

# Treasury Management Strategy 2021-22



**WOKINGHAM**  
**BOROUGH COUNCIL**

## Contents

1. Introduction .....	2
2. Treasury Management Policy Statement.....	3
3. Governance and Monitoring.....	4
4. Updates to Treasury Management Strategy .....	4
5. The Council’s Capital Expenditure and Financing 2021/22 .....	5
7. Balance Sheet Projections .....	12
8. External Borrowing and Compliance with Treasury Limits and Prudential Indicators for Debt .....	13
9. Investment Strategy .....	14
10. Borrowing Strategy .....	17
11. Appendices .....	18

## 1. Introduction

The Chartered Institute of Public Finance & Accountancy (CIPFA) 2018 Prudential Code sets out the requirements for all local authorities to set an annual Treasury Management Strategy. The key objectives is to ensure, within a clear framework, that local authorities' capital investment plans are affordable, prudent and sustainable.

Under the prudential system, individual local authorities are responsible for deciding the level of their affordable borrowing, having regard to the Code. Prudential limits apply to all borrowing, qualifying credit arrangements and other long-term liabilities – whether supported by government or entirely self-financed. The system is designed to encourage authorities that need and can afford to undertake capital investment to do so within a robust framework.

This report has been written using guidance from the Prudential Code, and has the Council's **Capital Strategy report**. Both strategies are closely linked and also support the Medium Term Financial Plan.

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. A key requirement of this report is to explain both the risks and the management of the risks associated with the treasury service.

The Strategy for 2021/22 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 investment strategy;
- the borrowing strategy;
- policy on use of external service providers;
- reporting arrangements and management evaluation

### **Capital activities**

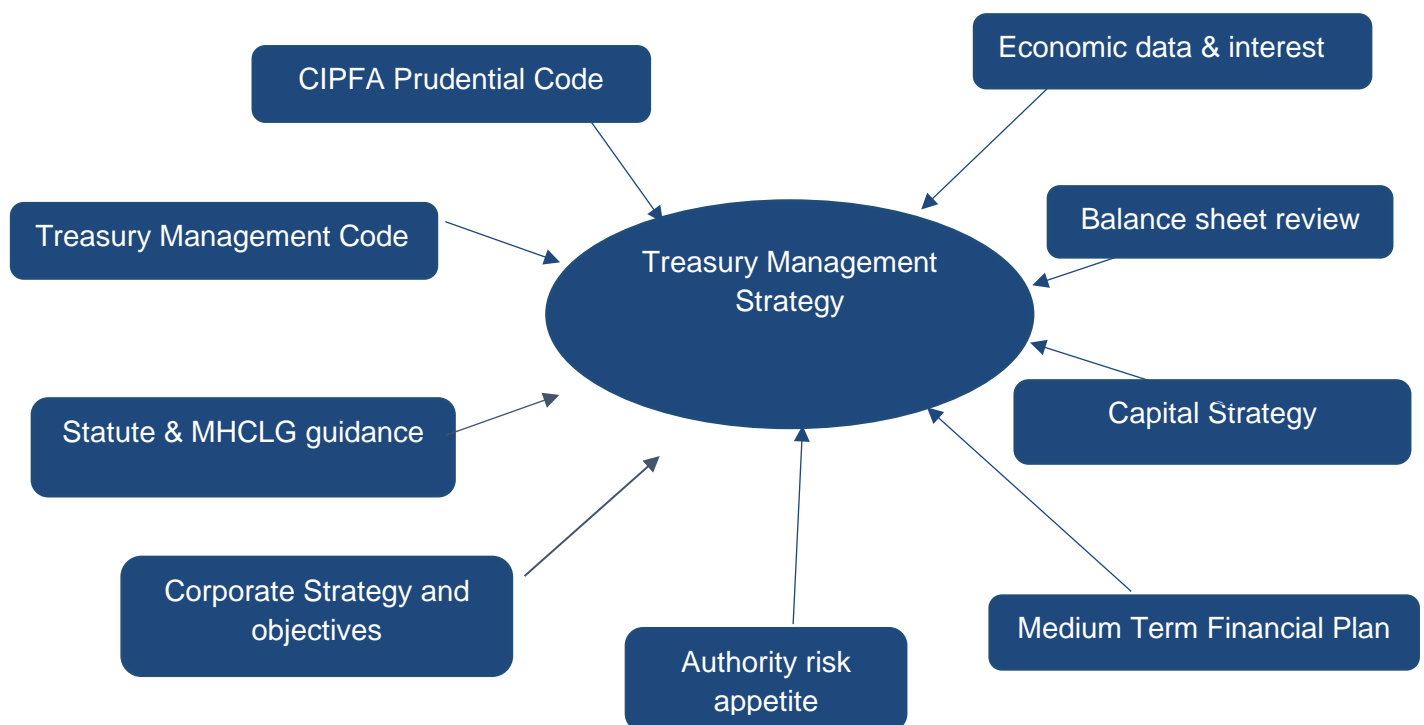
- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

