

<b>TITLE</b>	<b>Treasury Management Strategy 2020/23</b>
<b>FOR CONSIDERATION BY</b>	The Executive on Thursday, 20 February 2020
<b>WARD</b>	None Specific;
<b>LEAD OFFICER</b>	Deputy Chief Executive - Graham Ebers
<b>LEAD MEMBER</b>	Deputy Leader of the Council - John Kaiser

## **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 while funding the capital programme.

## **RECOMMENDATION**

The Executive is asked to recommend to the Council for approval the following:

- 1) Capital Prudential indicators 2020/21 (*Appendix A (pages 4 and 5, table 1 and 2)*);
- 2) Borrowing strategy 2020/21 (*Appendix A (page 8)*);
- 3) Annual Investment Strategy 2020/21 (*Appendix D*);
- 4) MRP policy (*Appendix E*);
- 5) Treasury Indicators: limits to borrowing activity (*Appendix A (page 10 –table 5)*);
- 6) to note the Audit Committee have agreed the treasury management strategy on 5th February 2020.

## **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 both the risks and the management of the risks associated with the treasury service. This strategy covers.

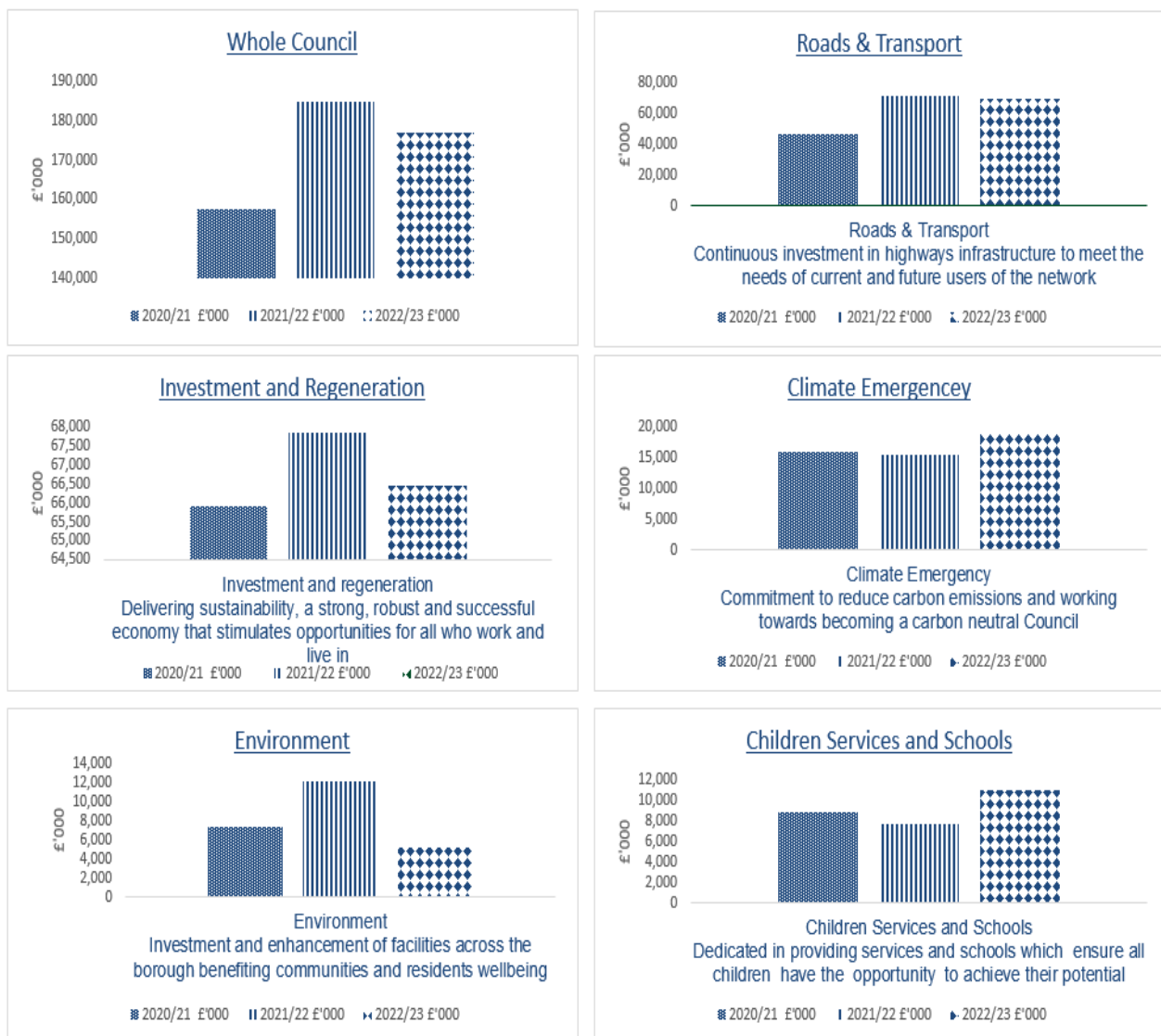
## BACKGROUND

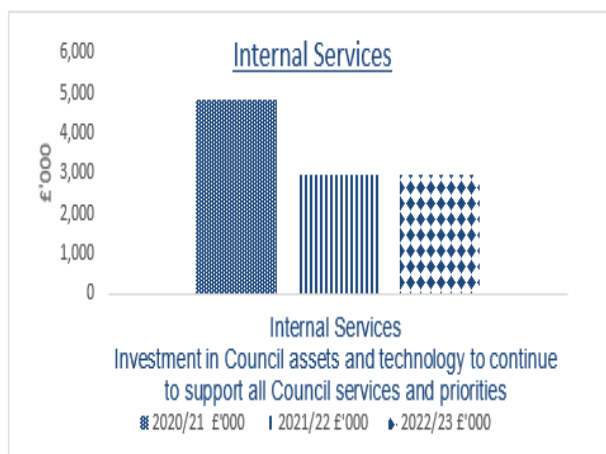
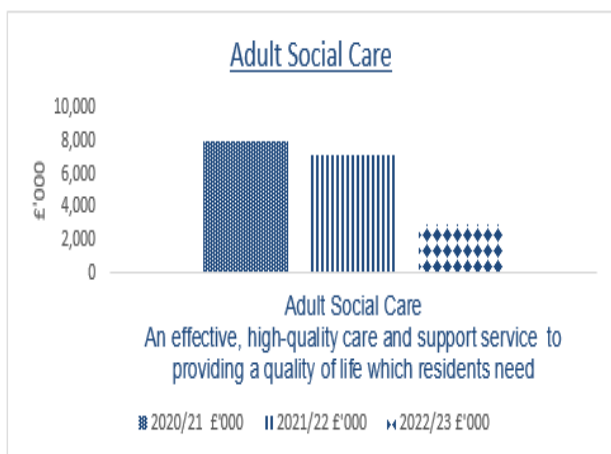
The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity and security, 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 borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans or using longer term cash flow surpluses. On occasion, debt previously drawn may be restructured to meet Council risk or cost objectives.

