

TITLE	Treasury Management Mid - Year Report 2020-21
FOR CONSIDERATION BY	Audit Committee on 23 November 2020
WARD	None Specific;
LEAD OFFICER	Deputy Chief Executive - Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

Effective borrowing and investments to optimise the resource position for the Council and provide strong financial standing.

RECOMMENDATION

- 1) Audit Committee to support this report and recommend it to Executive. (*Executive will then be asked to recommend the report to Council*).
- 2) To note all approved indicators set out in the treasury management strategy have been adhered to and that prudent and safe management has been maintained.
- 3) To note that the net cost per council tax payer for the financing of all borrowing to date equates to £7.52 which is 0.4% of the average Band D council tax charge.
- 4) To note that the total external general fund debt is £324m, which reduces to £83m after taking into account cash balances (net indebtedness).
- 5) To note the Council's realisable asset value of £496m, of which its commercial assets is estimated at £192m.

SUMMARY OF REPORT

This report provides a summary of the Treasury Management operations during the first six months of 2020/2021. It is presented for the purpose of monitoring and review, in accordance with Council's treasury management practices. The Council adhered to all agreed prudential indicators. This includes ensuring the necessary liquidity to deliver on the day-to-day operations of the Council. There are two aspects of treasury performance: debt management which relates to the Council's borrowing and cash investment which relates to the investment of cash balances.

Key highlights to note are:

- **The annual cost of servicing this borrowing that falls to the local taxpayer is £7.52 per council tax band D property for 2020/21.**
- **Net indebtedness after cash balances is £83m at end of September.**
- **Realisable asset value of £496m at end of September, meaning an asset to net indebtedness ratio cover of 6:1.**

A detailed breakdown of the Council's performance in these areas is summarised below.

Cost of Financing Debt

The table below shows the gross financing costs of servicing the external borrowing. Gross financing costs reflect the annual interest costs payable and an amount for Minimum Revenue Provision (MRP). To understand the true cost of this, it is important to take into account the income from treasury investments, contributions from 'invest to save' schemes, income from investment / commercial properties which all contribute to reducing the annual cost of this financing. **Taking these factors into account, for the general fund the net financing costs of servicing this debt that falls to the local taxpayer is £7.52 per council tax band D property as set out below.**

	£,000	£,000
General Fund - Financing Cost (including MRP provision)		£7,784
<u>Less</u> contributions towards financing costs from following areas:		
- Treasury investments	(£815)	
- Commercial investments	(£2,820)	
- Town centre regeneration	(£2,536)	
- Housing companies	(£568)	
- Invest to save schemes	(£503)	
		(£7,242)
Net Annual Cost		£542
Net Annual Cost £,000		£542k
Divide by Council Tax Base (no. of band D equivalent properties)		72,036.5
Cost per band D property - £		£7.52

Council's Net Indebtedness

Net indebtedness represents the underlying debt position the Council holds. The table below shows how this is calculated.

	31st Mar '20 £m	30th Sept '20 £m
General Fund - Capital Financing Requirement	£329	£449
<u>Less</u> Internal funded borrowing	(£125)	(£125)
External Debt Total	£204	£324
<u>Less</u> Cash investment balances	(£123)	(£241)
Net Indebtedness Total	£81	£83

As at 30th September 2020, total external borrowing for the general fund was £324m and treasury investments were £241m resulting in net indebtedness of £83m. The HRA

borrowing is excluded from this calculation as it is a ringfenced account with external borrowing funded from housing tenants.

The increase in both external debt and cash investments represents the differing nature of external debt and cash investments, external debt is long term and based on supporting the approved capital programme spend as expected. Short term investments which are based on cash balances at a point in time. Cash balances have improved during the first six months of the year due to government grants being paid upfront to help the impact from Covid-19. In addition, capital spend has been slower during the first 6 months of the year with spend expected to pick up over the remainder of the year. External borrowing has also been increased to take advantage of historically low interest rates and to ensure our internal borrowing remains at a prudent level. Internal borrowing is 28% of total capital financing requirement which is broadly in line with the range of 25%-30% suggested by our treasury management advisors. This figure was 38% at 31st March '20.

Despite historically low interest rates, the Council are expecting to have no material variances against budget for debt costs and investment income. The final position and performance against prudential indicators will be reported in the outturn report.

External borrowing is within the prudential limits set in the treasury management strategy. The Authorised Limit (maximum external borrowing allowed) was set at £533m, the forecast year end external borrowing (including HRA) position of £391m represents only 73% of this limit.

The council continues to manage its debt in the most financially effective way whilst adhering to statutory requirement including the CIPFA's Prudential Code.

Asset Value

Whilst it is important to understand the net borrowing for the Council, it is also essential to consider the asset value that this borrowing generates as part of the Council's capital programme. Using the value of assets from our annual accounts plus estimated asset spend this year to date, the asset value for the council is £974m at 30th September 2020. Realisable asset value is based on annual accounts valuation and any individual disposal would seek to maximise the receipt to the Council at the time of sale.

	£m	£m
Asset Value as per balance sheet*		£974
<u>Less:</u>		
Highways & Transport assets	(£176)	
Schools assets	(£285)	
Other non-realizable assets	(£17)	
		£478
Value of Realisable Assets		£496
Of which are;		
Operational Assets		£304
Commercial Assets		£192
- Wokingham Town Centre Regeneration	£76	

- Property Investment Group	£70	
- Housing Company	£47	

Asset Ratios

Taking the value of realisable assets and dividing by the external borrowing or net indebtedness gives a good indication of the debt cover our assets provide.

- Value of Realisable Assets ratio to External Borrowing – 1.53:1
- Value of Realisable Assets ratio to Net Indebtedness – 5.98:1

Investment of Cash Balances

Cash flow balances vary significantly throughout the year due to differences in timing of income (council tax, developer contributions, grants, etc.) and timing of expenditure (running costs - revenue, and investment in assets and services – capital). During times when the council holds cash balances, investments will be made based on security, liquidity, and yield (in this order). Due to the uncertainty around Covid-19, whilst the council have been fortunate with the cashflow support from central government (e.g. grants paid earlier than planned) we have kept more investments on a short term and secure basis across the first 6 months of year and will continue over the coming months. This has ensured the liquidity is available to meet Covid-19 pressures however has meant returns on investments are lower due to the duration of the investment and lower risk counterparties (e.g. lending to other local authorities).

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe funding pressures, particularly in the face of the COVID-19 crisis. It is therefore imperative that Council resources are focused on the vulnerable and on its highest priorities.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	See other financial information.	Yes	Revenue
Next Financial Year (Year 2)	Not applicable	Yes	Revenue
Following Financial Year (Year 3)	Not applicable	Yes	Revenue

Other financial information relevant to the Recommendation/Decision

- the net cost per council tax payer for the financing of all borrowing to date equates £7.52 which is 0.4% of the average Band D council tax charge.
- total external general fund debt is £324m and the Councils net indebtedness after cash balances is £83 million.
- the Council's realisable asset value of £496m, of which its commercial assets is estimated at £192m.

Cross-Council Implications
None

Public Sector Equality Duty
This is a report on the performance of the Treasury service of the Council and is not requesting any funding or service changes that would impact on any members of the community and thus has no equalities impact.

Reasons for considering the report in Part 2
Not applicable

List of Background Papers
None

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