

Corporate Policy and Resources Committee



29 November 2022

Title	Treasury Management Half Yearly Report
Purpose of the report	To note
Report Author	Sam Masters, Treasury and Capital Accountant (Interim)
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Financial Sustainability
Recommendations	Committee is asked to: To note the performance of the Treasury department during the first six months of 2022/23
Reason for Recommendation	Not applicable

1. Summary

- 1.1 This report covers Treasury Management activity for the six months to September 2022 at Spelthorne Borough Council. Performance is shown and analysed via the RAG system (Red, Amber, Green). Context and economic background to this report is provided at **Appendix C**.
- 1.2 The Council takes a prudent approach to Treasury Management, both in how it manages liquidity and how it mitigates operational, financial, and reputational risk.
- 1.3 The Council's Treasury Management performance has remained within its prudential indicators for the six months to September 2022 as outlined in the next section and detailed at **Appendix A**, with the exception of 'cash availability', which fell below the £20.0m liquidity risk indicator to £16.7m on Friday 30th September. However, this position was rectified on 3rd October, the following Monday.
- 1.4 The investments held by the Council achieved an average overall (across both short term and medium-term funds) return of 1.22% over the six to the 30th September, shown in **Appendix D** and an average of 2.65 % for pooled investment funds. However, at the end of September the Council, as analysed by Arlingclose, was achieving a negative total return. The September end negative return was principally driven by unfavourable movements in the capital value of the investments consistent with wider market conditions. When excluded, the Council achieved a yield of 2.30%, as detailed in **Appendix B1**. For comparison **Appendix B2**, the position as at 30th September 2021, is also provided.

2. Report

Performance against the Council's prudential indicators (PI's) is listed in Table 1 and **Appendix A**, which also provides comments.

Table 1: Treasury Management Performance Indicators as at 30 September 2022

Indicator	PI Level	30/09/2022	RAG Indicator
	£m	£m	
Capital Financing Requirement			
- CFR as at 30/09/2021	1,153.0	1,076.6	G
- as at 31/03/2022 forecast		1,072.0	G
Total outstanding debt	1,106.0	1,094.7	G
Debt below CFR		Yes	G
Liquidity: cash availability	20.0	16.7	A
Affordable borrowing			
Authorised limit	1,450.0		
Operational boundary	1,350.0		
Outstanding borrowing		1,094.7	G
Maturity Structure of Borrowing			
	Upper limit	£m	Of total
Under 12 Months	10%	22.0	1%
1 – 2 Years	15%	198.1	2%
>2 – 5 Years	20%	45.5	4%
>5 – 10 Years	25%	243.3	8%
>10 – 20 Years	50%	298.8	18%
>20 – 30 Years	75%	189.0	22%
>30 – 40 Years	90%	83.5	28%
>40 – 50 Years	100%	14.5	17%
	Total	1,094.7	100%
Other			
Price Risk Indicator	£70.0	£41.0	G
Standalone financial derivatives	Limited	None	G

KEY	
Exceed PI significantly	R
Near but not within PI	A
Within or at PI level	G

- 2.1 The Council has significant levels of long-term borrowing (at fixed rates of interest) of £1,094.7m (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 use short-term borrowing during the development phase and once the asset is operational, fix at a lower rate via long-term borrowing from the PWLB.

- 2.2 The need to borrow for capital purposes is assessed 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.

2022/23

Table 2: CFR Summary

	2021/22 End 31/03/2022 £m	2022/23 End 30/09/2022 £m	2022/23 End 31/03/2022 £m
Opening Capital Financing Requirement	1,128.5	1,117.7	1,117.7
<i>Capital investment</i>			
Property, Plant and Equipment	4.7	4.8	14.3
Intangible Assets	0.3	0.1	0.4
Revenue Spend Funded from Capital under Statute	1.0	0.5	1.0
Total Capital Investment	6.0	5.4	15.8
<i>Sources of Finance</i>			
Capital Receipts	(0.7)	(0.4)	(1.0)
Government Grants and Contributions	(2.6)	(1.3)	(2.6)
Revenue contributions	(1.2)	(0.6)	(1.2)
Repayment of debt	(12.3)	(44.3)	(56.6)
Total Sources of Finance	(16.8)	(46.6)	(63.4)
Closing Capital Financing Requirement	1,117.7	1,076.6	1,072.0

- 2.3 The CFR represents the cost of capital expenditure that remains to be financed, after applying available sources of finance. This year's opening CFR (1 April 2022) of £1,117.7m is forecast to be increased by £15.8m capital expenditure during 2021/22 and decreased by £63.4m of funds applied, leaving a closing CFR of £1,072.0m. The mid-year position reflects the delays in capital projects, which, if these continue to be delayed, will result in a decrease in CFR by year end.

