

TREASURY MANAGEMENT ANNUAL REPORT 2021-22

Executive Summary

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management has been adopted by the Council.

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.

CIPFA published revised Treasury Management and Prudential Codes on 20th December 2021. The formal adoption of the Treasury Management Code is not required until the 2023/24 financial year and the new reporting requirements of the Prudential Code can be deferred to 1st April 2023. The 2023/24 strategies, going to the Executive in February 2023, will be expanded to incorporate the required changes.

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 2021/22 the Council borrowed £345m 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 1.65% and 2.24%.

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 2021/22 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 2021/22 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 2021/22;
- the strategy for 2021/22;
- the actual borrowing for 2021/22;
- performance measurement;
- the Council’s treasury position as at 31st March 2022;
- restructuring of borrowing;
- compliance with treasury limits and Prudential Indicators;
- investment activity in 2021/22; 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 2021/22. In December 2021 CIPFA issued a revised Prudential code. The 2023/24 strategies, going to the Executive in February 2023, will be expanded to incorporate the required reporting changes for 2023/24.

2.0 The Economy

2.1 Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

2.2 The UK economy has endured several false dawns through 2021/22, but with the economy now opened up and nearly back to business-as-usual, the GDP numbers have increased (9% y/y Q1 2022) sufficiently enough for the MPC to focus on tackling the second-round effects of increasing inflation. Albeit that GDP expectations have now dropped for 2022 though to 2024.

2.3 Gilt yields (and therefore PWLB rates) fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

2.4 It is expected that inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955. A perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia’s invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

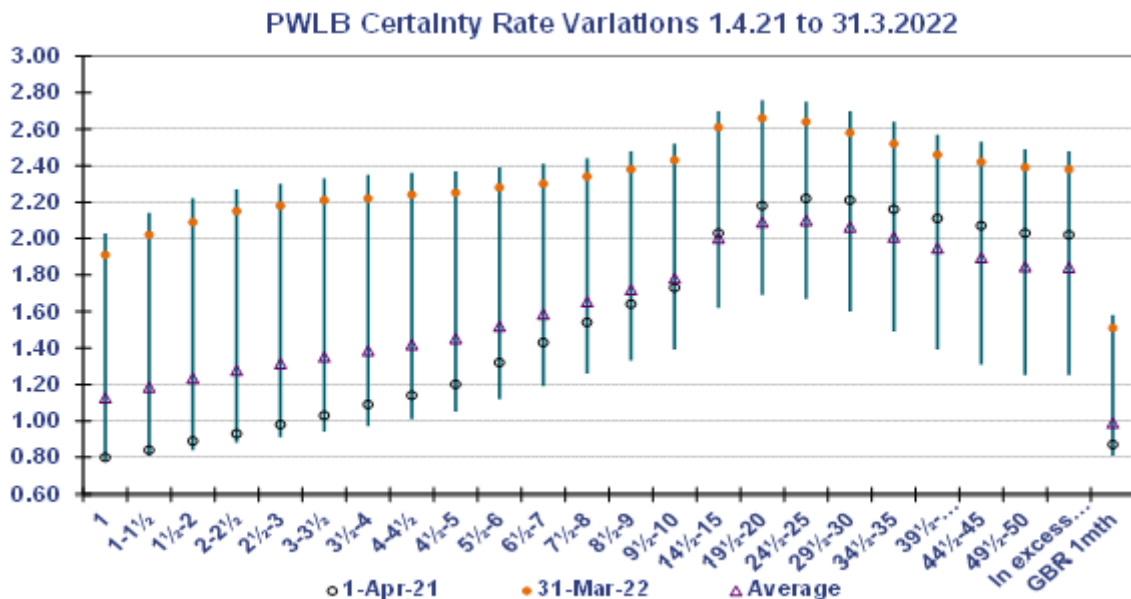
3.0 The Council's Treasury Strategy for 2021/22

Borrowing

- 3.1 In 2021/22, 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 1.50% to 1.80% for fixed rate long term borrowing in the Treasury Management Strategy. While these rates were suitable for some parts of the year, there was market volatility throughout 2021/22 and the forecast used in the Treasury Management Strategy was superseded. It was necessary to consider taking PWLB at higher rates depending on the Council's need to borrow. Annuity loans were taken during 2021/22 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 2021/22 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 2021/22

- 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 2021/22, the Council took seventeen 50 year annuity loans. Annuity loans taken were at rates ranging between 1.65% and 2.24%, compared to a high point of 2.75% for 50 year annuity loans during the year.



