EXECUTIVE – 11 JULY 2024

TREASURY MANAGEMENT ANNUAL REPORT 2023-24

Executive Summary

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management published in December 2021 has been adopted by the Council. Through 2024/25 the Council is continuing to review its treasury processes to achieve full compliance with the Code of Practice.

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 quarterly reporting to the Overview and Scrutiny Committee; and an annual report of the previous year. The quarterly 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.

The Council's financial difficulties, which led to the section 114 notice by the then Interim Director of Finance in June 2023, relate mainly to the extremely high level of the Council's loan debt, and the Council's reliance on failed investments in Group companies to fund the borrowing costs. Since the issuing of the s114 notice the Council has restricted its Capital Programme to projects meeting its capital principles (listed later in the report) and any borrowing taken is discussed with both the Commissioners and the Department of Levelling Up Housing and Communities (DLUHC). The Council borrows to fund capital investment meeting the capital principles and under the Capitalisation Direction issued by the Secretary of State (also discussed later in the report).

During 2023/24 the Council borrowed £304.1m in loans from the Public Works Loans Board (PWLB) and £60m in Local Authority Loans. All of the PWLB loans were 1 year maturity loans where the principal is repaid at the end of the 1 year loan term. No long term annuity loans were taken (where the principal is repaid in instalments during the term of the loan). All long term loans were fixed rate for 1 year, for reasons set out below. The interest rates for the loans were between 4.69% and 6.13%.

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 prepared.

Recommendations

The Executive is requested to:

RESOLVE That

the annual report on Treasury Management performance for 2023/24 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 2023/24 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.

Reporting Person: Stephen Fitzgerald, Finance Director & Section 151 Officer
Email: stephen.fitzgerald@woking.gov.uk, Extn: 3480

Contact Person: Mike Stevens, Deputy Financial Services Manager
Email; mike.stevens@woking.gov.uk

Portfolio Holder: Councillor Dale Roberts
Email: cllrdale.roberts@woking.gov.uk

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1.0 Introduction

1.1 Treasury management is defined as:-

"The management of the organisation's borrowing, investments and cash flows, including 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 2023/24;
- the Treasury strategy for 2023/24;
- the actual borrowing for 2023/24;
- performance measurement;
- the Council's treasury position as at 31st March 2024;
- restructuring of borrowing;
- compliance with treasury limits and Prudential Indicators;
- investment activity in 2023/24; and
- loans and advances to group companies and joint ventures.

1.3 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). Local Authorities are required by regulations issued under the Local Government Act 2003 to have regard to the above Codes, including the production of an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/24.

1.4 During 2023/24 the minimum reporting requirements were that the Full Council should receive reports on the matters in the sections below.

2.0 The Economy

2.1 Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, UK interest rates have continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2023/24.

2.2 Markets have sought an end to central banks' on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24 but to date only the Swiss National Bank has cut rates and that was at the end of March 2024. 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

2.3 The Bank of England sprung no surprises in their March meeting, leaving interest rates at 5.25% for the fifth time in a row (rates were also maintained at this level at the June 2024 meeting). The Bank's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target but it still maintains that key indicators of inflation persistence remain elevated and policy will be "restrictive for sufficiently long" and "restrictive for an extended period".

2.4 The UK economy has started to perform a little better in 2024 but is still recovering from a shallow recession through the second half of 2023. Indeed, Q4 2023 saw negative GDP growth of -0.3% while year on year growth was also negative at -0.2%. However unemployment is currently sub 4% and, with gas and electricity price caps falling in April 2024, CPI inflation has dropped to 2.3% in April (from a high of 11.1% in October 2022).

2.5 In equity markets, the FTSE 100 has risen to over 8,000. The modest rise in UK equities in February was driven by strong performances in the cyclical industrials and consumer discretionary sectors, whilst communications and basic materials have fared poorly.

3.0 The Council's Treasury Strategy for 2023/24

Borrowing

3.1 The main reason for the Council taking new borrowing in 2023/24, excluding the re-financing of existing loans maturing in year, was to support the requested Capitalisation Directive required to cover revenue expenditure until the Council is in a more sustainable financial position. The main element of the CD was to cover the loss of revenues arising from the suspension of interest previously paid by the wholly owned companies. There was also borrowing taken on to support the capital programme. In July 2023 the Capital Planning Principles were adopted by Council which restrict capital expenditure to essential regulatory, health and safety and asset management expenditure, planned borrowing to support capital expenditure agreed in 2023/24 and some limited investment to realise revenue savings. From June 2023 onwards all new borrowing was subject to government approval. The Council also had £153m in loans maturing in 2023/24 which needed to be refinanced. Overall the Council borrowed £304m from the PWLB, all at a maturity of 1 year.

3.2 In previous years the Council aimed to take long-term 50 year annuity borrowing with the aim of aligning the borrowing to the life of projects/assets being financed. In 2023/24 the Council only took short-term borrowing over 1 year. This was due to two reasons;

3.3 The first of which was that the Council's treasury Advisors, Link Group, recommended deferring long-term borrowing while interest rates were seen as high and were forecast to reduce. This would avoid high rates being locked into longer-term borrowing and instead these short-term loans could be refinanced at the end of their term when rates were forecast to be lower.

