Corporate Policy and Resources Committee

November 2023

Title	Treasury Management Half Yearly Report
Purpose of the report	To note
Report Author	Prithiva Janaka, Treasury Management and Capita Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Financial Sustainability
Recommendations	**Committee is asked to:** Note the performance of the Treasury department during the first six months of 2023/24
Reason for Recommendation	Not applicable

1. Summary

1.1 This report covers Treasury Management activity for the six months to September 2023 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 2023 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 £7.4m mainly due to ongoing capital projects and PWLB repayments, also due to the current economic climate.

1.4 The investments held by the Council achieved an average overall (across both short term and medium-term funds) return of 2.09% over the six months to the 30th of September, shown in **Appendix D** 1.41 % for pooled investment funds. At the end of September, the Council, as analysed by Arlingclose, was achieving a Positive total return. The September end positive return was principally driven by higher interest rates, as detailed in **Appendix B1.** For comparison **Appendix B2**, the position as of 30th September 2022, is also provided.

2. Report

Performance against the Council's prudential indicators (PI's) is listed inTable1 and

Appendix A, which also provides comments.

Table 1: Treasury Management Performance Indicators as at 30 September 2023

Indicator	PI Level	30/09/2023		RAG Indicator
	£m	£m		
Capital Financing Requirement				
- CFR as at 30/09/2023	1,082.0	1,096.4		G
- as at 31/03/2024 forecast		1,118.9		G
Total outstanding debt	1,003.0	1,060.2		G
Debt below CFR		Yes		G
Liquidity: cash availability	20.0	7.4		A
Affordable borrowing				
Authorised limit	1,450.0			
Operational boundary	1,350.0			
Outstanding borrowing		1,060.2		G
Maturity Structure of Borrowing				
	Upper limit	**£m**	**Of total**	
Under 12 Months	10%	14.5	1%	G
1 – 2 Years	15%	14.1	1%	G
>2 – 5 Years	20%	47.3	4%	G
>5 – 10 Years	25%	85.5	8%	G
>10 – 20 Years	50%	201.5	19%	G
>20 – 30 Years	75%	277.3	26%	G
>30 – 40 Years	90%	275.6	26%	G
>40 – 50 Years	100%	156.9	15%	G
	Total	**1,072.7**	**100%**	
Other				
Price Risk Indicator	£70.0	£41.0		G
Standalone financial derivatives	Limited	None		G

KEY	
Exceeded 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 £1,072.0m (Table 3), secured to fund historic property acquisitions and to fund completed residential and regeneration schemes.

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**.**

2023/24

Table 2: CFR Summary

	2022/23 End 31/03/2023 £m	2023/24 End 30/09/2023 £m	2023/24 End 31/03/2024 £m
Opening Capital Financing Requirement	**1,117.7**	**1,124.0**	**1,124.0**
Capital investment			
Property, Plant and Equipment	19.8	17.5	54.7
Intangible Assets	0.2	0.1	0.3
Revenue Spend Funded from Capital under Statute	1.0	0.5	1.0
Total Capital Investment	**21.0**	**18.1**	**56.1**
Sources of Finance			
Capital Receipts	(0.3)	(0.2)	(1.0)
Government Grants and Contributions	(1.3)	(0.6)	(2.6)
Revenue contributions	(1.0)	(0.5)	(1.2)
Repayment of debt	(12.1)	(44.3)	(56.4)
Total Sources of Finance	(14.7)	(45.6)	(60.3)
Closing Capital Financing Requirement	**1,124.0**	**1,096.4**	**1,118.9**

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 2023) of £1,124.0m is forecast to be reduced by £38 m to £1,096m CFR to 30th September 2023 and a forecast increase to £1,118.9m CFR at the year end. Forecast increase in funds of £7.5m.This is mainly due to acquisition of Property, Plant and Equipment (PPE). However, Committee has suspended most of the development projects except Spelthorne Leisure centre CFR at the end of 2023/24(31/03/2023) will reduce further and will be reflected at the end of the year outturn report.

