Surrey Heath Borough Council
Executive
20 September 2022

Treasury Management Outturn 2021/22

Portfolio Holder:	Councillor Robin Perry- Finance
Strategic Director/Head of Service	Bob Watson
Report Author:	Tony McGuinness/Miriam Norris
Key Decision:	no
Date Portfolio Holder signed off the report	1 September 2022
Wards Affected:	All

Summary and purpose
To provide the Executive with a high-level view of the treasury management performance during 2021/22 including compliance with the 2021/22 prudential indicators.

Recommendation
The Executive is advised to NOTE the report on Treasury Management including compliance with the 2021/22 Prudential Indicators.

The Executive is also advised to note the comments made in Section 6 by the Strategic Director Finance and Customer Services (the Council's 'section 151 officer') regarding the Treasury policy and the sustainability of debt and reserve balances.

1. Background and Supporting Information

1.1 This report is the annual report for the 2021/22 financial year. It includes both a summary of treasury management performance during the year as well demonstrating compliance with the 2021/22 Treasury Management Strategy, agreed by Council in February 2021.

1.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice 2017 Edition which requires the Council to approve a treasury management strategy before the start of each financial year and, a mid-year and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.3 Treasury Management is defined as: "The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks." Each of these areas are detailed below in the report and illustrate that the Council complied with its Investment and Borrowing Strategies for 2021/22 in line with the CIPFA Treasury Management Code of Practice.

1.4 The Council's treasury management strategy for 2021/22 was approved at the Council meeting on 24 February 2021. The Council borrows and invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy. All investments are considered with regard to security, liquidity and yield, and in that order.

1.5 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 24 February 2021.

1.6 Treasury income returns decreased in 2021/22 compared to the previous year; Treasury income in 2021/22 was £115k which was a reduction of £10k compared to £125k in 2020/21. In comparison with other Surrey councils, Surrey Heath achieved a rate of return on its investments of 0.23%. The lowest return for other local authorities was 0.04% up to the highest of 0.793%; however it is important to note that different councils will have different strategies all set to their local needs and factors such as balances and appetite for treasury risk.

2. Supporting Information

Treasury Management Strategy 2021/22

2.1 The Council approved the 2021/22 Treasury Management Strategy, which includes the investment strategy, at its meeting on the 24th February 2021. All treasury management activity complied with the approved treasury management strategy, the CIPFA Code of Practice and the relevant legislative provisions.

Investment Strategy 2021/22

2.2 The approved investment strategy for 2021/22 adopted a view to investment that sought to balance risk against return. It maintained a policy, on the advice of our treasury advisors Arlingclose of diversifying investments including longer term investment funds which give a good return but can be more volatile. The Council maintained its longer term investment in the CCLA Property Fund.

2.3 The Council continued to use local authorities and money markets with investments being placed generally for short periods only.

Borrowing Strategy 2021/22

2.4 The Council's chief objective when borrowing has been to strike a low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

2.5 The Council uses a combination of short term borrowing from local authorities coupled with long term loans mainly from the PWLB to achieve this objective.

Treasury Advisors

2.6 In 2021/22 the Council used Arlingclose Limited as its treasury management advisors to provide advice on all aspects of treasury management including interest rate forecasts, counterparty lists and management advice. From the 1 April 2022 following a competitive tender process this independent treasury advice is provided by Link Asset Services.

Borrowing and Investment Activity in 2021/22

Borrowing Activity 2021/22

2.7 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The CFR arises directly from the capital activity of the Council, and the resources applied to fund the capital spend; this represents the unfinanced element of capital expenditure. At 31 March 2022 the Council's underlying need to borrow for capital was £174m.

2.8 At 31 March 2022, the Council had £184.9m (£180.6m at 31 March 2021) of actual borrowing and £38.9m (£22.3m at 31 March 2021) of cash and treasury investments. The net level of borrowing and investments was £146.00m (£158.3 m at 31 March 2021). This is less than the CFR of £174 m as at 31 March 2022 as the Council is able to use "Internal borrowing" to fill this gap subject to holding a minimum short-term investment balance of £5m.

2.9 A large proportion of the Council's borrowing consisted of short term loans. This enabled the Council to reduce borrowing costs by taking advantage of low interest rates. In 2021/22 the average interest rate on 6 month borrowing was 0.08% (2020/21 - 0.53%).

2.10 However, in order to manage interest rate risk, the Council arranged in 2017/18, £50 million of forward starting loans. Loan 1 for £25 m commenced in 2020/21 at a rate of 2.853% and Loan 2 also for £25 m will commenced in February 2022 at a rate of 2.908%. Both loans will be repayable over 40 years.

2.11 The Council is confident that it will be able to refinance the short term loans either by other short-term loans or by longer term borrowings primarily from the PWLB. It is always advisable to have a mix of short term borrowing and longer term borrowing so as to allow the Council to reduce its borrowed balances if capital receipts are received.

2.12 The Council's borrowing activity is shown in the table below:

	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	31.03.22 Rate %
Public Works Loan Board	-53	1	-52	2.57%
Phoenix Loan	-25	-25	-50	2.86%
Local authorities (long term)	0	0	0	0.00%
Local authorities (short term)	-102	19	-83	0.08%
Total Borrowing	-180	-5	-185	1.26%

2.13 The outturn for debt interest paid in 2021/22 was £1.9m (2020/21 - £1.7m) on a debt portfolio of £185m (2020/21 - £180 m).

