity creates risks which need to be proactively managed. • Officers review its liquidity and cashflow on a weekly basis. • The Council needs to seek to minimise financing costs whilst maximising returns on surplus funds whilst managing risk	• Treasury Management is crucial to the Council's cash flow, investment and borrowing to mitigate the risk we should plan a head on • Operational Limit • Authority limit • Diversify investment. • Borrowing • To fund capital projects of higher value and invest excess cash to earn income through interest
This is what we want to do about it	**These are the next steps**
• Mitigate risk by diversify Investment and borrowing whilst seeking to maximise investment returns and minimising borrowing costs. • Continuing to seek professional advice from our advisers	• To closely monitor and manage the treasury function in the new financial year 2024/25 • To note this report

1. Summary

1.1 The Council's Treasury Management function has performed within and near to Prudential Indicators for the year to the end of March 2024 as outlined in the next section and detailed at **Appendix A**. Performance compared to expectations is shown by a RAG (Red Amber Green) system in this report. Performance compared to other councils in England is shown at **Appendix B**.

1.2 The Council takes a prudent approach to Treasury Management, both in how its debt is structured and repaid, and in its strategic investment of funds. This is important in the context of financial risks including the potential loss of invested funds and the revenue effect of changing interest rates.

1.3 This report covers treasury activity and the monitoring and control of associated risks. Context and economic background to this report is provided at **Appendix C.**

2. Treasury management report information

Summary position

Prudential Indicators (PIs) are listed in Table 1 and are flagged up in this report with, for example, figures highlighted green and with a ‘G’ where within the PI level. PIs as at 31 March 2024 are summarised in the next section, as well as at Appendix A with comments and a key to the RAG indicators.

Treasury Management Prudential Indicators as at 31 March 2024

KEY		
Exceed PI significantly	R	Not within target
Near but not within PI	A	Near target
Within or at PI level	G	At or below target

Performance Indicator	PI Level	31/03/2023	RAG Indicator	Comment
	£m	£m		
Capital Financing Requirement				
CFR as at 31/03/2024	1,281	1,157	G	Less than forecast for year
				Delays in planned capital pro
Total outstanding debt	1,098	1,087	G	Less than CFR
Debt below CFR	CFR below	Yes	G	'Internal' borrowing
Liquidity risk indicator				
- cash availability	20	10	G	Money market funds are use ensure instant access availa to £50m.
Affordable borrowing				
Authorised limit	1,170			
Operational boundary	1,270			
Outstanding borrowing		1,087	G	Less than the borrowing limi

Maturity Structure of Borrowing	Upper limit	£m	Proportion	
Under 12 Months	10%	(23)	2%	G
1 – 2 Years	15%	(30)	3%	G
>2 – 5 Years	20%	(45)	4%	G
>5 – 10 Years	25%	(82)	8%	G
>10 – 20 Years	50%	(194)	18%	G
>20 – 30 Years	75%	(241)	22%	G
>30 – 40 Years	90%	(294)	27%	G
>40 – 50 Years	100%	(178)	16%	G
	Total	**(1,087)**	**100%**	

Other				
Price Risk Indicator	£70m	£35.151m	G	Limit on principal invested beyond year end.
Standalone financial derivatives	Limited	None	G	Only used where demonstra to reduce the overall level o financial risks.
	£m	£m		
'Net Revenue Stream'	8.7	8.7		The amount to be met from gov grants and local taxpaye
Financing costs	(4.1)	34.4		Debt-related costs
Financing as % of net revenue	-47%	395%	G	
Investment properties - income	11.6	(46.4)		
- Net of financing costs	7.5	(12.0)		

2.1 The Council has significant levels of long-term borrowing of £1,054m as at 31st March 2024 (Table 3) which is a £14m reduction from previous year. Long term borrowing has been secured to part fund purchase of properties for resettlement of refugee families and Temporary Accommodation (Local authority housing fund (LAHF)is provided to offset some of the(about 40% to 50%) cost of purchase, spend on the new Spelthorne Leisure Centre, past regeneration schemes as well as some of the development and to fund in the past the acquisition of the investment properties portfolio. The Council's current strategy for funding capital developments is to borrow, when necessary, as possible given in the context of current interest rate risk issues, while maintaining the investment portfolio that has been built up. Moving forwards the Council's Capital Programme will be significantly reduced beyond 2024-25 which reduce the need for future long term additional borrowing.

