WOKINGHAM BOROUGH COUNCIL

Treasury Management

Outturn Report 2016-17

Contents

Appendices

1. Introduction

This report presents the Council's treasury position for 2016/17 in accordance with the Council treasury management practices. This is a backward looking report reviewing performance to 31st March 2017.

The report provides a summary of the economic conditions affecting the Council's investment strategy over the last financial year. It then analyses the capital outturn which is a key driver of treasury management, driving the borrowing requirement of the organisation. It then shows how the Council has financed its borrowing between internal and external borrowing and then how the Council has managed its short-term cash investments.

The Council's treasury management strategy is largely influenced by capital expenditure. Revenue expenditure is largely balanced with expenditure matching income, and short term borrowing and deposits. The large driver of the longer term treasury management strategy is therefore capital expenditure and financing.

There are two aspects of treasury performance – debt management and cash investment:

- debt management relates to the Council's borrowing;
- Cash investment relates to the investment of surplus cash balances.

2. Economic Review

UK economic growth remained relatively strong at around 2% in the year to the 4th quarter of 2016/17. The Bank of England kept monetary policy on hold since the rate decrease to 0.25% in the summer and re-enforced its commitment to maintain interest rates the same and to continue it's the Quantitative Easing (QE) programme in February 2017 meeting . For a more detailed economic summary please look at Appendix E.

3. The Council's Capital Expenditure and Financing 2016/17

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- financed in year, immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need or;
- funded by borrowing (internal or external).

The actual capital expenditure forms one of the required prudential indicators. During August 2016 the Council under took an exercise to obtain more accurate forecasts of capital expenditure from budget managers. This provides the Council with a more realistic year end outturn giving the Council the opportunity to adjust its capital budget and related funding plans, tables 1 and 2 on the following page show the actual capital expenditure and the funding.

Table 1:

General fund capital expenditure and financing	2016/17 Budget £'000	2016/17 forecast outturn @ Sept £'000	2016/17 Outturn £'000
Capital expenditure			
Financed in year	63,710	33,685	27,168
Funded by borrowing (borrowing requirement)	81,495	50,945	44,858
Total	145,205	84,630	72,026

Table 2:

HRA capital expenditure and financing	2016/17 Budget £'000	2016/17 forecast outturn @ Sept £'000	2016/17 Outturn £'000
Capital expenditure			
Financed in year	7,853	5,909	4,857
Funded by borrowing (borrowing requirement)	0	0	0
Total	7,853	5,909	4,857

4. The Council's Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). It represents the 2016/17 capital expenditure financed by borrowing, and prior years' unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

The Council's general fund underlying borrowing need (CFR) is not allowed to rise indefinitely. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This ensures the general fund pays for the capital asset and is a proxy for depreciation. The total CFR can also be reduced by:

- The application of additional capital financing resources (such as unapplied capital receipts); or
- An additional revenue contribution to the statutory minimum revenue provision (MRP) each year through a Voluntary Revenue Provision (VRP).

This differs from the treasury management arrangements which relates to cash transfers. External debt can be borrowed or repaid at any time, but this does not change the CFR.

The Council's CFR forecast for 2016/17 year end is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. However no borrowing is actually required against these schemes as a borrowing facility is included in the contract.

Table 3:

Capital financing requirement: General Fund	2016/17 Budget £'000	2016/17 forecast outturn @ Sept £'000	2016/17 Outturn £'000
Opening balance	113,397	118,580	118,580
Capital expenditure funded by Borrowing	73,014	50,946	44,858
Prior year adjustment (Swap funding)	0	0	(771)
Sub Total	186,411	169,526	162,667
Less Minimum Revenue Provision			
MRP Charge	(3,310)	(3,024)	(2,362)
PFI Principal Charge	(215)	(215)	(283)
Sub Total	(3,525)	(3,239)	(2,645)
Closing Balance	182,886	166,287	160,022
Movement	64,305	47,707	41,442

Table 4:

HRA Capital financing requirement:	2016/17 Budget £'000	2016/17 forecast outturn @ Sept £'000	2016/17 Outturn £'000
Opening balance	93,876	93,876	92,964
Repayment of Loan Principle	(3,476)	(3,476)	(2,564)
Closing Balance	90,400	90,400	90,400

