WOKINGHAM BOROUGH COUNCIL

WOKINGHAM
BOROUGH COUNCIL

Treasury Management

Treasury Management Strategy Report 2018-19

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Appendices

1. Introduction

This report presents the Council's Treasury Management Strategy for 2018-19 in accordance with the Council's Treasury Management practices.

The Council is required to receive and approve three main reports each year, which incorporate a variety of policies, estimates and actuals. These are the Treasury Management Strategy (this report), the Treasury Management mid-year report and finally the annual outturn treasury report:

Treasury Management Strategy:

The first and most important report covers:

- The treasury management strategy ***-How the investments and borrowings are to be organised*** including treasury indicators
- An investment strategy -***The criteria on how investments are to be managed and the limitations including investment in assets***
- The capital plans (including prudential indicators)
- A minimum revenue provision (MRP) policy ***-How outstanding borrowing in respect of capital expenditure is repaid by charges to revenue over time***

Treasury Management mid-year report

This report updates members with the progress of the capital position, amending prudential indicators as necessary, and confirming whether the treasury strategy is being complied with or whether any policies require revision.

Annual Treasury report

This report, which is produced following the year-end provides details of a selection of actual Prudential and Treasury indicators and actual Treasury operations compared with the estimates within the strategy.

Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training for members will be arranged in the period covered by this report.

The training needs of treasury management officers are periodically reviewed.

Treasury management consultants

The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2. Treasury management policy statement

Wokingham Borough Council Treasury Management Policy Statement for 2018/19 is:

- The Council defines it's our treasury management activities are:
  The management of the Council's investments and cash flows, banking, money market and capital market transactions, the effective control of the risks associated with above mentioned activities and the pursuit of optimum performance consistent with those risks.

- The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

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- The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

3. The Economy and Interest Rates forecast

The Government declared that the UK economy has shown its resilience, although the Office for Budget Responsibility (OBR) expects to see slower gross domestic product growth over the forecast period. The UK economy is forecast to grow by 1.4% in 2018, and then grow at a slightly slower rate in the next three years before picking up in 2021 and 2022. Departmental spending plans were set out in the budget, with the DCLG Local Government reducing from £6.7bn to in 2017/18 to £4.8bn in 2018/19.

The national living wage will increase to £7.83 per hour (from £7.50) from April 2018. The housing infrastructure fund will be extended from £2.3bn to £2.7bn to help provide new homes in high demand regions. £2.0bn has been confirmed to provide at least 25,000 new affordable homes. An additional £1.7bn will help provide extra investment in local transport connections as part of the transforming cities fund.

Interest rates are forecast to stay at 0.50% in April 2018 and will move gradually to 0.75% by March 2018. A full interest forecast can be found in appendix F

4. The Council's Capital Expenditure and Financing 2018/19

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 capital expenditure plan is a key driver of the treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Table 1: Capital Expenditure and funding

	2017/18 Estimated Outturn £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
Capital Programme Expenditure				
Non-HRA	87,362	174,077	198,707	140,461
HRA	7,975	5,900	8,100	7,300
Total	95,337	179,977	206,807	147,761
	2017/18 Estimated Outturn £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
Capital Programme Funding				
Developers contribution (S106 & Cil)	(18,090)	(60,564)	(33,681)	(39,185)
Major Repairs Reserve	(8,186)	(4,100)	(4,100)	(4,100)
Grants & Contributions	(16,749)	(12,563)	(23,682)	(18,270)
Capital Receipts	(2,559)	(11,516)	(25,441)	(19,334)
Total	(45,583)	(88,743)	(86,904)	(80,889)
Net financing need for the year (Borrowing)				
Forward Funding	(8,887)	(13,105)	(44,899)	(43,920)
Borrowing	(40,867)	(78,129)	(75,004)	(19,452)
Total	(49,754)	(91,234)	(119,903)	(66,872)
Total Resources	(95,337)	(179,977)	(206,807)	(147,761)
()Surplus /deficit	0	0	0	0

Note: The capital strategy can be found in Appendix B

The capital financing requirement (CFR) is simply the total historic outstanding capital expenditure which has not yet been paid for from resources (e.g. Capital receipts, Capital grants etc.). It is essentially a measure of the Council’s indebtedness and its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. Tables 2 and 3 below demonstrate the General fund and HRA CFR.