2.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These are summarised in Tables 2 and 3 below**.**

Table 2: CFR Summary

	2022/23 Movement £m	2023/24 Year end £m
Opening Capital Financing Requirement	**1,128.5**	**1,134.8**
Capital investment		
Property, Plant and Equipment	19.8	39.7
Revenue Spend Funded from Capital under Statute	1.0	1.2
Total Capital Investment	**21.0**	**41.1**
Sources of Finance		
Capital Receipts	(0.3)	0.0
Government Grants and Contributions	(1.3)	(4.5)
Revenue contributions	(1.0)	(1.6)
Repayment of debt	(12.1)	(12.4)
Total Sources of Finance	(14.7)	(18.5)
Closing Capital Financing Requirement	**1,134.8**	**1,157.4**
		G

The CFR represents the cost of capital expenditure that remains to be financed, after applying sources of finance. This therefore is the underlying need to borrowing. This year's opening CFR (1 April 2023) of £1,134.8m increased by £20.1m capital expenditure during 2023/24 and increase in £3.8m funds used for the projects, leaving a closing CFR of £1,157.4m. The increase in capital expenditure reflects the increase in capital projects started in 2023/24 specifically purchase of LAHF properties as mentioned above and spend on the new leisure centre.

Table 3: Treasury Management Summary

2.3 For the year to 31 March 2024, the Council had net borrowing of £.1,042m arising from its revenue and capital income and expenditure. This represents a projected increase of £36m in net borrowing. This is predominantly due to the start of various projects (LAHF properties) within the Capital Programme and ongoing Leisure Centre project.

Table 3: Treasury Management Summary

	Balance 31/03/2023 £m	Movement £m	Balance 31/03/2024 £m		Rate 31/03/2024 %
Long-term borrowing	(1,069)	15	(1,054)		2.27%
Short-term borrowing	(30)	(3)	(33)		1.09%
Total borrowing	**(1,099)**	**12**	**(1,087)**	**G**	
Long-term investments	34	1	35		3.54%
Short-term investments	15	(15)	0		3.49%
Cash and cash equivalents	44	(34)	**10**	**G**	3.47%
Total investments	**93**	**(48)**	**45**		
Net borrowing	**(1,006)**	**(36)**	**(1,042)**		

Council's funds are being kept sufficiently liquid to ensure that funding is readily available for development project costs expected over the coming months to retain flexibility for financing LAHF properties and completing the financing of the leisure centre, as well as for expected cash flow requirements. The Council held £1,084 m of long- and short-term loans as at 31 March 2024, a decrease of £11m from 31 March 2023. Outstanding loans are summarised in Table 4.

Table 4: Borrowing Position

	Balance 31/03/2023 £m	Net Movement £m	Balance 31/03/2024 £m		Rate 31/03/2024 %	Maturity (wtd average years)
Public Works Loan Board	1,082	(14)	1,068		2.27%	45
Local authorities - long-term					-	
Local authorities - short-term	13	3	16		1.09%	<1
Total Borrowing	**1,095**	**(11)**	**1,084**	**G**		

The Council's main objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term funding and asset management plans change.

2.7 The Council's investment portfolio totalled £ 41m as at 31 March 2024, with £1.5m of this being short-term and cash funds. A breakdown of investments is given in **Appendix D**.

As at 31 March 2024, funds totalling £35.3m of the Council's investments are held in externally managed strategic 'pooled' funds (bond, equity, multi-asset and property), where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability, as exemplified in the graph below, showing long run cumulative returns. These funds generated a return of 4.09% to end March 2024. A full list of these and their current performance is detailed in

Appendix E Strategic Pool fund which are long term investments managed my Arling close

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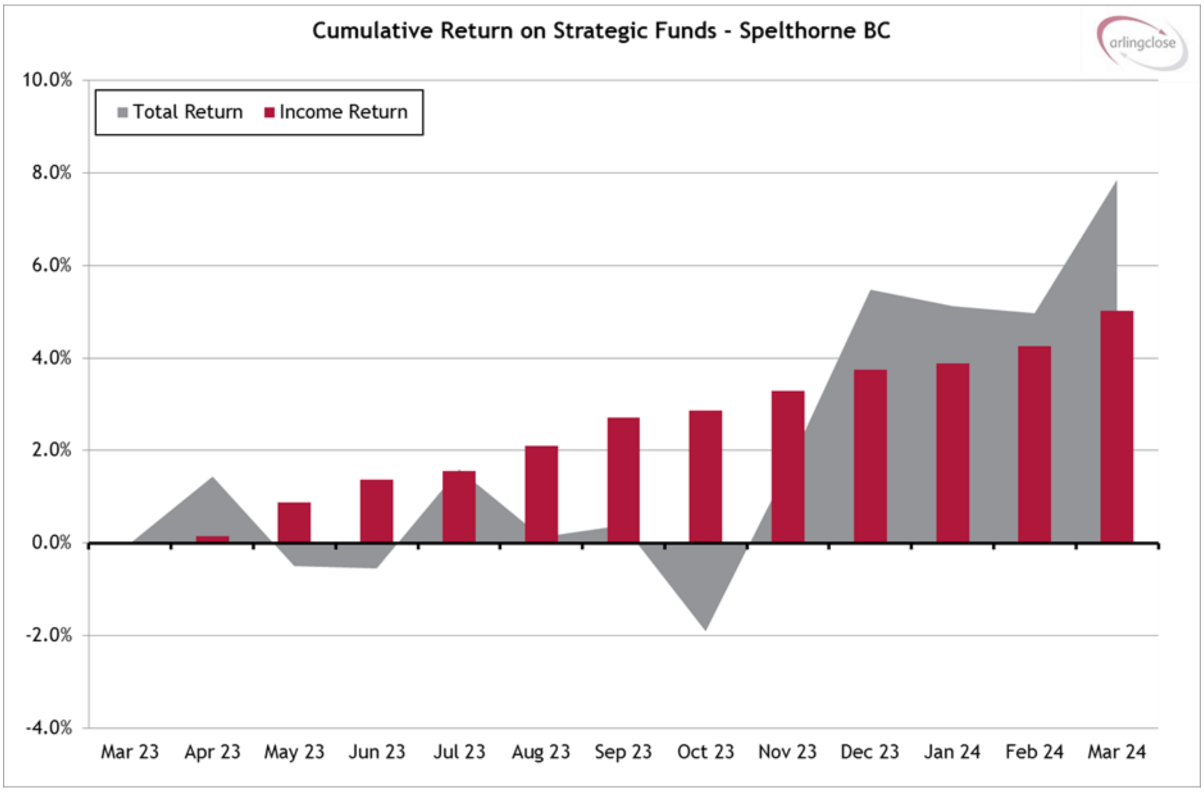

