Treasury Management Strategy 2023-24

Contents

1. Introduction

The Chartered Institute of Public Finance & Accountancy (CIPFA) 2021 Prudential Code sets out the requirements for all local authorities to set an annual Treasury Management Strategy. The key objectives are to ensure, within a clear framework, that local authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice. Local authorities are required to have regard to the prudential code as set out in part one of the Local Government Act 2003 in England and Wales.

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. The system is designed to encourage authorities that need and can afford to undertake capital investment to do so within a robust framework.

Alongside the 2021 Prudential Code, local authorities are required to comply with the 2021 Treasury Management Code. Both codes are closely linked; with the prudential code covering a framework for capital investment plans, the treasury management code ensures treasury management practices (TMPs) are adapted and can support the capital investment plans.

The 2017 Prudential Code introduced the requirement for local authorities to produce a capital strategy. The purpose of the capital strategy is to firmly place decisions around borrowing in the context of the overall longer-term financial position of the authority and to provide improved links between the revenue and capital budgets. Both strategies are closely linked and also support the Medium Term Financial Plan.

This strategy 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 management.

The Strategy for 2023/24 covers two main areas: treasury management activities and capital activities.

Treasury Management activities

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates and use of external professional advisors
- the investment strategy and the borrowing strategy;
- 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

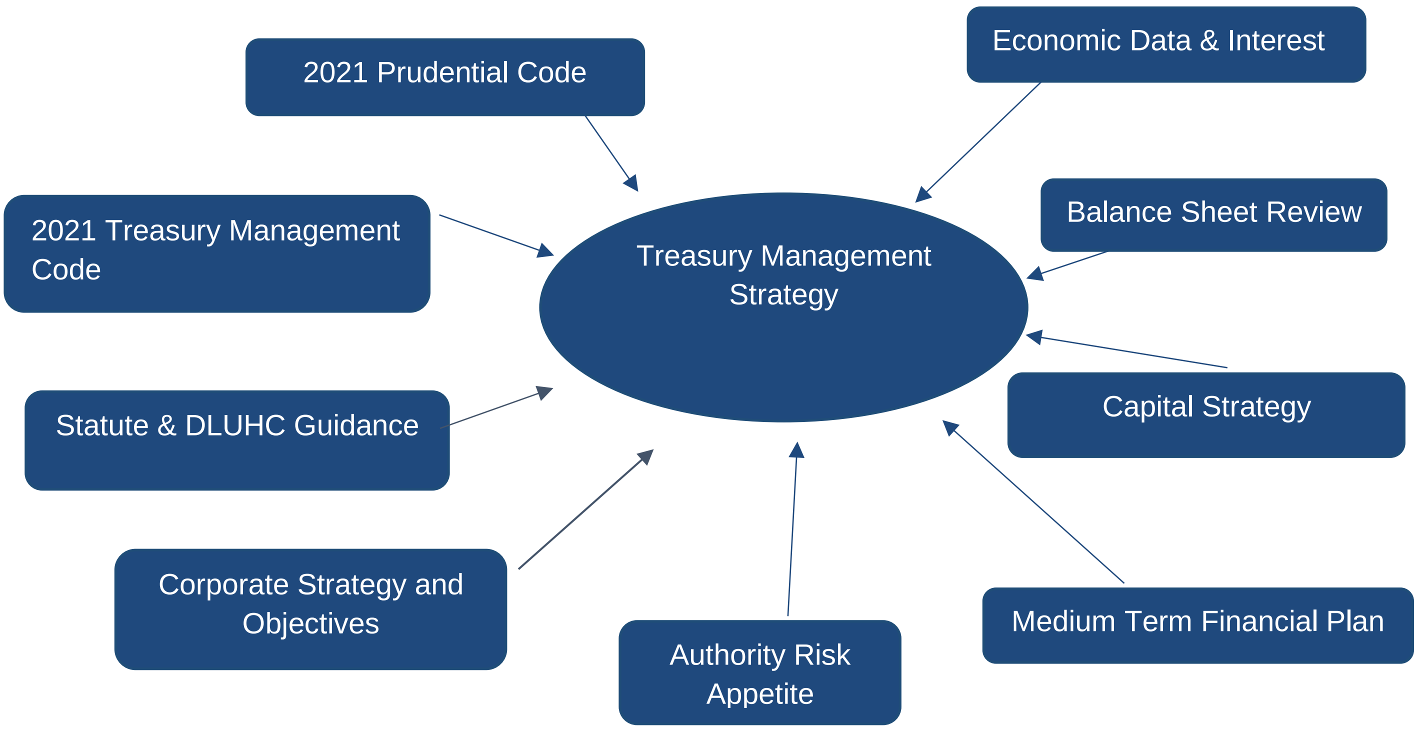
Wokingham Borough Council Treasury Management Policy Statement for 2023/24 is:

