TITLE	**Treasury Management Outturn 2020-21**
FOR CONSIDERATION BY	Council on 23 September 2021
WARD	None specific
LEAD OFFICER	Deputy Chief Executive - Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

To demonstrate that the Council's treasury function has effectively managed the Council's debt and cash balances to support the funding of the delivery of the Council's key priorities.

RECOMMENDATION

Council is asked to note:

1) the Treasury Management Outturn Report 2020-21 which was agreed at Audit Committee on 15th September 2021;

2) that all approved indicators set out in the Treasury Management Strategy have been adhered to;

3) the contents of "Table A", as set out in the report, which shows the net benefit per council tax band D equivalent, from the income generated less the financing costs on all borrowing to date equates to £10.22 per band D for 2020/21. This credit provides income to the Council to invest in its priority services. This net benefit has increased from the £7.20 benefit estimated in the treasury mid-year report;

4) that the total external general fund debt is £458m, which reduces to £121m after taking into account cash balances (net indebtedness);

5) that although the Council is taking the opportunity of new borrowing at low interest rates in 2020/21, external debt is expected to reduce to c£350m by March 2022 as a result of repayment of legacy debt on maturity;

6) the Council's realisable asset value of approximately £400m, of which its commercial assets are estimated at approximately £240m.

SUMMARY OF REPORT

This report provides a summary of the Treasury Management operations during the financial year of 2020/21. 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 except for a temporary breach in investment limits outlined below. 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 benefit from the income generated less the financing costs on all borrowing to date equates to £10.22 per council tax band D property for 2020/21.**
- **Net indebtedness after cash balances is £121m at end of March 2021.**
- **Realisable asset value of £408m at end of March, meaning an asset to net indebtedness ratio cover of 3.37:1.**

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

Prudential indicators debt and investment

During 2020-2021, the Council adhered to all of its prudential indicators.

On one occasion the Council had to exceed a counterparty limit (not a prudential indicator) by investing with another local authority. Due to additional funds from central government during the pandemic, the Council found itself with surplus funds in its transactional bank account (NatWest). In accordance with MHCLG investment guidance, for security of monies reasons, the treasury team sought to invest the surplus funds with another local authority; as other authorities were also in surplus funds the only suitable counterparty at the time was Thurrock Council and although we were at our maximum limit specified in the investment strategy, it was considered more secure to invest with them than leave the money in our transactional account. The investment was short term and has already been repaid back to the Council.

Investments with local authorities are within the MHCLG Investment guidance where they are determined to be low risk and high credit quality investments. In addition, the local government act 2003 contains protections for lenders to local authorities with all money borrowed by a local authority.

Council's Net Indebtedness

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

	Mid Year £m	Outturn £m
General Fund – Capital Financing Requirement	£449m	£365m
Less Internal funded borrowing	(£125m)	£93m
External Debt Total	£324m	£458m
Less Cash investment balances	(£241m)	(£337m)
Net Indebtedness Total	**£83m**	**£121m**

As at March 2021, total external debt for the general fund was £458m and treasury investments were £337m resulting in net indebtedness of £121m. The HRA borrowing is excluded from this calculation as it is a ringfenced account with external debt funded from housing tenants rental income.

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 also improved during the year due to more government grants being paid upfront to help the impact from Covid-19. External debt is within the prudential limits set in the treasury management strategy. The Authorised Limit (maximum external debt allowed) was set at £533m, the actual year end external debt (including HRA) position was £529m, within the limit set. The Council continues to aim to manage its debt in the most financially effective way whilst adhering to statutory requirement including the CIPFA's Prudential Code.

General fund external debt has increased from the mid year forecast of £324m to £458m, an increase of £134m. The increase in borrowing is due to many reasons which include;

- Whilst interest rates have remained at historically low levels during the pandemic, the Council have been taking advantage of this for borrowing and with a forecast that rates are expected to rise in the near future, coupled with the forecast borrowing agreed in the treasury management strategy, the Council have taken some loans out early to take advantage of the best rates. The average interest rate has fallen from 2.46% to 1.48% over the past year which is a saving of 0.98%.
- Due to COVID and the uncertainty around cashflow for many local authorities, the traditional markets where we would access short-term borrowing e.g. Local Authorities, has become more difficult with less short-term options available on the days we need to borrow.
- Reporting the debt position at any point in time can be a little misleading because some borrowing is repaid in short periods of time. For example, external debt shown in the table above is forecast to reduce to c£350m by the end of the current financial year, March 2022.

The movements in the Council's external debt through 2020/21, are shown in table below.

	Opening @ 01/04/2020	**New Borrowing**	**Repayments of Borrowing**	**Closing @ 31/03/2021**
	£m	£m	£m	£m
General Fund	£204m	£373m	(£119m)	£458m
Housing Revenue Account	£75m	£0m	(£4m)	£71m
Total	**£279m**	**£373m**	**(£123m)**	**£529m**

Cost of Financing Debt

The table below shows the gross financing costs of servicing the external debt. 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. Furthermore for completeness and transparency the table has been extended to show additional income the Council receives from our assets which contributes towards the funding of key services the Council provide. This is the income over and above the amount used to contribute towards the financing costs of the borrowing.

