

TITLE	Treasury Management Strategy 2018/19
FOR CONSIDERATION BY	The Executive on 22rd February 2018
WARD	None specific
DIRECTOR	Graham Ebers, Director of Corporate Services
LEAD MEMBER	Julian McGhee-Sumner, Executive Member for Finance

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 Executive is asked to recommend to the Council for approval the following:

- 1) Capital Prudential indicators, 2018/19;
- 2) Borrowing strategy 2018/19;
- 3) Annual Investment Strategy 2018/19;
- 4) Flexible use of capital receipts strategy;
- 5) MRP policy; and
- 6) Treasury Indicators: limits to borrowing activity 2018/19.

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 during the year: a mid-year monitoring report and post-year end outturn report. A key requirement of this report is to explain the risks associated with the treasury service and how they will be managed. 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;
- The Council's minimum revenue provision (MRP) policy. This represents the principal element of outstanding loans which must be charged to revenue each year;

- The Council's strategy relating to the flexible use of capital receipts. This relates to revenue projects which will use capital receipts as funding. The Council currently has no plans to use this.

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 2018/19 external debt is estimated to increase by £61.5m to £206.7m. This increase is a very prudent estimate and will be reliant on the delivery of the capital programme.

	2017/18 Estimated Outturn £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
External Borrowing c/fwd	(147,459)	(147,459)	(206,709)	(317,409)
Loan Maturities	1,750	3,098	1,988	3,482
New Loans	0	(62,348)	(112,688)	(62,982)
External borrowing	(145,709)	(206,709)	(317,409)	(376,909)
Internal borrowing	(132,331)	(144,395)	(144,124)	(144,327)
External Borrowing	(145,709)	(206,709)	(317,409)	(376,909)
Total borrowing	(278,040)	(351,104)	(461,533)	(521,236)
Cumulative expenditure to be funded by borrowing	278,040	351,104	461,533	521,236

The total forecast additional borrowing (£521.3m - £278.0M = £243.2m) will be fully met by the following resources within 24 years

- Returns on investments from WTCR and WHL including capital receipts
- Returns on investments from Commercial properties
- Developer contributions from forward funded programmes

Capital Expenditure

For 2018/19 capital expenditure is £180.0m, this broken down into the following asset types:

- Investment in Commercial property - £45.7m
 - Road & Highways infrastructure improvement scheme - £34.1m
 - Town centre regeneration - £29.8m
 - Affordable housing initiatives - £21.1m
 - Schemes under £10m (this includes schools of £8.7m) - £49.2m
- £180.0m

Investment forecast year end outturn

For 2018/19 the estimated returns on investments (external and internal companies) is set to increase from 2017/18 estimated outturn by £1.0m to £2.4m. The increase is due to the investment in the town centre regeneration and Wokingham Housing Ltd. The interest received will be used to fund the interest costs on the borrowing of the before mentioned schemes.

	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
Investments	451	451	451
Internal companies*	1,976	2,308	2,414
Total	2,427	2,759	2,865

Note: * interest is charged to WHL, Wokingham Housing Ltd and the HRA.

Appendices

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| • Capital Programme and funding 2018/19 to 2020/21 | Appendix B |
| • Prudential Indicators forecast 2018/2021 | Appendix C |
| • Investment policies and strategies | Appendix D |
| • Treasury Management Practice (TMP1) | Appendix D |
| • Approved Counter parties | Appendix E |
| • Interest rate forecasts 2018 – 2021 | Appendix F |
| • Minimum revenue provision policy (MRP) | Appendix G |
| • Treasury management scheme of delegation | Appendix H |
| • The treasury management role of the section 151 officer | Appendix H |
| • Glossary of Terms | Appendix I |

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)	£180.0m Capital Expenditure Net increase of capital financing cost of £0.9m	Yes	Capital Revenue

Next Financial Year (Year 2)	£206.8m Capital Expenditure Net increase of capital financing costs £2.6m Year 2 figures are Provisional and will be updated in future years.	Yes	Capital Revenue
Following Financial Year (Year 3)	£147.8m Capital Expenditure Net increase of capital financing costs £3.3m Year 3 figures are Provisional and will be updated in future years.	Yes	

Other financial information relevant to the Recommendation/Decision
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None

Cross-Council Implications

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

List of Background Papers

Appendices A,B,C,D,E,F,G,H,I,J are attached

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