- 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 Group, to advise and support our treasury management practices, policies, investment and borrowing strategy. The Council recognises that responsibility for treasury management decisions always remains with the Council and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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 the Executive on a quarterly basis and on a monthly basis to the Corporate Leadership Team.
- Regular analysis of income projections for all funding assumptions.
- Regular cashflow reviews and forecasting.
- Treasury management training including continuing professional development (CPD).
- Financial modelling to support investment / borrowing strategy.
- Monthly meetings with Link Group (treasury advisors).

4. Updates to Treasury Management Strategy

The following changes are proposed to the Treasury Management Strategy for 2023/24.

- Prudential Indicators

    - Inclusion of the new prudential indicator called ‘the liability benchmark’. This sets out a long-term projection of external debt and the capital financing requirement (CFR). This projection should enable review of how the level of underlying borrowing for capital purposes (the CFR) is offset by other cash flows and balances, which reduce the level of actual debt required.

      This is shown in graphical format. Due to similarities with the debt graph previously used, this has been replaced.

- o Inclusion of the new prudential indicator called 'Net income from commercial & service investments to net revenue stream – GF'. This indicator comprises interest and investment income (other than from investments held for treasury management purposes), together with net income from other assets held primarily for financial return, such as commercial property. The intention of this indicator is to show the net financial impact on the authority of its entire non treasury investment income.

- Minimum credit rating criteria for Investments - It is proposed that the Council change their minimum credit rating for investments from high grade rated investments to upper medium grade rated investments. This will give the Council more flexibility with counterparties when investing surplus cash balances. This will allow the treasury team greater resilience around options for investing cash balances whilst maintaining security of investments. Further information is set out in section 9 of this report.

5. The Council's Capital Expenditure and Financing 2023/24

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 three years by key area. Full details of the Capital Programme can be found in the Capital Strategy and the Medium Term Financial Plan.

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Housing, Local Economy & Regeneration – Non HRA	42.9	13.3	8.3	64.5
Children Services and Schools	17.3	27.0	21.0	65.3
Roads and Transport	10.5	9.3	7.9	27.7
Adult Social Care	6.8	3.1	1.8	11.7
Internal Services	6.4	3.7	3.0	13.1
Climate Emergency	5.3	3.1	4.9	13.3
Environment	0.9	0.1	1.1	2.1
Total General Fund Capital Programme	**90.1**	**59.6**	**48.0**	**197.7**
Housing, Local Economy & Regeneration – Housing Revenue Account (HRA)	11.6	25.1	21.7	58.4
Total Capital Programme 2023/24 to 2025/26	**101.7**	**84.7**	**69.7**	**256.1**

The capital programme proposed for 2023/24 is prudent, sustainable, and affordable as per the principles of the prudential code. The proposed funding of the programme is summarised below for the general fund and the housing revenue account (HRA).

General Fund

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Supported borrowing	(39.0)	(17.5)	(9.3)	(65.8)
Developer contributions (S106 / CIL)	(8.6)	(3.0)	(0.9)	(12.5)
Capital grants	(23.0)	(29.1)	(21.8)	(73.9)
Other contributions	(0.6)	(0.4)	(0.1)	(1.1)
Capital receipts	(5.6)	(1.0)	(1.0)	(7.6)
General fund borrowing	(13.3)	(4.1)	(5.2)	(22.6)
Total	**(90.1)**	**(55.1)**	**(38.3)**	**(183.5)**

Housing Revenue Account

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Supported borrowing	(0.4)	(18.8)	(7.1)	(26.3)
Other contributions	(5.5)	(5.7)	(5.4)	(16.6)
Capital receipts	(5.7)	(0.6)	(9.2)	(15.5)
Total	**(11.6)**	**(25.1)**	**(21.7)**	**(58.4)**

The capital programme currently has a budget shortfall of c£28m over three years which includes a fully funded year 1 programme. This shortfall is made up of c£14m budget shortfall against the capital programme highlighted above (General Fund £198m less £184m). The remaining c£14m shortfall is the current estimated gap between CIL income and associated capital spend requirements. This shortfall over three years will be balanced through a combination of reducing or reprofiling capital expenditure, additional CIL income from potential new developments and by maximising capital funding opportunities such as bidding for capital grants.

