

<b>Title of Report:</b>	<b>Borrowing Limits and Annual Investment Strategy 2013/14</b>
<b>Report to be considered by:</b>	Council
<b>Date of Meeting:</b>	5th March 2013
<b>Forward Plan Ref:</b>	C2506

**Purpose of Report:** In compliance with The Local Government Act 2003, this report summarises the Council's borrowing limits as set out by CIPFA's Prudential Code, and recommends the Annual Borrowing and Investment Strategy for 2013/14.

**Recommended Action:** To adopt the 2013/14 Borrowing and Investment Strategy.

**Reason for decision to be taken:** Formulation of Treasury Management Policy in compliance with the Local Government Act 2003 and the CIPFA's Prudential Code and Code of Practice for Treasury Management.

**Other options considered:** Not applicable

**Key background documentation:** None

The proposals will help achieve the following Council Strategy principle:

**CSP6 - Living within our means**

The proposals contained in this report will help to achieve the above Council Strategy principle by:

Maximising the return on the Council's investments while minimising risk and ensuring sufficient liquidity; ensuring that long term borrowing is affordable.

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<b>Date Portfolio Member agreed report:</b>	21 January 2013

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## Implications

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- Policy:** The Treasury Management Strategy for the new financial year in accordance with the Local Government Act 2003 and CIPFA's Prudential Code and Code of Practice for Treasury Management.
- Financial:** Investment Income and Debt Charges form part of the Council's Medium Term Financial Strategy (MTFS).
- Personnel:** None
- Legal/Procurement:** None
- Property:** None
- Risk Management:** The policy is intended to ensure that all borrowing and investment is undertaken with a view to minimising risk and exposure to financial loss.
- Equalities Impact Assessment:** Not applicable

Is this item subject to call-in?	Yes: <input type="checkbox"/>	No: <input checked="" type="checkbox"/>
If not subject to call-in please put a cross in the appropriate box:		
The item is due to be referred to Council for final approval		<input checked="" type="checkbox"/>
Delays in implementation could have serious financial implications for the Council		<input type="checkbox"/>
Delays in implementation could compromise the Council's position		<input type="checkbox"/>
Considered or reviewed by Overview and Scrutiny Management Commission or associated Task Groups within preceding six months		<input type="checkbox"/>
Item is Urgent Key Decision		<input type="checkbox"/>
Report is to note only		<input type="checkbox"/>

# Executive Summary

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## 1. Introduction

- 1.1 This report sets out the framework within which the Treasury Management Team will conduct the council's investments and borrowing for the forthcoming financial year. It recommends prudential limits for investments in 2013/14 and borrowing limits for the next three years.

## 2. Proposals

- 2.1 The report proposed an increase in the Council's maximum borrowing limits by £27 million (to £152 million) in 2013/14, by £3 million (to £155 million) in 2014/15 and by £2 million (to £157 million) in 2015/16. £25 million of the increase in 2013/14 is to reflect the debt contained in the Waste PFI contract. (A change in accounting regulations now requires this debt to be shown on the Council's balance sheet and allowed for in the borrowing limits).
- 2.2 The remaining increases in the borrowing limits of £7 million over the next three years are to allow for the planned level of borrowing to fund the proposed capital programme, less the planned level of debt repayment.
- 2.3 The report also recommends prudential limits for exposure to borrowing at fixed and variable rates of interest, and the maturity structure of borrowing and parameters for the types and minimum credit ratings of institutions with which the Council will invest its funds. No changes are proposed to these limits and parameters for 2013/14.

## 3. Equalities Impact Assessment Outcomes

- 3.1 This report does not have any direct impact on the delivery of Council services and therefore no Equality Impact Assessment has been undertaken.

## 4. Conclusion

- 4.1 These proposals form part of the Council's overall Treasury and Capital Strategy and are aligned with the requirements of the Prudential Code. The strategy sets the underlying principles by which the Council's annual investment and borrowing activity will be managed for the 2013/14 financial year.
- 4.2 A report on the actual performance of the Treasury Team in managing the Council's loans and investments for the whole of 2012/13 will be brought to Executive after the end of the financial year.

# Executive Report

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## 1. Introduction

- 1.1 The Local Government Act 2003 requires that the Council should draw up an Annual Investment Strategy for the coming financial year. The strategy must be approved by full Council and made available to the public before the start of the financial year to which it relates. The strategy can be varied at any time, but any variations must also be approved by the Council and made available to the public. This report proposes the Annual Investment Strategy for 2013/14.
- 1.2 West Berkshire Council's treasury management activities consist of the management of the organisation's cash flow, banking, money market transactions, loans and investments. The main aim of the Treasury Management function is to maximise the return on the Council's investments while ensuring sufficient liquidity and minimising the risks to the Council's resources. All investment and borrowing decisions are therefore governed by the following principles (in order of priority as shown):
- (1) Security (minimising risk)
  - (2) Liquidity
  - (3) Yield (Return on Investment)
- 1.3 Effective Treasury Management supports the achievement of the Council's service objectives. The performance of the Treasury Management function will, therefore, be monitored through regular reports to the Treasury Management Group of members and officers and an annual report on performance for the year as a whole, which will be presented to the Council shortly after the end of the financial year.

