
Investment and Borrowing Strategy 2017-18

Supporting Information

1. Introduction

- 1.1 This report proposes the Annual Investment and Borrowing Strategy for 2017/18, 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 it 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 cross party 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 2017/18

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.

- 2.1 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:

2.2 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.

2.3 The recommended limits for external debt for 2017/18 and the following two financial years are shown below in comparison with the agreed level for 2016/17.

New Recommended Limits for External Debt		
	Authorised Limit	Operational Boundary
	£ million	£ million
2016/17 Approved	173	163
2017/18 Proposed	226	216
2018/19 Proposed	233	223
2019/20 Proposed	235	225

2.4 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.

2.5 The increase in the borrowing limits of £53 million in 2017/18 allows for £8 million which is planned to be borrowed in 2017/18 to fund the proposed 2017/18 capital programme less £5m repayments of existing loans planned to be made in 2017/18 plus £50 million which may be required to be borrowed for investment in commercial property, in line with the proposed property investment strategy. (This amount has not yet been included in the capital programme, as the property investment strategy has not yet been finalised). In addition, the borrowing limits are proposed to be increased by £7 million in 2018/19 and £2 million in 2019/20 reflect the new borrowing which is expected to be required in those years to fund the proposed capital programme, less loan repayments planned to be made in those years. More details of the Council's borrowing strategy are given in Section 4 (below).

2.6 The recommended limits for exposure to borrowing at variable and fixed rates of interest are as follows (unchanged from 2016/17):

Exposure to Variable Interest Rates	
	Upper Limit
2017/18	50%
2018/19	50%
2019/20	50%

Exposure to Fixed interest rates		
	Upper Limit	Lower Limit
2017/18	100%	50%
2018/19	100%	50%
2019/20	100%	50%

- 2.7 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.
- 2.8 The recommended limits for the maturity structure of borrowing are as follows (unchanged from 2016/17):

	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 2017/18

- 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 2017/18 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 2017/18.
- 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. Proposed Borrowing Strategy for 2017/18

- 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 stood at 2.81% on the 6th February 2017. (This includes the 0.20% "certainty" discount which is currently 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 £126.1 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 planned to be £371k per year on average over the next seven years. All loans taken out by West Berkshire Council since 2006, 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 2017, the PWLB loans balance is expected to have increased by £6.4 million to £132.6 million. This increase is to fund £10.7 million proposed capital spending for 2016/17 which is not funded from grants, capital receipts or other external sources of capital funding. However the new borrowing will be offset by approximately £4.2 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 2017, including that related to the PFI contract, is approximately £147.5 million.
- 4.5 The overall level of debt to fund capital expenditure is currently expected to peak at around £151 million by 2021. (This figure does not include proposed additional borrowing to fund investment in commercial property. The effect of this investment on overall Council borrowing levels will be explained in more detail in the strategy for property investment which will be presented to a later meeting of the Executive). A chart showing the current long term debt forecast (with and without potential borrowing to fund investment in commercial property) 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	<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	<input type="checkbox"/>

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**

Officer details:

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Appendix B

Equality Impact Assessment - Stage One

We need to ensure that our strategies, policies, 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:	Investment and Borrowing Strategy
Version and release date of item (if applicable):	Version 1 19 January 2017
Owner of item being assessed:	Gabrielle Esplin
Name of assessor:	Gabrielle Esplin
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	Yes
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:	
Objectives:	
Outcomes:	
Benefits:	

<p>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.</p> <p>(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.)</p>
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Group Affected	What might be the effect?	Information to support this
	No service users are directly affected by this strategy	
Further Comments relating to the item:		

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: No service users are directly affected by this strategy	
Will the policy, strategy, function or service have an adverse impact upon the lives of people, including employees and service users?	No
Please provide an explanation for your answer: No service users are directly affected by this strategy	

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	
Owner of Stage Two assessment:	
Timescale for Stage Two assessment:	
Stage Two not required:	

Name: Gabrielle Esplin

Date: 19 January 2017

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