Table 3: Treasury Management Summary

	Balance 31/03/2023 £m	Movement £m	Balance 30/09/2023 £m	
Long-term borrowing	(1,068.8)	(3.9)	(1,072.7)	
Short-term borrowing	(30.2)	42.7	12.5	
Total borrowing	**(1,099.0)**	**38.8**	**(1,060.2)**	**G**
Long-term investments	33.8	(0.9)	32.8	
Short-term investments	15.3	7.1	22.4	
Cash and cash equivalents	43.9	(36.5)	7.4	A
Total investments	**93.0**	**(30.3)**	**62.6**	
Net borrowing	**(1,006.0)**	**8.5**	**(997.6)**	

2.4 For the year to 30th September 2023, the Council had net borrowing outstanding of £997.6m. This represents a reduction since 31st March 2023, of £8.5m in net borrowing because of short-term loan repayment.

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 mainly with the Bank of England raising its rate rapidly in the last 6 months to 5.25%, the Council in October suspended all its housing delivery schemes.

2.6 The Council held £1,060.2m of loans as of 30 September 2023, a decrease of £38.8m from 31 March 2023. Outstanding loans are summarised in Table 4 below.

Table 4: Borrowing Position

	Balance 31/03/2023 £m	Movement £m	Balance 30/09/2023 £m		Rate 30/09/2023 %	Maturity (wtd average years)
Public Works Loan Board	1,083.0	(10.3)	1,072.7		2.35%	44
Local authorities - long-term	- 14.2	14.2	-		-	
Local authorities - short-term	30.2	(42.7)	- 12.5		0.00%	<1
Total Borrowing	**1,099.0**	**(38.8)**	**1,060.2**	**G**		

2.7 The Council's investment portfolio totalled £63.46m as at 30 September 2023,with £30.63m of this being short-term and cash funds. A breakdown of investments is given in Appendix D.

Details of Investments Held as at 30 September 2023

Investment Type	Valuation £m	Yield %	Start Date	Maturity Date
<u>Pooled Investment Funds</u> *(See Appendix B for details)*				
WS Charteris Premium Income Fund	0.69	1.02%	11-May-12	N/A
Schroders UK Corporate Bond Fund	1.46	1.26%	11-May-12	N/A
Schroders Income Maximiser Fund	5.05	3.99%	01-Jun-21	N/A
M&G Global Dividend Fund	6.19	1.49%	14-Jan-22	N/A
M&G Optimal Income Sterling	1.58	0.00%	14-Jan-22	N/A
M&G UK Income Distribution Sterling	1.75	0.87%	15-Aug-16	N/A
Ninety-One Diversified Income	3.82	1.02%	19-Oct-21	N/A
Threadneedle Inv Services - UK Equity	3.84	1.11%	29-Oct-21	N/A
Threadneedle Global Equity Fund	1.76	0.76%	29-Mar-22	N/A
CCLA - The LAs Property Fund	1.90	1.50%	31-Mar-13	N/A
CCLA - The LAs Property Fund	1.08	1.28%	30-Apr-14	N/A
UBS Multi- Asset Income Fund	1.10	1.63%	22-Feb-19	N/A
Aegon Diversified Monthly Income Fund	2.61	2.35%	21-Feb-19	N/A
Total - Core Inv. Portfolio	**32.83**	**1.41%**		
<u>Money Market Funds (ICD Portal)</u>				
Federated - Class 4 (ICD Portal)	7.34	3.55%	N/A	Instant Access
Total	**7.34**	**3.47%**		
Local Authorities	20.0	4.19%	N/A	Short term
Bank Deposits	2.00	4.91%	02-May-23	Short term
Close Brothers	0.00	0.00%	N/A	Short term
<u>Funding Circle</u>	0.39	0.17%		
Others -Knowle Green	0.90	3.21%	N/A	N/A
Total Investments at 30/09/2021	**63.46**	**2.09%**		

2.8 Total short-term investment of £20m and a yield of 4.19% over the 6 months to September 2023. Interest paid on total borrowing was £12.6m for the same period. Both figures were in-line with their respective budgets as per the table below.

