TITLE	**Treasury Management Outturn Report 2021-22**
FOR CONSIDERATION BY	Council on 22 September 2022
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 recommended to note;

1) that the Treasury Management Mid-Year report was considered and agreed by the Audit Committee at their meeting on Wednesday 27 July 2022; The audit committee approved recommendation 1) ("that all approved indicators set out in the treasury management strategy have been adhered to") but wanted it noted that in fact the indicator for % of internal borrowing to CFR (29%) had not been met, with the outturn indicator at 44%. It was agreed this was in fact a positive reflecting a reduction in required external borrowing (reprofiling of the capital programme) and increase in cashflow of grants received.

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 £22.25 per band D for 2021/22. This credit provides income to the Council to invest in its priority services.

4) as at the end of March 2022, the total external general fund debt was £196m, which reduces to £72m after taking into account cash balances (net indebtedness).

5) the Council's realisable asset value of approximately £443m, of which its commercial assets are estimated at approximately £249m.

SUMMARY OF REPORT
This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2021/22, the minimum treasury reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 18/02/2021)
- a mid-year, treasury update report (Council 20/01/2022)
- an annual review following the end of the year, (this report)

This report provides a summary of the Treasury Management operations during the financial year of 2021/22. 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;

- All approved indicators set out in the Treasury Management Strategy have been adhered to.
- The annual benefit from the income generated less the financing costs on all borrowing to date equates to £22.25 per council tax band D property for 2021/22. This benefit is reinvested into supporting Council wide services. This is a reduction from the position projected in the mid year report due to additional minimum revenue provision (MRP) paid on Wokingham Town Centre. Furthermore, there were reductions in income contributions from loans to subsidiaries and commercial investments. Another impact from a reduction in these investments is a reduced level of borrowing and a lower capital financing requirement (CFR). This can also reduce the borrowing risk of the Council.
- Net indebtedness after cash balances is £72m at end of March 2022.
- The average interest rate of external borrowing is 1.52%.

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

Prudential Indicators Debt and Investment

During the 2021/22 financial year, the Council have adhered to all of its prudential indicators and is also on target to meet these for the full year position.

Highlights to note are;

- Authorised and operational boundary levels were kept within the limits set out in the treasury management strategy. This is because the capital financing requirement (CFR) was lower than expected due to re-profiling of capital expenditure to later financial years.

- General fund external borrowing was significantly lower than expected as a result of the reprofiling of spend. Furthermore, due to strong cash balances of the Council, a greater amount of capital expenditure could be supported through internal borrowing. The percentage of internal borrowing to CFR is 44%. This has increased from the mid year position due to working capital and reserve balances offsetting the need for external borrowing in the short to medium term. A balance this high is not uncommon in local authorities that have strong cash balances. Holding high external debt at the same as holding high cash balances can result in additional interest costs payable. The ratio of external and internal borrowing is kept under review as part of the treasury management monitoring.

- Ratio of net financing costs were minus 0.46% which means that all capital financing costs (debt repayment and interest) are fully covered by income generated from treasury investments and housing, local economy and regeneration assets. As a consequence, there is a surplus available to the council taxpayer after funding all capital financing costs.

The table summarises the prudential indicators, comparing the limits set in the strategy and the forecast position at outturn (31 March 2022).

Prudential indicators:	**Strategy**	**Mid-Year**	**Outturn**
	£m	**£m**	**£m**
Limits			
Authorised limit (*Note – CFR * 120%)*	£729m	£641m	£562m
Operational Boundary (*Note – CFR *110%)*	£677m	£588m	£515m
Performance Indicators			
Capital financing requirement – General Fund (GF)	£529m	£456m	£388m
Capital financing requirement – HRA	£84m	£79m	£80m
Gross external borrowing – GF	£358m	£266m	£196m
Gross external borrowing – HRA	£69m	£68m	£67m
% of internal borrowing to CFR (GF + HRA)	29%	38%	44%
Ratio of net financing costs to net revenue stream – GF	1.00%	-1.03%	-0.46%
Ratio of net financing costs to net revenue stream – HRA	16.52%	14.96%	17.09%
Prudence			
Maturity structure of borrowing	See table in report under heading “Maturity structure of borrowing”		

Council’s Net Indebtedness

Net indebtedness represents the underlying debt position the Council holds. The table below shows how this is calculated and includes three key areas 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.

It is important to consider investment balances when looking at debt levels. One of the roles of the treasury management function is to manage the net treasury position. This allows a greater understanding of treasury risks resulting from holding debt and investment portfolios at the same time and as such net indebtedness brings this both together and helps address this.

