

WOKINGHAM BOROUGH COUNCIL



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Treasury Management Outturn Report 2019-20

Contents

1. Introduction	3
2. Treasury Management Strategy Statement (TMSS) 2019/20.....	3
3. Treasury Management Outturn Position for 2019/20.....	4
4. The Council's Borrowing Activity.....	7
5. The Council's Investment Activities	7
6. Conclusion.....	8

Appendices

Portfolio of Borrowing

Appendix B

1. Introduction

This report provides updates on both borrowing and investment activities of the treasury function under delegated authority for the financial year 2019/20.

Treasury management is defined as “the management of the authority’s borrowing, investments and cash flows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

2. Treasury Management Strategy Statement (TMSS) 2019/20

The Deputy Chief Executive confirms that, throughout the reporting period, all treasury activities have been conducted within the parameters of the Treasury Management Strategy Statement.

These include treasury management policy, performance indicators, economic forecasts, capital expenditure forecasts, Minimum Revenue Provision (MRP) policy, annual investment strategy and the Councils external borrowing policy.

The following table shows the treasury management performance indicators, authorised limits and boundaries:-

Prudential indicators	2018/19 Outturn	Budget 2019/20	2019/20 Estimated outturn
	£'000	£'000	£'000
Authorised limit <i>Maximum limit on borrowing to fund capital programme and to manage cashflow</i>	334,954	585,500	408,809
Gross external borrowing <i>Actual borrowing undertaken (cumulative)</i>	227,550	295,170	279,170
% of internal borrowing to CFR	32.04%	34.51%	32.83%
Operational Boundary <i>Borrowing boundary based on budgeted capital programme</i>	334,954	492,000	408,809
% of net revenue expenditure dedicated for financing costs	2.55%	3.59%	2.46%
Average interest rate on external borrowing	2.80%	n/a	2.46%
Investment balances	150,400	n/a	158,000

3. Treasury Management Outturn Position for 2019/20

The Treasury Management outturn position shows the actual performance, in-year, for the Council's investments, borrowing and cash management, to budget and previous year's performance. The performance of interest and dividends received and paid are also reported.

The table below shows details of the Council's gross debt, the book value of all the Councils debt obligations, and is made up of external borrowing, Private Finance Initiatives (PFI), and finance leases.

	Actual @ 31-03-19			Actual @ 31-03-20		
	General Fund	Housing Revenue Account	Total	General Fund	Housing Revenue Account	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Opening external borrowing	69,075	76,694	145,769	152,818	74,732	227,550
In year movements:-						
New borrowing	141,781	0	141,781	73,192	1,808	75,000
Repayments	(58,038)	(1,962)	(60,000)	(21,382)	(1,998)	(23,380)
Total external borrowing	152,818	74,732	227,550	204,628	74,542	279,170
PFI liability	6,245	0	6,245	5,754	0	5,754
Finance lease liability	1,067	0	1,067	1,066	0	1,066
Total other long-term	7,312	0	7,312	6,820	0	6,820
Total gross debt	160,130	74,732	234,862	211,448	74,542	285,990

The total gross debt of the Council increased during 2019/20 by £51m, from £235m to £286m in order to fund the Council's agreed capital priorities. The planned increase was driven by capital expenditure in 2019/20.

Capital Financing Requirement: -

The table below shows the Capital Financing Requirement (CFR) for the Council in 2019/20.

The measure of the council's underlying need to borrow to finance its capital expenditure programme is known as the Capital Financing Requirement (CFR). The CFR is calculated from all the Council's historic capital expenditure, less that funded from other sources such as capital grants, capital contributions, capital receipts and capital reserves. The balance is therefore the amount that needs to be funded from external borrowing.

	Actual @ 31-03-19			Actual @ 31-03-20		
	General Fund	Housing Revenue Account	Total	General Fund	Housing Revenue Account	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement (CFR)	249,467	86,280	335,747	329,539	86,090	415,629
Less other long-term Liabilities	(7,312)	0	(7,312)	(6,820)	0	(6,820)
Underlying capital borrowing requirement	242,155	86,280	328,435	322,719	86,090	408,809

The underlying capital borrowing requirement can be broken down in to external & internal borrowing as shown below: -

External borrowing	152,818	74,732	227,550	204,464	74,706	279,170
Internal borrowing	89,337	11,548	100,885	118,255	11,384	129,639
Total borrowing	242,155	86,280	328,435	322,719	86,090	408,809

By comparing the underlying capital borrowing requirement with the actual amount, the Council has borrowed, we deduct long term borrowing the Council has taken out, to show internal borrowing. Against a balance of £408.8m the Council has actually borrowed £279.2m resulting in internal borrowing of £129.6m. This is primarily because the underlying need to borrow is considered along with available balances when any decision to access external borrowing is taken.

