

# Corporate Policy and Resources Committee



20<sup>th</sup> January 2025

<b>Title</b>	Treasury Management Half Yearly Report
<b>Purpose of the report</b>	To note
<b>Report Author</b>	Prithiva Janaka, Treasury Management and Capital Accountant
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Corporate Priority</b>	Financial Sustainability
<b>Recommendations</b>	<b>Committee is asked to:</b> Note the performance of the Treasury department during the first six months of 2024/25
<b>Reason for Recommendation</b>	Not applicable

What is the situation	Why we want to do something
<ul style="list-style-type: none"> <li>Treasury Management has the statutory duty to present the half yearly, Treasury management outturn report to the Committee and the council to show the performance of Treasury activities during 1<sup>st</sup> half of 2024/25 (1 April 2024 until 30 September 2024)</li> <li>The Council has both a significant debt portfolio (most of which is at fixed rates) of £1,094m (£1,062m long term and £32m of short term) and investment funds of £33.1m, short term investments of £8.1m, and cash balances of £2.2m.</li> <li>This scale of activity creates risks which need to be proactively managed and Officers review liquidity and cashflow on a weekly basis.</li> <li>The Council needs to seek to minimise financing costs whilst maximising returns on surplus funds whilst managing risk</li> </ul>	<ul style="list-style-type: none"> <li>To provide Councillors with an understanding of the Council's borrowing and investment position part way through the financial year.</li> </ul>
This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> <li>Mitigate risk by diversify Investment and borrowing.</li> <li>Continuing to seek professional advice from our advisers</li> </ul>	<ul style="list-style-type: none"> <li>To closely monitor and manage the treasury function for the next 6 months financial year 2024/25 and going forward</li> <li>To note this report</li> </ul>

## 1. Summary

- 1.1 This report covers Treasury Management activity at Spelthorne Borough Council for the six months to end of September 2024. 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 outside its prudential indicators for the six months to end of September 2024 as outlined in the next section and detailed at **Table 1**, this is mainly due to Eclipse Leisure Centre development and purchase of properties for settlement of families under Local Authority Housing Fund, however actions have been put in place to reduce the debt by drawing down the Council's pooled funds, which will reflect in the year end Treasury Outturn report. Unlike previous years '*cash availability*', fell below the £20.0m liquidity risk indicator to £2m 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 1.77% over the six months to the 30th of September, shown in **Appendix D** 1.98% 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 2024, is also provided.

## 2. Report

Performance against the Council's prudential indicators (PI's):

**Table 1: Treasury Management Performance Indicators as at 30 September 2024**

Indicator	PI Level	30/09/2024	RAG Indicator
	£m	£m	
<b>Capital Financing Requirement</b>			
- CFR as at 30/09/2024	1,189.0	1,174.1	G
- as at 31/03/2025 forecast		1,179.8	G
Total outstanding debt	1,072.0	1,094.0	R
Debt below CFR		YES	G
<b>Liquidity: cash availability</b>	20.0	2.0	R
<b>Affordable borrowing</b>			
Authorised limit	1,167.0		
Operational boundary	1,067.0		
Outstanding borrowing		1,089.0	G
<b>Maturity Structure of Borrowing</b>			
	<b>Upper limit</b>	<b>£m</b>	<b>Of total</b>
Under 12 Months	10%	32.0	3%
1 – 2 Years	15%	14.1	1%
>2 – 5 Years	20%	47.3	4%
>5 – 10 Years	25%	85.5	8%
>10 – 20 Years	50%	201.5	18%
>20 – 30 Years	75%	277.3	25%
>30 – 40 Years	90%	275.6	25%
>40 – 50 Years	100%	160.9	15%
	<b>Total</b>	<b>1,094.2</b>	<b>100%</b>
<b>Other</b>			
Price Risk Indicator	£70.0	£41.0	G
Standalone financial derivatives	Limited	None	G

Note: borrowing higher than strategy to fund property acquisitions, residential & regeneration schemes

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 £1,062m (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 in Tables 2 and 3 below:

2024/25

**Table 2: Capital Financing requirement (CFR) Summary**

	2023/24 End 31/03/2024 £m	2024/25 Mid- Year Position 30/09/2024 £m	2024/25 Year End 31/03/2025 £m
<b>Opening Capital Financing Requirement</b>	<b>1,134.8</b>	<b>1,157.5</b>	<b>1,157.5</b>
<i>Capital investment</i>			
Property, Plant and Equipment	39.7	43.6	49.2
Intangible Assets	0.2	0.2	0.6
Revenue Spend Funded from Capital under Statute	1.2	0.6	1.4
<b>Total Capital Investment</b>	<b>41.1</b>	<b>44.4</b>	<b>51.2</b>
<i>Sources of Finance</i>			
Capital Receipts	0.0	0.0	0.0
Government Grants and Contributions	(4.5)	(14.6)	(14.6)
Revenue contributions	(1.6)	0.0	(1.0)
Repayment of debt	(12.4)	(13.2)	(13.2)
<b>Total Sources of Finance</b>	<b>(18.5)</b>	<b>(27.8)</b>	<b>(28.8)</b>
<b>Closing Capital Financing Requirement</b>	<b>1,157.5</b>	<b>1,174.1</b>	<b>1,179.8</b>

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 2024) of £1,157.5m is forecast to be increase by £22.3m to £1,179.8m by the year end. This is mainly due to Phase 2 of the Leisure Centre project and acquisition of Property, Plant and Equipment (PPE).

