Treasury Management Strategy 2020-21

Including

- **Investment Strategy**
- **Borrowing Strategy**
- **MRP Strategy**

WOKINGHAM
BOROUGH COUNCIL

Contents

1 Introduction

The Council defines its treasury management activities as:

"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 Strategy for 2020/21 covers two main areas:

Treasury management activities

- treasury management policy statement
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- the investment strategy;
- policy on use of external service providers;
- reporting arrangements and management evaluation

Capital activities

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

2. Treasury Management Policy Statement

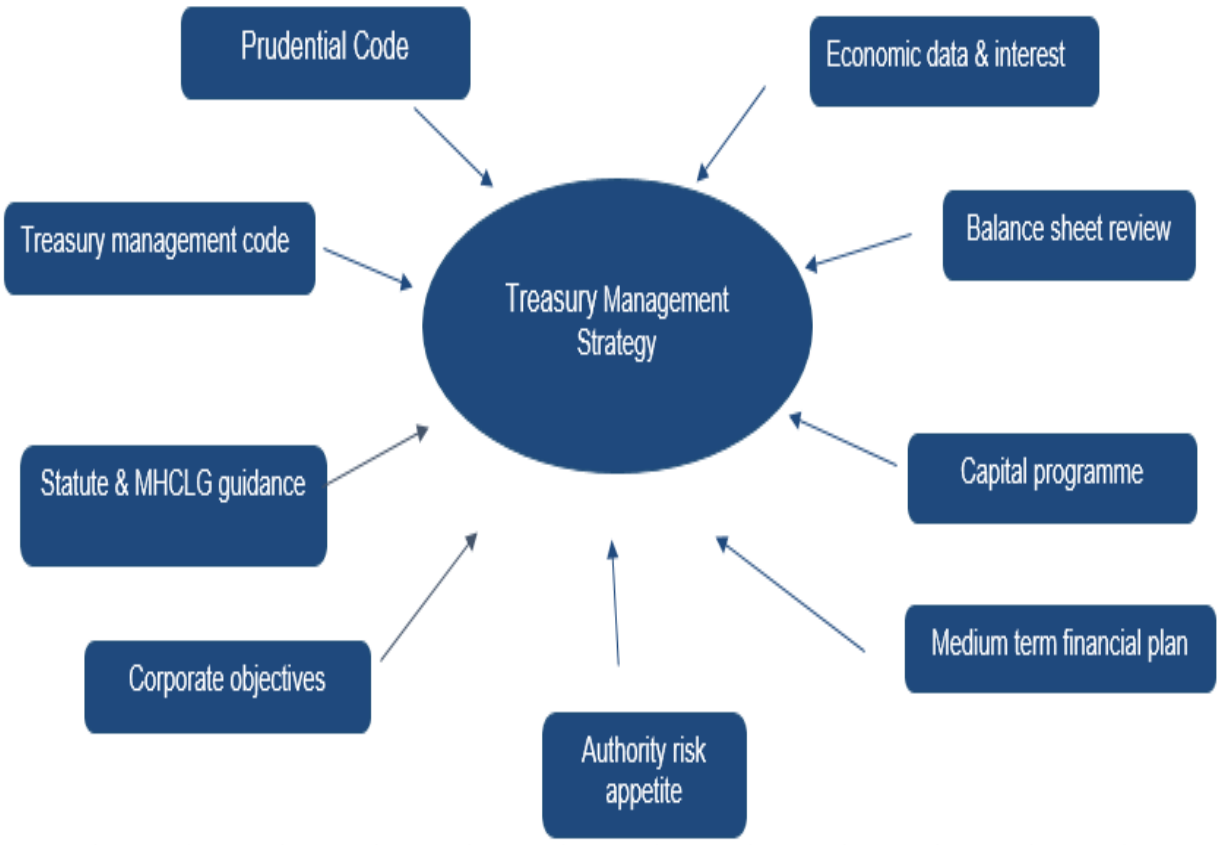
Wokingham Borough Council Treasury Management Policy Statement for 2020/21 is:

- 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.

- 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.

Factors that shape the Treasury Strategy



3. The Council's capital expenditure and financing 2020/21

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 resulting impact on the Council's borrowing need or;

- funded by borrowing (internal or external).
  - internal borrowing - is the use of the internal cash reserves of the Council to fund its capital expenditure.
  - external borrowing - is the use of loans from the outside organisations. For example other local authorities or the Public Works loans Boards.

