

# Corporate Policy and Resources Committee



11 July 2022

<b>Title</b>	Treasury Management Annual Report 2021/22
<b>Purpose of the report</b>	To note
<b>Report Author</b>	Anna Russell, Deputy Chief Accountant
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Corporate Priority</b>	Community Affordable housing Recovery Environment Service delivery
<b>Recommendations</b>	<b>Committee is asked to:</b> Note the treasury outturn position for 2021/22.
<b>Reason for Recommendation</b>	Not applicable

## 1. Summary

- 1.1 Treasury Management has performed within and near Prudential Indicators for the year to the end of March 2022 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

- 2.1 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 2022 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 31 March 2022**

Indicator	PI Level	31/03/2022	RAG Indicator
	£m	£m	
<b>Capital Financing Requirement (CFR)</b>			
CFR as at 31/03/2022	1,149	1,118	G
Total outstanding debt	1,144	1,122	G
Debt below CFR		Yes	G
<b>Liquidity: cash availability</b>	20	53	G
<b>Affordable borrowing</b>			
Authorised limit	1,450		
Operational boundary	1,350		
Outstanding borrowing		1,122	G
<b>Maturity Structure of Borrowing</b>			
	Upper limit	£m	Of total
Under 12 Months	10%	(12)	1%
1 – 2 Years	15%	(28)	3%
>2 – 5 Years	20%	(45)	4%
>5 – 10 Years	25%	(82)	8%
>10 – 20 Years	50%	(194)	18%
>20 – 30 Years	75%	(241)	22%
>30 – 40 Years	90%	(294)	27%
>40 – 50 Years	100%	(178)	17%
	<b>Total</b>	<b>(1,074)</b>	<b>100%</b>
<b>Other</b>			
Price Risk Indicator	£70m	£36m	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 £1,077m (Table 3), secured to fund completed residential and regeneration schemes as well as historic investment property. 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 in Tables 2 and 3 below.

**Table 2: CFR Summary as at 31 March 2022**

	2020/21 Year end	2021/22 Movement	2021/22 Year end
	£m	£m	£m
<b>Opening Capital Financing Requirement</b>	<b>1,116.1</b>	<b>12.5</b>	<b>1,128.6</b>
<i>Capital investment</i>			
Property, Plant and Equipment	27.7	(23.0)	4.7
Revenue Spend Funded from Capital under Statute	0.9	0.1	1.0
<b>Total Capital Investment</b>	<b>28.7</b>	<b>(22.7)</b>	<b>6.0</b>
<i>Sources of Finance</i>			
Capital Receipts	(0.4)	(0.3)	(0.7)
Government Grants and Contributions	(1.0)	(1.6)	(2.6)
Revenue contributions	(2.9)	1.7	(1.2)
Repayment of debt	(11.9)	(0.4)	(12.3)
<b>Total Sources of Finance</b>	<b>(16.2)</b>	<b>(0.6)</b>	<b>(16.8)</b>
<b>Closing Capital Financing Requirement</b>	<b>1,128.6</b>	<b>(10.8)</b>	<b>1,117.8</b>

**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 £1,128.6m decreased by a (£22.7m) fall in capital expenditure during 2021/22 and decreased by (£0.6m) of funds applied, leaving a closing CFR of £1,117.8m. The fall in capital expenditure reflects the delays in capital projects during 2021/22.

**Table 3: Treasury Management Summary**

	Balance 31/03/2021 £m	Movement £m	Balance 31/03/2022 £m	Rate 31/03/2022 %
Long-term borrowing	(1,054)	(23)	(1,077)	2.27%
Short-term borrowing	(78)	33	(45)	1.09%
<b>Total borrowing</b>	<b>(1,132)</b>	<b>10</b>	<b>(1,122) G</b>	
Long-term investments	34	2	36	4.33%
Short-term investments	54	(14)	40	0.50%
Cash and cash equivalents	12	41	<b>53 G</b>	0.08%
<b>Total investments</b>	<b>100</b>	<b>29</b>	<b>129</b>	
<b>Net borrowing</b>	<b>(1,032)</b>	<b>39</b>	<b>(993)</b>	

2.5 For the year to 31 March 2022, the Council had net borrowing of £993m arising from its revenue and capital income and expenditure. This represents a projected reduction of £39m in net borrowing. Borrowing is lower than expected because of delays in the Capital Programme, including by Staines-upon-Thames high-rise moratoria, and has also reduced because borrowing by the Council is structured prudently so that loans are repaid over the useful life of assets on a year-by-year basis.