Table 5

Capital financing requirement: General fund and HRA	2016/17 Budget £'000	2016/17 forecast outturn @ Sept £'000	2016/17 Outturn £'000
Opening balance	207,273	212,456	211,544
Movements	66,013	44,231	38,878
Closing Balance	273,286	256,687	250,422

The in-year increase in the borrowing requirement is due to a large increase in the capital programme for schemes such as the town centre regeneration and loans to group companies and will reduce again when capital receipts are recovered or loans repaid. It has also increased as a result of the forward funded infrastructure schemes. These will decrease again as developer contributions are received.

The council's total capital financing requirement (CFR) of £250.4m was considerably lower than the councils external borrowing of £147.4m (see table 6 below)

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. The Council does not borrow all of this money externally but uses some of its internal cash reserves to fund this expenditure. This is referred to as "internal borrowing". This means that the Council's capital financing requirement is higher than its external borrowing figures. External borrowing may be sourced from bodies such as the Public Works Loan Board [PWLB] or the money markets.

5. External borrowing and compliance with treasury limits and prudential indicators

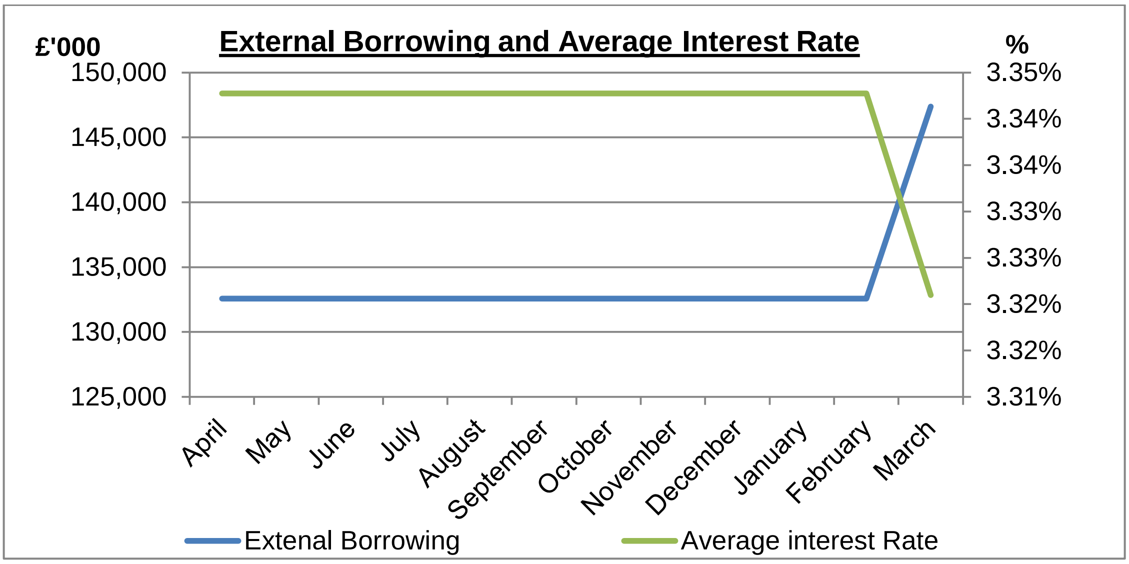
On the 31st March 2017 the Council took out a £18m loan, this was at a special rate of 40 bases point lower than the PWLB rate. (Local Enterprise Partnership agreement)

Table 6 demonstrates the outturn for 2016/17 external borrowing.

Table 6:

External Borrowing	2016/17 Budget £'000	2016/17 Outturn £'000
Market	24,000	24,000
PWLB	107,482	122,006
Local Enterprise Partnership	750	1,380
Total borrowing	132,232	147,386

Graph 1 Total external borrowing and average interest rate by month



Graph 1 above includes the £18m loan taken out on the 31st March 2017. This increased the external borrowing to £147.4m.This meant as of the 31st March 2017 the average interest rate dropped to 3.32%.