3.4 The second reason was the change in the Council's strategic approach to Treasury Management. Historically the Council had looked to take borrowing over a long-term to match it to the Group Company's business plans and asset lives. Due to the financial position of the Council, it is now looking to disinvest from its property and group company positions. An Asset Rationalisation Plan is under way under which the Council will look to dispose most of its property portfolio and use the proceeds largely to repay loan debt. Therefore the Council is looking to match its borrowing maturities to the profile of possible asset sales. By taking 1 year borrowing the Council has more flexibility to repay this borrowing when capital receipts are realised. Longer term borrowing could expose the Council to the likelihood of substantial premature repayment costs.

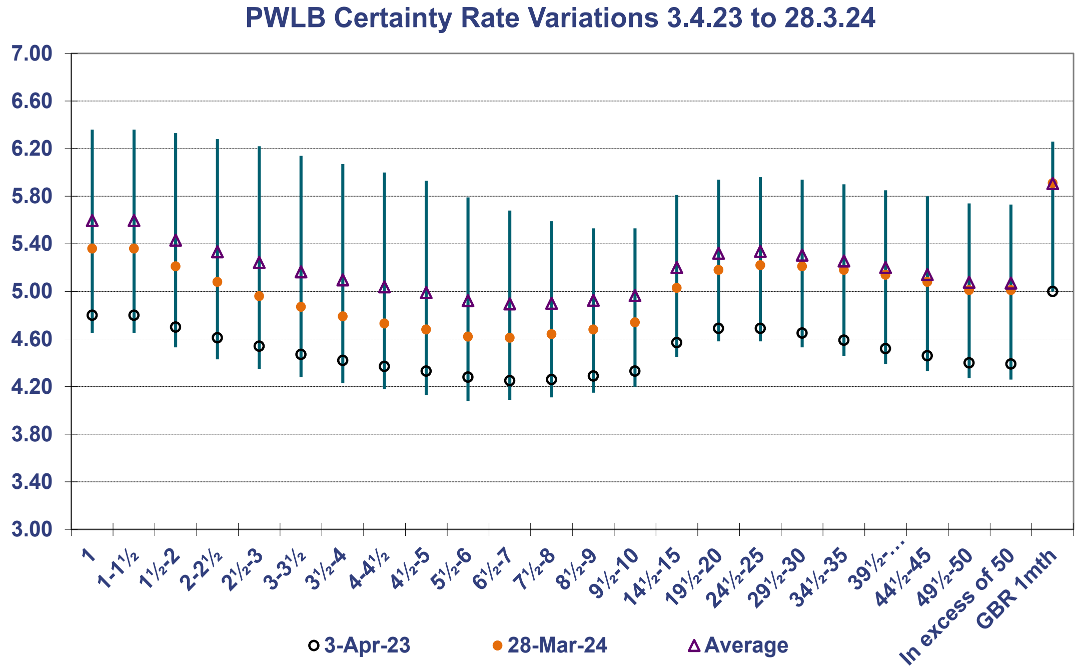
3.5 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness and includes leasing schemes (such as the PFI scheme which increased the Council's borrowing need) less the Council's Minimum Revenue 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 2023/24 will be reported to Council as part of the Statement of Accounts which are currently being finalised.

3.6 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 2023/24

4.1 The graph below shows the range (high, low and average points) 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 2023/24, the Council took 40 short term loans and no 50 year annuity loans. These loans were taken at rates ranging between 4.30% and 6.13%, compared to a high point of 6.36% for 1 year maturity 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). 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 On 25 May 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published the outcome of its non-statutory external assurance review into Woking Borough Council's (WBC) finances, investments and related governance arrangements and announced a Government Intervention would be in place for 5 years. Following this intervention all PWLB borrowing needed to be agreed with the Commissioners and DLUHC.

