TITLE	**Treasury Management Strategy 2022-2025**
FOR CONSIDERATION BY	Council on Thursday, 17 February 2022
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)

Note the treasury management procedures, limits, and objectives for 2022/23.

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 recommend to Council to;

1) note the Treasury Management Strategy as set out in Appendix A including the following additional appendices;
    - Prudential Indicators (Appendix B)
    - Annual Investment Strategy 2022/23 (Appendix C)
    - Minimum Revenue Provision (MRP) policy (Appendix D)

2) note that the Audit Committee agreed the Treasury Management Strategy on 2 February 2022 and have recommended the report to Council for approval;

3) note the cumulative financial impact on the Council of its borrowing activities equates to a net credit to the general fund for the taxpayer of £42.70 per band D equivalent at end of 2022/23 and noting this credit increases to £62.47 at the end of 2024/25.

EXECUTIVE SUMMARY

The Chartered Institute of Public Finance & Accountancy (CIPFA) 2017 Prudential Code sets out the requirements in relation to the setting of a Treasury Management Strategy within Local Authorities. The key objectives of the Code are 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 CIPFA's Prudential Code, which has been given legislative backing. 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.

Using the guidance from the Prudential Code, every year the Council produce a **Treasury Management Strategy** and a **Capital Strategy.** Both strategies are closely linked and also support the Medium Term Financial Plan. The Capital Strategy is considered in a separate report.

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 and a year-end outturn.

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

Treasury Management Strategy

The Executive are asked to note the Treasury Management Strategy as set out in Appendix A including the following appendices;

- Prudential Indicators (Appendix B)

  These are primary indicators designed to ensure the key objectives of the Prudential Code are met and that local authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice.

  These are summarised below and consist of limits and performance indicators for categories of Affordability and Prudence.

Prudential Indicators	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Affordability			
Limits			
Authorised Limit (Note: CFR*120%)	760	783	785
Operational Boundary (Note: CFR*110%)	696	718	719
Performance Indicators			
Gross external borrowing – General Fund (GF)	388	403	405
Gross external borrowing - HRA	69	68	66
% of internal borrowing to CFR	28%	28%	28%
Ratio of financing costs to net revenue stream - GF	-0.6%	-0.6%	-0.6%
Ratio of financing costs to net revenue stream - HRA	29.9%	29.2%	28.5%
Prudence			
Maturity structure of borrowing		See Appendix C	

In relation to % of internal borrowing to CFR, although no set % is advised in the Prudential Code, the guideline across the industry is between 25% and 35% and depends very much on each local authorities circumstances and approach. Wokingham will aim to work within the guidelines of 25% and 35%.

The ratio of financing costs to net revenue stream calculation does not include any surplus income generated from assets which the Council have borrowed for. Although a statutory indicator, it is important to consider all the income as highlighted in the table below on the net credit to the general fund.

- Annual Investment Strategy 2022/23 (Appendix C)

This sets out the investment parameters that the Council treasury service will work within when making decisions. The CIPFA Code and DLUHC 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.

- Minimum Revenue Provision (MRP) policy (Appendix D)

The policy in which the Council set aside a prudent revenue provision each year to repay historic capital spend also known as the capital financing requirement. The current approach which is in line with the Statutory Guidance on Minimum Revenue Provision requires a local authority to calculate in each financial year an amount of MRP that it considers to be prudent (set out in Appendix D). However, this does not rule out or otherwise preclude a local authority from using an alternative method should it decide that is more appropriate.

There is currently a consultation on changes to capital framework - MRP which DLUHC published on the 30th November 2021 running until the 8th February 2022. Any impact from this would need to be incorporated in future strategies and the Medium Term Financial Plan (MTFP).

Net credit to general fund

The executive are asked to note the cumulative financial impact on the Council of its borrowing activities equates to a net credit to the general fund for the taxpayer of £42.70 per band D equivalent at end of 2022/23 as shown in the table below. Over the medium term, these credits will increase as the housing, local economy and regeneration projects deliver more surplus income over and above financing costs. This includes c£0.8m in 2024/25 from town centre regeneration, c£3.1m from community investments (including solar farms).