### Capital Expenditure:

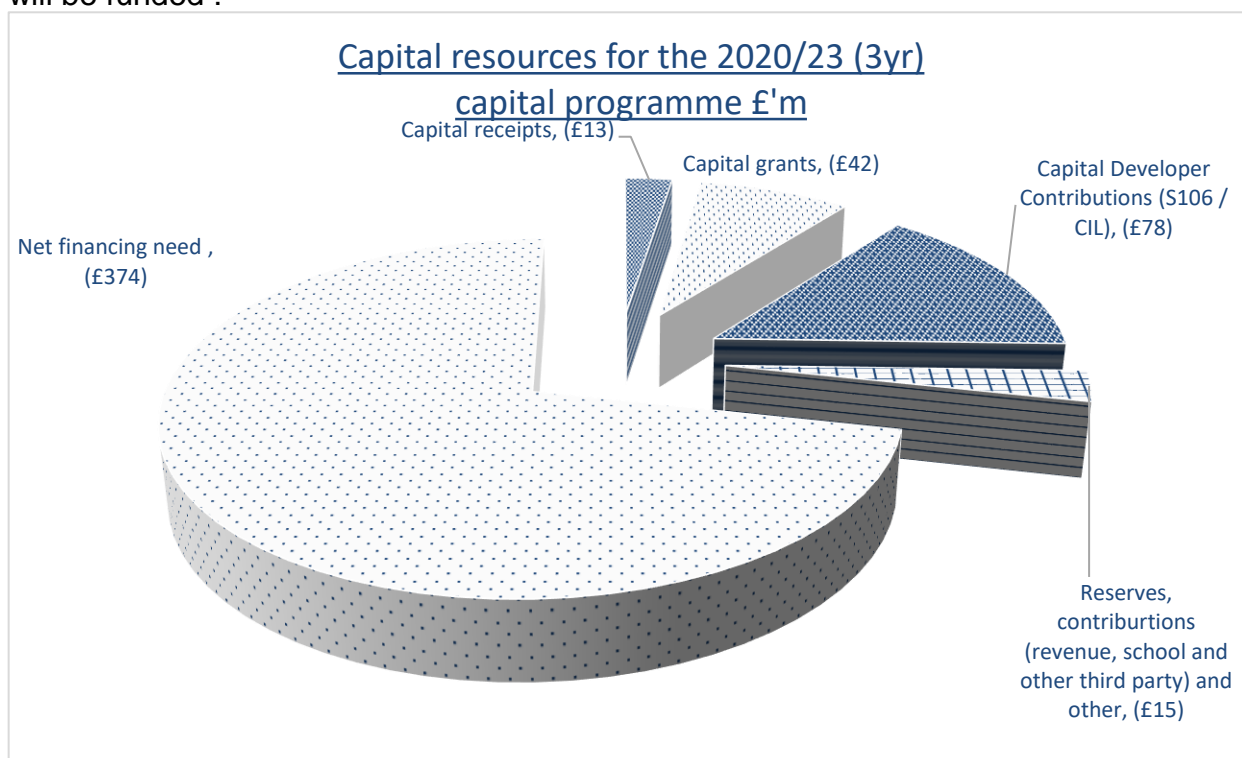
The graphs below shows the planned capital expenditure broken down in to key priorities for the next three years





## Capital Resources:

The Pie chart below demonstrates how the capital programme for 2020/21 to 2022/23 will be funded :



The break down by year is:

Financing of capital expenditure £m	2020/21	2021/22	2022/23	Total
	Budget	Budget	Budget	
Capital receipts	(8)	(2)	(3)	(13)
Capital grants	(26)	(10)	(6)	(42)
Capital Developer Contributions (S106 / CIL)	(29)	(31)	(18)	(78)
Reserves, contributions (revenue, school and other third party) and other	(4)	(6)	(5)	(15)
<b>Net financing need for the year</b>	<b>(92)</b>	<b>(137)</b>	<b>(145)</b>	<b>(374)</b>

## Borrowing Position

The council debt including the HRA is estimated to be:

- 31st March 2021 £470m
- 31st March 2022 £573m
- 31st March 2023 £678m

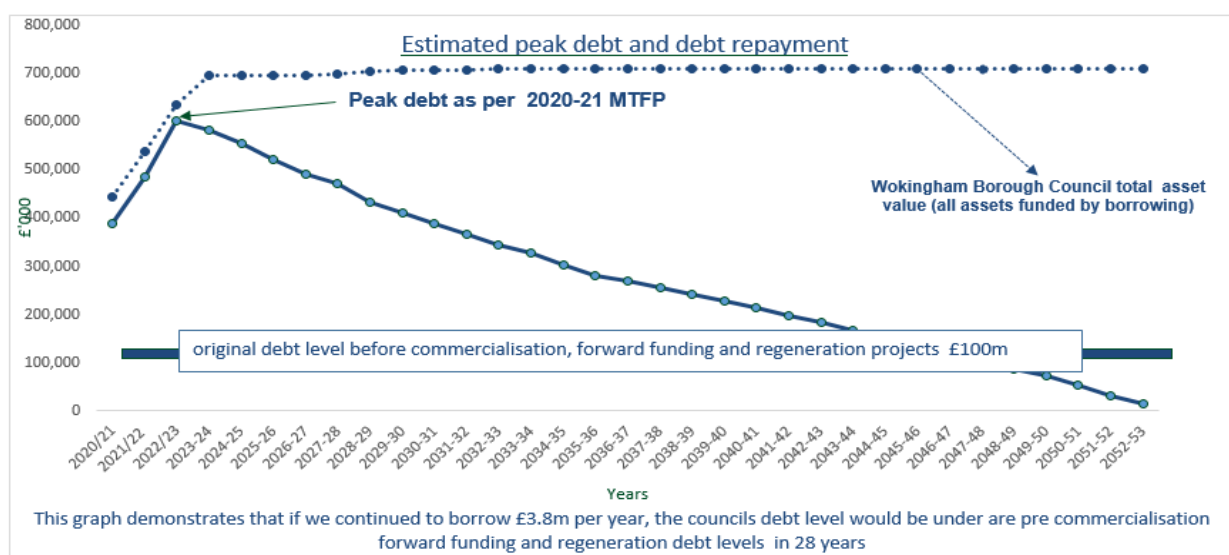
This will split by Internal and external borrowing