Table 3: Treasury Management Summary

	Balance 31/03/2022 £m	Movement £m	Balance 30/09/2022 £m	Rate 31/09/2022 %
Long-term borrowing	(1,084.4)	(0.2)	(1,084.7)	2.28%
Short-term borrowing	(37.7)	27.7	(10.0)	0.18%
Total borrowing	(1,122.2)	27.5	(1,094.7)	G
Long-term investments	35.9	(4.6)	31.3	4.27%
Short-term investments	40.5	24.9	65.4	2.16%
Cash and cash equivalents	53.0	(36.2)	16.7	2.15%
Total investments	129.3	(16.0)	113.3	
Net borrowing	(992.9)	11.5	(981.3)	

- 2.4 For the year to 30th September 2022, the Council had net borrowing of £981.3m. This represents a reduction of £11.6m in net borrowing. Borrowing is lower than anticipated due to delays in the Capital Programme.

- 2.5 Council funds are being kept sufficiently liquid to ensure that funding is readily available for design and planning costs expected for the remainder of the financial year. However, as borrowing costs have increased significantly recently with the Bank of England raising its rate in quarter three to 3.00%, its anticipated that all schemes that have not yet 'broken ground' maybe paused post obtaining planning permission. However, there are significant holding costs associated with the schemes of circa £0.170m per month that must be considered.
- 2.6 The Council held £1,094.7m of loans as at 30 September 2022, a decrease of £27.5m from 31 March 2022. Outstanding loans are summarised in Table 4 below.

Table 4: Borrowing Position

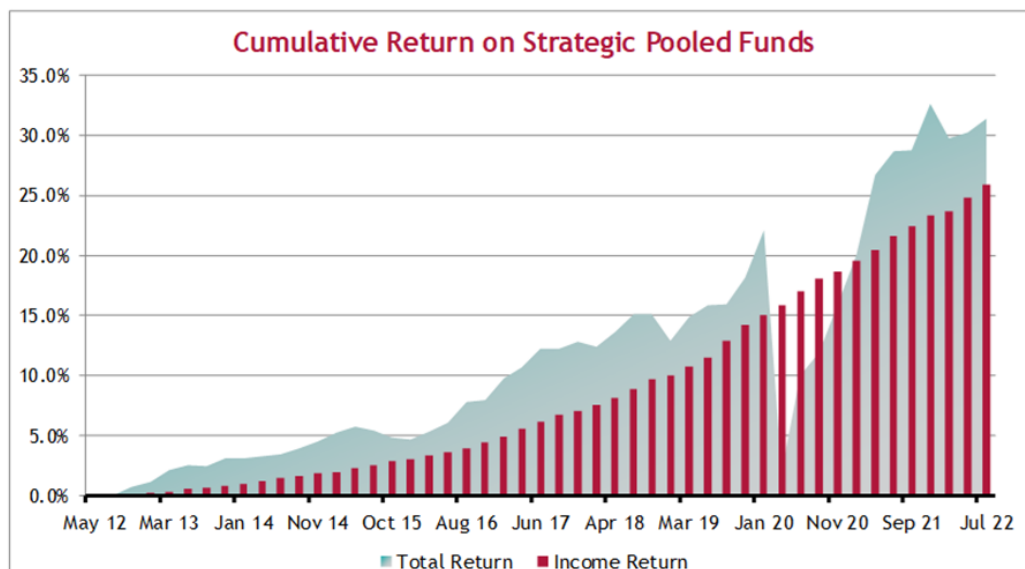
	Balance 31/03/2022 £m	Movement £m	Balance 30/09/2022 £m	Rate 30/09/2022 %	Maturity (wtd average years)
Public Works Loan Board	1,074.0	10.7	1,084.7	2.28%	44
Local authorities - long-term	10.4	(10.4)	-	-	
Local authorities - short-term	37.7	(27.7)	10.0	0.18%	<1
Total Borrowing	1,122.2	(27.5)	1,094.7 G		