Net Annual Benefit £m	£3.2m	£4.2m	£4.8m
Divide by Council Tax Base (no. of band D equivalent properties)	74,946.3	76,070.5	76,831.2
Benefit per band D property - £	**£42.70**	**£55.21**	**£62.47**

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 is to ensure that the Council has sufficient available cash to manage its day-to- day operations. By planning this daily cashflow the treasury service is able to invest short term surplus balances in suitable low-risk counterparties, which provide security of the investment and the appropriate liquidity before considering 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 requirement 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 core balances. On occasion, debt previously drawn may be restructured to achieve a better financial position.

Details of the Council's capital spend plans are set out in the **Capital Strategy** document. As capital spend impacts on treasury management, key highlights from the capital strategy are included in the treasury management strategy (Appendix A) and summarised below;

	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Housing, Local Economy & Regeneration	39.9	43.6	15.3	98.8
Roads and Transport	46.0	9.7	6.9	62.6
Children Services and Schools	4.2	11.1	15.9	31.2
Climate Emergency	16.7	7.8	5.8	30.3
Internal Services	10.1	6.1	3.6	19.8
Environment	5.2	1.3	6.1	12.6
Adult Social Care	2.0	6.3	0.8	9.1
Total Capital Programme 2022/23 to 2024/25	**124.1**	**85.9**	**54.4**	**264.4**

Note – the figures above do not include any carry forward budgets from the current approved 2021/22 capital programme.

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

	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Supported borrowing	(64.0)	(40.2)	(17.1)	(121.3)
Developer contributions (S106 / CIL)	(27.6)	(4.9)	(12.3)	(44.8)
Capital grants	(18.7)	(10.7)	(7.5)	(36.9)
Other contributions	(6.4)	(6.9)	(5.5)	(18.8)
Capital receipts	(0.1)	(6.8)	(7.5)	(14.4)
General fund borrowing	(7.3)	(2.2)	(4.6)	(14.1)
Total	**(124.1)**	**(71.7)**	**(54.5)**	**(250.3)**

The capital programme currently has a budget shortfall of c£14m over three years which includes a fully funded year 1 programme. This shortfall over three years will be balanced through a combination of reducing or reprofiling capital expenditure and maximising capital funding opportunities such as bidding for capital grants.

Borrowing Position

An important part of the treasury management strategy is to highlight the level of borrowing need. This is known as the capital financing requirement (CFR) and is an accounting concept which monitors how much capital expenditure has been incurred but not yet paid for.

The housing revenue account also has a CFR which is shown in Appendix A. This CFR is ringfenced and repaid through tenants rental income. This is estimated to be £79m for 2022/23.

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.

A summary of the general fund CFR for the next three financial years is estimated below.

	Supported Borrowing			General Fund Borrowing		
	22/23	23/24	24/25	22/23	23/24	24/25
	£m	£m	£m	£m	£m	£m
Opening balance	307	428	450	125	126	124
Expenditure in year	156	42	18	5	2	5
Repayments in year	(35)	(20)	(16)	(4)	(4)	(4)
Closing balance	**428**	**450**	**452**	**126**	**124**	**125**

In the table above, the £156m supported borrowing expenditure assumes expenditure in relation to the remaining c£113m of the borrowing approved for community investment in utilised however the likelihood that this will only be used in 2022/23 if further renewable energy schemes are enacted.

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 ensures 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.

Also, worth noting, is the CFR balance does not reflect the level of debt the Council holds. Where the Council hold surplus balances such as reserves, unspent grants and working capital, this avoids the need to borrow externally saving on interest costs. This is known as internal borrowing. Furthermore, it is important to take into account any treasury investment balances when looking at external debt to understand a more accurate debt figure.