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- 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). The new Treasury Management and Prudential codes published by CIPFA in December 2021 also state that an authority must not borrow primarily for financial return (while the reporting requirements under the new codes can be deferred until 2023/24 this rule applies with immediate effect).
- 4.4 The Council's Capital Programme is reviewed by the s151 Officer each year and a return provided to the PWLB and HM Treasury confirming that Woking complies with these rules and is able to access PWLB Borrowing.
- 4.5 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. 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.
- 4.6 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	21/04/2021	21/04/2071	2.11	10.0
PWLB Annuity Loan	24/05/2021	24/05/2071	2.23	20.0
PWLB Annuity Loan	14/06/2021	14/06/2071	2.09	25.0
PWLB Annuity Loan	16/06/2021	16/06/2071	2.07	10.0
PWLB Annuity Loan	23/06/2021	23/06/2071	2.02	20.0
PWLB Annuity Loan	01/07/2021	01/07/2071	2.05	20.0
PWLB Annuity Loan	06/07/2021	06/07/2071	2.04	20.0
PWLB Annuity Loan	09/07/2021	09/07/2071	1.98	20.0
PWLB Annuity Loan	13/07/2021	13/07/2071	1.98	20.0
PWLB Annuity Loan	19/07/2021	19/07/2071	1.90	20.0
PWLB Annuity Loan	22/07/2021	22/07/2071	1.82	20.0
PWLB Annuity Loan	28/07/2021	28/07/2071	1.80	30.0
PWLB Annuity Loan	12/08/2021	12/08/2071	1.75	30.0
PWLB Annuity Loan	30/09/2021	30/09/2071	1.94	20.0
PWLB Annuity Loan	04/11/2021	04/11/2071	1.91	20.0
PWLB Annuity Loan	16/12/2021	16/12/2071	1.65	20.0
PWLB Annuity Loan	09/03/2022	09/03/2072	2.24	20.0

5.0 Performance

- 5.1 The average rate of interest is taken as the main guide to borrowing performance. In 2021/22 the Council's average interest rate for borrowing was 2.65%. This is lower than the average rate in 2020/21 of 2.78%.

6.0 Treasury Management Position at 31st March 2022

6.1 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 2022			31 st March 2021		
	Principal (£m)	Rate	Average Life (Years)	Principal (£m)	Rate	Average Life (Years)
<u>Fixed Rate Funding</u>						
PWLB	1,761			1,454.6		
Market (long term)	30			39.5		
Market (short term)	85			187		
		1,876	2.65%	39.1	1,681.1	2.75%
<u>Variable Rate Funding</u>						
Appeal Deposits		0.0	0.01%	n/a	0.0	0.01%
<u>Total Borrowing</u>		1,876	2.65%		1,681.1	2.75%

Investments	31 st March 2022			31 st March 2021		
	Principal (£m)	Rate	Average Life (Years)	Principal (£m)	Rate	Average Life (Years)
In-House	32.0	0.01%	0.0	9.0	0.01%	0.0
<u>Total Investments</u>		32.0	0.01%		9.0	0.01%

7.0 Restructuring of Borrowing

7.1 No restructuring of borrowing took place during 2021/22.

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 2021/22

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

Internally Managed Investments

- 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 £3.1m to Thamesway Central Milton Keynes, £25.2m to Thamesway Housing Ltd, £1.4m to Thamesway Developments Ltd relating to Sheerwater Leisure Centre, £20.7m to Thamesway Housing Ltd (relating to Sheerwater Regeneration), £11.1m to Thamesway Energy Ltd, £0.1m to Freedom Leisure, £0.2m to Woking Hospice (being accrued interest on the existing loan), £4.9m to Greenfield School, £1.7m to Busyn Ltd, and £124.3m 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 2021/22.

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 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).

13.0 Engagement and Consultation

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

REPORT ENDS