TITLE	**Treasury Management Outturn 2019-20**
FOR CONSIDERATION BY	Council on Thursday, 17 September 2020
WARD	None Specific;
LEAD OFFICER	Deputy Chief Executive - Graham Ebers
LEAD MEMBER	Executive Member for Finance and Housing - John Kaiser

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)

To demonstrate that the Council's treasury function has effectively managed the Council's debt and cash balances to support the funding of the delivery of the Council's key priorities.

RECOMMENDATION

The Executive asks that Council note:

1) that the report was presented to Audit Committee on 29th July 2020;

2) the managed repayment of debt over time which illustrates the increased borrowing required to fund key Council priorities which in turn generate income streams (to repay debt) and provides revenue funding for vital statutory services (as set out in the graph in table 2 of the report);

3) the asset value created through the Council's capital investments compared to the debt required to generate the asset value (as set out in the graph in table 2 of the report);

4) the capital investments made in the Council's priorities for its community, by category (as set out in table 1 of the report);

5) the Treasury Management report in Appendix A, that shows that all approved indicators have been adhered to and that prudent and safe management has been adhered to.

SUMMARY

This report summarises the treasury management operations during 2019/2020. It is presented for the purpose of monitoring and review, in accordance with Council's treasury management practices. The council adhered to all agreed prudential indicators during 2019/2020. This includes ensuring the necessary liquidity to deliver on the day to day operations of the Council.

There are two aspects of treasury performance – debt management and cash investment:

- debt management relates to the Council's borrowing;
- cash investment relates to the investment of surplus cash balances

Further detailed breakdown of the Council's performance in these area's is summarised below and in the attached appendices.

Capital investment funded by borrowing
Table 1 shows the capital priorities which have been delivered through its funded capital programme of which £93m is long term sustainable borrowing.

Table 1:

MTFP category	Expenditure 2019/20 £'000
Investment and Regeneration	96,759
Roads and 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 is funded from borrowing if it cannot be sourced by capital contributions, capital grants or capital receipts.

Further information on the 2019/20 capital expenditure was reported to the Executive in May 2020 as part of the capital outturn report.
Borrowing outturn

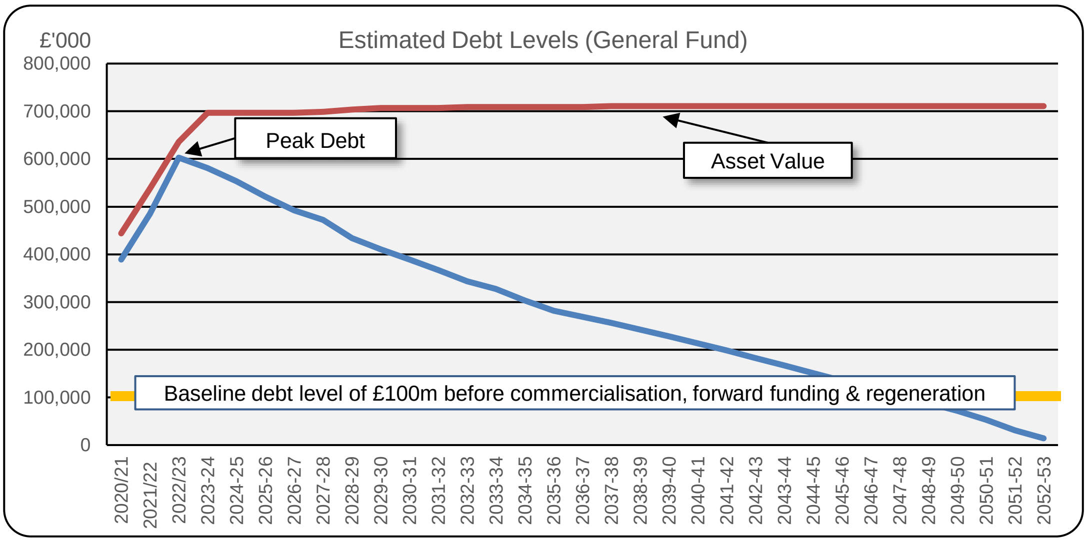
As mentioned above, to be able to fund the Council's ambitious capital programme, borrowing is required. This can be supported in two ways:

- Internal borrowing – the use of the Council's internal cash reserves to fund the capital expenditure.
- External borrowing - receive loans from other organisations (i.e. PWLB, banks and other local authorities).

External borrowing was contained to only £279m at 31st March '20 through the use of internal borrowing. This is possible due to 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, 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 has minimised its cost of debt by £252k per annum. 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.

Taken from the Medium Term Financial Plan, the graph below shows the Council's estimated debt levels from 2020/21 onwards (blue line), and when the debt will reduce back to the original baseline (yellow line) of £100m which was the original position before enhanced regeneration, commercial investments and forward funding strategic infrastructure. Also shown is the estimate of asset values that this debt has generated (red line). Consistent with this graph, expected future borrowing will be primarily associated with asset value creation and income generation and should therefore have a similar trajectory when setting future capital programmes. Furthermore, the long term asset value is considered to be significantly understated and therefore extremely prudent. Asset value is based on a combination of the value of asset at completion or the cost of construction where no market value is available. The value of the assets are reviewed on a regular basis.

Table 2:



The blue line represents the continued repayment of debt that will contribute to reducing our baseline debt level after 2048.

The movements in the Council's external borrowings through 2019/20, are shown in the table below:-

	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)**

In delivering the 2019/20 capital programme of £171m the council has managed to contain it's in year debt to £93m of which net external borrowing has increased by only £51m.

Capital Financing Requirement

The CFR represents the total outstanding borrowing currently required to fund all of the Council's past capital programmes. The Council's ongoing considered treasury management practice working with our treasury management advisors has ensured an optimum approach with regard to our internal and external borrowing. This enables a balance between reduced revenue debt costs and exposure to the external lending market. Through this activity an overall saving of £380k was achieved in 2019/20.

The table below shows the Capital Financing Requirement (CFR) for the Council in 2018/19 and 2019/20. The expected increase in the CFR is driven from the capital expenditure in 2019/20 to be funded from 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 to external and 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**

Investment outturn

Cash flow balances vary significantly throughout the year due to differences in timing of income (council tax, grants, etc.) and expenditure (running costs - revenue, and investment in assets and services – capital). Through careful planning and monitoring the council made investments which generated returns as outlined below:

The table below shows the Council's investments by type, including performance and year-end balance.

	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
Internal Loans	24,401	943	3.86%	24,610
Fund Managers	639	9	1.49%	643
Local Authorities	73,856	934	1.27%	67,380
Money Markets	8,343	89	1.07%	11,226
Total	**138,403**	**3,567**	**2.58%**	**135,023**

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.

Prudential indicators debt and investment

During 2019-2020 the Council adhered to all of its prudential indicators whilst minimising external debt and creating a significant revenue contribution with robust risk management arrangements.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe funding pressures, particularly in the face of the COVID-19 crisis. It is therefore imperative that Council resources are focused on the vulnerable and on its highest priorities.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£(380)k net underspend on interest received and paid to budget	Yes	Revenue
Next Financial Year (Year 2)	To be confirmed	Yes	Revenue
Following Financial Year (Year 3)	To be confirmed	Yes	Revenue

Other Financial Information
None

Stakeholder Considerations and Consultation
None

Public Sector Equality Duty
Initial equalities assessment indicates a further assessment is not required.

Climate Emergency – *This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030*
Not applicable

List of Background Papers
Appendix A – Treasury Management Outturn 2019-20 Report Appendix B – Loan Portfolio

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