Investment Activity 2021/22

2.14 The Council held investments which represent income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balance rose from £22.3 million to £38.9m. The CIPFA code and government guidance gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

2.15 The table below shows a summary of the investment activity for 2021/22:

Investment counterparty	Balance on 01/04/2021	Investments Made	Maturities / Investments Sold	Balance on 31/03/2022	Average Rate at 31/03/2022
	£000s	£000s	£000s	£000s	%
UK Central Government					
Short Term	12,802	297,975	302,970	7,807	0.052%
Long Term	0	0	0	0	
UK Local Authorities					
Short Term	0	20,000	0	20,000	0.585%
Long Term	0	0	0	0	
Banks, Building Societies & Other Organisations					
Short Term	2,681	743,307	744,021	1,967	0.010%
Long Term	0				
Money Market Funds					
Short Term Cash Equivalents	4,700	9,924	- 7,924	6,700	0.054%
Property Investments					
Long Term	2,091	367		2,458	16.14%
Total Investments	**22,274**	**1,071,573**	**1,054,915**	**38,932**	

2.16 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

2.17 Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy for 2021/22. Investments held during the year included:

- Deposits with the Debt Management Office
- Deposits with Other Local Authorities
- Investments in AAA-rated constant and variable net asset value Money Market Funds
- Longer Term Property Fund

Budgeted Income and Outturn

2.18 £2m of the Council's investments are held in externally managed strategic pooled property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of £462k, comprising a £95k income return which is used to support services in year, and £367k of unrealised capital gain.

2.19 These unrealised capital gain will not have an impact on the General Fund as the Council has elected to present changes in the funds' fair values in other comprehensive income (FVOCI).

2.20 Because this fund has no defined maturity date, but is available for withdrawal after a notice period, its performance and continued suitability in meeting the Council's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In light of the fund's performance over the long-term and the Council's latest cash flow forecasts, investment in this fund has been maintained.

Non-Treasury Investments

2.21 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is supported by guidance issued by the government. The performance of the Council's non-treasury investments is reported separately to members twice a year.

Compliance

2.22 The Council confirms that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is shown in the table below:

Investment Limits

	2021/22 Limit	Complied? Yes/No
Any single organisation except the UK Government	£3m	Yes
UK Central Government	Unlimited	Yes
Any group of organisations under the same ownership	£3m per group	Yes
Money Market Funds	£15m in total	Yes

2.23 Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table below:

Debt Limits

	31.03.2022 Actual £m	2021/22 Operational Boundary £m	2021/22 Authorised Limit £m	Complied? Yes/No
Borrowing	185.0	230.0	235.0	yes
Finance Leases	0	0		yes
Total Debt	185.0	230.0	235.0	

3. Reasons for Recommendation

3.1 Part of strong financial management is that the treasury management performance is reviewed regularly and reported to Performance and Finance Scrutiny Committee and the Executive for review and discussion

4. Proposal and Alternative Options

4.1 The Executive is asked to note the report on the Treasury Management performance for the period 1st April 2021 to 31st March 2022

5. Contribution to the Council's Five Year Strategy

5.1 The budgets agreed at Council including treasury management budgets are aligned to and supports the approved five year strategy.

6. Resource Implications

6.1 The resource implications are detailed in this report

7. Section 151 Officer Comments:

7.1 This report is one of three statutory reports that are required to be produced by the CIPFA code on Treasury Management. The report shows that the Council operates a sound treasury strategy and did not breach any of its prudential indicators during the last financial year (1 April 2021 to 31 March 2022).

7.2 The Council operates a prudent treasury policy with due regard to minimising the risk of any financial investments (security of lending by the Council), the requirement to have funding available at the appropriate time (liquidity) and the need to make the best possible return on investment after priority is given to the previous two criteria.

7.3 The Council is permitted to borrow longer term to finance its capital programme and delivery of infrastructure. The level of debt held is both sustainable and affordable within current revenue budgets. The policy of a mix of long term debt (at fixed rates) and some shorter term debt is sound and hedges against rate rises, whilst maintaining the flexibility to repay debt if the opportunity arises.

7.4 The Council has invested in recent years in assets within the borough that support its principles of regeneration, protection of employment and ensuring the viability and future of the town centre in Camberley. The borrowing for these assets is supported through the income they generate and although they have recently experienced a downward valuation due to prevailing market conditions and the recent Covid-19 pandemic, it is considered that as these are long-term assets held for regeneration purposes, any down turn in capital appreciation is temporary and provided the annual revenue returns cover the cost of the debt financing, the long-term (in excess of 25 years) potential for capital appreciation is favourable based on historic trends.

7.5 The Council can raise borrowing from a number of sources and as this is essentially underwritten by the government's sovereign rating, there are no anticipated problems with refinancing of short-term debt, either from other local authorities or from the Public Works Loans Board.

8. Legal and Governance Issues

8.1 No matters arising.

9. Monitoring Officer Comments:

9.1 No matters arising.

10. Other Considerations and Impacts

Environment and Climate Change

10.1 No impact

Equalities and Human Rights

10.2 No impact

Risk Management

10.3 Regular reviews of risk are undertaken when investments are placed and investments are made in accordance with the approved counterparty lists

Community Engagement

10.4 Where necessary engagement will be undertaken

Background Papers

None