## 2. The Prudential Code

- 2.1 The Local Government Act 2003 introduced the new Prudential Capital Finance System, which was applied from 1 April 2004, and replaced the requirements under the Local Government and Housing Act 1989. CIPFA published the final Prudential Code in November 2003, which sets out a range of indicators that the Council must set in order to establish its borrowing limit.
- 2.2 The following prudential limits are required to be set for the forthcoming financial year and the following two financial years:
- (a) Authorised limit for total external debt - the maximum amount the Council may borrow
  - (b) Operational boundary for its total external debt - The most money the Council would normally borrow at any time during the year.
  - (c) Exposure to borrowing at variable rates of interest.
  - (d) Exposure to borrowing at fixed rates of interest.
  - (e) Maturity structure of borrowing.
  - (f) Levels of External Debt:

- 2.3 An annual increase in borrowing will be required to fund proposed capital expenditure which cannot be funded from grants, capital receipts or other sources of funds. The amount of the increase is determined by the amount of debt charges which the Council can afford to fund from its revenue budget.
- 2.4 The recommended limits for external debt for 2013/14 and the following two financial years are shown below in comparison with the agreed level for 2012/13.

New Recommended Limits for External Debt		
	Authorised Limit	Operational Boundary
2012/13	£125 million	£115 million
2013/14	£152 million	£142 million
2014/15	£155 million	£145 million
2015/16	£157 million	£147 million

- 2.5 An increase of £27 million is proposed in the authorised limit and the operational boundary from 2012/13 to 2013/14. £25 million of this amount is to reflect a change in the way the existing debt contained in the Waste PFI contract is accounted for. Approximately £26 million was borrowed by the waste contractor to finance the new waste management facility (which has been operational since October 2011). The sum now outstanding is around £25 million. This sum has not previously been reported as part of the Council's debts. However, a recent change in accounting regulations means that this debt must now be reflected on the Council's balance sheet because it has been used finance an asset which is deemed to belong to the Council. The authorised borrowing limits must therefore be increased to accommodate this debt.
- 2.6 The remaining increases in the borrowing limits are £2 million in 2013/14, £3 million in 2014/15 and £2 million in 2015/16. These increases are to reflect the additional borrowing which is expected to be required over the next three years to fund the proposed capital programme 2013-2018 (also on this agenda). However the proposed new borrowing is offset by the repayments which will be made of existing debts in respect of previous years' capital programmes from the existing revenue budget for financing capital expenditure. Section 4 (below) explains in more detail how the Council's borrowing strategy is linked to the capital programme.

Other Prudential Limits:

- 2.7 The recommended limits for exposure to borrowing at variable and fixed rates of interest are as follows (unchanged from 2012/13):

Exposure to Variable Interest Rates	
	Upper Limit
2011/12	50%
2012/13	50%
2013/14	50%

Exposure to Fixed interest rates		
	Upper Limit	Lower Limit
2011/12	100%	50%
2012/13	100%	50%
2013/14	100%	50%

2.8 The recommended limits for the maturity structure of borrowing are as follows (unchanged from 2011/12):

	Lower Limit	Upper Limit
Under 1 Year	0%	50%
1 – 2 years	0%	50%
2 – 5 years	0%	50%
5 – 10 years	0%	50%
Over 10 years	0%	90%

### 3. Annual Investment Strategy for 2012/13

3.1 The purpose of the Annual Investment Strategy is to set out the policies for giving priority to the security and liquidity of the Council's investments. The strategy deals with the credit ratings defined for each category of specified investments, the prudential use of non specified investments, and the liquidity of investments.

Specified Investments:

3.2 Specified Investments are defined as those satisfying each of the following conditions:

- (a) Denominated in sterling.
- (b) To be repaid or redeemed within 12 months of the date on which the investment was made.
- (c) Do not involve the acquisition of share capital or loan capital in any body corporate.
- (d) Are made with the UK Government, local authorities, parish councils, community councils, or with a deposit taker which has been awarded a high credit rating by a credit rating agency and is authorised by a regulatory body (normally the Financial Services Authority - FSA).