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 capital expenditure 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			
	22/23	23/24	24/25	25/26	22/23	23/24	24/25	25/26
	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance	280.9	300.4	309.6	329.2	100.6	103.2	107.7	114.7
Expenditure in year	46.1	42.8	44.8	31.0	6.3	7.9	11.0	7.7
Repayments in year	(26.6)	(33.6)	(25.2)	(28.6)	(3.7)	(3.5)	(4.0)	(4.2)
Closing balance	**300.4**	**309.6**	**329.2**	**331.5**	**103.2**	**107.7**	**114.7**	**118.1**

It is important to note, the "expenditure in year" row is an estimate of actual capital expenditure to be incurred in the financial year based on a detailed analysis of project spend, timing and delivery 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 as these are setting out the permission to allocate capital budget to a project.

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		
	23/24	24/25	25/26
	£m	£m	£m
Invest to save	72.9	94.1	102.1
Town centre regeneration	92.1	84.8	81.9
Wokingham housing companies	24.2	22.7	20.8
Developer contributions forward funded	40.3	48.3	47.8
Housing, economy & regeneration	80.0	79.5	78.9
Closing balance	**309.6**	**329.2**	**331.5**

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.

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.

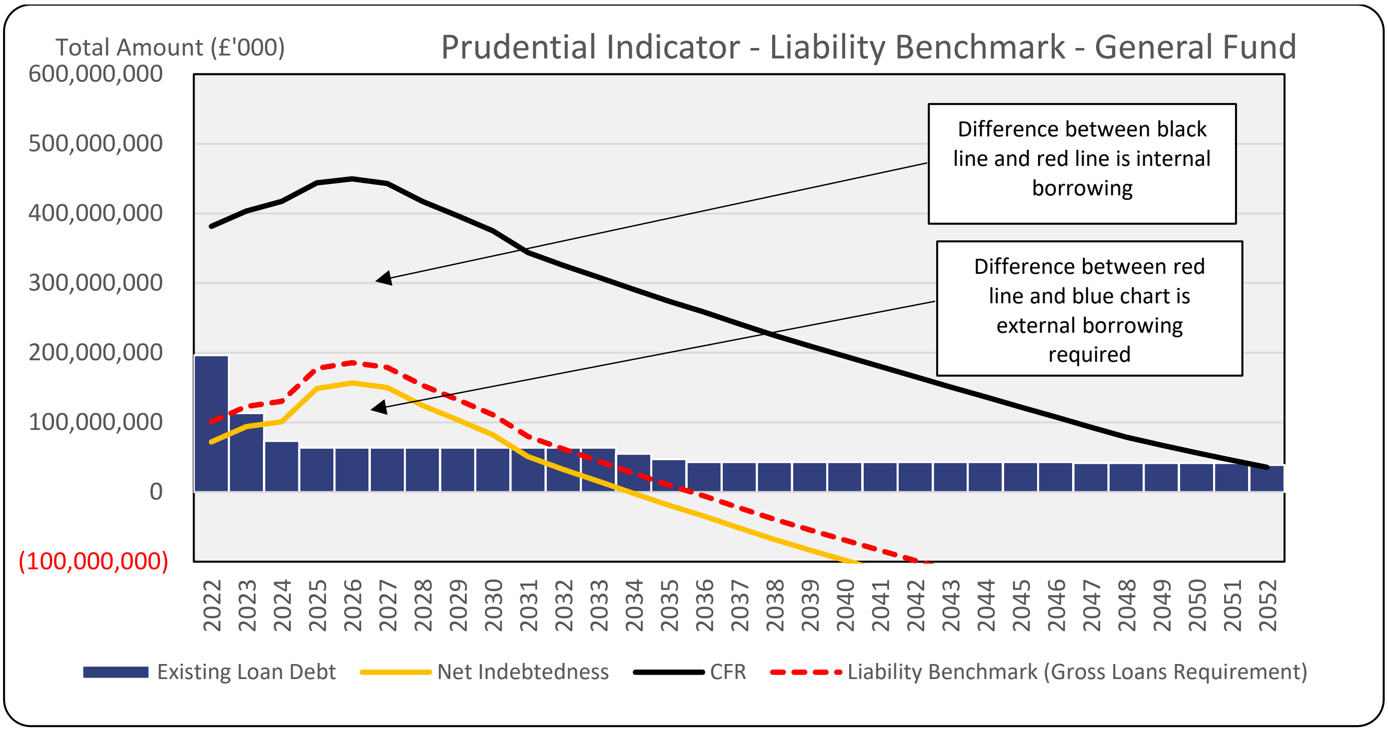
The graph includes four key parts in reference to debt;