	Strategy £m	Mid-Year £m	Outturn £m
General fund – capital financing requirement	£529m	£456m	£388m
Less internal funded borrowing	(£171m)	(£190m)	(£192m)
External debt total	£358m	£266m	£196m
Less cash investment balances	(£93m)	(£89m)	(£124m)
Net Indebtedness Total	**£265m**	**£177m**	**£72m**

As at 31st March 2022, total external borrowing for the general fund was £196m and treasury investments were £124m resulting in net indebtedness of £72m. The HRA borrowing is excluded from this calculation as it is a ringfenced account with external borrowing funded from housing tenants.

As set out in the treasury management strategy, net indebtedness was estimated to be £265m for 2021/22. The mid-year net indebtedness position was forecast at £177m. This has reduced further with the outturn of £72m. This is driven largely by savings and reprofiling in the capital programme, moving expenditure back to later years. Further information on the capital outturn position can be found in the public reports for June 2022 Executive (available on the Councils website).

Cash investment balances at the end of the financial year are £124m, which is better than the estimate of £93m set out in the strategy. The Council saw an increase in cash balances as at the end of March ’22 from areas such as revenue grants and developer contributions.

The movements in the Council’s external debt through 2021/22, are shown in table below.

	Opening @ 01/04/2021	New Borrowing	Repayments of Borrowing	Closing @ 31/03/2022
	£m	£m	£m	£m
General Fund	£458m	£99m	(£361m)	£196m
Housing Revenue Account	£71m	£0m	(£4m)	£67m
Total	**£529m**	**£99m**	**(£365m)**	**£263m**

The Council saw a large amount of external debt repaid during 2021/22. As highlighted in the mid year report, a large amount of this repayment was expected however the amount in the table above is higher than the mid year report due to, when short term debt was repaid, no new debt was taken on.

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 £22.25 per council tax band D property for 2021/22 as set out below.

TABLE A

	Mid-Year	Outturn
	£,000	£,000
General Fund – Financing Cost (Interest and MRP debt repayment)	£8,593	£8,827
Less contributions towards financing costs from following areas:		
- Treasury investments	(£1,333)	(£1,616)
- Invest to save schemes	(£1,163)	(£849)
- Housing, Local Economy and Regeneration	(£7,462)	(£6,977)
	(£9,958)	(£9,442)
Net Annual Financing Cost	(£1,365)	(£615)

Include additional income over and above the contributions shown above:		
- Commercial investments	(£1,319)	(£1,016)
Net Annual Benefit to the taxpayer	**(£2,684)**	**(£1,631)**
Net Annual Benefit £,000	(£2,684)	(£1,631)
Divide by Council Tax Base (no. of band D equivalent properties)	73,297	73,297
Benefit per band D property - £	**£36.62**	**£22.25**

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 c£1 billion at 31st March 2022. 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.

With regards to accounting for revaluation losses, the Council follows the statutory accounting requirements under the CIPFA code of practice on local authority accounting which requires any revaluation losses to be charged to the revaluation reserve, if previous revaluation gains are held. Any excess revaluation losses above previous gains are then charged to the comprehensive income and expenditure account. Under the statutory accounting requirements, these charges are reversed out and charged to the capital adjustment account. This ensures any transactions associated with the capital accounting framework, other than interest and MRP are not charged to the general fund and do not impact on the local taxpayer. For this reason, any revaluation losses (and gains) are therefore not shown in the table A above.

	£m	£m
Asset Value as per balance sheet 31 March 2022*		1,010
Less;		
Highways & Transport assets	302	
Schools' assets	254	
Other non-realisable assets	10	
		567
Value of realisable assets		443

Of which are;			
Operational Assets		194	
Commercial Assets		249	
- Wokingham Town Centre	116		
- Community Investment Group	77		
- Housing Companies	56		

* Note – the asset value as per the balance sheet is an estimated balance based on latest financial accounts however does not include any asset revaluations for 2021/22 as these valuations were not available at the time of the report.

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 – 2.24:1
- Realisable Non Current Assets cover to Net Indebtedness – 3.43:1

*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 2022 Balance
	£m	£m	%	£m
Housing, Local Economy & Regeneration	£119.9m	£2.8m	2.34%	£115.6m
Treasury Investments				
- Fund Managers	£0.7m	£0.01m	0.23%	£0.7m
- Local Authorities	£28.4m	£0.01m	0.06%	£27.4m
- Money Markets	£236.3m	£0.8m	0.33%	£95.0m

Total		£385.3m	£3.62m	0.95%	£238.7m

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.