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 programme.

Table 1 sets out by key area the council capital programme for the next 3 years.

Table 1 Capital programme 2020/23	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
Investment and Regeneration Delivering sustainability, a strong, robust and successful economy that stimulates opportunities for all who work and live in	65,908	67,847	66,457	200,212
Roads and Transport Continuous investment in highways infrastructure to meet the needs of current and future users of the network	46,226	68,857	69,592	184,675
Climate Emergency Commitment to reduce carbon emissions and working towards becoming a carbon neutral Council	16,060	15,595	18,838	50,493
Children Services and Schools Dedicated in providing services and schools which ensure all children have the opportunity to achieve their goals potential	8,865	7,725	11,098	27,688
Environment Investment and enhancement of facilities across the borough benefiting communities and residents wellbeing	7,425	12,135	5,155	24,715
Adult Social Care An effective high-quality care and support service to providing a quality of life which residents need	7,378	7,206	2,937	17,521
Internal Services Investment in Council assets and technology to continue to support all Council services and priorities	5,445	2,976	2,958	11,379
Total Capital Programme	**157,307**	**182,341**	**177,035**	**516,683**

Note: The capital programme with full detail can be found in Appendix B of this report.

For the capital projects funded by borrowing these are summarised into the following categories for the calculation of several of the prudential indicators:

- Invest to save
- Commercial activities (excludes Town centre)
- Town Centre Regeneration
- Wokingham Housing Ltd
- Infrastructure
- Developer contributions forward funded
- Housing Revenue Account

The Capital Financing Requirement (CFR)

The capital financing requirement (CFR) is 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. The following table demonstrate the CFR in the categories mentioned in previous page.

Table 2 CFR 2020/23

	2019/20 Estimated Outturn £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000
CFR opening balance broken as below:				
Invest to save**	7,195	18,503	44,349	67,922
Commercial Activities (excludes Town centre)**	27,040	61,605	94,291	122,414
Borough wide Town Centre Regeneration**	61,543	84,929	90,555	85,416
Wokingham Housing Ltd**	11,598	15,597	20,597	25,639
Infrastructure	100,080	102,406	109,058	108,978
Developer Contributions Forward Funded*	42,166	53,153	56,502	83,526
Housing Revenue Account	85,552	85,372	83,258	79,059
Total	**335,175**	**421,565**	**498,610**	**572,954**
Net capital expenditure funded by borrowing	98,263	91,756	137,028	141,465
MRP charge / loan repayments	(11,873)	(43,622)	(33,774)	(36,152)
Movement in year	**86,390**	**48,134**	**103,254**	**105,313**
CFR closing balance	**421,565**	**469,699**	**601,864**	**678,266**

Note: *Developer contributions forward funded will be repaid once the developer contribution have been received

** These types of borrowing will be repaid using capital receipts, additional income and savings

The in-year increase in the borrowing requirement is due to the council ambitious capital programme which includes invest to schemes (these schemes will be able create a saving and pay for the financing costs), Commercial investments, which will reduce over time when capital receipts are recovered or loans repaid. To be able to provide the infrastructure such as roads and facilities that the borough needs the council is continuing to forward fund 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). 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 programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital programme 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 approach saves the council on interest costs). 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], the money markets and other types of funding (local authorities, bonds etc.).

4. Balance sheet projections

The following table demonstrates the Council balance sheet and estimates for the four years (including 19/20). This tool is used to forecast are external borrowing need and estimated investment potential

Table 3 balance sheet 2020/23

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
CFR (General fun & HRA)	335,175	421,565	469,699	572,953	678,266
PFI Liabilities / Finance Lease Liabilities	(8,600)	(1,453)	(1,453)	(1,453)	(1,453)
Underlying Borrowing Requirement	326,575	420,112	468,246	571,500	676,813
External Borrowing b/fwd	(142,496)	(227,550)	(269,170)	(325,688)	(399,688)
in year movements (new loans /maturities etc.)	(85,054)	(41,620)	(56,518)	(74,000)	(76,516)
External Borrowing c/fwd	(227,550)	(269,170)	(325,688)	(399,688)	(476,204)
internal borrowing	**99,025**	**150,942**	**142,558**	**171,812**	**200,609**
Internal borrowing as a % of Underlying Borrowing Requirement	30%	36%	30%	30%	30%
Amount Available for Investment (reserves etc.) *	129,141	129,141	129,141	129,141	129,141
Working Capital (Deficit) / Surplus*	76,665	76,665	76,665	76,665	76,665
Less internal borrowing	**99,025**	**150,942**	**142,558**	**171,812**	**200,609**
External Investments- (borrowing requirement)	**106,781**	**54,864**	**63,248**	**33,994**	**5,197**

Example (129,141+76,665-99,025 =106,781)

Note:

*Total estimated additional borrowing from 1st April 2020 to 31st March 2023 £422m

The additional borrowing of £422m taken out between 1st April 2020 and 31st March 2023 will be a mixture of external and internal.