The table below sets out the annual cost of serving this borrowing and the income generated through the assets which have been borrowed for. Over the next three years, the income generated from these assets will give **an increasing net credit to the general fund.**

	2022/23 £m	2023/24 £m	2024/25 £m
General Fund – Financing Cost (Interest and MRP debt repayment)	9.3	10.8	16.1
Less contributions towards financing costs from following areas:			
- Invest to save schemes	(1.2)	(2.2)	(7.4)
- Treasury investments	(1.6)	(1.6)	(1.6)
- Housing, Local Economy and Regeneration	(7.4)	(7.9)	(8.0)
	(10.2)	(11.7)	(17.0)
Net Annual Financing Cost / (Benefit)	(0.9)	(0.9)	(0.9)
Include additional income over and above the contributions shown above:			
- Community investments (inc. Solar Farms)	(2.3)	(2.6)	(3.1)
- Town centre regeneration*	0.0	(0.7)	(0.8)
Net Annual Benefit to the taxpayer	**(3.2)**	**(4.2)**	**(4.8)**

Net Annual Benefit £m	£3.2m	£4.2m	£4.8m
Divide by Council Tax Base (no. of band D equivalent properties)	74,946.3	76,070.5	76,831.2
Benefit per band D property - £	**£42.70**	**£55.21**	**£62.47**

*Income from this investment goes to repay its costs. When the scheme is fully operational, the surplus income is expected to be c£2m per annum. Over the fulness of time when debt is fully repaid, the surplus will be in the region of £5m - £6m per year.

Repayment Of Borrowing

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 aswell as the asset value generated.

The graph includes four key lines in reference to debt;

- Capital financing requirement (CFR) - A technical calculation of historic capital expenditure less that already paid for, required to arrive at the annual level of debt repayment.

- External debt – this is the actual amount borrowed with third parties. The difference between CFR and external debt is referred to as internal borrowing.

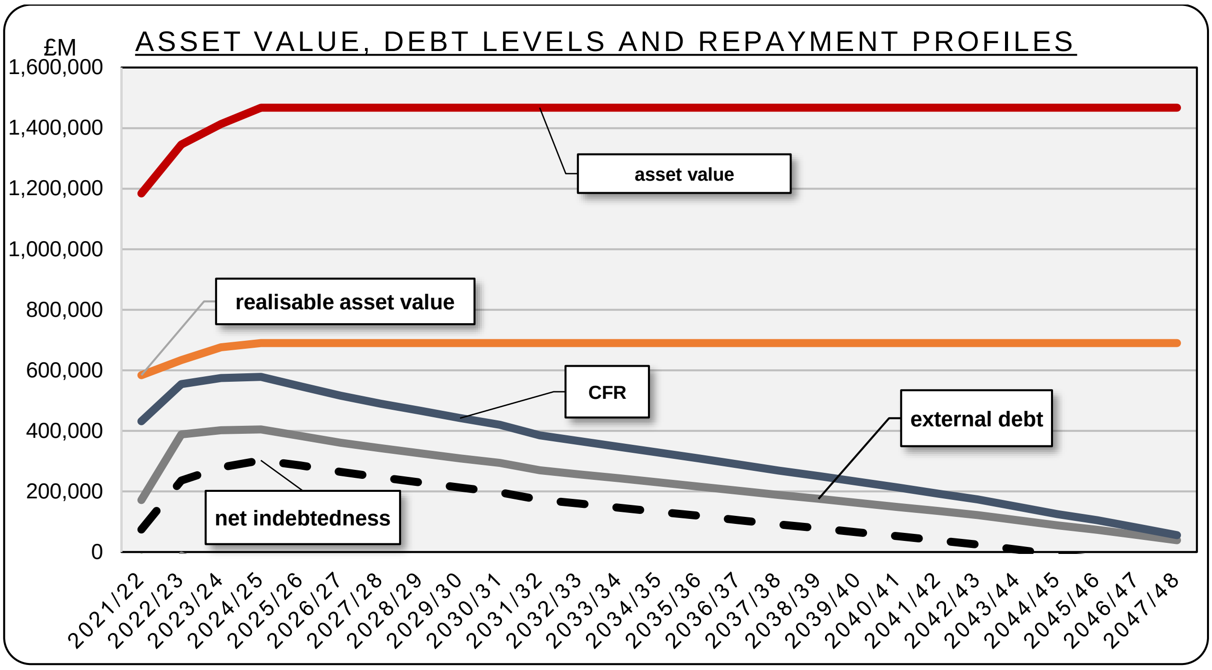
- Net indebtedness – this is external debt less treasury (i.e. liquid) investment balances. It is important that these are considered together as treasury investments could be used to repay external debt.