**Table 3: Treasury Management Summary**

	Balance 31/03/2024 £m	Movement £m	Balance 30/09/2024 £m	
Long-term borrowing	(1,054.0)	(8)	(1,062.0)	
Short-term borrowing	(33.0)	1	(32.0)	
<b>Total borrowing</b>	<b>(1,087.0)</b>	<b>(7.0)</b>	<b>(1,094.0)</b>	<b>R</b>
Long-term investments	33.8	(1.9)	33.1	
Short-term investments	0.4	7.7	8.1	
Cash and cash equivalents	9.8	(7.6)	2.2	<b>R</b>
<b>Total investments</b>	<b>45.2</b>	<b>(1.8)</b>	<b>43.4</b>	
<b>Net borrowing</b>	<b>(1,041.8)</b>	<b>(21.5)</b>	<b>(1,050.6)</b>	

2.4 For the year to 30<sup>th</sup> September 2024, the Council had total borrowing outstanding of £1,094.0m. This represents £7m increase since 31<sup>st</sup> March 2024.

2.5 Council funds are being kept sufficiently liquid to ensure that funding is readily available for all project costs expected for the remainder of the financial year. At the same time, borrowing costs have increased significantly due to high interest rates, with the PWLB requiring 5.25% at the end of September 2024. We are anticipating the volume of borrowing will be significantly less as we approach year end, as we are in the process of drawing down pooled investment funds, providing greater liquidity without external borrowing.

2.6 The Council's investment portfolio totalled £43.4m as at 30<sup>th</sup> September 2024. A breakdown of investments is given in Table 4 below

**Table 4: Details of Investments Held as at 30 September 2024**

Investment Type	Valuation £m	Yield %	Start Date	Maturity Date
<b><u>Pooled Investment Funds</u></b> <i>(see Appendix B for details)</i>				
WS Charteris Premium Income Fund	0.00	1.04%	11-May-12	N/A
Schroders UK Corporate Bond Fund	1.59	1.32%	11-May-12	N/A
Schroders Income Maximiser Fund	5.49	3.84%	01-Jun-21	N/A
M&G Global Dividend Fund	6.59	2.46%	14-Jan-22	N/A
M&G Optimal Income Sterling	1.60	2.35%	14-Jan-22	N/A
M&G UK Income Distribution Sterling	1.84	0.88%	15-Aug-16	N/A
Ninety One Diversified Income	3.98	1.60%	19-Oct-21	N/A
Threadneedle Inv Services - UK Equity	4.24	2.17%	29-Oct-21	N/A
Threadneedle Global Equity Fund	2.02	0.84%	29-Mar-22	N/A
CCLA - The LAs Property Fund	1.82	3.29%	31-Mar-13	N/A
CCLA - The LAs Property Fund	1.04	2.82%	30-Apr-14	N/A
UBS Multi- Asset Income Fund	0.00	1.08%	22-Feb-19	N/A
Aegon Diversified Monthly Income Fund	2.87	2.12%	21-Feb-19	N/A
<b>Total - Core Inv. Portfolio</b>	<b>33.07</b>	<b>1.98%</b>		
<b><u>Money Market Funds (ICD Portal)</u></b>				
Federated - Class 4 (ICD Portal)	2.18	3.47%	N/A	Instant Access
<b>Total</b>	<b>2.18</b>	<b>3.47%</b>		
Local Authorities	7.0	0.56%	N/A	Short term
Bank Deposits	0.00	0.00%	N/A	Short term
Close Brothers	0.00	0.00%	N/A	Short term
Funding Circle	1.17	0.17%		

