

<b>TITLE</b>	<b>Treasury Management Strategy 2019/22 – 2021/22</b>
<b>FOR CONSIDERATION BY</b>	The Executive on Thursday, 21 February 2019
<b>WARD</b>	None Specific;
<b>LEAD OFFICER</b>	Deputy Chief Executive – Graham Ebers
<b>LEAD MEMBER</b>	Executive Member for Finance, HR & Corporate Services – Anthony Pollock

## **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 Executive 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.

## **EXECUTIVE SUMMARY**

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.

The key changes from previous strategies are as follows:

- Increase the duration the council can invested in other local authorities from 365 days to 732 days (see Appendix D)
- Commercial activities are now shown separately for borrowing and return on investment - Wokingham Housing Limited (WHL), Wokingham Town Centre Regeneration (WTCR), Housing Revenue Account (HRA), commercial property investment portfolio
- Rephasing of borrowing into future years due to re-profiling of capital expenditure

- Amendment to the MRP policy on in-borough properties – the council will now charge 10% of value over the economic life of the asset per year (i.e. 15 years will be 0.667% per annum), whilst the balance will be underwritten by the asset value.

## 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.

## BUSINESS CASE (including Options and Evidence of Need)

### 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)	334,954	468,375	524,448	547,536
Less other long term liabilities	(8,600)	(8,600)	(8,600)	(8,600)
<b>Expenditure to be funded by borrowing</b>	<b>326,354</b>	<b>459,775</b>	<b>515,848</b>	<b>538,936</b>
External Borrowing c/fwd.	(145,256)	(181,908)	(295,170)	(348,182)
Loan Maturities	3,348	2,738	41,988	3,482
New Loans	(40,000)	(116,000)	(95,000)	(30,000)
<b>External borrowing</b>	<b>(181,908)</b>	<b>(295,170)</b>	<b>(348,182)</b>	<b>(374,700)</b>
Internal borrowing	(144,446)	(164,605)	(167,666)	(164,236)
External Borrowing	(181,908)	(295,170)	(348,182)	(374,700)
<b>Total borrowing</b>	<b>(326,354)</b>	<b>(459,775)</b>	<b>(515,848)</b>	<b>(538,936)</b>
Expenditure to be funded by borrowing	326,354	459,775	515,848	538,936
<b>Variance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

The total forecast additional borrowing (£539M - £327M = £212M) (as Appendix A paragraph 10) 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
	£'000	£'000	£'000	£'000
<b>Asset area greater than 10m in year 1</b>				
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
<b>Subtotal</b>	<b>197,688</b>	<b>103,418</b>	<b>68,049</b>	<b>369,155</b>
<b>Assets area less than 10m in year</b>	<b>39,509</b>	<b>47,023</b>	<b>30,688</b>	<b>117,220</b>
<b>Total</b>	<b>237,197</b>	<b>150,442</b>	<b>98,736</b>	<b>486,375</b>

## 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
<b>Commercial activities *</b>	<b>(2,515)</b>	<b>(3,182)</b>	<b>(3,357)</b>
<b>Local Authorities/fund managers *</b>	<b>(546)</b>	<b>(451)</b>	<b>(451)</b>
	<b>(3,061)</b>	<b>(3,634)</b>	<b>(3,808)</b>

- Note: \* interest is charged for loans to be commercial activities, which are as follow:

Wokingham Housing Limited (WHL)  
Wokingham Town Centre Regeneration (WTCR)  
Housing Revenue Account (HRA)  
Commercial property investment portfolio

## 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	Yes all figures will be incorporated into the MTFP	Revenue & Capital
Next Financial Year (Year 2)	£150m capital £3.6m revenue income	Yes all figures will be incorporated into the MTFP	Revenue & Capital
Following Financial Year (Year 3)	£98.7m Capital £3.8m revenue income	Yes all figures will be incorporated into the MTFP	Revenue & Capital

<b>Other Financial Information</b>
None

<b>Stakeholder Considerations and Consultation</b>
N/A

<b>Resourcing and Timeline for Next Steps</b>
N/A

<b>Timeline for Review and Evaluation</b>
N/A

<b>List of Background Papers</b>
Appendices as listed above

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