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 £1,119m of loans as at 31 March 2022, a decrease of £17m from 31 March 2021. Outstanding loans are summarised in Table 4 next.

**Table 4: Borrowing Position**

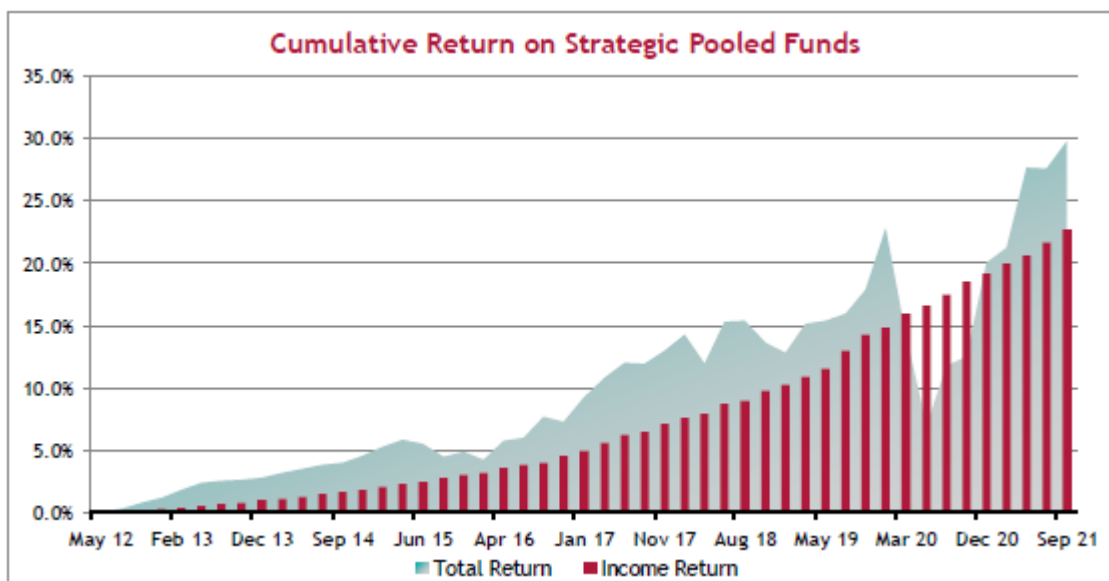
	Balance 31/03/2021 £m	Net Movement £m	Balance 31/03/2022 £m	Rate 31/03/2022 %	Maturity (weighted average years)
Public Works Loan Board	1,051	23	1,074	2.27%	44
Local authorities - long-term	7	(7)	-	-	
Local authorities - short-term	78	(33)	45	1.09%	<1
<b>Total Borrowing</b>	<b>1,136</b>	<b>(17)</b>	<b>1,119 G</b>		

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 £129.0m as at 31 March 2022, with £93.2m of this being short-term and cash funds. A breakdown of investments is given in **Appendix D**.

2.10 As at 31 March 2022, funds totalling £35.4m 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 £1.1m to end March 2022 (4.33%). A full list of these and their current performance is detailed in **Appendix E**.



- 2.11 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:
- significant levels of investments (£128m compared to £95.2m average)
  - with good security (A+ average credit rating compared to AA- average, and 30% bail-in exposure risk compared to 60% average). ‘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.
  - fair liquidity (10% available within 7 days compared to 53% average), though noting that for strategic pooled funds, which are held for the long-term, the council has substantially more at 28% compared to the average of 13%.
  - a fair yield of 4.06% on strategic funds and 1.34% on total investments compared to averages of 3.90% and 0.97% respectively.
- 2.12 The Council is looking to reduce its short-term cash funds over the coming year as capital projects start to come back online after the slowdown caused by the pandemic.
- 2.13 During 2021/22, the Council received 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 COVID-19 and the extent of its economic impact, the energy crisis, and measures taken to address inflationary pressures in the economy.

- 2.14 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.)
- 2.15 The Council held non-treasury investments in directly owned property valued at £916.4m at the end of March 2022, as well as shareholding in Knowle Green Estates Limited, with residential property of £31.4m, and in Spelthorne Direct Services Limited which delivers commercial waste services.
- 2.16 These investments are expected to generate £51.0m of rental investment income for the Council, after landlord costs, representing a rate of return of 5.4%. This return helps towards supporting the cost of Council's services even after accounting for sinking funds set aside to address future property costs.
- 2.17 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 six occasions, two of which were due to system failures of third parties, and four 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. 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 2021 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.
- 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