## 2. Treasury Management Policy Statement

Wokingham Borough Council Treasury Management Policy Statement for 2021/22 is:

- The Council defines our 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 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



### Policy on use of external service providers

The Council use financial advisers Link Asset Services, to advise and support our treasury management practices, policies, investment and borrowing strategy.

When making investment or borrowing decisions, the Council have access to treasury brokers to ensure we achieve best value for money in our treasury deals.

### **3. Governance and Monitoring**

The Deputy Chief Executive confirms that the treasury service will comply with the strategy set out within this document and any breaches to limits and prudential indicators will be reported to the Audit Committee as part of the two further statutory reports that are produced during the year: a mid-year monitoring report and a year-end outturn report.

During the year, the finance team engages in the following governance activities:-

- capital monitoring (forecast expenditure) is reported to Executive on a quarterly basis
- analysis of income projections for all funding assumptions
- cashflow review and forecasting
- treasury training including staff CPD
- financial modelling to support investment / borrowing strategy
- regular meetings with treasury advisors

### **4. Updates to Treasury Management Strategy**

To request the following amendments to the 2021/22 Treasury Management Strategy:-

- to be able to open a deposit account, with our transactional bank provider increasing the capacity to invest money in the short term (increase liquidity), particularly during current times of cashflow uncertainty.
- increase to the money market limit from £5m to £10m, increasing capacity to invest money in the short term (increase liquidity), particularly during current times of cashflow uncertainty.
- option to issue a local authority bond to raise borrowing as an alternative to traditional markets such as PWLB.

## 5. The Council's Capital Expenditure and Financing 2021/22

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, capital contributions and 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 the cashflow requirement for its capital expenditure.
  - external borrowing - is the use of loans from outside organisations to fund the cashflow requirements for its capital expenditure. For example, borrowing from other local authorities or the Public Works Loans Board.

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 confirmation of the Capital Programme.

