

TREASURY MANAGEMENT ANNUAL REPORT 2019-20

Executive Summary

The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management has been adopted by the Council and the Council fully complies with its requirements.

Primary requirements of the Code include: the receipt by the Council of an annual strategy report for the year ahead; monitoring and scrutiny during the year which Council has agreed will be satisfied through the regular Treasury reporting in the Green Book and a mid year report to the Overview and Scrutiny Committee; and an annual report of the previous year. The mid year and annual report are important in scrutiny, as they provide details of the treasury activities and demonstrate compliance with the Council's Treasury Management strategy and policies previously approved by Members.

These overall arrangements fulfil the requirements for the review and scrutiny of Treasury activities and ensure compliance with the code.

The Council borrows to fund capital investment in assets including property and infrastructure projects. The assets created provide a benefit over many years and the borrowing is repaid over the life of the asset.

During 2019/20 the Council borrowed £175m in long term loans from the Public Works Loans Board (PWLb). The majority of these loans, £160m, were annuity loans where the principal is repaid in instalments during the term of the loan. £15m were maturity loans where the principal is repaid at the end of the loan with funds set aside each year to enable this. All long term loans were fixed rate for 50 years. The interest rates for the annuity loans were between 1.74% and 3.08%.

At 31 March 2020 the Council had borrowing of £1,378m and cash investments of £10m. The draft accounts for 2019/20 show that at 31 March 20 the Council had net assets (total assets less total liabilities including borrowing) of £191m.

Recommendations

The Executive is requested to:

RESOLVE That

the annual report on Treasury Management performance for 2019/20 be received, and the compliance with the Council's approved arrangements be noted.

Reasons for Decision

Reason: To receive the annual report on Treasury Management performance for 2019/20 in accordance with the Council's policy on Treasury Management.

The Executive has the authority to determine the recommendation(s) set out above.

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Background Papers: None.

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1.0 Introduction

1.1 Treasury management is defined as:-

“The management of the local authority’s 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.”

1.2 This annual treasury report covers:

- the economy in 2019/20;
- the strategy for 2019/20;
- the actual borrowing for 2019/20;
- performance measurement;
- the Council’s treasury position as at 31st March 2020;
- restructuring of borrowing;
- compliance with treasury limits and Prudential Indicators;
- investment activity in 2019/20; and
- loans and advances to group companies and joint ventures.

1.3 The most recent revision to the Treasury Management Code of Practice and a revised Prudential Code was issued in December 2017 and has previously been reported on.

2.0 The Economy

2.1 Economic growth in 2019/20 was negative in quarter 1, slight growth in quarter 2, level in quarter 3, and finishing negative at start of the Corona Virus outbreak. Uncertainty over Brexit impacted the economy over much of 2019 however the Corona Virus has done substantial economic damage to the UK and around the world. There are huge uncertainties around how the economy will recover.

2.2 After the Monetary Policy Committee raised the Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to maintain rates at the same level until March 2020; at this point it was clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%.

3.0 Inflation has posed little concern for the MPC during 2019/20 being mainly between 1.5 – 2.0%. High inflation is not likely to be an issue in the short-term as the world economy suffers from the impact of the corona virus however the MPC has forecast inflation to rise above the 2% target in Quarter 3 2022.

4.0 The Council’s Treasury Strategy for 2019/20

Borrowing

4.1 In 2019/20, the Council largely undertook borrowing for periods which aligned with the life of projects/assets being undertaken during that financial year. The trigger point below which new long term borrowing would be considered was set at 3.00% for fixed rate long term borrowing in the Treasury Management Strategy. Increasing use was made of annuity loans during 2019/20 for which the 50 year borrowing rate equates to the rate available on a 30 year maturity loan. Consideration was also to be given to borrowing fixed rate market loans at 25 to 50 basis points below the PWLB target rate if they became available.

4.2 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness and includes leasing schemes (such as the PFI scheme which increased the Council's borrowing need) less the Council's Minimum Revenue Provision (MRP – the provision set aside for debt repayment), group company loan repayments and lease repayments. Per the draft 2019-20 accounts, borrowing increased by £313m, £6m was set aside in MRP and £5m in group company loan repayments and £1m was paid in leasing payment in respect of the PFI.

