EXECUTIVE – 15 JULY 2021

TREASURY MANAGEMENT ANNUAL REPORT 2020-21

Executive Summary

The Chartered Institute of Public Finance and Accountancy's (CIPFA) 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 2020/21 the Council borrowed £195m in long term loans from the Public Works Loans Board (PWLB). All of these loans were annuity loans where the principal is repaid in instalments during the term of the loan. No maturity loans were taken (where the principal is repaid at the end of the loan and 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 1.68% and 2.48%.

The Council net assets (total assets less total liabilities including borrowing) will be reported to Council as part of the Statement of Accounts which are currently being finalised.

Recommendations

The Executive is requested to:

RESOLVE That

the annual report on Treasury Management performance for 2020/21 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 2020/21 in accordance with the Council's policy on Treasury Management.

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

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 2020/21;
- the strategy for 2020/21;
- the actual borrowing for 2020/21;
- performance measurement;
- the Council's treasury position as at 31st March 2021;
- restructuring of borrowing;
- compliance with treasury limits and Prudential Indicators;
- investment activity in 2020/21; and
- loans and advances to group companies and joint ventures.

1.3 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 2020/21. 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).

2.0 The Economy

2.1 The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020 has been instrumental in speeding economic recovery and the reopening of the economy. It is expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.

2.2 The Monetary Policy Committee (MPC) cut the Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing (QE). The MPC then increased QE by £100bn in June and by £150bn in November. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

2.3 The Bank of England changed its forward guidance in August to include a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably." This suggests that even if inflation rises to 2% in a couple of years' time, the MPC may not raise the Bank Rate until they can clearly see that level of inflation is going to be persistently above target. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern to the MPC.

3.0 The Council's Treasury Strategy for 2020/21

Borrowing

3.1 In 2020/21, 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 3.30% to 3.60% for fixed rate long term borrowing in the Treasury Management Strategy. Annuity loans were taken during 2020/21 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.

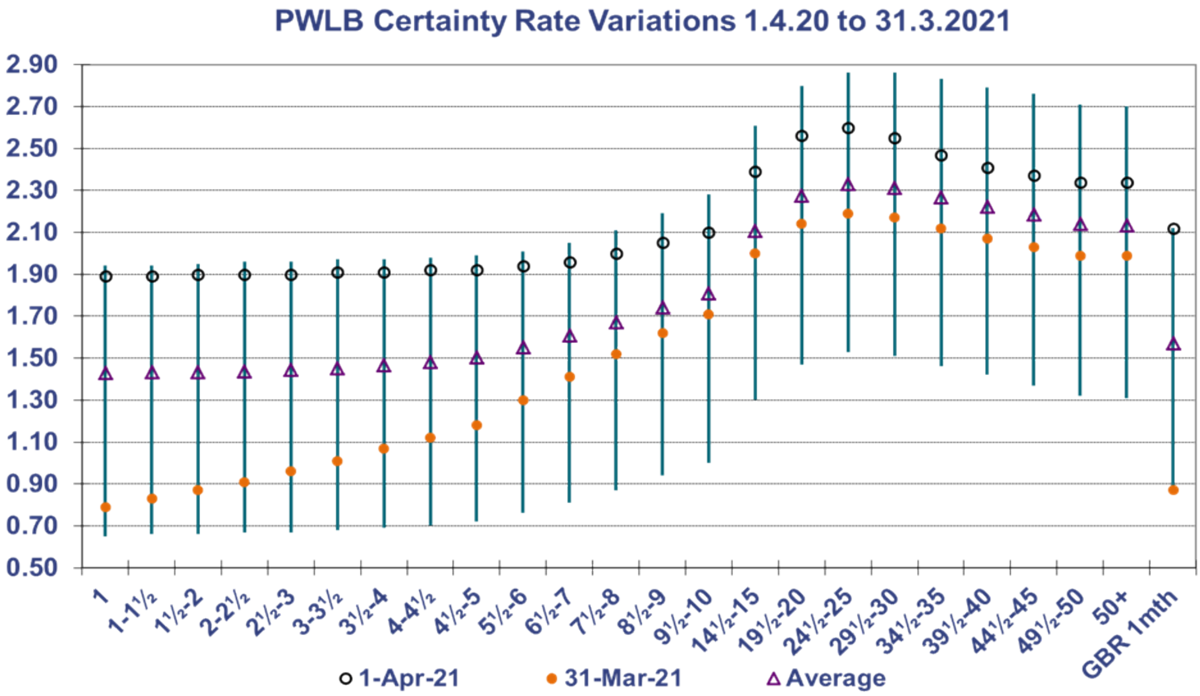
3.2 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness and includes leasing schemes (such as the PFI scheme which increased the Council's borrowing need) less the Council's Minimum Revenue Provision (MRP – the provision set aside for debt repayment), group company loan repayments and lease repayments. The change in the CFR and MRP set aside for 2020/21 will be reported to Council as part of the Statement of Accounts which are currently being finalised.