- CFR (Capital financing requirement) - A technical calculation of historic capital expenditure less that already paid for, required to arrive at the annual level of debt repayment.
- Existing Loan Debt – this is the actual amount currently borrowed with third parties.
- Net Indebtedness (Net Loans Requirement) – 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.
- Liability Benchmark – Net loans requirement plus a liquidity buffer held for daily treasury management.

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 and shown separately.



The original CFR levels before commercialisation, forward funding and regeneration projects were approximately £100m.

As referenced in section 4, there is a new prudential indicator called 'the liability benchmark'. This sets out a long-term projection of external debt and the capital financing requirement (CFR). This projection should enable review of how the level of underlying borrowing for capital purposes (the

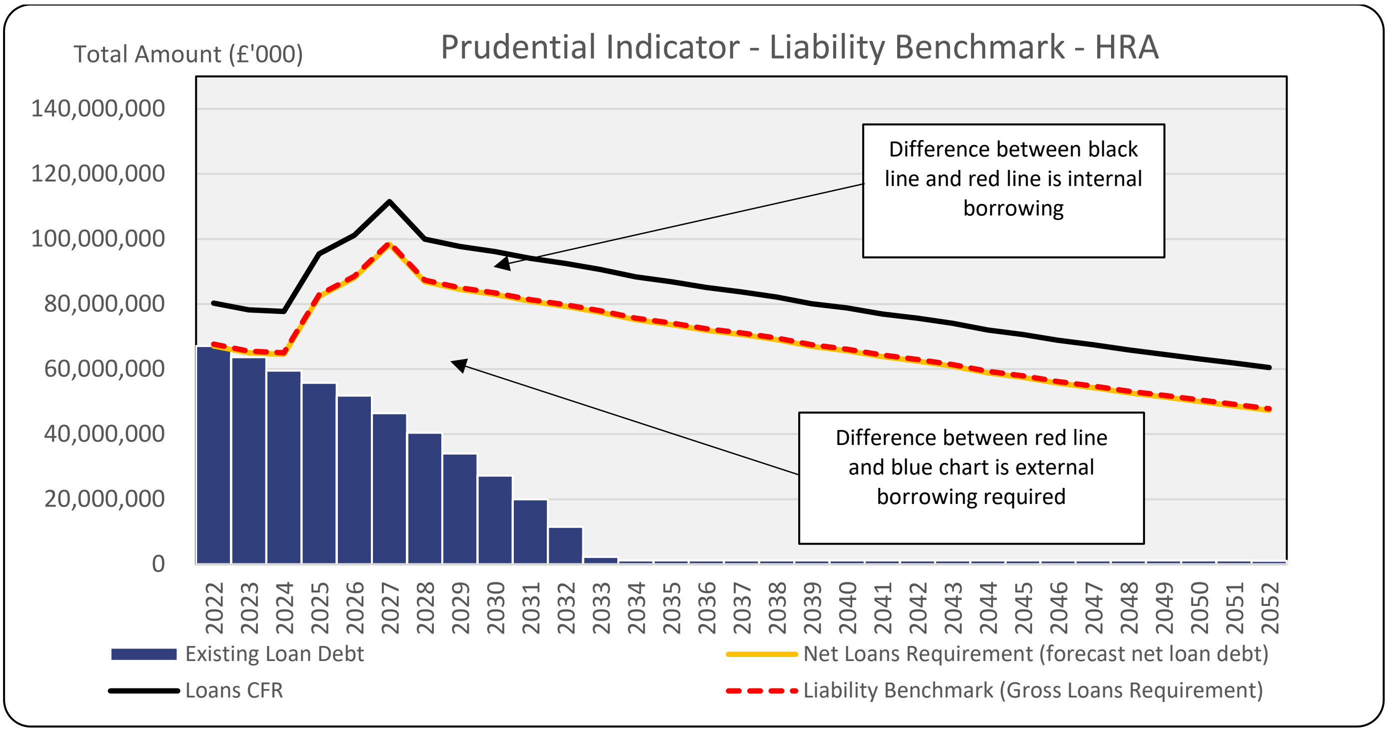
CFR) is offset by other cash flows and balances, which reduce the level of actual debt required. This is shown in graphical format above and due to similarities with the debt graph previously used, this has been replaced.

