

## TREASURY MANAGEMENT ANNUAL REPORT 2018-19

### 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 2018/19 the Council borrowed £423m in long term loans from the Public Works Loans Board (PWLb). The majority of these loans, £410m, were annuity loans where the principal is repaid in instalments during the term of the loan. £13m 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 2.31% and 2.78%.

At 31 March 2019 the Council had borrowing of £1,193m and cash investments of £138m. The draft accounts for 2018/19 show that at 31 March 2019 the Council had net assets (total assets less total liabilities including borrowing) of £204m.

### Recommendations

The Executive is requested to:

#### **RESOLVE That**

the annual report on Treasury Management performance for 2018/19 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 2018/19 in accordance with the Council's policy on Treasury Management.

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

## Treasury Management Annual Report 2018-19

**Background Papers:** None.

**Reporting Person:** Leigh Clarke, Chief Finance Officer  
Email: leigh.clarke@woking.gov.uk, Extn: 3277

**Contact Person:** Julie Rowling, Business Support Manager  
Email: julie.rowling@woking.gov.uk, Extn: 3248

**Portfolio Holder:** Councillor Ayesha Azad  
Email: cllrayesha.azad@woking.gov.uk

**Shadow Portfolio Holder:** Councillor Deborah Hughes  
Email: cllrdeborah.hughes@woking.gov.uk

**Date Published:** 19 June 2019

### 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 2018/19;
- the strategy for 2018/19;
- the actual borrowing for 2018/19;
- performance measurement;
- the Council’s treasury position as at 31<sup>st</sup> March 2019;
- restructuring of borrowing;
- compliance with treasury limits and Prudential Indicators;
- investment activity in 2018/19; 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 After weak economic growth in quarter 1 of 2018, growth picked up in both quarters 2 and 3, before reducing again in the final quarter in response to the uncertainties over Brexit. Some recovery in the rate of growth is expected going forward.

2.2 Following an increase in the bank rate in August 2018, it is unlikely that any further action will be taken by the Monetary Policy Committee (MPC) until the uncertainties over Brexit clear. If there is a disorderly exit, it is likely that bank rate would be cut to support growth, however this should be considered in the context of the MPC also having concerns over the rising trend in wage inflation.

2.3 CPI inflation has been on a falling trend since peaking at 3.1% in November 2017, to a low of 1.8% in January 2019. However in the February 2019 Bank of England inflation report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC’s target of 2%.

### 3.0 The Council’s Treasury Strategy for 2018/19

#### Borrowing

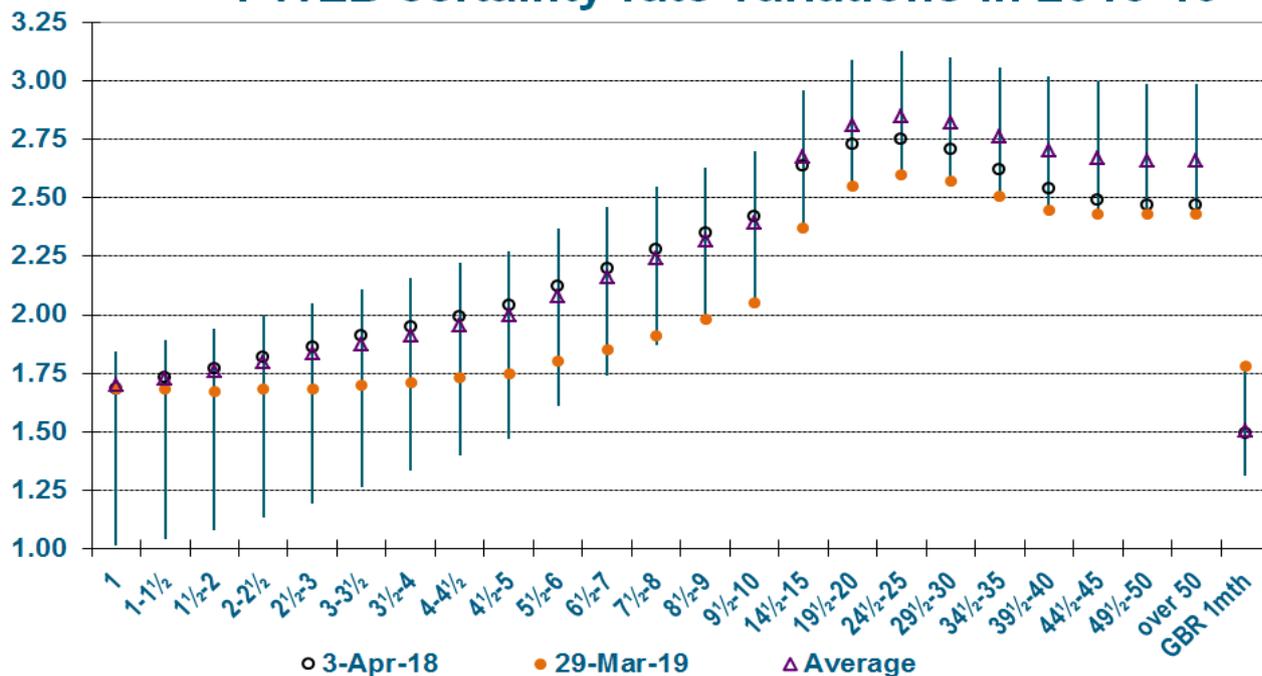
3.1 In 2018/19, the Council largely undertook borrowing for periods which aligned with the life of projects being undertaken during that financial year. The trigger point below which new long term borrowing would be considered was set at 2.90% for fixed rate long term borrowing in the Treasury Management Strategy. Increasing use was made of annuity loans during 2018/19 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 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 2018/19