During 2016/17, the Council operated within the treasury limits as set out its borrowing treasury management strategy. The position for the prudential indicators is shown in table 7, which is found below. These show that all prudential indicators have been complied with. Further detail on each of these indicators is included in Appendix B.

Table 7:

Prudential Indicator – Debt	Year-end position 2016/17 Does gross borrowing exceed CFR?	Has the limit/boundary been broken
Gross external borrowing	NO	
Authorised limit		NO
Operational boundary for external debt		NO
HRA debt limit		NO
Maturity structure of borrowing		NO
Upper limits on interest rate exposure		NO
The percentage of financing costs set aside to service debt financing costs		NO

In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (plus the estimates of any additional capital financing requirement for the current and next two financial years). This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.

6. Compliance with treasury limits and prudential indicators for investments

The treasury management team ensure the cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return. The return on investments contributes to the Council's budget for both the general fund and housing revenue account.

During 2016/17 the Council yield on investments has been impacted by the EU Referendum vote and the Bank of England's decision to reduce interest rates earlier in the financial year.

The Council will continue to monitor the economic outlook and money markets to ensure it is able to achieve a yield in line with market expectations whilst ensuring security and liquidity of capital are maintained. Graph 2 below demonstrates the change in investment by type up to 31 March 2017.

Graph 2 Total amount invested April 2016 to March 2017 by category

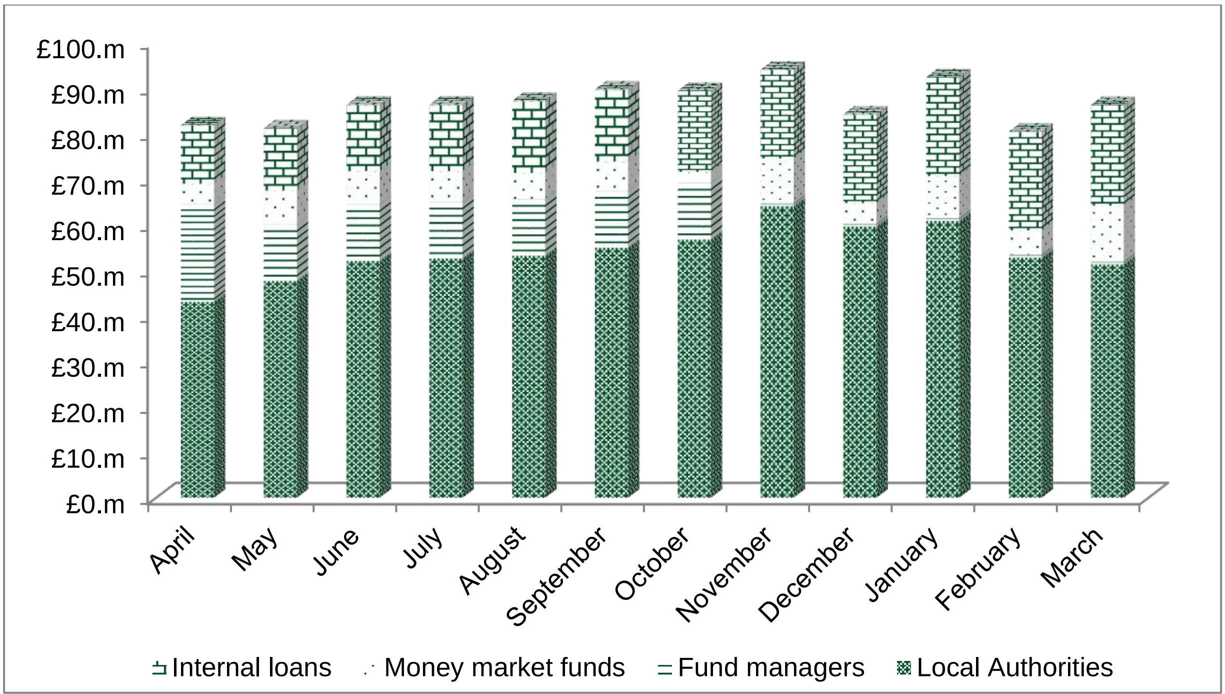


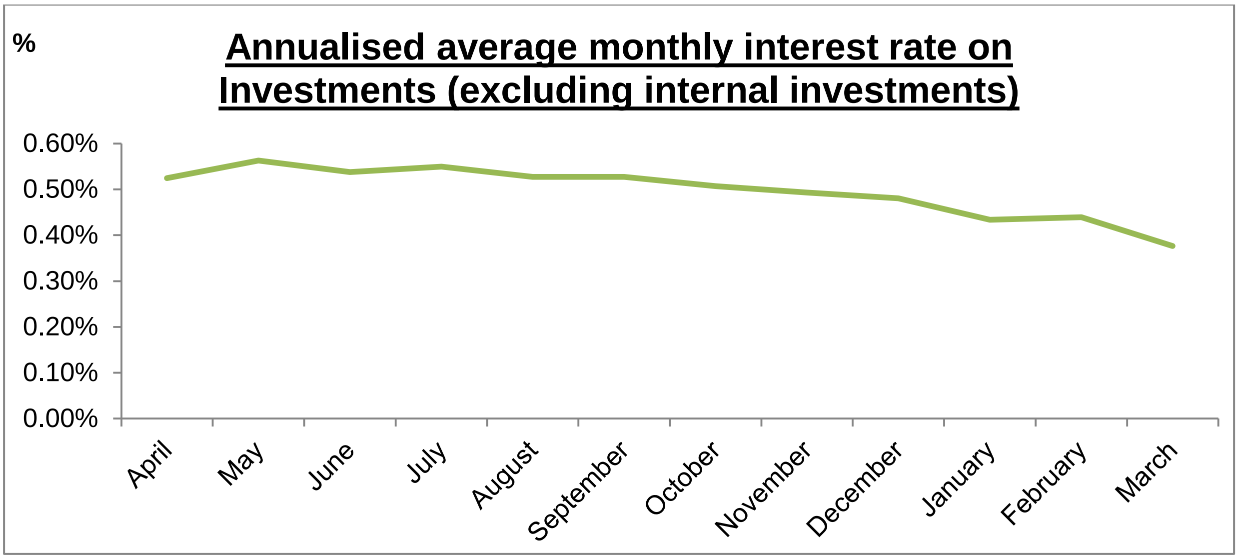