- Realisable asset values – this is the value that could be realised through the disposal of assets. They are based on the asset values line excluding highways, education, housing revenue account assets and other assets such as IT infrastructure and equipment.

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 graph is based on general fund only and excludes HRA as this is ringfenced. The original CFR levels before commercialisation, forward funding and regeneration projects were approximately £100m.



As shown in the graph above, from 2022/23 external debt is based on 70% of the CFR in line with the guideline across the industry of 65% - 75% external debt to CFR ratio. A significant part of the CFR is supported borrowing expenditure and assumes expenditure in relation to the remaining c£113m of the borrowing approved for community investment is utilised however the likelihood that this will only be used in 2022/23 if further renewable energy schemes are enacted. External borrowing will therefore only be undertaken when needed.

The asset values 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 methodology reflects all asset values that either have been or will be funded from an element of borrowing. A prudent approach to asset value has been taken with no capital appreciation estimated however over a long period of time it wouldn't be unreasonable to see asset values increase.

The above graph is summarised in the table below. After the first three years, the expectation is that the CFR, external debt and net indebtedness will start to reduce as repayments of borrowing start to increase, capital receipts and developer funding are received.

	2022/23	2023/24	2024/25
	£m	£m	£m
CFR (a)	554	575	578
Less internally Funded (b)	166	173	174
External debt - general fund only (c = a+b)	388	403	405
Less treasury investments (d)	152	122	102
Net indebtedness (e = c -d)	**236**	**281**	**303**

Key Changes to the Strategy

CIPFA published a revised Prudential Code and Treasury Management Code Practice on the 20th December 2021 following two consultation periods during 2021. Given local authority reporting timetables, CIPFA have stated that while the 2021 publications apply with immediate effect, authorities may defer introducing the revised reporting requirements until 2023/24 and following discussions with our external treasury advisors, WBC will work towards 2023/24. At the time this report was being produced CIPFA have yet to publish the accompanying guidance notes for each of the new publications.

The Authority will work throughout 2022/23 to integrate the revised reporting requirements and ensure continued compliance with the CIPFA Prudential Code and Treasury Management Code of Practice. This will be reflected in changes to the capital strategy, prudential indicators and investment reporting, recognising the differentiation between treasury, service and commercial investments. It will also be supported by incorporating the Councils Environmental, Social and Governance polices with the Capital Strategy and Treasury Management Practices, which will also be further updated and complimented by the introduction of Investment Management Practices to recognise service and commercial investments. A knowledge and skills framework will also be developed for the Authority in respect of Treasury Management activity.

The current prudential indicators used within this Treasury Strategy were developed by CIPFA to illustrate collectively that the Authority's capital expenditure plans are prudent, affordable and sustainable, and that the Authority's investment strategy is consistent with the principles of security and liquidity before yield.

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)	N/A	N/A	Revenue
Next Financial Year (Year 2)	Credit to general fund equal to band D property - £42.70	Yes	Revenue
Following Financial Year (Year 3)	Credit to general fund equal to band D property - £55.21	Yes	Revenue

Other Financial Information
Capital spend plans are outlined in further detail in the Capital Strategy which is available within the agenda pack for the 17 February 2022 Executive meeting and will be available on the Council's website once approved.

Stakeholder Considerations and Consultation
None

Public Sector Equality Duty
An Equality Impact Assessment is not required for this report

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*
None

List of Background Papers
Appendix A - Treasury Management Strategy Appendix B - Prudential & Treasury Management Indicators 2022/23 to 2024/25 Appendix C - Annual Investment Strategy Appendix D - MRP policy

Contact Mark Thompson	**Service** Business Services
Telephone Tel: 0118 974 6555	**Email** mark.thompson@wokingham.gov.uk