- 4.1 The graph below shows the range (high, low and average points) in Public Works Loan Board (PWLB) rates for each maturity period during the year, and individual rates at the start and end of the financial year.
- 4.2 During 2018/19, the Council largely took 50 year annuity loans. This activity was largely focused in the latter part of the financial year, and particularly March 2019 to take advantage of lower rates. Loans taken during March were at rates ranging between 2.31% and 2.55%, compared to a high point of 2.90% for 50 year annuity loans during the year.

### PWLB certainty rate variations in 2018-19



- 4.3 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, a level of short term borrowing is maintained to cover short dated projects.
- 4.4 The details of new long term loans taken during the year are shown below, with the maturity details for all long term loans in Appendix 2.

Loan Type	Start Date	Maturity Date	Interest Rate (%)	Principal (£m)
PWLB Annuity Loan	31/5/2018	31/5/2068	2.49	10.0
PWLB Annuity Loan	27/7/2018	27/7/2068	2.53	10.0
PWLB Maturity Loan	19/10/2018	19/10/2068	2.68	6.0
PWLB Annuity Loan	14/11/2018	14/11/2068	2.72	10.0
PWLB Annuity Loan	19/11/2018	19/11/2068	2.78	10.0
PWLB Annuity Loan	7/12/2018	7/12/2068	2.75	60.0
PWLB Annuity Loan	11/12/2018	11/12/2068	2.66	20.0
PWLB Annuity Loan	13/12/2018	13/12/2068	2.55	40.0

## Treasury Management Annual Report 2018-19

PWLB Annuity Loan	31/1/2019	31/1/2069	2.56	10.0
PWLB Annuity Loan	11/2/2019	11/2/2069	2.52	80.0
PWLB Maturity Loan	27/2/2019	27/2/2069	2.39	7.0
PWLB Annuity Loan	19/3/2019	19/3/2069	2.55	20.0
PWLB Annuity Loan	20/3/2019	20/3/2069	2.53	20.0
PWLB Annuity Loan	22/3/2019	22/3/2069	2.49	30.0
PWLB Annuity Loan	25/3/2019	25/3/2069	2.39	50.0
PWLB Annuity Loan	26/3/2019	26/3/2069	2.37	20.0
PWLB Annuity Loan	28/3/2019	28/3/2069	2.31	20.0

### 5.0 Performance

5.1 The average rate of interest is taken as the main guide to borrowing performance. In 2018/19 the Council's average interest rate for borrowing was 3.01%. This is higher than the average rate in 2017/18 of 2.37%, however during 2018/19 there was a move away from taking short term borrowing to locking in long term borrowing at favourable rates, as described in paragraph 4.2 above.