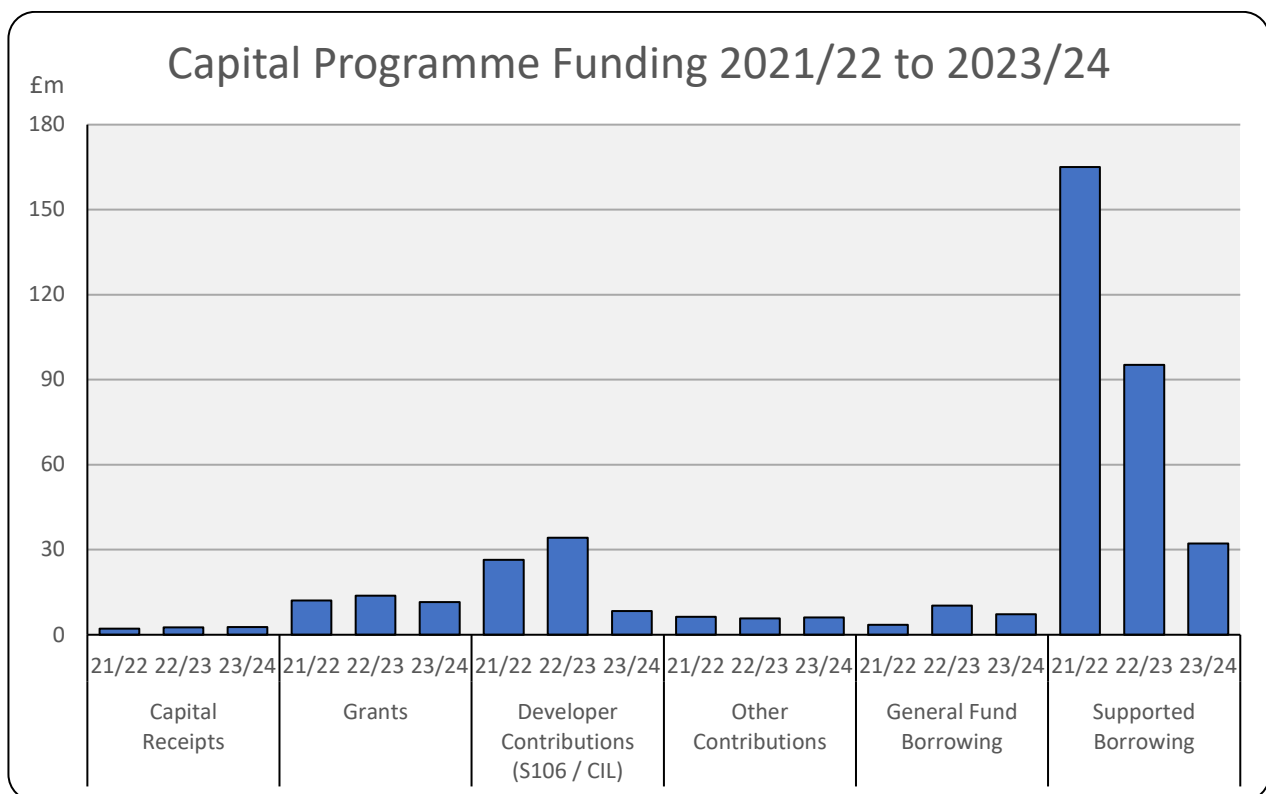
The table below sets out the capital programme for the next 3 years by key area. Full details of the Capital Programme can be found in the Capital Strategy 2021/22 and the MTFP 2021/22.

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Roads and Transport	94.0	54.3	11.3	159.6
Housing, Local Economy & Regeneration	72.6	64.6	18.8	156.0
Climate Emergency	22.2	27.2	21.6	71.0
Environment	12.1	5.2	6.0	23.3
Internal Services	3.9	4.6	4.1	12.6
Children Services and Schools	3.4	3.1	5.4	11.9
Adult Social Care	7.2	2.9	1.0	11.1
<b>Total Capital Programme 2021/22 to 2023/24</b>	<b>215.4</b>	<b>161.9</b>	<b>68.2</b>	<b>445.5</b>

The capital programme proposed for the next three years is prudent and affordable as per the principles of the treasury management code of practice. The proposed funding of the programme is summarised below;

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Supported borrowing	(165.0)	(95.2)	(32.2)	(292.4)
Developer contributions (S106 / CIL)	(26.4)	(34.2)	(8.4)	(69.0)
Capital grants	(12.1)	(13.8)	(11.5)	(37.4)
Other contributions	(6.3)	(5.8)	(6.1)	(18.2)
General fund borrowing	(3.5)	(3.6)	(3.6)	(10.7)
Additional general fund borrowing*	0.0	(6.7)	(3.7)	(10.3)
Capital receipts	(2.2)	(2.6)	(2.7)	(7.5)
<b>Total</b>	<b>(215.4)</b>	<b>(161.9)</b>	<b>(68.2)</b>	<b>(445.5)</b>

\* Additional general fund borrowing is currently the funding gap for years 2 and 3. Through the budget process, the aim will be to reduce to zero through seeking additional income and/or reducing expenditure.



