

TITLE	Treasury Management Strategy 2019/22 – 2021/22
FOR CONSIDERATION BY	Audit Committee on 6 February 2019
WARD	None Specific;
DIRECTOR	Deputy Chief Executive - Graham Ebers

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)

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 whilst providing sustainable funding for the capital programme.

RECOMMENDATION

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

- 1) Capital Prudential indicators, 2019/20;
- 2) Borrowing strategy 2019/20;
- 3) Annual Investment Strategy 2019/20;
- 4) Flexible use of capital receipts strategy;
- 5) MRP policy; and
- 6) Treasury indicators: limits to borrowing activity 2019/20.

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 and commercial;
- Treasury management prudential indicators and limits on activity;
- Local treasury issues;
- The Council's minimum revenue provision (MRP) policy. This represents an amount set aside for the repayment of 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 must operate a balanced budget; this means cash raised during the year should meet its cash expenditure. A key part of the Council's treasury management operations is to ensure that this cash flow is adequately planned and managed, with temporarily surplus monies being invested in suitable low risk counterparties, thus 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 prudential borrowing need of the Council; essentially the longer term cash flow planning to ensure the Council can meet its capital expenditure programme. This management of longer term cash may involve arranging long or short term loans or using longer term cash flow surpluses (internal borrowing). On occasion, debt previously drawn may be restructured to meet Council risk or cost objectives.

Analysis of Issues

External Debt

For 2019/20, the Council's level of external debt is estimated to increase by £125m to £304m. This increase is a prudent estimate based on the capital expenditure plans but will be influenced by the rate of delivery of the capital programme.

	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
CFR (Year-end position)	337,865	472,063	528,136	552,200
Less other long term liabilities	8,600	8,600	8,600	8,600
Expenditure to be funded by borrowing	329,265	463,463	519,536	543,600
External Borrowing c/fwd.	(145,256)	(145,256)	(304,170)	(357,182)
Loan Maturities	3,348	2,738	41,988	3,482
New Loans	(40,000)	(36,652)	(125,000)	(95,000)
External borrowing	(181,908)	(304,170)	(357,182)	(383,700)
Internal borrowing	(147,357)	(159,293)	(162,354)	(159,900)
External Borrowing	(181,908)	(304,170)	(357,182)	(383,700)
Total borrowing	(329,265)	(463,463)	(519,536)	(543,600)
Cumulative expenditure to be funded by borrowing	329,265	463,463	519,536	543,600

The total forecast additional borrowing (£544m - £329M = £215m) will be fully met by the following resources within 20 years

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

The Council will only borrow when needed and the decision on the optimum time to borrow will be taken by the chief finance officer.

Capital Expenditure

For 2019/20 capital expenditure is £237m; all capital expenditure must be for the benefit of the local taxpayer and in accordance with the Council's Borough Plan and its priorities. The table below shows the three-year programme by council key priorities:

	Year 1 2019/20	Year 2 2020/21	Year 3 2021/22	Total
Asset area greater than 10m in year 1	£'000	£'000	£'000	£'000
Strategic asset enhancement/New build	64,655	1,100	4,175	69,930
Road & Highways infrastructure improvement scheme	47,729	62,478	46,261	156,468
Town Centre Regeneration	42,276	11,482	3,951	57,710
Schools	20,558	7,667	3,323	31,548
Social Housing	22,470	20,692	10,338	53,499
Subtotal	197,688	103,418	68,049	369,155
Assets area less than 10m in year	39,509	47,023	30,688	117,220
Total	237,197	150,442	98,736	486,375

Investment forecast year end outturn

For 2019/20 the budgeted returns on investments (external and internal companies) is set to increase from 2018/19 estimated outturn by £3m to £3.6m. This increase is due to further investment in the commercial activities of the Council. The interest received will be used to repay the debt-financing costs on the borrowing of the commercialisation agenda and make a contribution to the Council's balances.

	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2020/21 Budget £'000
Internal investments	(2,515)	(3,182)	(3,357)
Local Authorities/fund managers *	(546)	(451)	(451)
	(3,061)	(3,634)	(3,808)

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

Appendices

Treasury Management Strategy 2019/20 – 2020/21	Appendix A
Capital Programme and funding 2019/20 to 2021/22	Appendix B
Prudential Indicators forecast 2019/2022	Appendix C
Investment policies and strategies	Appendix D
Treasury Management Practice (TMP1)	Appendix D
Approved counter parties	Appendix E
Minimum revenue provision policy (MRP)	Appendix F
Treasury management scheme of delegation	Appendix G
The treasury management role of the section 151 officer	Appendix G
Glossary of terms	Appendix H

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)	£237m capital £3.0m revenue income		Revenue & Capital
Next Financial Year (Year 2)	£150m capital £3.6m revenue income		Revenue & Capital
Following Financial Year (Year 3)	£98.7m Capital £3.8m revenue income		Revenue & Capital

Other Financial Information

None

List of Background Papers

Appendices as listed above

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