Taking these factors into account, for the general fund the net annual benefit from the income generated less the financing costs on all borrowing to date equates to £10.22 per council tax band D property for 2020/21 as set out below.

TABLE A

	Mid Year Forecast	Outturn
	£,000	**£,000**
General Fund – Financing Cost (Interest and MRP debt repayment)	7,784	8,118
Less contributions towards financing costs from following areas:		
- Treasury investments	(815)	(1,406)
- Commercial investments	(2,820)	(2,659)
- Town centre regeneration	(2,536)	(2,622)
- Housing companies	(568)	(727)
- Invest to save schemes	(503)	(418)
	(7,242)	(7,832)
Net Annual Financing Cost	542	286
Include additional income over and above the contributions shown above:		
- Commercial investments	(1,061)	(1,022)
- Town centre regeneration*	0	0
Net Annual Benefit to the taxpayer	**(519)**	**(736)**

Net Annual Benefit £,000	(519)	(736)
Divide by Council Tax Base (no. of band D equivalent properties)	72,037	72,037
Benefit per band D property - £	**£7.20**	**£10.22**

*Income from this investment goes to repay its costs. When the scheme is fully operational, the surplus income is expected to be c£2m per annum. Over the fulness of time when debt is fully repaid, the surplus will be in the region of £5m - £6m per year.

The net benefit per council tax payer, from the income generated less the financing costs on all borrowing to date equates to £10.22 of the average band D council tax charge. This income is used by the Council to continue to provide priority services for the borough residents.

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 draft annual accounts, the estimated asset value for the Council is £953m at 31st March 2021. 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 31 March 2021		953
Less;		
Highways & Transport assets	250	
Schools' assets	277	
Other non-realisable assets	17	
		545
Value of realisable assets		408
Of which are;		
Operational Assets		167
Commercial Assets		241
- Wokingham Town Centre	117	
- Community Investment Group	78	
- Housing Companies	47	

Asset Ratio

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

- Asset cover* to External Debt – 1.63:1
- Realisable Non Current Assets cover to Net Indebtedness – 3.37:1

*Asset cover = value of realisable assets plus cash investment balances.

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) over the past year, more investments were made on a short term and secure basis across. 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).

The table below shows the Council's investments by type, including performance and year-end balance.

	Average Invested	Interest Received	Average rate of return	31st March 2021 Balance
	£m	£m	%	£m
Investment Properties	£79.0m	£2.7m	2.63%	£85.9m
Loans to Subsidiaries	£31.5m	£1.1m	3.65%	£33.2m
Fund Managers	£0.65m	£0.01m	1.49%	£0.65m
Local Authorities	£168.5m	£1.4m	0.80%	£332.0m
Money Markets	£9.5m	£0.04m	0.43%	£5.0m
Total	**£289.0m**	**£5.3m**	**1.82%**	**£456.7m**

As part of the Council's policies on property investment the Council has invested £85.9m of its own balances, these generate £3.7m in annual revenues which is a return of 4.31%. Monetary investments achieve a return of c.1.5% over a similar investment term.

Peak Debt and Capital Financing Requirement (CFR)

As highlighted previously, the Council continue to invest significant amounts into the capital programme generating assets such as roads, schools, housing, regeneration properties and many more. The graph below sets out the expected repayment of this debt aswell as the asset value generated.

