Investment and Borrowing Strategy 2016/17 Supporting Information

1. Introduction

1.1 This report proposes the Annual Investment and Borrowing Strategy for 2016/17, 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 is, therefore, monitored through regular reports to the Treasury Management Group of members and officers. An annual report on treasury management performance for the current financial year will also be presented to the Executive shortly after the end of the financial year.

2. Proposed Prudential Indicators for 2016/17

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 2016/17 and the following two financial years are shown below in comparison with the agreed level for 2015/16.

New Recommended Limits for External Debt		
	Authorised Limit	Operational Boundary
2015/16 Approved	£162 million	£152 million
2016/17 Proposed	£173 million	£163 million
2017/18 Proposed	£177 million	£167 million
2018/19 Proposed	£178 million	£168 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 £133 million at the end of March 2017), plus the level of debt embedded in the PFI contract, which currently stands at £15 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 £11 million in 2016/17, £4 million in 2017/18 and £1 million in 2018/19 reflect the new borrowing which is expected to be required over the next three years to fund the proposed capital programme 2016-2021 (also on this agenda). The increase in the borrowing limit in 2016/17 is now £3 million higher than previously estimated because of the proposal to use capital receipts in 2016/17 to offset the cost of transforming and restructuring services to generate revenue savings. The use of capital receipts for this purpose means that it will be necessary to borrow more in 2016/17 to fund capital expenditure. The proposed borrowing limits also take account of repayments of existing debts which will be made each year. 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 2015/16):

Exposure to Variable Interest Rates	
	Upper Limit
2016/17	50%
2017/18	50%
2018/19	50%

Exposure to Fixed interest rates		
	Upper Limit	Lower Limit
2016/17	100%	50%
2017/18	100%	50%
2018/19	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 2015/16):

	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 2016/17

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 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’.

3.4 The credit ratings and limits proposed for the categories of investments intended for use by the Council in 2016/17 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 Prime 1 by Moody's	Not more than £5,000,000 per institution
UK Banks & Other Financial Institutions rated at least Prime 2 by Moody's	Not more than £4,000,000 per institution
UK Banks & Other Financial Institutions rated at least Prime 3 by Moody's	Not more than £3,000,000 per institution
UK based Money Market Funds (AAA rated by 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 There is no change to the maximum limit to be invested with any one institution in 2016/17. However as we changed the main credit rating agency on which we rely in 2015/16 from Fitch to Moody’s, we have also reviewed the limits for investment with banks rated P2 and P3 by Moody’s and propose to amend the maximum limit for banks rated P2 from £2,500,000 to £4,000,000 and for P3 from £2,500,000 to £3,000,000. This will mean that the maximum to be invested with Nat West who are our main bankers will be £4,000,000 and the bank limits will also be brought in line with the existing building society limits.

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.

3.8 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 such as 24 months 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 50 year fixed annuity rate currently stands at 3.16% as at the 17th February 2016. (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 £115.7 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 £325,000 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 2016, the PWLB loans balance is expected to have increased by £10.4 million to £126.1 million. Part of this increase is to fund £12.5 million proposed capital spending for 2015/16 which is not funded from grants, capital receipts or other external sources of capital funding. £2 million was also borrowed in October

2015 in respect of previous years' capital expenditure, which has not yet been financed from borrowing. However the new borrowing will be offset by approximately £4.1 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 2016, including that related to the PFI contract, is approximately £141.6 million.

4.5 Based on the current proposals for capital spending from 2016 to 2021 (as per the proposed Capital Strategy and Programme 2016-2021, also on this agenda), the Council's overall level of borrowing is expected to increase at a slower rate from 2016/17 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 £6 million per year by 2018.

4.6 The overall level of debt to fund capital expenditure is currently expected to peak at around £145 million by 2024. The forecast peak level of borrowing is now £2 million higher and three years later than previously forecast because of the proposal to use capital receipts in 2016/17 to offset the cost of transforming and restructuring services to generate revenue savings. A summary of the current long term debt forecast is attached for information in Appendix C 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.

Subject to Call-In:
Yes: ☐ No: ☒

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	☐

Strategic Aims and Priorities Supported:

The proposals will help achieve the following Council Strategy aim:

☒ **MEC – Become an even more effective Council**

The proposals contained in this report will help to achieve the following Council Strategy priority:

☒ **MEC1 – Become an even more effective Council**

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Appendix B

Equality Impact Assessment - Stage One

We need to ensure that our strategies, polices, functions and services, current and proposed have given due regard to equality and diversity.

Please complete the following questions to determine whether a Stage Two, Equality Impact Assessment is required.

Name of policy, strategy or function:	Investmentand Borrowing Strategy 2016/17
Version and release date of item (if applicable):	Version 1 19th January 2016
Owner of item being assessed:	Gabrielle Esplin
Name of assessor:	
Date of assessment:	

Is this a:		**Is this:**	
Policy	**No**	**New or proposed**	**No**
Strategy	**Yes**	**Already exists and is being reviewed**	**Yes**
Function	**No**	**Is changing**	**No**
Service	**No**		

1. What are the main aims, objectives and intended outcomes of the policy, strategy function or service and who is likely to benefit from it?	
Aims:	To ensure that the Council's cash flow, banking, money market transactions, loans and investments are effectively managed.
Objectives:	To maximise the return on the Council's investments while ensuring sufficient liquidity and minimising the risks to the Council's resources
Outcomes:	To achieve the maximum level of investment income while protecting the principal sum of the Council's investments
Benefits:	To contribute to the Council's revenue income and to ensure that sufficient funds are available for the day to day running of Council services

2. Note which groups may be affected by the policy, strategy, function or service. Consider how they may be affected, whether it is positively or negatively and what sources of information have been used to determine this. (Please demonstrate consideration of all strands – Age, Disability, Gender Reassignment, Marriage and Civil Partnership, Pregnancy and Maternity, Race, Religion or Belief, Sex and Sexual Orientation.)		
Group Affected	**What might be the effect?**	**Information to support this**
Further Comments relating to the item:		
Effective treasury management supports the achievement of all the Council's service objectives, but does not impact directly on any one service or group of service users.		

3. Result	
Are there any aspects of the policy, strategy, function or service, including how it is delivered or accessed, that could contribute to inequality?	**No**
Please provide an explanation for your answer: The investment and borrowing strategy does not impact directly on any one service or group of employees or service users	
Will the policy, strategy, function or service have an adverse impact upon the lives of people, including employees and service users?	**Yes/No**
Please provide an explanation for your answer: The investment and borrowing strategy does not impact directly on any one service or group of employees or service users	

If your answers to question 2 have identified potential adverse impacts and you have answered 'yes' to either of the sections at question 3, or you are unsure about the impact, then you should carry out a Stage 2 Equality Impact Assessment.

If a Stage Two Equality Impact Assessment is required, before proceeding you should discuss the scope of the Assessment with service managers in your area. You will also need to refer to the Equality Impact Assessment guidance and Stage Two template.

4. Identify next steps as appropriate:	
Stage Two required	No
Owner of Stage Two assessment:	

Timescale for Stage Two assessment:	
Stage Two not required:	

Name: Gabrielle Esplin **Date:**11th January 2016

Please now forward this completed form to Rachel Craggs, the Principal Policy Officer (Equality and Diversity) for publication on the WBC website.