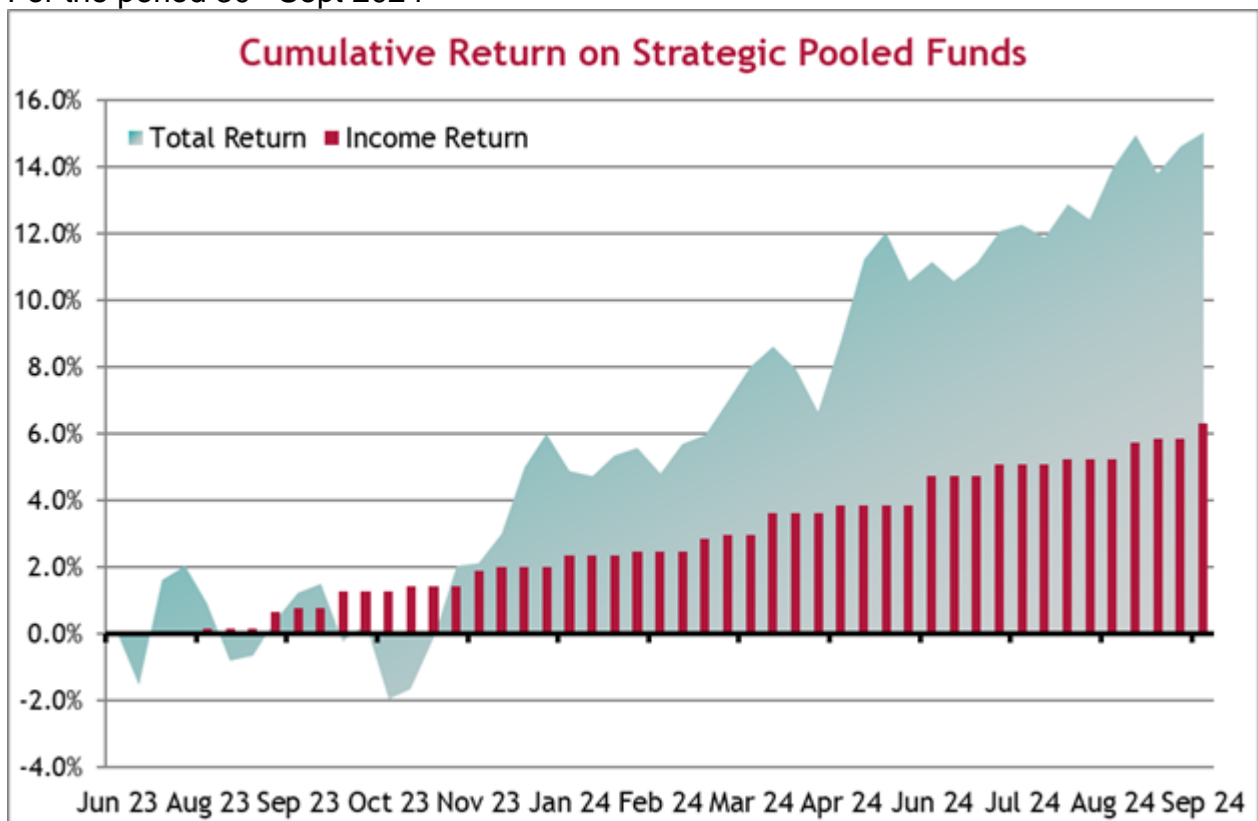
Others -Knowle Green	0.00	0.00%	N/A	N/A
<b>Total Investments at 30/09/2024</b>	<b>43.42</b>	<b>2.45%</b>		

2.9 As at 30<sup>th</sup> September 2024, the Council held £33.1m in externally managed strategic pooled funds (bond, equity, multi-asset and property). These funds are typically less liquid. This asset class generated a yield of 1.98% 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 1<sup>st</sup> 6 months to 30<sup>th</sup> September 2024.

**Detailed Appendix A Attached.**

For the period 30<sup>th</sup> Sept 2024



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. However, this will cease to be relevant once the Council in the second half of the financial year draws down its pooled funds.

2.11 The Council held non-treasury investments in directly owned property valued at £603.3m at the end of September 2024, 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. In the six months post 30<sup>th</sup> September 2024 the Council has been in the process of redeeming the funds.

2.12 These investments are expected to generate approximately £35.3m of gross rental investment income for the Council, representing 6.0% rate of return and a net return of £34.07m that is 5% rate of return, after accounting for landlord 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.

2.14 In the second six months of the financial year the Council will be drawing down its pooled funds.

### **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 The last few years from 2022 saw a significant the significant rise in Bank of England's base rate, which since August 2024 has begun to ease, with the Base Rate at 4.75% at the time of writing this report, and this period saw an associated rise in borrowing costs. Moving forwards the levels of TM transactions will be significantly reduced. The Council by redeeming its medium-term investment funds gives it itself the flexibility to avoid locking into long term rates for the balance of funding the Eclipse Leisure Centre when those rates may subsequently fall. In the short term the redemption of the funds results in an influx of funds to be placed short term and which requires appropriate evaluation of counterparty risk.

### **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 – Strategic Pooled Funds
- Appendix B1 – Benchmarking 24-25
- Appendix B2 – Benchmarking 23-24
- Appendix C – Context and Background
- Appendix D – Profit or Loss on sale of Pooled funds 24.25