Supported borrowing is where a direct repayment source has been identified to cover the cost of borrowing, for example invest to save schemes (covered from the future income generation or cost reductions), and many projects under Housing, Local Economy and Regeneration classification. Another example is forward funding developer contributions, where borrowing will be repaid from future developer contributions to be received.

## **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 or grants). Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

A major source of funding for the Council's capital programme is borrowing. This is described in two forms, supported borrowing and general fund borrowing. A significant part of the Council's capital programme is either self financing or makes a surplus where the income generated is greater than the cost of financing and therefore is available to fund other council services. These are referred to as "supported borrowing". General fund borrowing is funded through existing base budget and supports general investment to maintain Council assets and continue to provide services to customers and residents.

The table below shows the estimated CFR for supported borrowing and general fund borrowing over the next three years.

	Supported Borrowing			General Fund Borrowing		
	21/22	22/23	23/24	21/22	22/23	23/24
	£m	£m	£m	£m	£m	£m
Opening balance	310	415	513	110	114	120
Expenditure in year	159	118	61	8	10	8
Repayments in year	(54)	(20)	(20)	(4)	(4)	(4)
<b>Closing balance</b>	<b>415</b>	<b>513</b>	<b>554</b>	<b>114</b>	<b>120</b>	<b>124</b>

In the table above, it is important to note, the "expenditure in year" row is an estimate of actual capital expenditure to be incurred in the financial year and includes the impact of carry forwards from the previous year and carry forwards into future years based on historic trends. This ensure a more accurate CFR position which is important when considering investment and borrowing decisions. It will therefore be different to the amount identified as funding earlier in the report in the capital funding tables.



As mentioned above, supported borrowing are related to capital projects which are self financing and / or income generating. For the types of supported borrowing, a breakdown of the CFR is shown below.

	Supported Borrowing		
	21/22	22/23	23/24
	£m	£m	£m
Invest to save	209	274	310
Town centre regeneration	86	90	84
Wokingham housing companies	35	44	51
Developer contributions forward funded	85	105	109
<b>Closing balance</b>	<b>415</b>	<b>513</b>	<b>554</b>

The tables on the previous page are referred to as the “general fund” position and exclude the Housing Revenue Account (HRA) CFR because this is ringfenced and funded entirely from tenants rental income.

The HRA CFR for the next three years is estimated below.

	Housing Revenue Account		
	21/22	22/23	23/24
	£m	£m	£m
Opening balance	85	84	83
Expenditure in year	2	2	2
Repayments in year	(3)	(3)	(3)
<b>Closing balance</b>	<b>84</b>	<b>83</b>	<b>82</b>

The in-year increase in the borrowing requirement is due to the Council’s ambitious Capital Programme which includes invest to schemes (these schemes will be able to create a saving and pay for the financing costs), many are Housing, Local Economy and Regeneration schemes, 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 6). 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.).

The CFR is estimated to reduce over the next 25 to 30 years to the pre 2011/12 level of £100m. 2011/12 is used as a benchmark because this was the level of balance before the housing, regeneration and forward funded projects.

This reduction is shown on the graph on the next page.