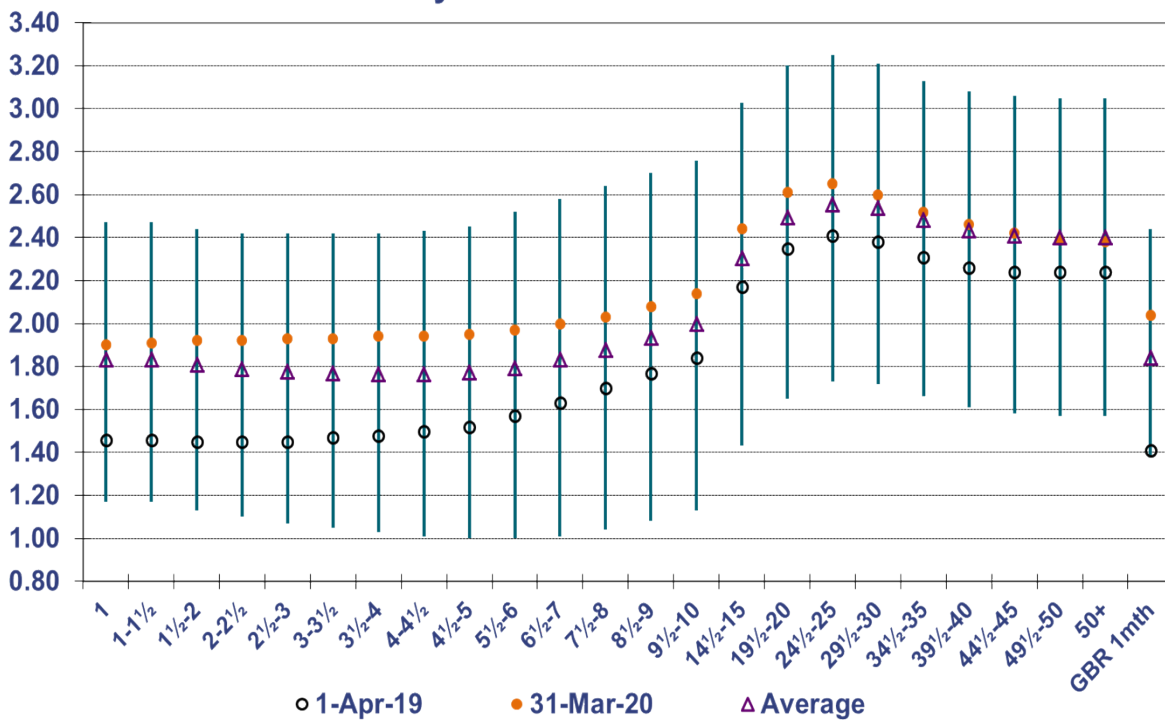
4.3 The Council's investment priorities were set as the security of capital and the liquidity of its investments whilst aiming to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council to Treasury Management is low in order to give priority to security of its investments.

5.0 Actual Borrowing in 2019/20

5.1 The graph below shows the range (high, low and average points) in Public Works Loan Board (PWLB) fixed rate maturity loan interest rates for each maturity period during the year, and individual rates at the start and end of the financial year.

5.2 During 2019/20, the Council largely took 50 year annuity loans. Annuity loans taken were at rates ranging between 1.74% and 3.08%, compared to a high point of 3.43% for 50 year annuity loans during the year.

PWLB Certainty Rate Variations 1.4.19 to 31.3.2020



5.3 It was recognised in the Treasury Management Strategy in advance of the financial year that there were likely to be opportunities to generate savings by undertaking short term borrowing. A mix of short term and long term borrowing was undertaken during the year to derive some benefit from the lower rates, but taking a larger proportion of long term borrowing in recognition of the possibility of adverse interest rate movements prior to refinancing. Whilst borrowing is not generally specifically related to an activity (with the exception of the Victoria Square project), a level of short term borrowing is maintained to cover short dated projects.

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- 5.4 The details of new long term loans taken during the year are shown below, with the maturity 'profile' for all loans in Appendix 2.

Loan Type	Start Date	Maturity Date	Interest Rate (%)	Principal (£m)
PWLB Annuity Loan	05/07/2019	05/07/2069	2.15	20.0
PWLB Annuity Loan	26/07/2019	26/07/2069	2.16	20.0
PWLB Annuity Loan	06/08/2019	06/08/2069	2.09	20.0
PWLB Annuity Loan	09/08/2019	09/08/2069	1.93	20.0
PWLB Annuity Loan	20/08/2019	20/08/2069	1.77	10.0
PWLB Annuity Loan	05/09/2019	05/09/2069	1.74	10.0
PWLB Annuity Loan	25/09/2019	25/09/2069	1.82	10.0
PWLB Annuity Loan	26/09/2019	26/09/2069	1.80	10.0
PWLB Annuity Loan	11/12/2019	11/12/2069	3.08	20.0
PWLB Annuity Loan	30/01/2020	30/01/2070	2.85	20.0
PWLB Maturity Loan	27/03/2020	27/03/2021	1.88	15.0

6.0 Performance

- 6.1 The average rate of interest is taken as the main guide to borrowing performance. In 2019/20 the Council's average interest rate for borrowing was 2.90%. This is lower than the average rate in 2018/19 of 3.01%.