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 tenant's rental income.

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

	Housing Revenue Account			
	22/23	23/24	24/25	25/26
	£m	£m	£m	£m
Opening balance	80.3	78.2	77.6	95.4
Expenditure in year	0	0.4	18.8	7.0
Repayments in year	(2.1)	(1.0)	(1.0)	(1.4)
Closing balance	**78.2**	**77.6**	**95.4**	**101.0**

The repayments of the Housing Revenue Account CFR are known as Voluntary Revenue Provision (VRP). These are set out as part of the HRA budget setting and form part of the budget setting process. The additional prudential borrowing from year 2 onwards relate primarily to Gorse Ride Redevelopment. Capital receipts and additional rental income will be received once the project is completed and will be used as additional VRP to reduce the HRA CFR balance. This is shown in the HRA liability benchmark prudential indicator set out below.


Total Amount (£'000)
Prudential Indicator - Liability Benchmark - HRA
140,000,000
120,000,000
100,000,000
80,000,000
60,000,000
40,000,000
20,000,000
0
Difference between black line and red line is internal borrowing
Difference between red line and blue chart is external borrowing required
2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040 2041 2042 2043 2044 2045 2046 2047 2048 2049 2050 2051 2052
Existing Loan Debt
Loans CFR
Net Loans Requirement (forecast net loan debt)
Liability Benchmark (Gross Loans Requirement)

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 Department for Levelling Up, Housing and Communities, DLUHC 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. However where we identify an alternative prudent and more pertinent MRP policy, we are permitted to follow that instead.

For 2023/24 Wokingham Borough Council's MRP policy will follow the main DLUHC principles, except in some instances. The table below summarises areas where WBC are planning to treat MRP different from the guidance however the approach remains prudent and affordable which are consistent with the principles of the code.

Expenditure type	WBC MRP charging policy
Freehold land	maximum 50 years using asset life as a guide
Bridges	maximum 50 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 50 years (depending on life of asset type)
Loan Capital in WBC holdings	no charge – loan secured by company asset
Forward Funding Schemes (Developer funded)	a) 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.

MRP Consultation

On 30th November 2021 a consultation was launched (open until 8th February 2022) in respect of potential changes to the current MRP arrangements. The consultation seeks views on a number of potential changes and should those or other changes be taken forward the Council will review its approach going forward as required.

The Council are awaiting the outcome of the consultation and are expecting further guidance and clarity on MRP, including applicable start date and confirmation changes are not retrospective. If received during the 2023-24 financial year, changes will be assessed and any significant changes reported through the appropriate governance process.

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 consider best practice to do and helps to ensure our borrowing is prudent, affordable and sustainable.

With support from our financial advisors Link Group, 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. 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 guide the ratio for the current year and future years.

The balance sheet projections can be used to identify timing and quantum of borrowing need based on the capital programme, current borrowing portfolio and internal borrowing capacity of the Council.

The balance sheet review looks 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.

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

Capital financing requirement - 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, income or grants).

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

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

Net income from commercial & service investments to net revenue stream – The ratio of the net income from commercial & service investments to net revenue expenditure.

Liability Benchmark - estimate and measure the liability benchmark for the forthcoming financial year onwards. Comprises of existing debt maturity profile and also how minimum revenue provision (MRP) and other cash flows affect their future debt requirement. The liability benchmark is not a single measure but should be presented as a chart of four balances;

1) existing loan debt outstanding - the authority's existing loans that are still outstanding in future years.
2) CFR – based on historic and future approved prudential borrowing and planned repayments via MRP, capital receipts, etc.
3) net indebtedness – the authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned repayments and any other major cash flows forecast.
4) liability benchmark - net loans requirement plus short-term liquidity allowance.

Further information on the liability benchmark is included in section 5.