Table 5: Interest

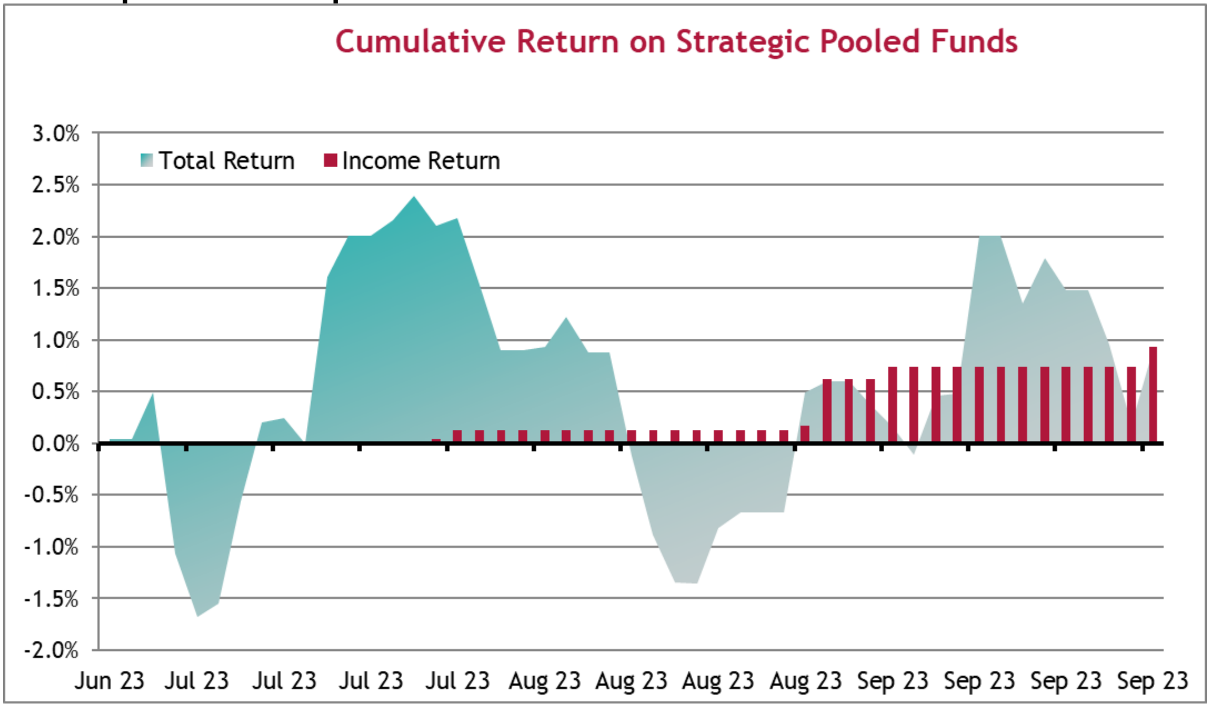
	2023/24 Budget	2023/24 Actual 30/09/23	2023/24 Forecast	2023/24 Forecast to Budget Variance	2023/24 Forecast to Budget Variance
£	£	£	£	£	%
Interest Earnings	(1,200,000.0)	(645,945.9)	(1,291,891.9)	(91,891.9)	7.66%
Debt Interest Payable	25,172,800.0	12,626,148.9	25,172,773.0	(27.0)	-0.25%
Total	**23,972,800.0**	**11,980,203.0**	**23,880,881.1**	**(91,918.9)**	

2.9 As at 30 September 2023, the Council held £32.8m in externally managed strategic pooled funds (bond, equity, multi-asset and property). These funds are typically less liquid. This asset class generated a return £0.57m and a yield of 1.41% in the six months to September. Cumulative return is provided below.

The Graph below which was generated by Arlingclose shows Spelthorne's cumulative return on income for the 1st 6 months to 30th September 2023.

Detailed Appendix E Attached.

For the period 30th Sept 2023



Period

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 £756.2m at the end of March 2023, as well as shareholding in Knowle Green Estates Limited, with investment property of £32.9m, and in Spelthorne Direct Services Limited which delivers commercial waste services.

2.12 These investments are expected to generate approximately £46.1m of gross rental investment income for the Council, representing 6.0% rate of return and a net return of £7.3m that is 1% rate of return, after accounting for land lord cost, loan interest, minimum revenue provision and sinking fund. This return helps towards supporting the cost of the Council's services.

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 significant rise in Bank of England's base rate, 5.25% 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. 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 Chartered Institute of Public Finance and Accountancy (CIPFA) 2019 Treasury Management and Prudential Codes and in the Government's Guidance on Investments effective from April 2018.

8.2 Nothing in the Council's current strategy is intended to preclude or inhibit capital investment in local.

8.3 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