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| TITLE | Treasury Management Strategy 2017/18 |
| FOR CONSIDERATION BY | Audit Committee on 8 February 2017 |
| WARD | None specific |
| DIRECTOR | Graham Ebers, Director of Corporate Services |

OUTCOME / BENEFITS TO THE COMMUNITY

Effective and safe use of our resources to deliver service improvements and service continuity through the management of the council's cash flow and investments while funding the capital programme.

RECOMMENDATION

The Audit committee is asked to recommend to the Council for approval the following:

- 1) Capital Prudential indicators, 2017/18;
- 2) Borrowing strategy 2017/18;
- 3) Annual Investment Strategy 2017/18;
- 4) Flexible use of capital receipts strategy;
- 5) MRP policy; and
- 6) Treasury Indicators: limits to borrowing activity 2017/18.

SUMMARY OF REPORT

This report outlines the expected treasury activity for the forthcoming year and includes prudential indicators relating specifically to Treasury Management for the next three years. Further reports are produced; a mid-year monitoring report and an outturn report after the year-end on actual activity. A key requirement of this report is to explain both the risks and the management of the risks associated with the treasury service. This strategy covers:

- The Council's debt and investment projections;
- The expected movement in interest rates;
- The Council's borrowing strategy;
- The Council's investment strategy;
- Treasury Management prudential indicators and limits on activity;
- Local Treasury issues
- A minimum revenue provision (MRP) policy. This represents the principal element of outstanding loans which must be charged to revenue each year.
- Flexible use of capital receipts strategy – As part of the Local government settlement 2016/17 the use of capital receipts on revenue items was relaxed for savings generating projects. This comprises which if any the revenue projects will use to capital receipts as funding.

The report also gives an overview of the UK and world economic outlook

Background

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans or using longer term cash flow surpluses. On occasion, debt previously drawn may be restructured to meet Council risk or cost objectives.

Analysis of Issues

External Debt

For 2017/18 external debt is estimated to increase by £53mk to £159.6m.

| | 2017/18 Budget £'000 | 2018/19 Budget £'000 | 2019/20 Budget £'000 |
|-------------------------------|----------------------------|----------------------------|----------------------------|
| General Fund | 76,350* | 132,448 | 164,436 |
| Housing Revenue Account (HRA) | 83,250 | 80,152 | 78,164 |
| Total | 159,600 | 212,600 | 242,600 |

Note* This includes private finance initiative debt

Although borrowing (internal & external) for the general fund is to increase by the following:

| General fund borrowing | 2017/18 Budget £'000 | 2018/19 Budget £'000 | 2019/20 Budget £'000 | Total |
|--|----------------------------|----------------------------|----------------------------|----------------|
| External borrowing | | | | |
| Borrowing - In line with MRP | 4,850 | 3,400 | 3,700 | 11,950 |
| Borrowing - Forward Funded | 13,901 | 7,145 | 25,358 | 46,404 |
| Borrowing - Invest to Save | 10,564 | 8,914 | 7,507 | 26,985 |
| Borrowing – Wokingham Housing Limited (WHL) | 17,640 | 6,000 | 7,590 | 31,230 |
| Borrowing – Wokingham Town Regeneration (WTCR) | 35,572 | 15,152 | 23,493 | 74,217 |
| Total | 82,527 | 40,611 | 67,648 | 190,786 |

This will be fully funded by the following resources :

| | Total |
|---|----------|
| Minimum Revenue Provision (MRP) Annual prescribed minimum repayment | (11,950) |

| | |
|--|------------------|
| Invest to save targets top sliced to fund borrowing | (26,985) |
| Developer contributions (CIL & S106) | (46,404) |
| WHL (Interest charge to Company) | (31,230) |
| WTCR (Income from Schemes) | (74,217) |
| Total | (190,786) |

Capital Expenditure

For 2017/18 capital expenditure is estimated to increase by £54m from the 2016/17 estimated outturn to £152.8m

| | 2017/18 Budget £'000 | 2018/19 Budget £'000 | 2019/20 Budget £'000 |
|-------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Chief Executive | 35,572 | 18,952 | 27,493 |
| Children's Services | 23,930 | 11,175 | 13,076 |
| Environment | 39,742 | 30,219 | 44,130 |
| Finance & Resources | 17,512 | 9,204 | 19,256 |
| Health & Wellbeing | 27,019 | 16,843 | 16,916 |
| Sub Total | 143,775 | 86,393 | 120,871 |
| Housing Revenue Account (HRA) | 9,074 | 5,900 | 8,100 |
| Total | 152,849 | 92,293 | 128,971 |

Investment forecast year end outturn

For 2017/18 the estimated returns on investments (external and internal companies) to increase from 2016/17 estimated outturn by £0.2m to £1.9m

| | 2017/18 Budget £'000 | 2018/19 Budget £'000 | 2019/20 Budget £'000 |
|--------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Investments | 425 | 425 | 425 |
| Internal companies | 1,449 | 1,449 | 1,449 |
| Total | 1,874 | 1,874 | 1,874 |

Appendices

- Prudential and Treasury indicators Appendix B
- Interest rate forecasts 2017 – 2020 Appendix C
- Treasury Management Practice (TMP1) Appendix D
- Credit and Counterparty Risk Management Appendix E
- Approved Counter parties Appendix F
- Treasury management scheme of delegation Appendix F
- The treasury management role of the section 151 officer Appendix F
- Glossary of Terms Appendix G

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

| | How much will it Cost/ (Save) | Is there sufficient funding – if not quantify the Shortfall | Revenue or Capital? |
|-----------------------------------|---|---|---------------------|
| Current Financial Year (Year 1) | £152m Capital Expenditure £1.9m Return on Investments | Yes | Capital Revenue |
| Next Financial Year (Year 2) | £92.3m Capital Expenditure £1.9m Return on investments. Year 2 figures are Provisional and will be updated in future years. | Yes | Capital Revenue |
| Following Financial Year (Year 3) | £129m Capital Expenditure £1.9m Return on investments. Year 3 figures are Provisional and will be updated in future years. | Yes | |

Other financial information relevant to the Recommendation/Decision

None

Cross-Council Implications

Budgets and strategies are clearly monitored and do not impact on other Council services and priorities

List of Background Papers

Appendix A – G

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