Table 8, below shows the counterparties where cash deposits are held. Further detail is available in appendix D.

Table 8:

Investment Type	Actuals invested @ 31-03-16 £'000	Actuals invested @ 30-09-16 £'000	Actuals invested @ 31-03-17 £'000
Local Authorities	37,000	52,000	39,000
Fund Managers / Money Markets	21,413	12,575	12,882
Internal investments (WBC companies and HRA)	12,128	15,961	22,117
Total	70,541	80,536	73,999

Graph 3 on the following page shows an analysis of the rate of return for 2016/17.

Graph 3 Average return on investments



During 2016/17 year the Council operated within the treasury limits as set out in investment strategy. The position for the investment prudential indicators is shown in table 10 and full details are available in appendix B.

The average return on the Council's portfolio (excluding internal loans) to 31 March 2017 was 0.46%. This is 0.26% above the average 7-day London Interbank Bid Rate (LIBID) of 0.20%. The average rate of return including internal loans is 1.66%.

Table 9 below, gives a breakdown of returns per type and the annual interest rate received.

Table 9: Return on Investment	Amount of interest received 2016/17 £'000	Cumulative interest %
Local Authorities	271	0.50%
Fund Managers / Money Markets	58	0.31%
Internal loans	952	5.34%
Total	1,280	1.62%

Table 10: Prudential Indicator – Investment Year-end position @ 31-03-17	Has the limit/boundary been broken	Was the budget achieved at year end
Upper limits on interest rate exposure	NO	
Investment interest received		Yes

7. Conclusion

The Director of Corporate Services confirms that the approved limits and prudential indicators incorporated within the Annual Investment Strategy were not breached during 2016/17 with the prudential indicators. The Council is operating in a stringent financial climate, but is still managing to deliver within budgeted interest levels.