The Underlying Borrowing Requirement (debt) is estimated to reduce to the pre 2011-12 of £100m levels by 2048-49 (28 years). 2011-12 is used as a bench mark because the level of debt is pre commercialisation, regeneration and forward funded projects

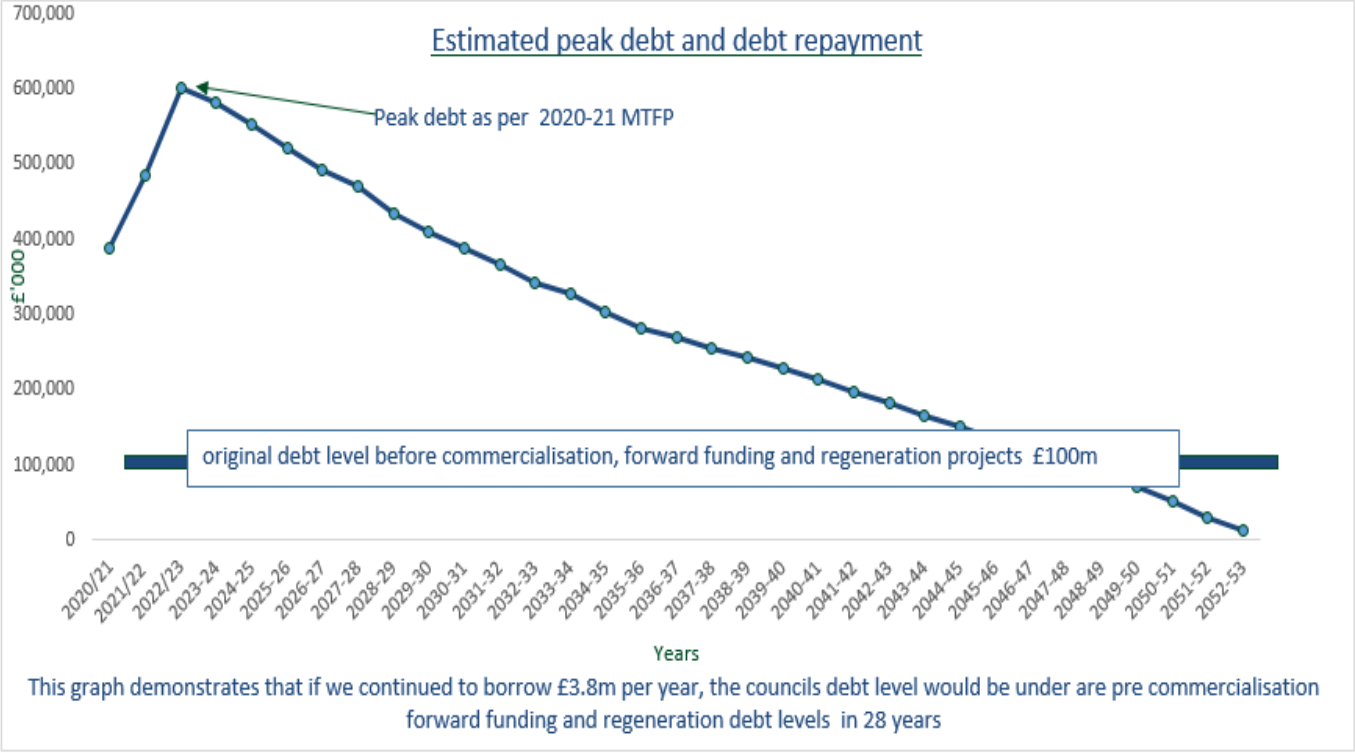
This reduction will be caused by the following:

- Income generating schemes come on line and start providing income to repay debt and produce savings for the Council
- Sale of new build assets (i.e. residential)

Please note that not only will our debt be reduced, the value of our assets will rise to an estimated £710m from £443m in 2020 in the 28 years mentioned earlier in this a paragraph.