3.3 Any investments that do not meet the criteria defined in paragraph 3.2 above are classified as 'Non-specified Investments'. It is proposed that the Council will only invest in non-specified investments, including those to be repaid or redeemed more than 12 months from the date on which the investment was made, should the need arise in relation to cash-flow and borrowing strategy decisions.

Credit Ratings:

3.4 The credit ratings and limits proposed for the categories of investments intended for use by the Council in 2012/13 are as follows:

Debt Management Office (UK Govt)	Unlimited
UK Local Authorities (including Police and Fire Authorities and similar public bodies)	Not more than £5,000,000 per authority
UK Building Societies	
Ranked 1 to 11	Not more than £5,000,000 per institution
Ranked 12 to 21	Not more than £4,000,000 per institution
Ranked 22 to 25	Not more than £3,000,000 per institution
UK Banks & Other Financial Institutions (rated F1 by Fitch)	Not more than £5,000,000 per institution
UK Banks & Other Financial Institutions (rated F2 by Fitch)	Not more than £2,500,000 per institution
UK based Money Market Funds (AAA rated)	Not more than £5,000,000 per fund

- 3.5 No changes are proposed to the existing limits for 2013/14. The limits above represent the maximum amounts to be invested with individual organisations. The Treasury Management Group may temporarily reduce these amounts and/or shorten the time-period of investments in order to spread the exposure to loss from institutions failing.

#### Liquidity of Investments:

- 3.6 The period for which funds are invested is determined by the cash flow needs of the Council. Funds are invested for as long as possible, in order to maximise the rate of return, while still ensuring that sufficient funds are available to meet the Council's outgoings. The normal maximum period for which funds may prudently be committed is 12 months.
- 3.7 If sufficient funds become available, and market conditions are favourable enough to permit secure longer term investment, funds may, from time to time be invested for longer periods which will offer a better rate of return. However in order to minimise risk and ensure liquidity, no more than 40% of the Council's funds will be held at any one time in investments longer than 12 months.

## 4. Borrowing Strategy

- 4.1 All the Council's long term borrowing (with the exception of the debt contained within the waste PFI contract) is with the Public Works and Loans Board (PWLB), which offers the most competitive and secure rates of interest available to local authorities. For example, the 40 year fixed annuity rate currently stands at 4.0% as at the 14th January 2012. (This includes the 0.2% "certainty" discount which is currently being offered by the PWLB to those local authorities, including West Berkshire, which have made available to HM Treasury their medium term borrowing plans).
- 4.2 The balance of the Council's loans from the PWLB currently stands at £89 million. This sum includes £20.5 million which is still outstanding from the debt inherited

from the former Berkshire County Council. These loans were taken out on a maturity basis and it is therefore necessary to make an annual provision in the revenue budget to repay these loans at the end of their term, currently approximately £500,000 per year on average. All loans taken out by West Berkshire Council since 2006, however, have been on a fixed rate annuity basis, which provides certainty over the future level of loan repayments and avoids the future liability for repayment of the principal.

- 4.3 The PWLB loans balance is expected to increase by £12 million to £101 million by March 2014. Part of this increase is to fund £9 million proposed capital spending for 2013/14 which is not funded from grants, capital receipts or other external sources of capital funding. It is also expected to be necessary to borrow around £6 million in respect of previous years' capital expenditure, which has not yet been financed from borrowing. However approximately £3 million repayments will also be made against existing loans to fund previous years capital spending.
- 4.4 From 2014/15 onwards, the Council's overall level of borrowing is expected to increase at a much slower rate than in recent years, as the amount of principal repaid on annuity loans increases year on year and the level of planned Council funded capital expenditure decreases.
- 4.5 The Treasury Group also continues to keep under review alternative sources of long term funding including borrowing from institutions other than the PWLB, Tax Increment Funding and local bonds, in case any of these should, in the future, become more viable or more favourable than borrowing from the PWLB.
- 4.6 As in previous years, it will also be necessary on occasions to borrow on a short term basis to cover cash-flow requirements. Short term loans (usually for periods of less than three months) will be arranged with a view to covering cash-flow requirements while minimising the rate and amount of interest paid. A limit of £15 million is set for the maximum amount of short term borrowing at anyone time (unchanged from 2012/13).

## **5. Monitoring and Review**

- 5.1 The Treasury Management Group will continue to meet regularly to review the strategy and the performance of the Treasury Management Team. The composition of the Treasury Management Group is unchanged and includes the Portfolio Holder and two other elected members. The Treasury Management Group will provide updates in relation to cash-flow and borrowing strategy during the course of the year should the need arise.

## **Appendices**

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There are no Appendices to this report.

## **Consultees**

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**Local Stakeholders:** None

**Officers Consulted:** Treasury Management Group, Corporate Board

**Trade Union:** Not Consulted