4.6 The details of new 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)
Local Authority Loan	06/04/2023	08/04/2024	4.69	20.0
Local Authority Loan	25/04/2023	25/01/2024	4.3	5.0
Local Authority Loan	25/04/2023	23/04/2024	4.6	5.0
Local Authority Loan	23/05/2023	23/05/2024	4.96	10.0
Local Authority Loan	06/06/2023	06/03/2024	5	10.0
Local Authority Loan	08/06/2023	08/03/2024	4.75	10.0
PWLB 1 Year Maturity	23/06/2023	23/06/2024	5.86	12.0
PWLB 1 Year Maturity	30/06/2023	30/06/2024	6.13	10.0
Local Authority Loan	19/07/2023	17/07/2024	5	5.0
PWLB 1 Year Maturity	21/07/2023	21/07/2024	6.1	5.0
PWLB 1 Year Maturity	28/07/2023	29/07/2024	5.97	10.0
PWLB 1 Year Maturity	31/07/2023	31/07/2024	5.83	5.0
PWLB 1 Year Maturity	17/08/2023	19/08/2024	5.81	10.0
PWLB 1 Year Maturity	25/08/2023	27/08/2024	6.05	5.0
PWLB 1 Year Maturity	11/09/2023	11/09/2024	5.84	10.0
PWLB 1 Year Maturity	13/09/2023	13/09/2024	5.91	5.9
PWLB 1 Year Maturity	22/09/2023	23/09/2024	5.77	5.0
PWLB 1 Year Maturity	22/09/2023	23/09/2024	5.77	3.3
PWLB 1 Year Maturity	05/10/2023	07/10/2024	5.69	7.9
PWLB 1 Year Maturity	09/10/2023	09/10/2024	5.69	10.0
PWLB 1 Year Maturity	19/10/2023	21/10/2024	5.63	6.7
PWLB 1 Year Maturity	20/10/2023	21/10/2024	5.62	2.9
PWLB 1 Year Maturity	23/10/2023	23/10/2024	5.69	15.0
PWLB 1 Year Maturity	13/11/2023	13/11/2024	5.59	30.0
PWLB 1 Year Maturity	17/11/2023	18/11/2024	5.56	2.5
PWLB 1 Year Maturity	20/11/2023	20/11/2024	5.55	20.0
PWLB 1 Year Maturity	24/11/2023	25/11/2024	5.43	2.6
PWLB 1 Year Maturity	01/12/2023	02/12/2024	5.64	15.0
PWLB 1 Year Maturity	15/12/2023	16/12/2024	5.53	2.4
PWLB 1 Year Maturity	18/12/2023	18/12/2024	5.58	10.0
PWLB 1 Year Maturity	19/12/2023	19/12/2024	5.55	3.7
PWLB 1 Year Maturity	25/01/2024	25/01/2025	5.6	5.0
PWLB 1 Year Maturity	26/01/2024	26/01/2025	5.31	3.4
PWLB 1 Year Maturity	19/02/2024	19/02/2025	5.43	12.0
PWLB 1 Year Maturity	23/02/2024	23/02/2025	5.46	4.9
PWLB 1 Year Maturity	26/02/2024	26/02/2025	5.5	15.0
PWLB 1 Year Maturity	04/03/2024	04/03/2025	5.38	25.0
PWLB 1 Year Maturity	13/03/2024	13/03/2025	5.48	15.0
PWLB 1 Year Maturity	22/03/2024	24/03/2025	5.44	3.9
PWLB 1 Year Maturity	22/03/2024	24/03/2025	5.44	10.0
Total				**369.1**

5.0 Performance

5.1 The average rate of interest is taken as the main guide to borrowing performance. In 2023/24 the Council's average interest rate for new borrowing was 5.50%. This is lower than the average 1 year PWLB rate of 5.54%.

6.0 Treasury Management Position at 31st March 2024

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 2024				31st March 2023		
	Principal (£m)		Rate	Average Life (Years)	Principal (£m)	Rate	Average Life (Years)
Fixed Rate Funding							
PWLB	2,063.2				1,815.4		
Market (long term)	30				30		
Market (short term)	10				128		
		2,103.2	3.13%	31	1,973.4	2.76%	33
Variable Rate Funding							
Appeal Deposits		0.0	0.01%	n/a	0.0	0.01%	n/a
Total Borrowing		**2,103.2**	**4.13%**		**1,973.4**	**3.57%**	

Investments	31st March 2024				31st March 2023		
	Principal (£m)		Rate	Average Life (Years)	Principal (£m)	Rate	Average Life (Years)
In-House	48.0		5.29%	0.0	10.0	4.09%	0.0
Total Investments		**48.0**	**5.29%**		**10.0**	**4.09%**	

7.0 Restructuring of Borrowing

7.1 No restructuring of borrowing took place during 2023/24.

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 Treasury Management Investment Activity in 2023/24

9.1 In respect of investments made for treasury management purposes, priority continues to be given to security and liquidity over return on investment in order to reduce counterparty risk as required by the code.

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 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 treasury 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 Following the Government Intervention loans can only be made to the Group Companies if they are in order to complete or partially complete certain specified schemes that were already in delivery when the Section 114 Notice was issued. These loans can only be made under business cases approved by Commissioners and reviewed by DLUHC.

10.2 During the year new loans were made of £53.8m to Thameswey Housing Ltd relating to the Sheerwater Development and £13.5m to Victoria Square Ltd. The objective of these loans was to improve the company asset values to support potential future sale.

10.3 The interest received from Group Companies has been suspended. The reason for the suspension is that the companies would be unable to fund the payments now that the Council's revolving loan arrangements with them have ended as part of the s114 notice in June 2023. The above position assumes that the loans will be fully impaired and no interest will be received. The financial position of the Group Companies remains under review and any available surpluses transferred back to the Council will improve the above position. Intra-group loans are excluded from the information presented elsewhere in this report. Loans to subsidiaries are 'eliminated' on consolidation into group accounts.

10.4 No capitalisation (share) payments were made in 2023/24.

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 regulations under the Local Government Act 2003, which specify that the Council is required to have regard to 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 2023/24. The Council's accounts for 2023/24 are currently being prepared and subject to audit so the indicators in Appendix 1 are subject to any audit or other accounting amendments.

13.0 Engagement and Consultation

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

REPORT ENDS