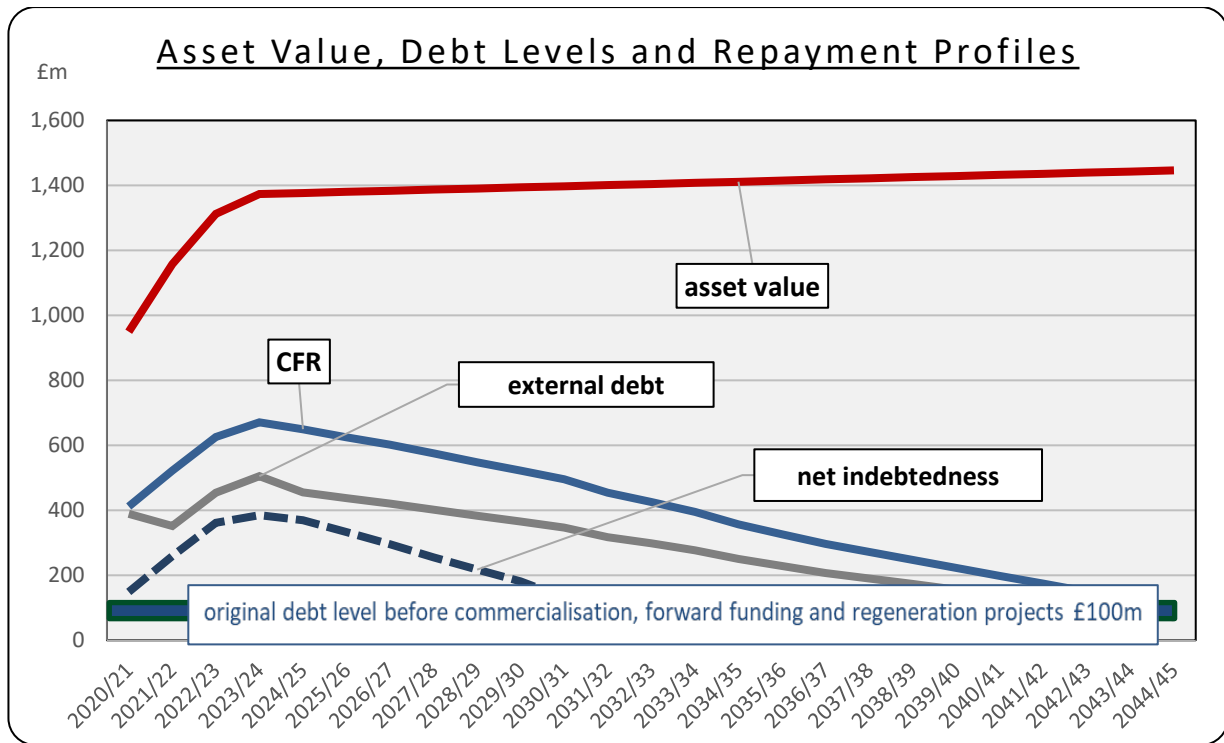
As highlighted previously, the Council continue to invest significant amounts into the capital programme generating assets such as roads, schools, housing, regeneration properties and many more. The graph below sets out the expected repayment of this debt as well as the asset value generated.

The graph includes three key lines in reference to debt;

- Capital financing requirement (CFR) - It is a statutory accounting calculation that shows how much capital expenditure has historically been incurred but not yet paid for.
- External debt – this is the actual amount borrowed. The difference between CFR and external debt is referred to as internal borrowing.
- Net indebtedness – this is external debt less treasury investment balances. It is important that these are considered together as cash investments could be used to repay external debt.

The Council are expecting debt to rise over the next three years in line with the capital programme and then it is expected to reduce over time as income is generated from these projects and cost savings are realised.

CFR and external debt will reduce as borrowings are repaid through income and will reach a point in time when debt is fully repaid and the ongoing income will be transferred to benefit the general fund.



The asset value used in the graph above are calculated using the total asset value from the Council's balance sheet, and an estimate of capital expenditure over the next three years. This new methodology is different to the asset value calculation used last year whereby only the asset values from new borrowing was included. This new methodology is more accurate and reflects all asset values that either have been or will be funded from an element of borrowing.

## 6. 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 D.**

Principles of the guidance have been reflected in the Council's 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 2021/22 Wokingham Borough Council's MRP policy will follow the main MHCLG principles, except in some instances. The table below summarises areas where WBC are planning to divert from the guidance.