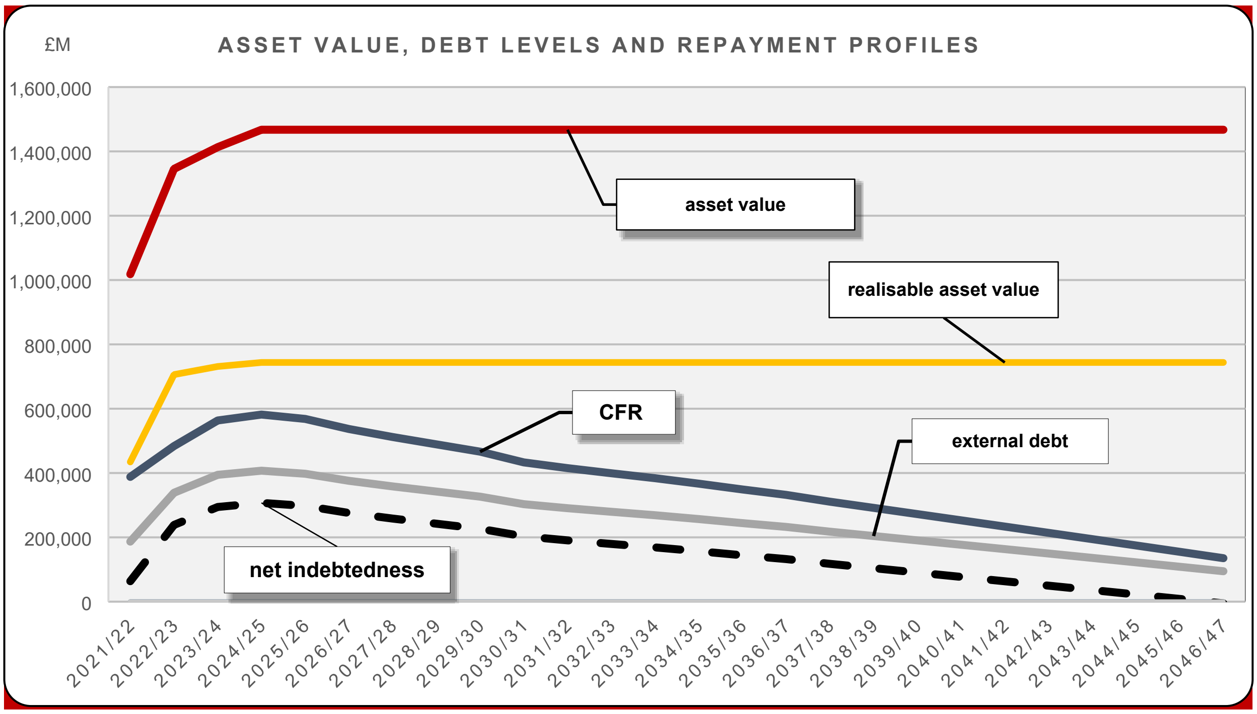
The graph includes three key lines in reference to debt;

- 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.

Following recent changes to the treasury management code of practice, local authorities will be required to produce a liability benchmark graph which measures the Council's future liabilities in relation to loans and capital expenditure repayment. This new requirement is similar to the graph above which the Council have been monitoring for a number of years. The new liability benchmark will focus on existing loan debt outstanding, the CFR, net loans requirement (net indebtedness) and gross loans requirement. The Council will present the liability benchmark as part of the treasury management strategy for 2023/24.

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 2022 is shown below. This has been split into supported borrowing and general fund borrowing.

2021/22	Supported Borrowing	General Fund Borrowing	Total
	£m	£m	£m
Opening balance	269	101	370
Expenditure in year	40	4	44
Repayments in year	(22)	(4)	(26)
Closing balance	**287**	**101**	**388**

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 2022 was £80m.

Maturity Structure of Borrowing

The Council will aim to match the maturity structure of borrowing with the expected profile of when income will come in to repay borrowing. This helps ensure the Council will not hold borrowing for longer than needed.

The table below shows the current maturity structure of borrowing as at 31 March 2022.

External Borrowing (GF + HRA)	31 March 2022 £m
Less than 1 year	122
Between 1 and 2 years	19
Between 2 and 5 years	13
Between 5 and 10 years	26
Between 10 and 15 years	39
Between 15 and 20 years	0
Between 20 and 25 years	1
Between 25 and 30 years	3
More than 30 years	40
Total	**263**

Note: Less than a year borrowing will be replaced with a mixture of new external debt and internal borrowing. The treasury service through the use of its cashflow constantly review its debt and will endeavour to get the best rates available while looking at the long and short term picture of anticipated receipts and payments. The Council will also work with our treasury management external advisors to support us in making the most informed decisions with regards to future borrowing.

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 taxpayer, from the income generated less the financing costs on all borrowing to date equates to £22.25. This income is used by the Council to continue to provide priority services for the borough residents. • total external general fund debt is £196m and the Councils net indebtedness after cash balances is £72m. • the Council's realisable asset value of £443m, of which its commercial assets is estimated at £249m.

Cross-Council Implications
None

Public Sector Equality Duty
N/A – this paper is reporting past financial information

Climate Emergency – *This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030*
N/A

Reasons for considering the report in Part 2
N/A

List of Background Papers
None

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