

Corporate Policy and Resources Committee



29 November 2021

Title	Treasury Management Half Yearly Report
Purpose of the report	To note
Report Author	Anna Russell, Deputy Chief Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Financial Sustainability
Recommendations	Committee is asked to: Note the treasury position achieved during the first six months of 2021/22.
Reason for Recommendation	Not applicable

1. Summary

- 1.1 Treasury Management has performed within and near Prudential Indicators for the half year to the end of September 2021 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. Investments held by the Council have also performed very favourably compared to other councils in England, as 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

- 2.1 Prudential indicators (PIs) are listed at 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 30 September 2021 are summarised in the next section, as well as at Appendix A with comments and a key to the RAG indicators.

Table 1: Treasury Management Prudential Indicators as at 30 September 2021

Indicator	PI Level	30/09/2021	RAG Indicator
	£m	£m	
Capital Financing Requirement			
- CFR as at 30/09/2021	1,149	1,126	G
- as at 31/03/2022 forecast		1,149	G
Total outstanding debt	1,144	1,089	G
Debt below CFR		Yes	G
Liquidity: cash availability	20	19	A
Affordable borrowing			
Authorised limit	1,300		
Operational boundary	1,400		
Outstanding borrowing		1,089	G
Maturity Structure of Borrowing			
	Upper limit	£m	Of total
Under 12 Months	10%	(11)	1%
1 – 2 Years	15%	(25)	2%
>2 – 5 Years	20%	(43)	4%
>5 – 10 Years	25%	(79)	8%
>10 – 20 Years	50%	(187)	18%
>20 – 30 Years	75%	(232)	22%
>30 – 40 Years	90%	(289)	28%
>40 – 50 Years	100%	(179)	17%
	Total	(1,045)	100%
Other			
Price Risk Indicator	£70m	£46m	G
Standalone financial derivatives	Limited	None	G
KEY			
Exceed PI significantly			R
Near but not within PI			A
Within or at PI level			G

- 2.2 The Council has significant levels of long-term borrowing of £1,045m (Table 3), secured to fund historic property acquisitions and to fund completed residential and regeneration schemes. The Council's current strategy for funding capital developments is to fix at relatively low long-term borrowing rates, in the context of current interest rate risk issues, while maintaining the investment portfolio that has been built up.
- 2.3 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 at Tables 2 and 3 below.

Table 2: CFR Summary as at 30 September 2021 and forecast to 31 March 2022

	2020/21 End Mar21 £m	2021/22 Mid-year £m	2021/22 End Mar22 £m
Opening Capital Financing Requirement	1,116.1	1,128.5	1,128.5
<i>Capital investment</i>			
Property, Plant and Equipment	27.7	2.9	36.0
Investment Properties	0.0	0.0	0.0
Intangible Assets	0.1		0.1
Revenue Spend Funded from Capital under Statute	0.8		0.8
Total Capital Investment	28.6	2.9	36.9
<i>Sources of Finance</i>			
Capital Receipts	(0.4)		(0.4)
Government Grants and Contributions	(1.0)		(1.0)
Revenue contributions	(2.9)		(2.9)
Repayment of debt	(11.9)	(5.0)	(12.0)
Total Sources of Finance	(16.2)	(5.0)	(16.3)
Closing Capital Financing Requirement	1,128.5	1,126.4	1,149.1

G

G

- 2.4 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 2021) of £1,128.5m is forecast to be increased by £36.9m capital expenditure during 2021/22 and decreased by £16.3m of funds applied, leaving a closing CFR of £1,149.1m. The mid-year position reflects the delays in capital projects, which, if these continue to be delayed, may result in a decrease in CFR by year end.

Table 3: Treasury Management Summary

	Balance 31/03/2021 £m	Movement £m	Balance 30/09/2021 £m	Rate 31/09/2021 %
Long-term borrowing	(1,061)	16	(1,045)	2.29%
Short-term borrowing	(71)	27	(44)	0.43%
Total borrowing	(1,132)	43	(1,089)	G
Long-term investments	34	2	36	2.51%
Short-term investments	54	(24)	30	0.35%
Cash and cash equivalents	12	7	19	0.01%
Total investments	100	(15)	85	
Net borrowing	(1,032)	28	(1,004)	

- 2.5 For the year to 30 September 2021, the Council had net borrowing of £1,004m arising from its revenue and capital income and expenditure. This represents a projected reduction of £28m in net borrowing. Borrowing is lower than expected because of delays in the Capital Programme, including by moratoria, and has also reduced because borrowing by the Council is structured prudently so that loans are repaid over the useful life of assets.

2.6 Council funds are being kept sufficiently liquid to ensure that funding is readily available for development project costs expected over the coming months as capital projects start again, as well as for expected cash flow requirements.