Expenditure type	WBC MRP charging policy
Freehold land	maximum 60 years using asset life as a guide
Bridges	maximum 60 years using asset life as a guide
Housing, Local Economy and Regeneration a) assets that can be disposed of for appreciation	10% of maximum 15 years asset life
Housing, Local Economy and Regeneration b) all other assets	range of 5 to 40 years (depending on life of asset type)
Loan Capital in WBC holdings	no charge - loan secured by company assets
Forward Funding Schemes	no charge – developer contributions are used to repay principle

Housing, Local Economy and Regeneration - a) assets that can be disposed of for appreciation – 10% for a maximum of 15 years asset life. This is a prudent contingency for assets which can be disposed of for appreciation, if they reduce in value when sold, to cover any loss on disposal.

## 7. Balance Sheet Projections

The balance sheet projection is a financial model used to help understand the current and future levels of external and internal borrowing in relation to the CFR estimates and the underlying cash balances. It is not required in the Prudential Code however is considered best practice to do and helps to ensure our borrowing is prudent, affordable and sustainable.

With support from our financial advisors Link Asset Services, we produce a balance sheet review on a quarterly basis. One of the key performance indicators identified in the strategy is the ratio of internal borrowing to CFR. The industry benchmark is a ratio of 25% - 35%. This ratio is important as it indicates if the Council can take on capital expenditure without the need to secure borrowing at the point of expenditure. This helps ensure borrowing costs are minimised. The balance sheet review will calculate the ratio for the current year and future years.

The balance sheet reviews look at;

- CFR position
- Level of investment balance
- External debt requirement
- Working capital position
- Level of reserves

## 8. External Borrowing and Compliance with Treasury Limits and Prudential Indicators for Debt

We have looked at the overall Capital Programme (above) 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.

Further detail on each of these indicators is included in Appendix B.

**Authorised limit** – Limit beyond which borrowing is prohibited, and needs to be set and revised by Council and should reflect a level of borrowing which, while not desired, could be afforded but may not be sustainable.

**Operational boundaries limit** – Limit of borrowing which is deemed prudent and affordable whilst allowing the Council to fund its capital programme plan.

**Gross external borrowing** – borrowing with external parties which attract an interest charge (e.g. PWLB).

**% of internal borrowing to CFR** – percentage of the use of the internal cash reserves of the Council to fund the cashflow of its capital expenditure (internal borrowing) over the 'total historic outstanding capital expenditure which has not yet been paid for from capital resources' (capital financing requirement).

**Maturity structure of borrowing** – time period when loans borrowed will be required to be repaid.

**Ratio of financing costs to net revenue stream** - The ratio of the financing costs against the net revenue expenditure.

**The Council is asked to approve the following prudential indicators in the table below:**

Prudential Indicators	2021/22 £m	2022/23 £m	2023/24 £m
<b>Affordability</b>			
<b>Limits</b>			
Authorised Limit (Note: CFR*120%)	729	852	905
Operational Boundary (Note: CFR *110%)	677	789	838
<b>Performance Indicators</b>			
Gross external borrowing	427	529	580
% of internal borrowing to CFR	29%	30%	25%
Ratio of financing costs to net revenue stream	1.0%	0.7%	0.6%
Ratio of financing costs to net revenue stream HRA	16.5%	16.1%	15.1%
<b>Prudence</b>			
Maturity structure of borrowing	See Appendix C		

## 9. Investment Strategy

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 a rate of return, or yield. The Council's investment priorities are security first, liquidity second, then return.

The Council will only invest its surplus funds in accordance with its time and monetary limits for institutions on the Council's counterparty list.

### 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	£10m	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 ratings. When using the credit rating the Council will use the lower of the three credit rating agencies. (See appendix C)

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 annual investment strategy can be found in Appendix C.

Wherever possible the Council will not invest in funds returning negative rates of interest.