7.0 Treasury Management Position at 31st March 2020

- 7.1 The Council's borrowing and investment position at the beginning and end of the year is shown in the following table:

Borrowing	31 st March 2020			31 st March 2019		
	Principal (£m)	Rate	Average Life (Years)	Principal (£m)	Rate	Average Life (Years)
Fixed Rate Funding						
PWLB	1,283.8			1,118.3		
Market (long term)	39.5			39.5		
Market (short term)	<u>55.0</u>			<u>35.0</u>		
	1,378.3	2.80%	41.31	1,192.8	2.92%	42.29
Variable Rate Funding						
Appeal Deposits	0.0	0.01%	n/a	0.0	0.57%	n/a
Total Borrowing	1,378.3	2.80%		1,192.8	2.92%	

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Investments	31 st March 2020			31 st March 2019		
	Principal (£m)	Rate	Average Life (Years)	Principal (£m)	Rate	Average Life (Years)
In-House	10.0	0.41%	0.0	138.0	0.78%	0.0
Total Investments	10.0	0.41%		138.0	0.78%	

8.0 Restructuring of Borrowing

8.1 No restructuring of borrowing took place during 2019/20.

9.0 Compliance with Treasury Limits

9.1 During the financial year, the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix 1.

10.0 Investment Activity in 2019/20

10.1 Priority continues to be given to security and liquidity over return on investment in order to reduce counterparty risk.

Internally Managed Investments

10.2 The Council has only invested with the institutions on its approved lending list. Investments are made for a range of periods from overnight to 364 days, primarily to manage the Council's cash flow.

10.3 Due to continuing low investment rates, the Council's cash flow surplus was largely held in money market funds. These offer security, instant access and rates which were comparable with those available in the money markets for short periods.

10.4 Given the level of cash available during the year, no investments were managed on external advice.

10.5 Detailed below is the result of the investment strategy undertaken by the Council.

	Average Investment	Rate of Return (gross of fees)	Rate of Return (net of fees)	Benchmark Return *
Internally Managed	£65,767,760	0.75%	n/a	0.53%

* The benchmark for internally managed funds is the average 7 day LIBID rate (uncompounded)

10.6 No external institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.

11.0 Loans and Advances to Group Companies, Joint Ventures and External Organisations

- 11.1 During the year new loans were made of £2.2m to Thamesway Central Milton Keynes, £71.2m to Thamesway Housing Ltd, £7.1 to Thamesway Developments Ltd (relating to Sheerwater Leisure Centre), £14.8m to Thamesway Housing Ltd (relating to Sheerwater Regeneration), £4.9m to Thamesway Energy Ltd, £0.1m to Rutland Woking Ltd, £0.6m to Freedom Leisure, £0.1m to A&B Menswear, £6.4m to Greenfield School, £1.5m to Kingfield Sports Centre and £160.8m to Victoria Square Ltd. These loans are included in the monthly monitoring information (Green Book).
- 11.2 Intra-group loans are excluded from the information presented elsewhere in this report. Loans to subsidiaries are 'eliminated' on consolidation into group accounts.
- 11.3 A capitalisation (share) payment of £500,000 in respect of the Kingfield Community Sports Centre was made during 2019/20 and there was a receipt of £12,001,470 in respect of the winding up of Dukes Court Owner T-Sarl which was offset against an outstanding creditor with the company.

12.0 Member Development

- 12.1 Financial training was provided for Members in 2019-20 which included treasury management.

13.0 Implications

Financial

- 13.1 The financial implications are implicit in the body of this report.

Human Resource/Training and Development

- 13.2 The contract with Link Asset Services provides for staff attendance at various conferences and seminars throughout the year, as well as providing a helpline facility.

Community Safety

- 13.3 There are no community safety implications arising directly from this report.

Risk Management

- 13.4 Although the priority is given to security and liquidity of investments in the strategy, we seek to optimise the return within this framework, whilst minimising the level of risk of incurring losses. As indicated above, no external institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.

Sustainability

- 13.5 There are no sustainability implications arising directly from this report.

Equalities

- 13.6 There are no equalities implications arising directly from this report.

Safeguarding

- 13.7 There are no safeguarding implications arising directly from this report.

14.0 Consultations

14.1 No consultations have been undertaken in connection with this report.

REPORT ENDS