2.7 The Council held £1,089m of loans as at 30 September 2021, a decrease of £43m from 31 March 2021. Outstanding loans are summarised in Table 4 next.

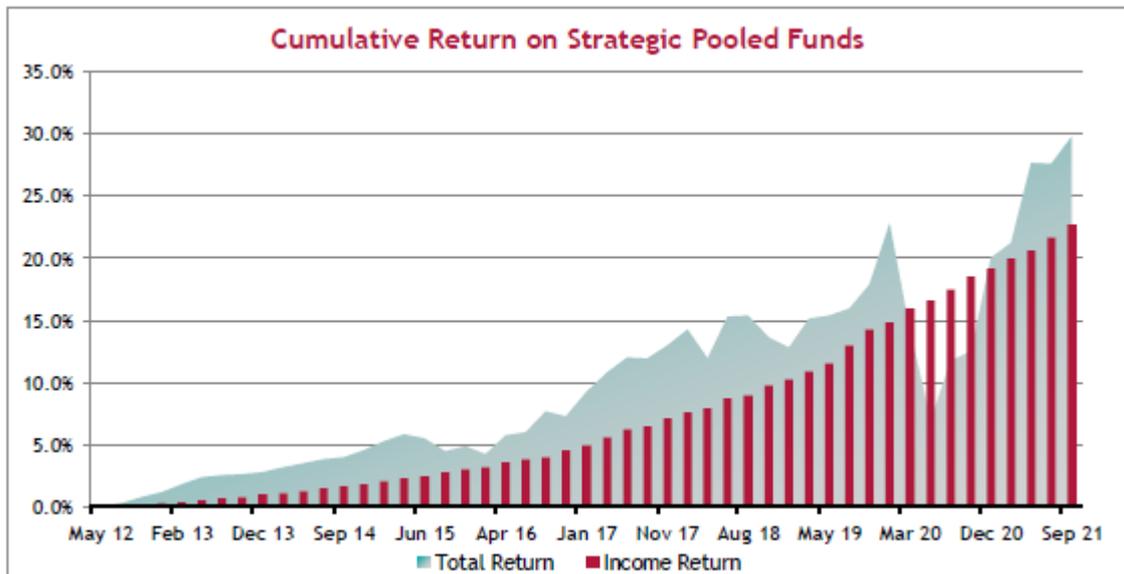
Table 4: Borrowing Position

	Balance 31/03/2021 £m	Movemen t £m	Balance 30/09/2021 £m	Rate 30/09/2021 %	Maturity (wtd average years)
Public Works Loan Board	1,051	(6)	1,045	2.29%	47
Local authorities - long-term	10	(10)	-	-	
Local authorities - short-term	71	(27)	44	0.43%	<1
Total Borrowing	1,132	(43)	1,089 G		

2.8 The Council's chief 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.

2.9 The Council's investment portfolio totalled £85.0m as at 30 September 2021, with £18.9m of this being short-term and cash funds. A breakdown of investments is given in **Appendix D**.

2.10 As at 30 September 2021, funds totalling £35.5m 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, and demonstrating that the dip in capital values caused by the Pandemic has been more than reversed. These funds generated a return of £0.4m to end September 2021 (annualised 2.51%). A full list of these and their current performance is detailed in **Appendix E**.



- 2.11 The effectiveness of the Council’s portfolio is further exemplified by benchmarking carried out by Arlingclose using data from their clients (Appendix B), Spelthorne consistently ranks highly in terms of return on investments.
- 2.12 During 2021/22, the Council expects to receive significantly lower income from its cash and short-dated money market investments and from its externally managed funds than it did in pre-COVID 2019/20 and earlier years. Dividends and income paid will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact. Next year’s budget for income from investments is being reviewed in this context.
- 2.13 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.)
- 2.14 The Council held non-treasury investments in directly owned property valued at £939.7m at the end of March 2021, as well as shareholding in Knowle Green Estates Limited, with investment property of £4.6m, and in Spelthorne Direct Services Limited which delivers commercial waste services.
- 2.15 These investments are expected to generate £50.0m of rental investment income for the Council, representing a rate of return of 5.3%. This return helps towards supporting the cost of council’s services even after accounting for sinking funds set aside to address future property costs.
- 2.16 The Chief Finance Officer reports that treasury management activities undertaken during the first half 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 four occasions, two of which were due to system failures of third parties, and two of which were due to conflicting team commitments. 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 through training and review for example of the effectiveness of process changes

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. Other considerations

- 4.1 The Council fully complies with best practice as set out in CIPFA's 2019 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 2.15, measures are taken to address the underlying reasons.
- 4.2 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.

5. Equality and Diversity

- 5.1 No impact.

6. Sustainability/Climate Change Implications

- 6.1 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.

7. Timetable for implementation

- 7.1 Not applicable.

Background papers: There are none.

Appendices:

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