Table 2: Capital financing requirement: General Fund	2017/18 Estimated Outturn £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
Opening balance (estimated)	160,022	198,804	275,350	387,767
Capital expenditure funded by Borrowing	49,754	91,234	119,903	63,372
Sub Total	209,776	290,038	395,253	451,139
Less				
MRP Charge	(2,362)	(3,350)	(3,350)	(3,350)
PFI Principal Charge	(215)	(215)	(215)	(215)
Principle repayment		0	0	0
Swap funding /repayment of forward funding	(8,395)	(11,124)	(3,921)	(506)
Sub Total	(10,972)	(14,689)	(7,486)	(4,071)
Closing Balance	198,804	275,350	387,767	447,068
Movement	38,782	76,545	112,417	59,301

Table 3: Capital financing requirement: HRA	2017/18 Estimated Outturn £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
Opening balance (estimated)	90,400	87,836	84,354	82,366
Capital expenditure funded by Borrowing	0	0	0	3,500
Sub Total	90,400	87,836	84,354	85,866
Less Minimum Revenue Provision				
MRP Charge/ Principle repayment	(2,564)	(3,482)	(1,988)	(3,098)
Sub Total	(2,564)	(3,482)	(1,988)	(3,098)
Closing Balance	87,836	84,354	82,366	82,768
Movement	(2,564)	(3,482)	(1,988)	402

The table above shows the Housing Revenue account (HRA) with no capital expenditure funded by borrowing. The capital expenditure of £5,900k in 2018/19 is funded by the major repairs reserve, HRA revenue contribution and Right to Buy Receipts.

The in-year increase in the general fund borrowing requirement is due to a large increase in the capital programme for schemes such as the town centre regeneration, loans to group companies and Commercial investments, which will later reduce again when capital receipts are recovered or loans repaid. It has also increased as a result of the forward funded schemes. These will decrease again as developer contributions are received. The CFR is also reduced each year by the minimum revenue provision (MRP) (see section 4).The authority is relatively cash rich and income poor, with government grants reducing. Part of the Councils financial strategy is based on

diversifying income streams, by growing revenue generating assets through its housing companies and other strategic investments.
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. Balance sheet forward projection

The following is a forecast funds available for investment/internal borrowing position at year end, where the funds available for investments go negative, illustrates that further external loans are required.

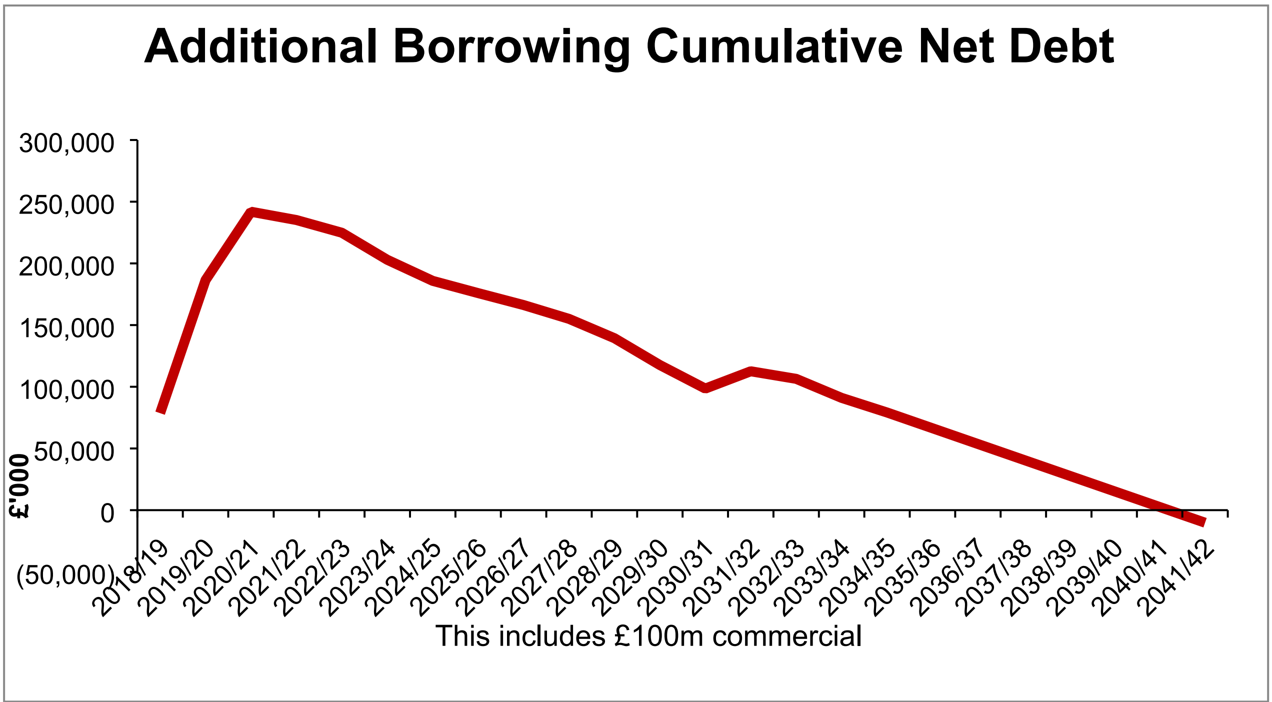
Table 4:Wokingham Borough Council Balance Sheet Projections	2017/18 Estimated Outturn £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
CFR (Year-end position)	286,640	359,704	470,133	529,836
Less other long term liabilities	8,600	8,600	8,600	8,600
Expenditure to be funded by borrowing	**278,040**	**351,104**	**461,533**	**521,236**
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)**
Expenditure to be funded by borrowing	278,040	351,104	461,533	521,236
Variance	**0**	**0**	**0**	**0**
% of internal borrowing to CFR	**47.59%**	**41.13%**	**31.23%**	**27.69%**
Internal borrowing funded by				
General Fund Balance	10,477	10,477	10,477	10,477
Housing Revenue Account Balance (inc MRA)	9,008	9,008	9,008	9,008
Collection Fund Adjustment Account	4,302	4,302	4,302	4,302
Earmarked reserve	51,607	51,607	51,607	51,607
Capital Receipts Reserve	7,994	7,994	7,994	7,994
Provisions (exc. any accumulating absences)	2,907	2,907	2,907	2,907
Capital Grants Unapplied	20,790	20,790	20,790	20,790
Reserves available for Investment	**107,083**	**107,083**	**107,083**	**107,083**
Working Capital (Deficit) / Surplus	47,453	47,453	47,453	47,453
Internal borrowing	(132,331)	(144,395)	(144,124)	(144,327)
Total amount available for investment/Internal borrowing	**22,205**	**10,142**	**10,413**	**10,210**

