Title of Report:	**Investment and Borrowing Strategy 2015/16**
Report to be considered by:	Council
Date of Meeting:	3rd March 2015
Forward Plan Ref:	C2837

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 Investment and Borrowing Strategy for 2015/16.

Recommended Action:

To adopt the 2015/16 Investment and Borrowing 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:

Not applicable

The proposals will also 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 priorities and principles by:
Maximising the return on the Council's investments while minimising risk and ensuring sufficient liquidity; ensuring that long term borrowing is affordable.

Portfolio Member Details	
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Date Portfolio Member agreed report:	12 January 2015

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Implications

Policy: The Treasury Management Strategy for the new financial year is 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.

Is this item relevant to equality? Please tick relevant boxes	**Yes**	**No**
Does the policy affect service users, employees or the wider community and:		
• Is it likely to affect people with particular protected characteristics differently?	☐	☒
• Is it a major policy, significantly affecting how functions are delivered?	☐	☒
• Will the policy have a significant impact on how other organisations operate in terms of equality?	☐	☒
• Does the policy relate to functions that engagement has identified as being important to people with particular protected characteristics?	☐	☒
• Does the policy relate to an area with known inequalities?	☐	☒
Outcome (Where one or more 'Yes' boxes are ticked, the item is relevant to equality)		
Relevant to equality - Complete an EIA available at www.westberks.gov.uk/eia		☐
Not relevant to equality		☒

Is this item subject to call-in?	Yes: ☐	No: ☒
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		☒
Delays in implementation could have serious financial implications for the Council		☐
Delays in implementation could compromise the Council's position		☐
Considered or reviewed by Overview and Scrutiny Management Commission or associated Task Groups within preceding six months		☐
Item is Urgent Key Decision		☐
Report is to note only		☐

Executive Summary

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 2015/16 and borrowing limits for the next three years.

2. Proposals

2.1 The report proposes to increase the Council's maximum borrowing limits by £7 million (to £162 million) in 2015/16, by a further £7 million (to £169 million) in 2016/17 and by £3 million (to £172 million) in 2017/18. The increases in borrowing limits over the next three years are to allow for the planned level of borrowing to fund the proposed capital programme (also taking into account the planned level of debt repayment).

2.2 The report also recommends prudential limits for exposure to borrowing at fixed and variable rates of interest, the maturity structure of borrowing and parameters for the types and minimum credit ratings for institutions with which the Council will invest its funds. No changes are proposed to the main limits and parameters for 2015/16.

3. Equalities Impact Assessment Outcomes

3.1 This item is not relevant to equality.

4. Conclusion

4.1 The strategy sets the underlying principles by which the Council's annual investment and borrowing activity will be managed for the 2015/16 financial year. These proposals form part of the Council's overall Treasury and Capital Strategy and are aligned with the proposed Capital Strategy (also on this agenda) and the requirements of the Prudential Code.

4.2 A report on the actual performance of the Treasury Team in managing the Council's loans and investments for the whole of 2014/15 will be brought to Executive after the end of the financial year.

Executive Report

1. Introduction

1.1 This report proposes the Annual Investment and Borrowing Strategy for 2015/16, as required by the Local Government Act 2003. The strategy must be approved by full Council and made available to the public before the start of the financial year to which is relates. The strategy can be varied at any time, but any variations must be approved by the Council and made available to the public.

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 (availability of sufficient funds a day to day basis to support the Council's business)

(3) Yield (return on investment).

1.3 Effective treasury management supports the achievement of all 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. An annual report on treasury management performance for the year as a whole will also be presented to the Executive shortly after the end of the financial year.

2. Proposed Prudential Indicators for 2015/16

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 2015/16 and the following two financial years are shown below in comparison with the agreed level for 2014/15.

New Recommended Limits for External Debt		
	Authorised Limit	Operational Boundary
2014/15 Approved	£155 million	£145 million
2015/16 Proposed	£162 million	£152 million
2016/17 Proposed	£169 million	£159 million
2017/18 Proposed	£172 million	£162 million

2.5 The operational boundaries proposed above allow for the overall level of long term debt to fund capital expenditure (which is expected to be £117.7 million at the end of March 2015), plus the level of debt embedded in the PFI contract, which currently stands at £16 million, plus up to £15 million for temporary borrowing (for less than 364 days) for cashflow purposes during the course of the year. The authorised limit is set £10 million higher than the operational boundary to allow for any unforeseen borrowing needs.