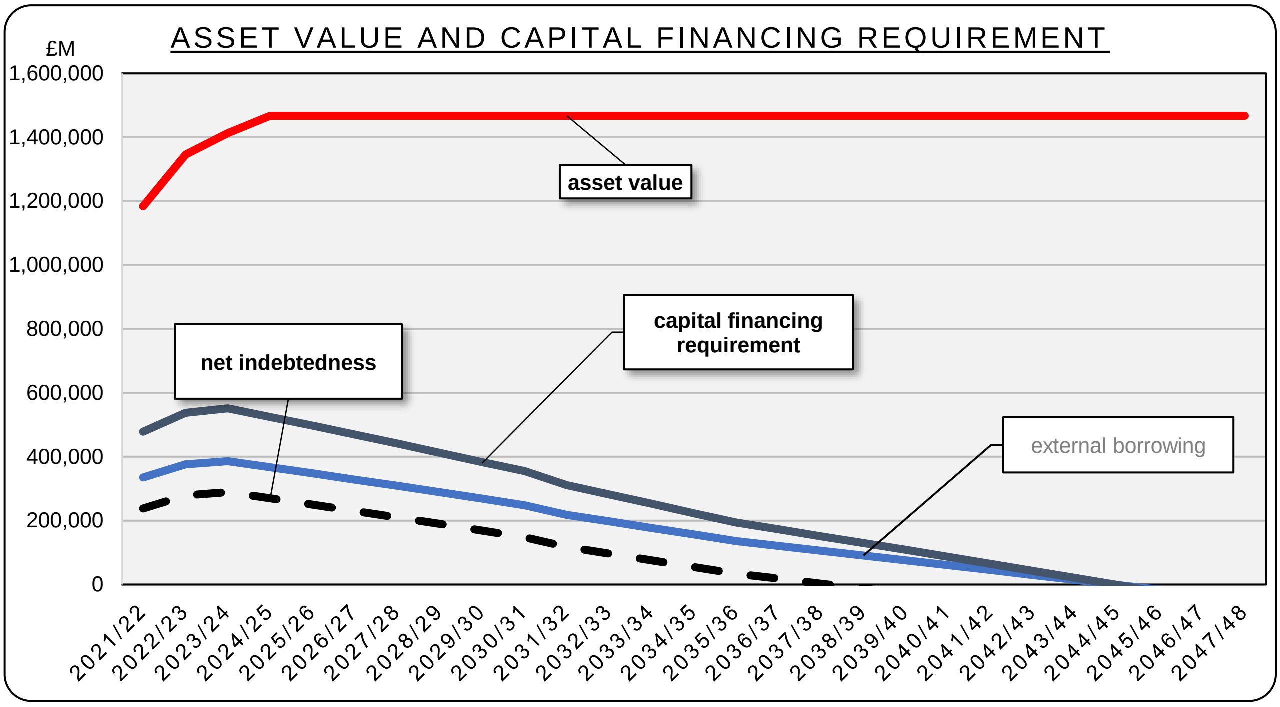
The graph includes three key lines in reference to debt;

- Capital financing requirement (CFR) - A technical calculation of historic capital expenditure less that already paid for, required to arrive at the annual level of debt repayment.
- External debt – this is the actual amount borrowed with third parties. The difference between CFR and external debt is referred to as internal borrowing.
- Net indebtedness – this is external debt less treasury (i.e. liquid) investment balances. It is important that these are considered together as treasury investments could be used to repay external debt.

The Council are expecting debt to rise over the next three years in line with the capital programme and then it is expected to reduce over time as income is generated from these projects and cost savings are realised.

CFR and external debt will reduce as borrowings are repaid through income and will reach a point in time when debt is fully repaid, and the ongoing income will be transferred to benefit the general fund.

The graph is based on general fund only and excludes HRA as this is ringfenced. The original CFR levels before commercialisation, forward funding and regeneration projects were approximately £100m.



After the first three years, the expectation is that the CFR, external debt and net indebtedness will start to reduce as repayments of borrowing start to increase, capital receipts and developer funding are received. The position for the peak CFR has also reduced from what was forecast in the treasury management strategy, falling from a peak CFR of £671 million to £552 million. This is due mainly to changes in capital expenditure profiling.

The asset value used in the graph above are calculated using the total asset value from the Council's balance sheet, and an estimate of capital expenditure over the next three years. This is a prudent approach to asset value as it would be expected that asset value would also increase over time.

Capital Financing Requirement

An important part of the treasury management strategy is to highlight the level of borrowing need. This is known as the capital financing requirement (CFR) and is an accounting concept which monitors how much capital expenditure has been incurred but not yet paid for.

A major source of funding for the Council's capital programme is borrowing. This is described in two forms, supported borrowing and general fund borrowing. A significant part of the Council's capital programme is either self-financing or makes a surplus where the income generated is greater than the cost of financing and therefore is available to fund other council services. These are referred to as "supported borrowing". General fund borrowing is funded through existing base budget and supports general investment to maintain Council assets and continue to provide services to customers and residents.

A summary of the general fund CFR position at the end of March 2021 is shown below. This has been split into supported borrowing and general fund borrowing.

2020/21	Supported Borrowing	General Fund Borrowing
	£m	£m
Opening balance	231	97
Expenditure in year	44	19
Repayments in year	(22)	(3)
Closing balance	**253**	**113**

It is important to note that the CFR balance does not reflect the level of debt the Council holds. Where the Council hold surplus balances such as reserves, unspent grants and working capital, this avoids the need to borrow externally saving on interest costs. This is known as internal borrowing. Furthermore, it is important to take into account any treasury investment balances when looking at external debt to understand a more accurate debt figure.

The housing revenue account also has a CFR which is ringfenced and repaid through tenants rental income. The CFR for the HRA as at 31st March 2021 was £83m.

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)	To be confirmed	Yes	Revenue
Following Financial Year (Year 3)	To be confirmed	Yes	Revenue

Other financial information relevant to the Recommendation/Decision

- net benefit per council tax payer, from the income generated less the financing costs on all borrowing to date equates to £10.22. This income is used by the Council to continue to provide priority services for the borough residents.
- total external general fund debt is £458m and the Councils net indebtedness after cash balances is £121 million.
- the Council's realisable asset value of £408m, of which its commercial assets is estimated at £241m.

Cross-Council Implications

None

Public Sector Equality Duty

N/A – this report is reporting past financial information

List of Background Papers

None

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