Total forecast additional borrowing (£517,7m - £278.0M = £239.7m)

The additional borrowing of £239.7m taken out between 2018 and 2021 will be a mixture of external and internal. This is planned to be repaid within 24 years by the following resources:

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

The graph below illustrates the additional borrowing cumulative net debt over the next 24 years.



The council's capital programme now includes many large infrastructure schemes that span a number of years. It is not uncommon or unreasonable for the profiling of these to be refined once the initial budget has been approved and the precise timing of expenditure becomes clearer as projects move from feasibility and planning through to delivery.

Our capital finance specialists meet regularly with our key project and programme managers to update predictions and find ways to improve the accuracy of our capital monitoring. This has included the receipt of more detailed information on projects and a new profiling methodology for the capital programme in accordance with The Royal Institute of British Architects (RIBA) planned stage process. Work will continue to do what we can to improve the financial arrangements, however it should be recognised that it contains by its nature, sizeable and often uncontrollable, fluctuations.

6. Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement (CFR) through a revenue charge (the minimum revenue provision - MRP), and it is also allowed to undertake additional voluntary payments (voluntary revenue provision - VRP).

Department for Communities and Local Government (DCLG) regulations have been issued which require the full Council to approve a MRP Statement in advance of each financial year. The decision lies with the Council although a prudent provision must be made. The Council is recommended to approve the MRP Statement which can be found in Appendix B.

Some principles in the draft of the guidance have been reflected in the Council strategy. However some principles will be either applied next year for 2019/20 Treasury Management Strategy once the guidance has been finalised, or not at all, where we will identify an alternative prudent MRP policy.

For 2018/19 Wokingham Borough Council's MRP policy will follow DCLG principles, except in some instances, as disclosed in Appendix B and summarised here:

1. For assets which WBC or one of its subsidiary companies is investing in purely for the return on investment, we will echo the depreciation principles, and not provide MRP while the asset is held at a carrying value greater than or equal to its initial cost. If the carrying value reduces to be lower than its cost, then MRP will be applied with a maximum useful economic life of 50 years for freehold land, and 40 years for other asset classes.

2. For investment properties which are held as such for financial reporting purposes, minimum revenue provision will not be charged while the asset is held at a carrying value greater than or equal to its initial cost. If the carrying value reduces to be lower than its cost, then MRP will be applied with a maximum useful economic life of 50 years for freehold land, and 40 years for other asset classes.

3. The table on the next page summarises other area where WBC are planning to divert from the draft guidance.

Table 5: Changes to MRP Guidance

Expenditure type	Guidance maximum 'C', (MRP repayment period)	WBC MRP charging policy
25(1)(b) Loans and grants towards capital expenditure by third parties	UEL of assets the third party spend on	As per guidance normally But where LA owned company, and providing loan, only charge MRP if it is a depreciating asset.
25(1)(d) Acquisition of share or loan capital	20 years	N/A – Only charge MRP if it is a depreciating asset.

Final guidance is expected to be issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Under that section local authorities are required to "have regard" to this guidance.

The draft guidance remains guidance not an enforced treatment.

7. External borrowing and compliance with treasury limits and Prudential Indicators for debt

The previous sections cover the overall capital programme but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators found in table 4. Further detail on each of these indicators is included in Appendix D.