### 6.0 Treasury Management Position at 31<sup>st</sup> March 2019

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 <sup>st</sup> March 2019			31 <sup>st</sup> March 2018		
	Principal (£m)	Rate	Average Life (Years)	Principal (£m)	Rate	Average Life (Years)
<u>Fixed Rate Funding</u>						
PWLB	1,118.3			709.5		
Market (long term)	39.5			45.9		
Market (short term)	<u>35.0</u>			<u>50.0</u>		
	1,192.8	2.92%	42.29	805.4	3.05%	37.6
<u>Variable Rate Funding</u>						
Appeal Deposits	0.0	0.57%	n/a	0.0	0.36%	n/a
<b>Total Borrowing</b>	<b>1,192.8</b>	<b>2.92%</b>		<b>805.4</b>	<b>3.05</b>	

Investments	31 <sup>st</sup> March 2019			31 <sup>st</sup> March 2018		
	Principal (£m)	Rate	Average Life (Years)	Principal (£m)	Rate	Average Life (Years)
In-House	138.0	0.78%	0.0	38.0	0.53%	0.0
<b>Total Investments</b>	<b>138.0</b>	<b>0.78%</b>		<b>38.0</b>	<b>0.53%</b>	

## 7.0 Restructuring of Borrowing

7.1 No restructuring of borrowing took place during 2018/19.

## 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 2018/19

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 above those available in the money markets for short periods.

9.4 Occasional fixed term deposits were made with local authorities where rates were beneficial and the investment period was appropriate.

### Investments Managed on External Advice

9.5 During the year, no investments were managed on external advice. 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	£22,660,274	0.67%	n/a	0.51%

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

9.6 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 £2.2m to Thamesway Central Milton Keynes, £42.9m to Thamesway Housing Ltd, £11.5m to Thamesway Developments Ltd (relating to Thamesway Housing projects), £3.0m to Thamesway Developments Ltd (relating to Sheerwater Regeneration), £21.1m to Thamesway Housing Ltd (relating to Sheerwater Regeneration), £1.0m to Thamesway Energy Ltd, £1.6m to Rutland Woking Ltd, £0.9m to Freedom Leisure and £94.1m to Victoria Square Ltd.

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 payments have been made during 2018/19.

### **11.0 Member Development**

11.1 There is a programme of financial training for Members; the next training will take place in September 2019.

### **12.0 Implications**

#### Financial

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

#### Human Resource/Training and Development

12.2 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

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

#### Risk Management

12.4 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

12.5 There are no sustainability implications arising directly from this report.

#### Equalities

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

#### Safeguarding

12.7 There are no safeguarding implications arising directly from this report.

### **13.0 Consultations**

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

REPORT ENDS



TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000
<b>Authorised limit for external borrowing</b>	<b>2018/19 Budget</b>	<b>Actual March 2019</b>
Borrowing	£1,405,568	£1,192,855
Other long term liabilities (PFI)	£27,373	£27,752
TOTAL	£1,432,941	£1,220,607
<b>Operational boundary for external borrowing</b>		
Borrowing	£1,395,568	£1,192,855
Other long term liabilities (PFI)	£27,373	£27,752
TOTAL	£1,422,941	£1,220,607
<b>Upper limit for fixed interest rate exposure</b>	100%	100%
<b>Upper limit for variable rate exposure</b>	70%	0%
<b>Upper limit for total for principal sums invested for over 364 days</b> (per maturity date)	£3,000,000	£0

Maturity structure of fixed rate borrowing during 2018/19	Upper limit	Lower limit	Actual
Under 12 months	100%	0%	3.2%
12 months and within 24 months	100%	0%	0.0%
24 months and within 5 years	100%	0%	2.9%
5 years and within 10 years	100%	0%	1.8%
10 years and within 20 years	100%	0%	3.7%
20 years and within 30 years	100%	0%	0.9%
30 years and within 40 years	100%	0%	9.2%
40 and within 50 years	100%	0%	76.2%
50 years and above	100%	0%	2.1%

The maturity structure of fixed rate borrowing table includes both annuity and maturity loans, and is based on the final repayment date for that loan. It should be noted however that the principal on annuity loans is repaid over the life of the loan, and not just on the maturity date. At the end of 2018/19, £446m was held in PWLB maturity loans and £674m in PWLB annuity loans.