- 2.7 The Council's investment portfolio totalled £113.6m as at 30 September 2022, with £82.1m of this being short-term and cash funds. A breakdown of investments is given in **Appendix D**.
- 2.8 Interest received on the short term investments totalled £0.65m and a yield of 0.79% for the 6 months to September. Interest paid on total borrowing was £12.5m for the same period. Both figures were in-line with their respective budgets as per the table below.

Table 5: Interest

	2022/23 Budget £	2022/23 Actual 30/09/22 £	2022/23 Forecast £	2022/23 Forecast to Budget Variance £	2022/23 Forecast to Budget Variance %
Interest Earnings	(1,288,400.0)	(645,945.9)	(1,291,891.9)	(3,491.9)	0.27%
Debt Interest Payable	25,078,800.0	12,508,288.0	25,016,576.0	(62,224.0)	-0.25%
Total	23,790,400.0	11,862,342.1	23,724,684.1	(65,715.9)	

- 2.9 As at 30 September 2022, the Council held £31.5m in externally managed strategic pooled funds (bond, equity, multi-asset and property). These funds are typically less liquid. This asset class generated a return £0.83m and a yield of 2.65% in the six months to September. Cumulative return is provided below, performance is detailed in **Appendix E**.



- 2.10 Council continues to review its approach to ethical and sustainable investment with advice through the Arlingclose ESG (Environmental, Social and Governance) and Responsible Investment service for local authorities.
- 2.11 The Council held non-treasury investments in directly owned property valued at £916.8m at the end of March 2022, 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.
- 2.12 These investments are expected to generate approximately £58.6m of gross rental investment income for the Council, representing a rate of return of 6.4%. This return helps towards supporting the cost of the Council's services even after accounting for sinking funds set aside to address future property costs.
- 2.13 The Chief Finance Officer reports that treasury management activities undertaken during the first half year complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. There have been no incidents of counter party limit breaches in the six months to 30 September.

3. Options analysis and proposal

- 3.1 Not applicable.

4. Financial implications

- 4.1 The financial implications are detailed in the main body of the report. The ability to maximise interest returns, whilst keeping risk within acceptable tolerances, is crucial to being able to generate sufficient income to support the General Fund and the Capital Programme. Small adverse movements in interest rates can mean a significant reduction in cash returns. Therefore, it is our aim to continue to maintain flexibility with a high level of security, liquidity and minimal risk when making investment decisions.

5. Risk considerations

- 5.1 With the rise in the BoE's base rate, 3.0% at the time of writing this report, and the associated rise in borrowing costs, there is now a significant question

mark over the viability of the schemes that are yet to 'break ground' as the higher cost of finance means that the schemes would produce a negative net present value (NPV) i.e. would not be profitable for the Council. However, as detailed above, postponing the schemes, with the intention of taking to completion once market volatility and borrowing costs reduce, is not without risk as it attracts significant holding costs, currently estimated to be £0.170m per month. This exposes the Council to the financial risk that individual schemes enter a negative NPV scenario if those schemes are postponed for too long a period of time. In addition to this, the Council has faced negative publicity over its debt level in relation to its Capital Programme, so there is likely to be reputational risk associated with postponing or deciding to not go ahead with elements of the programme given the investment in those schemes to date.

6. Procurement considerations

6.1 None.

7. Legal considerations

7.1 None.

8. Other considerations

8.1 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.

8.2 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.

9. Equality and Diversity

9.1 No impact.

10. Sustainability/Climate Change Implications

10.1 The Council continues to review its ESG position 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.

11. Timetable for implementation

11.1 Not applicable.

Appendices:

Appendix A – TM Prudential Indicators
Appendix B1 – Benchmarking 22-23
Appendix B2 – Benchmarking 21-22
Appendix C – Context and Background
Appendix D – Details of Investments
Appendix E – Strategic Pooled Funds