The performance of the Council's portfolio is illustrated by benchmarking carried out by Arlingclose using data from their clients (Appendix B). Arlingclose figures, which are different from the Council's equivalent figures, are produced before the Council's, which includes end of year adjustments. The Investment Benchmarking (Appendix B page 1) shows that Spelthorne has:

- Below average levels of investments (£40.5 m compared to the other LAs averages is £62.8m)
- with good security (A+ average credit rating, and 23% bail-in exposure risk compared to 61% average) as Spelthorne's risk is low due to lower % of bail in exposure. 'Bail-in' refers to when a bank fails, and its shareholders and creditors lose shares and claims in order to restore the bank's viability.
- Liquidity (4% available within 7 days compared to 50% average).
- A fair yield of 4.95% on strategic funds and 5.07% on total investments compared to averages of 5.24% and 5.10% respectively.

2.8 The Council continues to review its approach to ethical and sustainable investment with advice through the Arlingclose ESG and Responsible Investment service for local authorities. (ESG = Environmental, Social and Governance.)

2.9 The Council held non-treasury investments in directly owned property valued at £602.33m at the end of March 2024, as well as shareholding in Knowle Green Estates Limited, with residential property of £4.52m, and in Spelthorne Direct Services Limited which delivers commercial waste services. These investment properties generated a net rental investment income £40.5m for the Council. The gross income was £50.7m and the costs were (Land and other running costs) £10.2m. These investment properties generated a gross *return* of 5.3% per year. This return helps towards supporting the cost of Council's services even after accounting for sinking funds set aside to address future property costs.

2.10 The Chief Finance Officer reports that treasury management activities undertaken during the year complied with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy, although noting that limits on the bank account were exceeded on 4 occasions during 2023/24, two of which were due to oversight and 2 occasions where the ICD and Lloyds weren't approved on time. Measures have been put in place to tighten up on processes and checks. Cover for the roles and monitoring of the function also being strengthened by giving all the accountants training and access to approve ICD and Lloyds.

3. Financial implications

3.1 The financial implications are as set out in this report. The ability to maximise interest returns is paramount to generate sufficient funds to support the General Fund and even a small decline in interest rates can mean a significant reduction in cash returns. Therefore, it is our aim to continue to maintain flexibility commensurate with the high level of security and liquidity and minimal risk when making investment decisions.

4. Risk considerations.

4.1 There are no risk implications arising from the report, which is for noting.

5. Legal considerations

5.1 There are no legal implications arising from the report, which is for noting.

6. Other considerations

6.1 The Council fully complies with best practice as set out in CIPFA's 2023 Treasury Management and Prudential Codes and in the Government's Guidance on Investments effective from April 2018. As issues arise, as when limits were breached as noted 2.17, measures are taken to address the underlying reasons.

6.2 Nothing in the Council's current strategy is intended to preclude or inhibit capital investment in local projects deemed beneficial to the local community and which have been approved by the Council.

7. Equality, Diversity and Inclusion

7.1 Equality, diversity, and inclusion (EDI) are central to everything that we do and are woven throughout our Strategic Plans.

8. Sustainability/Climate Change Implications

8.1 The Council discusses ESG (Environmental, Social and Governance) issues with its advisers on a regular basis and has asked them to assist the Council to manage a transition over time towards a more environmentally sustainable portfolio.

9. Timetable for implementation.

9.1 Not applicable.

Background papers: There are none.

Appendices:

Appendix A – TM Prudential Indicators
Appendix B – Benchmarking v2
Appendix C – Context and Background v4
Appendix D – Details of Investments
Appendix E – Strategic Pooled Funds

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