External borrowing is anticipated to rise to £564.5m by the 31st march 2023.

A full breakdown of anticipated levels and timing of borrowing can be found in Table 3 page 7 of Appendix A.

## Debt repayment General fund only

This debt will reduce to pre 2011-12 of £100,000 levels by 2048-49 (28 years). For further information on debt repayment please refer to page tbc in appendix A



The graph above shows that in 2021/22 the council reaches a peak debt of £600m. This peak debt is due to the councils planned large scale ambitious capital schemes which are now in the build phase (i.e., new roads schemes, town regenerations etc.) Debt then starts to fall mostly due to the following reasons:

- 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)

The Council's borrowing need (the Capital Financing requirement)	2018/19 £'m	2019/20 £'m	2020/21 £'m	2021/22 £'m
General fund financing need for the year (Debt)	250	336	386	494
HRA financing need for the year (Debt)	86	85	83	79
<b>Total financing need for the year (Debt)</b>	<b>335</b>	<b>422</b>	<b>470</b>	<b>573</b>

### **Key changes to the strategy:**

The Council are recommending a minor change to the wording of the MRP policy to note the potential impact of the accounting changes from IFRS 16 – Leases from 1st April 2020.

Under the new accounting changes for IFRS 16, the accounting treatment of some leases will change. The likely impact will be some operating leases (where material) will be restated to finance leases. This may have an impact on the Council's CFR and MRP calculations as finance leases are treated as Capital expenditure rather than Revenue expenditure for operating leases.

The Council are currently reviewing all existing leases to assess the impact from the changes introduced under IFRS 16.

The Council is recommending changes to the investment strategy as explain on page 10 of appendix A

### **Prudential indicators:**

The Cipfa prudential and treasury management codes require local authorities to undertake financial planning. Prudential and treasury indicators are one of the tools which are used to measure the council effectiveness. A list of these prudential indicators and their limits can be found in appendix A (pages 8 and 11).

### **Investments:**

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Taking this into account we anticipated the council investments balance to be as demonstrated in the following table.

	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
<b>Total</b>	<b>245</b>	<b>253</b>	<b>295</b>	<b>324</b>

### **Appendices and other useful information**

When reading this report please refer to the following

- Appendices A – E provide the detail behind the above headlines The capital strategy (please refer to Feb 20th 2020 Executive)
- Please use the link below to Property Portfolio Investment Strategy

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

## FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

*The Council continues to face severe financial challenges over the coming years as a result of reductions to public sector funding and growing pressures in our statutory services. It is estimated that Wokingham Borough Council will be required to make budget reductions of approximately £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)	£3.4m-Revenue (net of debt charges and investment returns) £157.3m –capital	Yes	Revenue & Capital
Next Financial Year (Year 2)	£3.4m-Revenue (net of debt charges and investment returns) £182.3m -capital	Yes	Revenue & Capital
Following Financial Year (Year 3)	£3.4m-Revenue (net of debt charges and investment returns) £177.0m -capital	Yes	Revenue & Capital

<b>Other Financial Information</b>
None

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

<b>Public Sector Equality Duty</b>
An Equality Impact Assessment is not required for this report

<b>List of Background Papers</b>
Appendix A Treasury management strategy Appendix B Wokingham Borough Council Capital Programme 2020/21 to 2022/23 Appendix C Prudential & Treasury Management Indicators 2020/21 to 2022/23 Appendix D Annual Investment Strategy Appendix E MRP policy

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