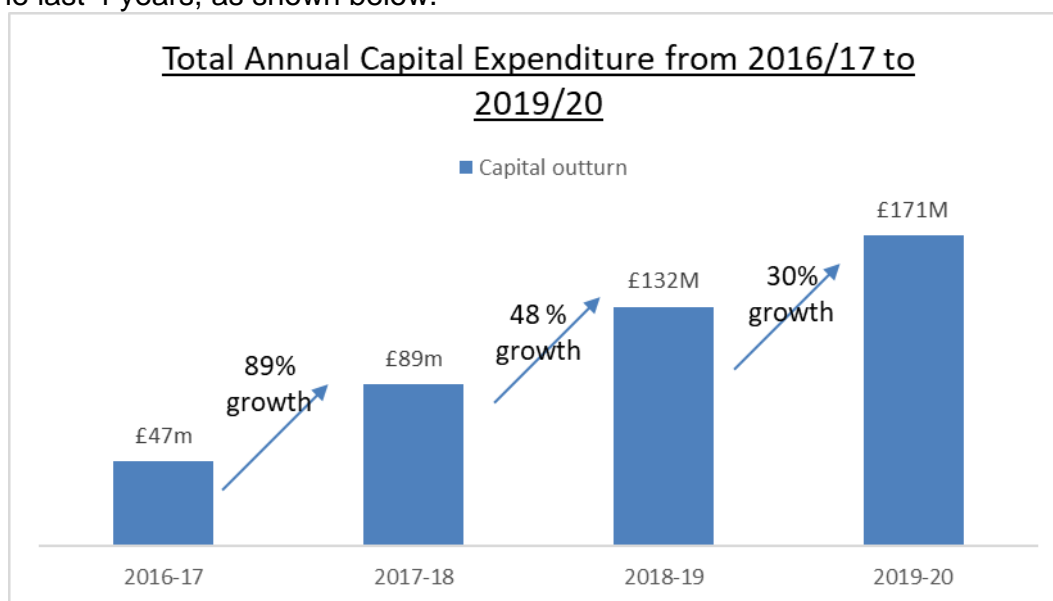
The level of internal borrowing is supported by the strength of the Council's cash balances. This has meant that the Council has been able to utilise its own cash holdings to finance (in the interim) its capital programme allowing the need to borrow to be deferred to a more opportune time. The underlying need to borrow is constantly reviewed by the Council's treasury team with our treasury advisors, who manage the day-to-day treasury cashflow by covering material expenditure when due and optimising its take up of external borrowing through the consideration of timing, duration and the balance of internal versus external borrowing. Through this proactive management, the Council can minimise its cost of debt. The treasury function of managing the cost of debt is as important as the investment strategy as the Council's need to borrow to support its capital programme increases.

Capital Expenditure

During 2019/20 the Council incurred £171m in capital expenditure (broken down into the following categories and priorities).

MTFP category	Expenditure 2019/20
	£'000
Investment and Regeneration	96,759
Roads & Transport	44,726
Environment	12,719
Children Services and Schools	8,770
Climate Emergency	5,026
Internal Services	1,803
Adult Social Care	1,517
Total	171,320

Capital expenditure to deliver on the Council's key priorities has increased significantly over the last 4 years, as shown below.



4. The Council's Borrowing Activity

The Council is required to borrow to fund its capital programme where capital grants, contributions and receipts are not sufficient. The amount of new borrowing needed each year is determined by capital schemes approved in the capital programme. Short term borrowing is required to manage operational cashflow requirements.

The following table shows the movement in external borrowing during 2019/20.

	Opening @ 01-04-19	New Borrowing	Repayments of Borrowing	Closing @ 31-03-20
	£,000	£,000	£,000	£,000
External Borrowing	(227,550)	(75,000)	23,380	(279,170)

The capital expenditure in 2019/20 was £171m, of which £93m was allocated to be funded by borrowing. New external borrowing in 2019/20 was only £75m, by using internal borrowing for the £17.8m difference, this is estimated to have notionally saved more than £252k in debt financing costs.

In 2019/20, total debt interest payments made by the Council were £4.36m.

5. The Council's Investment Activities

The table below demonstrates the average value invested during 2019/20 and interest received.

	Average value invested	Interest received	Average rate of return	Balance as at 31st March 2020
	£'000	£'000	%	£'000
Investment Properties	31,164	1,592	5.11%	31,164
Local Authorities	73,856	934	1.27%	67,380
Money Markets	8,343	89	1.07%	11,226
Fund Managers	639	9	1.49%	643
Loans to Subsidiaries	24,401	943	3.86%	24,610
Total	138,403	3,567	2.58%	135,023

In 2019/20 the average rate of return achieved on investments was 2.58%. This compared favourably to the average 12 Month LIBOR - Historical Average rate of 1.22%, showing that the Council's treasury function has performed well in the current market of low interest rates and with the Council's priority of security rather than yield.

As part of the Council's policies on property investment the Council has invested £31m of its own balances; these generate £1.6m in annual revenues which is a return of 5.11%. Monetary investments achieve a return of c.1.9% over a similar investment term. This equates to c£1m additional income per annum.

The revenue budget for interest and dividends received in 2019/20 was £4.12m. Actual interest received on investments was £4.97m (including saving received from pension pre-payment), giving an actual surplus to the budget of £0.85m, not including the returns on the property investments.

Minimum Revenue Provision (MRP) is an annual amount set aside from the Council's revenue budget as a provision to repay debt (in respect of borrowing taken to finance capital expenditure). This is a mandated requirement of the CIPFA Prudential Code; it is a requirement for each individual Local Authority to determine what its own prudent MRP policy will be (within the parameters of the CIPFA code).

6. Conclusion

This report shows that during 2019/20 the Council's treasury management function has operated efficiently, and has continued to support the capital programme aligned to the key priorities, whilst maintaining strong financial resilience and adequate reserves

The treasury management strategy is revised and agreed annually at Council and is monitored throughout the year, with reports to Audit Committee and Council.

Despite the recent Covid-19 pandemic, the Council has maintained appropriate balances to support the cashflow for all liquidity requirements; this has required many of the normal investment activities to be reduced to shorter duration investments.