2.6 The increases in the borrowing limits of £7 million in 2015/16, £7 million in 2016/17 and £3 million in 2017/18 reflect the new borrowing which is expected to be required over the next three years to fund the proposed capital programme 2015-2020 (also on this agenda). They also take account of the fact that new borrowing is offset by the repayments made against existing debts. More details of the Council's borrowing strategy are given in Section 4 (below).

2.7 The recommended limits for exposure to borrowing at variable and fixed rates of interest are as follows (unchanged from 2014/15):

Exposure to Variable Interest Rates	
	Upper Limit
2014/15	50%
2015/16	50%
2016/17	50%

Exposure to Fixed interest rates		
	Upper Limit	Lower Limit
2014/15	100%	50%
2015/16	100%	50%
2016/17	100%	50%

2.8 In practice, almost all Council borrowing is undertaken on fixed rates of interest. This includes all long term borrowing undertaken from the Public Works and Loans Board.

2.9 The recommended limits for the maturity structure of borrowing are as follows (unchanged from 2014/15):

	Lower Limit	Upper Limit
Under 1 Year	0%	50%
1 – 2 years	0%	50%
2 – 5 years	0%	50%
5 – 15 years	0%	50%
Over 15 years	0%	90%

3. Annual Investment Strategy for 2015/16

3.1 The purpose of the Annual Investment Strategy is to set out the policies to ensure 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.

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 Conduct Authority - FCA).

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.

3.4 The credit ratings and limits proposed for the categories of investments intended for use by the Council in 2015/16 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 at least F1 by Fitch or Prime 1 by Moody's	Not more than £5,000,000 per institution
UK Banks & Other Financial Institutions rated at least F2 by Fitch or Prime 2 or 3 by Moody's	Not more than £2,500,000 per institution
UK based Money Market Funds (AAA rated by Fitch or Moody's)	Not more than £5,000,000 per fund

3.5 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.

3.6 No changes are proposed to the existing limits for 2015/16. The Council relies on the ratings given by the Fitch ratings agency and has access to the Moody's ratings agency though its online resource too.

3.7 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.

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 at a fixed rate from the Public Works and Loans Board (PWLB). The PWLB currently offers the most competitive and secure rates of interest to local authorities. For example, the 40 year fixed annuity rate currently stands at 2.87% as at the 30 January 2015. (This includes the 0.20% "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 At the start of the current financial year the balance of the Council's loans from the PWLB was £107.4 million. This sum includes £20.5 million which is still outstanding from the debt inherited from the former Berkshire County Council (BCC). The former BCC 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 an annuity basis, which means a proportion of the principal debt is repaid every year. This provides greater certainty over the future level of loan repayments and avoids the future liability for repayment of the principal.

4.3 By March 2015, the PWLB loans balance is expected to increase by £10.3 million to £117.7 million. Part of this increase is to fund £9.7 million proposed capital spending for 2014/15 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 £4 million in respect of previous years' capital expenditure, which has not yet been financed from borrowing. However the new borrowing will be offset by approximately £3.4 million repayments against existing loans which will have been made by the end of the financial year.

4.4 The forecast balance of total long term debt at the end of March 2015, including that related to the PFI contract, is approximately £133.7 million.

4.5 Based on the current proposals for capital spending from 2015 to 2020 (as per the proposed Capital Strategy and Programme 2015-2020, also on this agenda), the Council's overall level of borrowing is expected to increase at a slower rate from 2015/16 onwards than in recent years. This is because the amount of principal repaid on annuity loans increases year on year, while the level of capital expenditure funded from borrowing is planned to decrease to around £5 million per year by 2017.

4.6 The overall level of debt to fund capital expenditure is currently expected to peak at around £143 million in 2021 (or £156 million including PFI debt). A summary of the current long term debt forecast is attached for information as Appendix A to this report. However it should be noted that these forecast figures will need to be revised if the Council's capital spending and financing plans change in future years.

Appendices

Appendix A - Long Term Debt Forecast

Consultees

Local Stakeholders: -

Officers Consulted: John Ashworth, Andy Walker

Trade Union: -