Corporate Policy and Resources Committee

17/07/2023

Title	Treasury Management Annual Outturn Report 2022/23
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 Affordable housing Recovery Environment Service delivery
Recommendations	**Committee is asked to:** Note the treasury management outturn position for 2022/23
Reason for Recommendation	Not applicable

1. Summary

1.1 Treasury Management has performed within and near Prudential Indicators for the year to the end of March 2023 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 2023 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 2023

Indicator	PI Level	31/03/2023		RAG Indicator
	£m	£m		
Capital Financing Requirement (CFR)				
CFR as at 31/03/2023	1,281	1,124		G
Total outstanding debt	1,098	1,100		G
Debt below CFR		Yes		G
Liquidity: cash availability	20	44		G
Affordable borrowing				
Authorised limit	1,450			
Operational boundary	1,350			
Outstanding borrowing		1,100		G
Maturity Structure of Borrowing				
	Upper limit	**£m**	**Of total**	
Under 12 Months	10%	(12)	1%	G
1 – 2 Years	15%	(28)	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)	17%	G
	Total	**(1,074)**	**100%**	
Other				
Price Risk Indicator	£70m	£34m		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 £1,069m as at 31st March 2023 (Table 3) which is a £8m reduction on the previous year, 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 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.

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 31 March 2023

	2021/22 Year end £m	2022/23 Movement £m	2022/23 Year end £m
Opening Capital Financing Requirement	**1,128.50**	**-10.8**	**1,117.7**
Capital investment			
Property, Plant and Equipment	4.7	15.1	19.8
Revenue Spend Funded from Capital under Statute	1.0	0.0	1.0
Total Capital Investment	**6.0**	**15.0**	**21.0**
Sources of Finance			
Capital Receipts	(0.7)	0.4	(0.3)
Government Grants and Contributions	(2.6)	1.3	(1.3)
Revenue contributions	(1.2)	0.2	(1.0)
Repayment of debt	(12.3)	0.2	(12.1)
Total Sources of Finance	(16.8)	2.1	(14.7)
Closing Capital Financing Requirement	**1,117.7**	**6.3**	**1,124.0**

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 2022) of £1,117.7m increased by £15m capital expenditure during 2022/23 and increase in £2.1 m funds used for the projects, leaving a closing CFR of £1,124.0m. The increase in capital expenditure reflects the increase in capital projects started in 2022/23.

Table 3: Treasury Management Summary

	Balance 31/03/2022 £m	Movement £m	Balance 31/03/2023 £m		Rate 31/03/2023 %
Long-term borrowing	(1,077)	8	(1,069)		2.27%
Short-term borrowing	(45)	14	(31)		1.09%
Total borrowing	**(1,122)**	**22**	**(1,100)**	**G**	
Long-term investments	36	(2)	34		4.63%
Short-term investments	40	(25)	15		1.51%
Cash and cash equivalents	53	(9)	**44**	**G**	3.52%
Total investments	**129**	**(36)**	**93**		
Net borrowing	**(993)**	**(14)**	**(1,007)**		

2.5 For the year to 31 March 2023, the Council had net borrowing of £1,007m arising from its revenue and capital income and expenditure. This represents a projected increase of £14m in net borrowing. This is predominantly due to the start of various projects within the Capital Programme, particularly the Leisure Centre project.

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 £1,096 m of long- and short-term loans as at 31 March 2023, a decrease of £63m from 31 March 2022. Outstanding loans are summarised in Table 4 next.

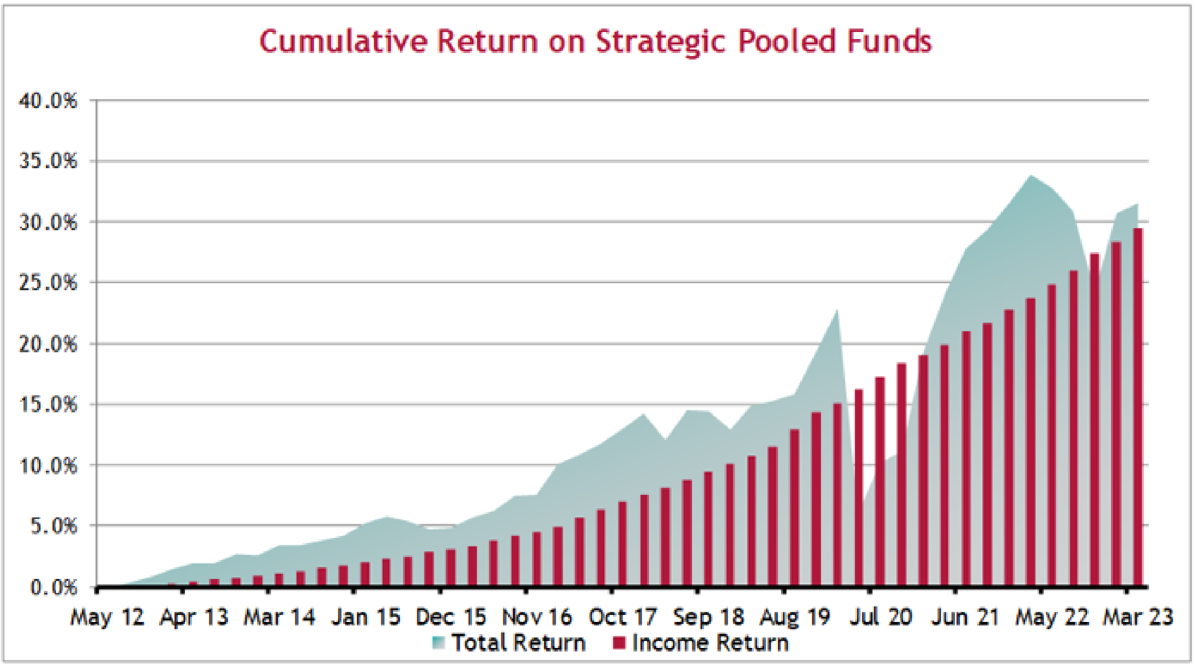
Table 4: Borrowing Position

	Balance 31/03/2022 £m	Net Movement £m	Balance 31/03/2023 £m		Rate 31/03/2023 %	Maturity (Weighted average years)
Public Works Loan Board	1,074	9	1,083		2.27%	45
Local authorities - long-term					-	
Local authorities - short-term	45	(65)	13		1.09%	<1
Total Borrowing	**1,119**	**(63)**	**1,096**	**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 £ 94m as at 31 March 2023, with £81m of this being short-term and cash funds. A breakdown of investments is given in **Appendix D**.

2.10 As at 31 March 2023, funds totalling £33.3m 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 £9.6m to end March 2023 (4.10%). 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 (£93.1 m compared to £81.6m average)
- with good security (A+ average credit rating, and 35% 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 (17 % 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 4.45% on strategic funds and 1.73% on total investments compared to averages of 3.68% and 1.64% 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 2022/23, 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 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.)

2.15 The Council held non-treasury investments in directly owned property valued at £755.3m at the end of March 2023, 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.

2.16 These investments are expected to generate £52.0m of gross rental investment income for the Council, after landlord costs, representing a rate of return of 6.6%. 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 2022 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