Graph 1 below shows the debt and repayments over the next 28 years

Graph 1 debt repayments



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 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.

5. Minimum Revenue Provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund underlying borrowing each year (the 'CFR') through a revenue charge known as the minimum revenue provision (MRP). The Council is also permitted to undertake additional voluntary payments known as voluntary revenue provision (VRP).

The Ministry for Housing, Communities and Local Government (MHCLG) regulations have been issued which require the full Council to approve a MRP Statement in advance of each financial year. The decision on the amount of MRP 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 F.

Principles in the guidance have been reflected in the Council strategy now the guidance has been finalised. However where we identify an alternative prudent and more pertinent MRP policy, we are permitted to follow that instead.

For 2020/21 Wokingham Borough Council's MRP policy will follow the main MHCLG principles, except in some instances, the table below summarises other area where WBC are planning to divert from the draft guidance.

Table 4: Changes to MRP Guidance

Expenditure type	Guidance maximum (MRP repayment period)	WBC MRP charging policy
Freehold land	**maximum of 50 years**	**maximum 60 years**
Bridges	**maximum of 50 years**	**maximum 60 years**
Investment assets	**maximum of 50 years**	**10% of maximum 60 years asset life**
loan capital in WBC holdings	**20 years**	**no charge - Loan covered by Asset**
Forward funding Schemes	**maximum of 50 years**	**no charge – Developer contribution are used to repay principle**

6. 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 5.
Further detail on each of these indicators is included in Appendix C.

Table 5: Prudential Indicator – Debt

	2019/20 Estimate £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000
Authorised limit £,000	421,565	533,005	646,510	763,749
Gross external borrowing £,000	276,170	326,688	401,688	476,204
% of internal borrowing to CFR	34%	30%	30%	30%
Maturity structure of borrowing	See Appendix C			
Operational boundary for external debt £'000	421,565	494,366	599,163	713,110
Ratio of financing costs to net revenue stream General fund	2.5%	2.4%	2.3%	2.3%
Ratio of financing costs to net revenue stream HRA	18.23%	19.11%	19.12%	18.47%

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.

7. Investments

The treasury management team ensure the cash flow is adequately planned, with surplus monies being invested in suitable 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.

Annual investment strategy

CIPFA Code and the MHCLG 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.

Changes for 2020/21
The Council is to increases its limit to £10m for other local authorities and the duration to 5 years. This will give us opportunity to increase our rate of return without any significant increase in risk.

Table 6: Time and monetary limits for institutions on the Council's counterparty list

	* Minimum credit criteria / colour band*	Money Limit	Max. maturity period
DMADF – UK Government	UK sovereign 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**	**10m**	**5 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 E)
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 E

Investment projections treasury
The table 7 below shows the Councils investment projections

Table 7: Investments (total amount invested during the financial year)

	2019/20 £'m	2020/21 £'m	2021/22 £'m	2022/23 £'m
Loans to WHL/HRA/WTCR	162	183	235	274
Local Authorities/fund managers	83	70	60	50
Total	**245**	**253**	**295**	**324**

Estimated Investment return rates for Treasury investments

Investment returns are likely to remain low during 2020/21 but are expected to rise gradually 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.

Compliance with treasury limits and prudential indicators for investments

As with debt, the Council has a framework of 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 8 on the following page. Further detail on each of these indicators is included in Appendix C

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 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.

Non-Treasury Investments

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the MHCLG 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.

Please use the link below to Property Portfolio Investment Strategy

(https://wokingham.moderngov.co.uk/documents/s20127/Property%20Portfolio%20Investment%20Strategy%20Council%20Report.pdf)

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The following table comprise or the council prudential indicator for investments

Table 8: Prudential Indicator – Investment

	2020/21
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%
Liquidity – in respect of this area the Council seeks to maintain:	
Bank overdraft	£0m
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 Balance as 31st March 2021	£90m
Returns on investments	£6,3m

8. 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 February 2020 as part of the mid-year report any breaches to limits and prudential indicators.

9. Appendices

- Appendix B - Wokingham Borough Council Capital programme 2020 to 2023
- Appendix C - Prudential & Treasury Management Indicators 2020/21 to 2022/23
- Appendix D - Annual Investment Strategy
- Appendix E - MRP policy

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