3.3 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.

4.0 Actual Borrowing in 2020/21

4.1 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.

4.2 During 2020/21, the Council took 50 year annuity loans. Annuity loans taken were at rates ranging between 1.68% and 2.48%, compared to a high point of 2.86% for 50 year annuity loans during the year.



4.3 In November 2020 HM Treasury announced revised lending terms for the PWLB. Rates were reduced by 1% under the new arrangements but the PWLB will no longer lend to any Local Authority which plans to buy investment assets primarily for yield (regardless of whether this purchase would be funded by PWLB borrowing or through other resources). Following the announcement the Council's Capital Programme was reviewed by the s151 Officer and a return provided to the PWLB and HM Treasury confirming that Woking complies with these new rules and is able to access PWLB Borrowing.

4.4 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. Short-term borrowing was particularly favoured in the months before the announcement on the new PWLB lending terms as these terms offered the prospect of lower long term rates. A larger proportion of long term borrowing was taken from November onwards 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.

4.5 Underspends on interest costs in 2020/21 are also due to assumed strategic property acquisitions not completing. The under spend is therefore offset by a £5m shortfall on commercial rent income.

4.6 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	16/04/2020	16/04/2070	2.48	20.0
PWLB Annuity Loan	12/05/2020	12/05/2070	2.43	20.0
PWLB Annuity Loan	18/01/2021	18/01/2071	1.71	10.0
PWLB Annuity Loan	21/01/2021	21/01/2071	1.71	20.0

PWLB Annuity Loan	29/01/2021	29/01/2071	1.68	20.0
PWLB Annuity Loan	15/02/2021	15/02/2071	1.87	15.0
PWLB Annuity Loan	02/03/2021	02/03/2071	2.15	45.0
PWLB Annuity Loan	04/03/2021	04/03/2071	2.15	20.0
PWLB Annuity Loan	25/03/2021	25/03/2071	2.13	10.0
PWLB Annuity Loan	26/03/2021	26/03/2071	2.09	15.0

5.0 Performance

5.1 The average rate of interest is taken as the main guide to borrowing performance. In 2020/21 the Council's average interest rate for borrowing was 2.62%. This is lower than the average rate in 2019/20 of 2.90%.

6.0 Treasury Management Position at 31st March 2021

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

Borrowing	31st March 2021				31st March 2020		
	Principal (£m)		Rate	Average Life (Years)	Principal (£m)	Rate	Average Life (Years)
Fixed Rate Funding							
PWLB	1,454.6				1,283.8		
Market (long term)	39.5				39.5		
Market (short term)	187				55.0		
		1,681.1	2.75%	39.3	1,378.3	2.80%	41.31
Variable Rate Funding							
Appeal Deposits		0.0	0.01%	n/a	0.0	0.01%	n/a
Total Borrowing		**1,681.1**	**2.75%**		**1,378.3**	**2.80%**	

Investments	31st March 2021				31st March 2020		
	Principal (£m)		Rate	Average Life (Years)	Principal (£m)	Rate	Average Life (Years)
In-House	9.0		0.01%	0.0	10.0	0.41%	0.0
Total Investments		**9.0**	**0.01%**		**10.0**	**0.41%**	

7.0 Restructuring of Borrowing

7.1 No restructuring of borrowing took place during 2020/21.

8.0 Compliance with Treasury Limits

8.1 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.

9.0 Investment Activity in 2020/21

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

<u>Internally Managed Investments</u>

9.2 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.

9.3 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.

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

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

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

10.1 During the year new loans were made of £2.5m to Thameswey Central Milton Keynes, £26.7m to Thameswey Housing Ltd, £4.7 to Thameswey Developments Ltd (£2.7m relating to Sheerwater Leisure Centre), £25.6m to Thameswey Housing Ltd (relating to Sheerwater Regeneration), £22.4m to Thameswey Energy Ltd, £0.2m to Freedom Leisure, £0.6m to Woking Hospice (being accrued interest on the existing loan) and £174.4m to Victoria Square Ltd. These loans are included in the monthly monitoring information (Green Book).

10.2 Intra-group loans are excluded from the information presented elsewhere in this report. Loans to subsidiaries are 'eliminated' on consolidation into group accounts.

10.3 No capitalisation (share) payments were made in 2020/21.

11.0 Corporate Strategy

11.1 The Council has a statutory obligation to carry out this report. In order to comply with CIPFA's Code of Practice on Treasury Management, an annual report on the Council's treasury management is required.

11.2 The review of treasury management activities encourages effective use of resources.

12.0 Implications

Finance and Risk

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

Equalities and Human Resources

12.2 There are no equalities implications arising directly from this report.

12.3 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.

Legal

12.4 Treasury management activities have to conform to the Local Government Act 2003, which specifies that the Council is required to adopt the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The Council is required to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020/21. 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).

13.0 Engagement and Consultation

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

REPORT ENDS