
Investment and Borrowing Strategy 2018-19

Supporting Information

1. Introduction

- 1.1 This report proposes the Annual Investment and Borrowing Strategy for 2018/19, 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.
- 1.4 The Council has also adopted a strategy for investment in Commercial Property. A revised version of this strategy is due to be approved by the Council on the 1st March 2018. The criteria for investment contained in the Property Investment Strategy are different from those for cash based investments, which are set out in this report. However the strategy for borrowing covered by this report also applies to borrowing which may be undertaken to fund investment in property.

2. Proposed Prudential Indicators for 2017/18

- 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 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 £ million	Operational Boundary £ million
2017/18 Approved	226	216
2018/19 Proposed	233	223
2019/20 Proposed	239	229
2019/20 Proposed	243	233

- 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 £157 million at the end of March 2018, plus the level of debt embedded in the PFI contract, which currently stands at £14 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 operational boundary and authorised limit were increased by an additional £50m in 2017/18 to allow for additional borrowing for investment in commercial property, in line with the property investment strategy which was approved by the Executive in May 2017. Only £19m of this sum is expected to have been borrowed by 31st March 2018 and an additional sum up to £31m is expected to be borrowed during the course of 2018/19.

- 2.7 The proposed increase in the borrowing limits of £7 million in 2018/19 allows for £12m which planned to be borrowed in 2018/19 to fund the proposed 2018/19 capital programme less £5m repayments of existing loans planned to be made in 2018/19. In addition, the borrowing limits are proposed to be increased by £6 million in 2019/20 and £4 million in 2020/21 to 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).
- 2.8 The recommended limits for exposure to borrowing at variable and fixed rates of interest are as follows (unchanged from 2017/18):

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%

- 2.9 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.
- 2.10 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 2018/19

- 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 2018/19 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
UK NHS Trusts	Not more than £15,000,000 per trust (subject to individual lending agreement to be approved by Executive)
CCLA Local Authorities Property Fund	Not more than £3,000,000 (subject to further due diligence review to be approved by Treasury Management Group)

- 3.5 Two changes are proposed to these investment criteria for 2018/19. The first of these is to allow the Council to invest up to £15 million with NHS trusts. However, specific loan agreements will need be drawn up to cover any such arrangements, which will be subject to Executive approval.
- 3.6 The second proposed change is to add the CCLA Local Authorities Property fund to the list of institutions which the Council can invest. This approach would represent a slightly higher risk and less liquid investment than the Council's current portfolio of cash investments. However, based on the experience of other local authorities who have invested in this fund, it has the potential to offer a yield of around 4% per year, provided we invest for at least 2 years. In order to mitigate the risk of this investment, an initial limit for investment in the fund of £3,000,000 is proposed. (This represents 15% of the average investment fund balance to date in 2018/19). Before committing to investing in the fund also we intend to commission an independent treasury advisor to assess the risk of this investment in more detail. Subject to review and approval of this assessment by Treasury Management Group we may then decide to invest in the fund if and when sufficient funds are available.
- 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.
- 3.9 The proposed investment limits summarised 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.

4. Proposed Borrowing Strategy for 2018/19

- 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 stood at 2.81% on the 7th February 2018. (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 £132.6 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 £308k per year on average over the next six years. All loans taken out by West Berkshire Council between 2006 and September 2017 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 This strategy proposes to continue to borrow on an annuity basis for the purposes of funding capital investment on operational assets. However, the Property Investment Strategy which was approved by the Executive in May 2017 is based on the principle of taking maturity (interest only) loans to fund investment property with the intention that when the loan is due to be repaid, the asset will either be sold or refinanced on the strength of additional future income.
- 4.4 By March 2018, the PWLB loans balance is expected to have increased by £24.2 million to £156.8 million. This increase is to fund £9.7 million proposed capital spending on operational assets and £19.3m expenditure for purchase of investment property 2017/18. The new borrowing will be offset by approximately £4.8 million repayments against existing loans which will have been made by the end of the financial year.
- 4.5 The forecast balance of total long term debt at the end of March 2018, including that related to the PFI contract, is approximately £171.1 million.
- 4.6 The Council's total long term debt to fund is currently expected to peak at around £217.6 million by 2021 (including up to £30 million expected to be borrowed in 2018/19 to fund investment in commercial property). Appendix C to this report contains three charts showing the long term forecast for new borrowing and principal repayments, long term levels of overall debt and the total revenue cost of principal and interest repayments. 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.
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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 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"/>

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 2018
Owner of item being assessed:	Gabrielle Esplin
Name of assessor:	Gabrielle Esplin
Date of assessment:	24 January 2018

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:	To set policies and parameters for investment and borrowing carried out by the council
Objectives:	To maximise returns on investments while minimising risk and ensuring availability of sufficient funds a day to day basis to support the Council's business; to ensure that borrowing undertaken by the Council is affordable, controlled and for appropriate purposes.
Outcomes:	Income earned to support the Council's revenue budget; Council cash balances protected; sufficient funds are available for the Council's day to day activities and for investment in capital assets.
Benefits:	Effective treasury management supports the achievement of all the Council's service objectives

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
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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
	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 directly affected	
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 directly affected	

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.

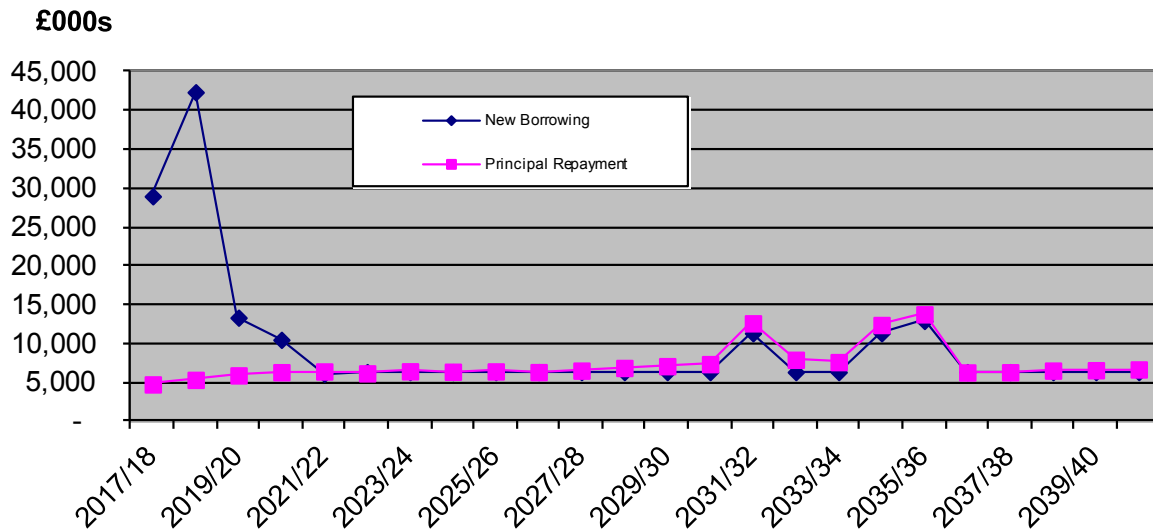
If a Stage Two Equality Impact Assessment is required, before proceeding you should discuss the scope of the Assessment with service managers in your area. You will also need to refer to the Equality Impact Assessment guidance and Stage Two template.

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: 19 January 2018

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

Chart 1: Forecast of New Borrowing and Principal Repayment

N.B The spikes in 2018 relates to additional borrowing for investment in property and those in 2031, 2034 and 2035 relate to the future repayment of maturity loans.

Chart 2: Total Long Term Total Debt (Including PFI Debt)