Table 6: Prudential Indicator – Debt	2017/18 Estimated Outturn	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
Authorised limit £,000	286,640	450,100	587,600	667,500
Gross external borrowing £,000	145,709	206,709	317,409	376,909
HRA debt limit £,000	87,836	102,000	102,000	102,000
HRA debt per dwelling £	35	35	34	33
Incremental impact of capital investment decisions on council tax £*	(£1.79)	(£2.08)	(£3.12)	(£3.37)
% of internal borrowing to CFR	47.59%	41.13%	31.23%	27.69%
Maturity structure of borrowing	See Appendix C			
Operational boundary for external debt £'000	286,640	377,900	494,000	553,300
Ratio of financing costs to net revenue stream**	2.55%	4.40%	5.53%	5.54%
Upper limits on interest rate exposure£,000	108,006	135,309	246,009	302,009

*Note: The decrease is due to the investment in schemes which are delivering savings (Street lamp replacement etc.) and in the future years the investment in WTCR.

**Note: The increase is due to the estimated increase in borrowing for the capital programme but as shown above the savings from this investment are already being shown.

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.

8. 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.

8.1 Annual investment strategy

CIPFA Code and the DCLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's investment priorities will be security first, liquidity second, then return.

The Council may invest its surplus funds in accordance with its time and monetary limits for institutions on the Council's counterparty list, as shown below

	* Minimum credit criteria / colour band*	Money Limit	Max. maturity period
DMADF – UK Government	UK overeign rating	£20M	3 months
UK Government gilts	UK sovereign rating	£5m	1 year
UK Government Treasury bills	UK sovereign rating	£5m	1 year
Money market funds	AAA	£5m	Liquid
Local authorities	N/A	£5m	1 year
Term deposits with banks and building societies**	AA	£5m	Liquid
Term deposits with building societies	A-	£5m	Liquid
CDs or corporate bonds with banks and building societies	AA	£5m	Liquid

Note*: The credit criteria shown here is Fitch credit ratings agencies long term, When using the credit rating the Council will use the lower of the three credit rating agencies.(See appendix D)

Note **for each banking group the following limits will apply, dependent on the rating of the Parent Bank (i.e. Lloyds group)

- AAA : £7m with a maximum average duration of 1 year
- AA- :£5m with a maximum average duration of 6 months

The investment policies can be found in Appendix D

8.2 Investment projections treasury and non-treasury

The table below shows the Councils investment projections

Table 7: Investment projections	2017/18 Estimated Outturn £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
Local Authorities	39,000	36,000	34,000	30,000
Fund Mangers	1	1	1	1
Internal Companies investments	37,235	39,235	43,235	45,235
Total	76,236	75,236	77,236	75,236

8.3 Non-Treasury Investments

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the DCLG Guidance, the Council may also make loans and investments for service purposes or where the local authority is setting up local authority owned companies. Such loans and investments will be subject to the Council's normal approval processes for revenue and capital expenditure and need not comply with this Treasury Management Strategy. Commercial properties investment will be made in line with previously strategy agreed by Council on 23/11/2017. Where these investments have treasury or MRP implications this strategy will be followed.

8.4 Cash flow management

The Council's officers maintain a detailed cash flow forecast for each coming year revising it as more information is available. This informs the short term investments such as those to cover precept payments. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Long term investment strategy is based on the Council's medium term financial strategy

8.4 Estimated Investment return rates

Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years'. Political uncertainty will continue to weigh on the economy and imported inflation is likely to be a feature for some time.

8.5 Compliance with treasury limits and prudential indicators for investments

As with debt, the Council has a framework prudential indicators for investment which it is uses to assess its investment strategy. The Council is asked to approve the following indicators found in table 7. Further detail on each of these indicators is included in Appendix D.

Table 8: Prudential Indicator – Investment **2018/19**

Review of investment strategy to be undertaken during year	Yes
Investment risk benchmarking	
Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables	0.10%
Liquidity – in respect of this area the Council seeks to maintain:	
Bank overdraft	£0.5m
Liquid short term deposits available with a week's notice of at least	£5m
Weighted average life benchmark is expected to be 0.25 years, with a maximum of 0.5 years.	0.5 Years
Investments – internal returns above the 7 day LIBID rate	
Investment Balances	46,371
Returns on investments	(1,976)

9. Flexible use of Capital Receipts

Since December 2015, the government has provided local authorities with the flexibility of utilising capital receipts for qualifying expenditure. This is to enable authorities to fund transformation and cost reduction programmes from capital receipts rather than revenue expenditure.

The guidance recommends that a strategy should be prepared that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council. The Council currently does not plan to use this flexibility.

10. Updates to Treasury Management Strategy

The Director of Corporate Services confirms that the treasury team will abide by the strategy set out within this document and will report to the Audit Committee in November 2018 as part of the mid-year report any breaches to limits and prudential indicators.

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