### Changes to investment strategy for 2021/22

The strategy requests the approval of the following changes to the Investment Strategy:-

- to be able to open a deposit account, with our transactional bank provider increasing capacity to invest money in the short term (increase liquidity), particularly during current times of cashflow uncertainty.
- increase the money market limit from £5m to £10m, increasing capacity to invest money in the short term (increase liquidity), particularly during current times of cashflow uncertainty.

### Treasury investment projections

The Council assesses future investment projections, so as to maintain an operational cash balance so that it is able to manage its planned future day-to-day cashflow, without the requirement of short-term borrowing. Once planned short term expenditures are covered, treasury will look to invest in the longer term (plus 1 year).

The table below shows the Councils treasury investment projections for the next three years.

	2021/22 £m	2022/23 £m	2023/24 £m
Loans to council owned companies	37	44	46
Loans to local authorities / fund managers	79	79	86
<b>Total</b>	<b>116</b>	<b>123</b>	<b>132</b>

### Estimated investment return rates for treasury investments

Investment returns are likely to remain low during 2021/22 but are expected to rise gradually over the next 3-5 years. There remains a lot of uncertainty in terms of the global and national economy and the longer terms impact from Covid-19.

	Interest forecasts							
	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022
Bank rate	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%



## 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. 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.

The council will acquire land and buildings within the borough boundaries for the primary reason of economic development, regeneration or to protect local employment for residents and has to take on external debt to pay for these, the minimum revenue provision and the cost of debt financing is expected to be covered from any income streams generated by the acquisition.

## **THE COUNCIL WILL NOT BORROW TO ACQUIRE ASSETS PRIMARILY FOR FINANCIAL RETURN.**

The previous commercial properties investment made before changes to the PWLB borrowing regulations will be retained until the optimum point for disposal in accordance with the strategy agreed by Council on 23 November 2017. This strategy is currently being revised by the Council's Property Service. Where these investments have treasury or MRP implications this strategy will be followed.

## Investment Performance Benchmarking

Prior to investing funds the Council is required to ensure that it follows the following indicators to achieve security, liquidity and return (in this order).

Performance Benchmark	2021/22	2022/23	2023/24
Review of investment strategy to be undertaken during year	Yes	Yes	Yes
Bank overdraft limit	£0m	£0m	£0m
Liquid short term deposits available with a week's notice of at least	£5m	£5m	£5m
Weighted average life benchmark is expected to be 0.25 years, with a maximum of 0.5 years.	0.5 Years	0.5 Years	0.5 Years

## 10. Borrowing Strategy

In order to fund the capital programme highlighted earlier in the strategy, the Council will be required to borrow. Depending on the cashflow position of the Council at the time, borrowing will vary from short term (due to a requirement for liquidity), or over a longer period so as to fund a major project.

The following factors are to considered when making borrowing decisions;

- Need for short term or long term borrowing.
- Forecast ratio of Internal / External borrowing.
  - i) Internal borrowing - is the use of the internal cash reserves of the Council to fund its capital expenditure
  - ii) External borrowing - is the use of loans from outside the organisations to fund its capital expenditure
- Maturity Structure - link maturity payments dates to when other income receipts due to be received to match against the repayment of debt (part of the long- term cash-flow).
- View of the interest rate market.

Once a decision is made on the type of borrowing required, the Council will look to borrow from the following places (in no particular order);

- PWLB (Public Works Loans Board)
- Local Authorities.
- Financial Institutions (e.g. banks, pensions funds)
- Municipal Bonds Agency (MBA) borrowing – Local Government Funded Agency, raises funds from selling municipal bonds to lend to local authorities
- Issuance of Local Authority Bonds (from Wokingham Borough Council) – Council issue bonds on bond market

### Changes to the borrowing strategy for 2021/22

For 2021/22, the following change is being made to the borrowing strategy;

- Option to issue a local authority bond to raise borrowing as an alternative to traditional markets such as PWLB.

## 11. Appendices

- Appendix B – Prudential & Treasury Management Indicators 2021/22 to 2023/24
- Appendix C - Annual Investment Strategy
- Appendix D - MRP Policy

This page is intentionally left blank