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

Prudential Indicators	2023/24 £m	2024/25 £m	2025/26 £m
Limits			
Authorised Limit (Note: CFR*120%)	£594.0m	£647.2m	£661.0m
Operational Boundary (Note: CFR*110%)	£544.5m	£593.2m	£605.9m
Maturity structure of borrowing	See Appendix B		
Performance Indicators			
Capital financing requirement – General Fund (GF)	£417.3m	£443.8m	£449.6m
Capital financing requirement – HRA	£77.7m	£95.5m	£101.2m
Gross external borrowing – General Fund (GF)	£130.1m	£177.7m	£185.7m
Gross external borrowing - HRA	£65.0m	£82.8m	£88.5m
Ratio of financing costs to net revenue stream - GF	(0.57%)	(0.36%)	(0.39%)
Ratio of financing costs to net revenue stream - HRA	20.26%	20.06%	21.61%
Net income from commercial & service investments to net revenue stream - GF	9.44%	9.77%	9.75%
Liability benchmark	See Section 5		

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

The CIPFA Prudential Code and the DLUHC 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 (yield).

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**
Debt Management Account Deposit Facility (DMADF) – UK Government	UK sovereign rating	£20M	6 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	N/A – held for instant liquidity
Local Authorities	N/A	£10m	5 year
Term Deposits with Banks**	F1 / A	£5m	1 year
Term Deposits with Building Societies	F1 / A	£5m	1 year
Certificate of deposit (CD) 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.

<u>Changes to investment strategy for 2023/24</u>

It is proposed that the Council change their minimum credit rating for investments from high grade rated investments to upper medium grade rated investments highlighted in the table below. This will give the Council more flexibility with counterparties when investing surplus cash balances. This will allow the treasury team greater resilience around options for investing cash balances whilst maintaining security of investments.

Whilst it is difficult to quantify the impact of the credit rating changes due to the nature of interest rates and ratings changing on a regular basis, working with Link Group, analysis based on 9th January ratings show an additional c0.15% on the interest rate for a 6-month investment.

The minimum investment criteria will be;

Moodys –
Short Term P-1
Long Term A2

S&P
Short Term A-1
Long Term A

Fitch
Short Term F1
Long Term A

Moodys		S&P		Fitch		Description	
LT	ST	LT	ST	LT	ST		
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime	Investment Grade
Aa1		AA+		AA+		High Grade	
Aa2		AA		AA			
Aa3		AA-		AA-			
A1		A+	A-1	A+	F1	Upper Medium Grade	
A2		A		A			
A3	P-2	A-	A-2	A-	F2		
Baa1		BBB+		BBB+		Lower medium grade	
Baa2	P-3	BBB	A-3	BBB	F3		
Baa3		BBB-		BBB-			

Treasury investment projections

The Council assesses future investment projections, 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, the treasury team 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.

	2023/24 £m	2024/25 £m	2025/26 £m
Loans to Council owned companies	24	23	21
Loans to local authorities / fund managers	30	30	30
Total	**54**	**53**	**51**

Estimated investment return rates for treasury investments

Investment returns are expected to increase in 2023/24 compared to last year due to the increases in interest rates during 2022. There remains a lot of uncertainty in terms of the global and national economy and the longer terms impact from Covid-19.

Link Group - Latest Interest Forecasts

	Mar 2023	Jun 2023	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Sep 2024	Dec 2024
Bank rate	4.25%	4.50%	4.50%	4.50%	4.00%	3.75%	3.50%	3.25%

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

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. Where these investments have treasury or MRP implications this strategy will be followed.

Investment Performance Benchmarking

Whilst it is difficult to benchmark investment returns on a like for like basis, due to factors such as daily rate changes, credit ratings and the fact returns (yield) are not the primary purpose for investments, the Council will review average returns against Sterling Overnight Index Average (SONIA). SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

Counterparty List

The Council maintain an updated counterparty list on a regular basis using credit updates received on counterparties from Link Group.

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

Borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Interest rate exposure

Interest rates are very volatile at present and have seen an unexpected increase during mid to late 2022. Whilst the Council continually monitor its cashflow, prudential borrowing requirements and interest rate forecasts, the borrowing strategy and use of internal borrowing play an important role in reducing the exposure to interest rate risks.

Working with Link Group, our treasury management advisors the Council assess which borrowing options best align to our future prudential borrowing requirements.

It is estimated that an increase of 1% in interest rates would cost an additional £1.6 per annum in interest costs. As a majority of the Councils planned borrowing is “supported borrowing”, any increase in interest rate may have an impact on project’s returns on investment, payback periods, future revenue benefits, etc.

Changes to the borrowing strategy for 2023/24

There are no changes proposed for the borrowing strategy for 2023/24.

11. Appendices

- Appendix B – Prudential & Treasury Management Indicators 2023/24 to 2025/26
- Appendix C - Annual Investment Strategy
- Appendix D - MRP Policy