WOKINGHAM BOROUGH COUNCIL

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BOROUGH COUNCIL

Treasury Management

Outturn Report 2017-18

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Appendices

1. Introduction

This report presents the Council's treasury position for 2017/18 in accordance with the Council treasury management practices. This is a backward-looking report reviewing performance to 31st March 2018.

The report provides a summary of the economic conditions affecting the Council's investment strategy over the last financial year. It analyses the capital outturn which is a key element 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 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 balanced with expenditure matching income, and short term borrowing and deposits. The key driver of the longer term treasury management strategy is 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

In 2017/18 UK economic growth has fluctuated but has averaged 0.4% in the year. The Bank of England monetary policy has seen a change in November 2017 with an interest rate rise to 0.5%. Inflation has been running higher than the target 2% meaning more rate rises are not expected until 2019. For a more detailed economic summary please look at Appendix E.

3. The Council's Capital Expenditure and Financing 2017/18

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).

Capital expenditure forms one of the required prudential indicators. Tables 1 and 2 on the following page show the actual capital expenditure and the funding.

Table 1:

General fund capital expenditure and financing	2017/18 Budget £'000	2017/18 forecast outturn @ Sept £'000	2017/18 Outturn £'000
Capital expenditure			
Financed in year	70,322	45,790	56,833
Funded by borrowing (borrowing requirement)	82,527	48,347	26,229
Total	152,849	94,137	83,062

Table 2:

HRA capital expenditure and financing	2017/18 Budget £'000	2017/18 forecast outturn @ Sept £'000	2017/18 Outturn £'000
Capital expenditure			
Financed in year	5,100	5,100	5,516
Funded by borrowing (borrowing requirement)	0	0	0
Total	5,100	5,100	5,516

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 2017/18 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 underlying borrowing need (the CFR) is not allowed to rise indefinitely. The Council is therefore 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. Short term treasury debt for cashflow purposes can be borrowed or repaid at any time, but this does not change the CFR.

The Council's CFR forecast for 2017/18 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	2017/18 Budget £'000	2017/18 forecast outturn @ Sept £'000	2017/18 Outturn £'000
Opening balance	160,022	160,022	160,022
Capital expenditure funded by Borrowing	82,527	48,347	26,229
Prior year adjustment (Swap funding)	0	0	0
Sub Total	242,549	208,369	186,251
Less Minimum Revenue Provision			
MRP Charge	(3,350)	(3,024)	(3,060)
PFI Principal Charge	(215)	(215)	(302)
Sub Total	(3,565)	(3,239)	(3,362)
Closing Balance	248,984	205,130	182,889
Movement	88,962	45,108	22,867

Table 4:

HRA Capital financing requirement:	2017/18 Budget £'000	2017/18 forecast outturn @ Sept £'000	2017/18 Outturn £'000
Opening balance	90,400	90,400	90,400
Repayment of Loan Principal	(1,750)	(2,548)	(78)
Closing Balance	88,650	87,852	90,322

Table 5

Capital financing requirement: General fund and HRA	2017/18 Budget £'000	2017/18 forecast outturn @ Sept £'000	2017/18 Outturn £'000
Opening balance	250,422	250,422	250,422
Movements	87,212	42,560	22,789
Closing Balance	337,634	292,982	273,211

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 forward funding infrastructure spend; this will reduce again when capital receipts from these projects are recovered. It has also increased as a result of the forward funded infrastructure schemes. These will decrease as developer contributions are received.

The council's total CFR of £273.2m was considerably higher than the Council's external borrowing of £147.0m (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

Table 6 demonstrates the outturn for 2017/18 external borrowing.

Table 6: External Borrowing	2017/18 Budget £'000	2017/18 Outturn £'000
Market	24,000	24,000
PWLB	178,200	120,594
Local Enterprise Partnership	1,000	1,000
Total borrowing	**203,200**	**145,594**

During 2017/18, 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:	Year-end position 2017/18	
Prudential Indicator – Debt	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 security and 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.

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 2018.

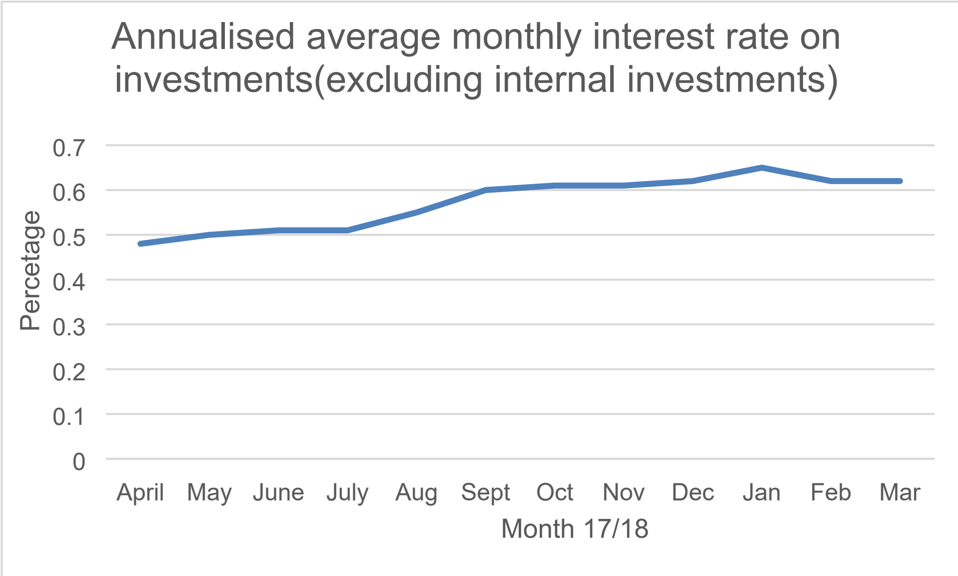
Table 8, below shows the counterparties where cash deposits are held. Further detail is available in Appendix D.

Table 8:

Investment Type	Actuals invested @ 31-03-17 £'000	Actuals invested @ 30-09-17 £'000	Actuals invested @ 31-03-18 £'000
Local Authorities	39,000	63,000	54,000
Fund Managers / Money Markets	12,882	0	6,500
Internal investments (WBC companies and HRA)	22,117	15,961	12,590
Total	70,541	80,536	73,090

Graph 3 on the following page shows an analysis of the rate of return for 2017/18.

Graph 3 Average return on investments



During 2017/18 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 Council also loans money to its portfolio of companies which are classed as internal loans. The average return on the Council's portfolio (excluding internal loans) to 31 March 2018 was 0.44%. This is 0.23% above the average 7-day London Interbank Bid Rate (LIBID) of 0.21%. The average rate of return including internal loans is 1.68%.

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 2017/18 £'000	Cumulative interest %
Local Authorities	240	0.48%
Fund Managers / Money Markets	34	0.38%
Internal loans	1,061	5.75%
Total	1,335	1.68%

Table 10: Prudential Indicator – Investment Year-end position @ 31-03-18	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 2017/18 with the prudential indicators. The Council is operating in a stringent financial climate, but is still managing to deliver within budgeted interest levels.