
Investment and Borrowing Strategy 2019-20

Supporting Information

1. Introduction/Background

- 1.1 This appendix sets out the proposed the Investment and Borrowing Strategy for 2019/20, as required by the Local Government Act 2003.
- 1.2 The Council is required to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice and Prudential Code. This requires the Annual Investment and Borrowing Strategy to 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.
- 1.3 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).
- 1.4 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.
- 1.5 The Council has also approved a revised Property Investment Strategy in July 2018. The criteria for investment in property, are different from those for cash based investments. However the strategy for borrowing set out in this appendix also applies to borrowing to fund investment in property.

2. Proposed Prudential Indicators for 2019/20

- 2.1 The CIPFA Prudential Code (last revised in December 2017) requires the Council to include the following prudential limits in its Investment and Borrowing Strategy:
 - (1) Authorised limit for total external debt - the maximum amount the Council may borrow

- (2) Operational boundary for its total external debt - the most money the Council would normally borrow at any time during the year.
- (3) Exposure to borrowing at variable rates of interest.
- (4) Exposure to borrowing at fixed rates of interest.
- (5) Maturity structure of borrowing.
- (6) Levels of External Debt:

2.2 An annual increase in borrowing is 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 2019/20 and the following two financial years are shown below in comparison with the agreed level for 2018/19.

New Recommended Limits for External Debt		
	Authorised Limit £ million	Operational Boundary £ million
2018/19 Approved	283	273
2019/20 Proposed	283	273
2020/21 Proposed	286	276
2021/22 Proposed	288	278

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 £203 million at the end of March 2019, 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 cash flow 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 operational boundary and authorised limit were increased by an additional £50m in 2017/18 and then by a further £50 million in July 2018 to allow for borrowing for investment in commercial property, in line with the approved Property Investment Strategy. £22 million of this sum was borrowed by 31st March 2018; a further £43 million is expected to be borrowed for commercial property by the end of March 2019 and the remaining £35 million in 2019/20.

2.6 Because of the re-profiling of some capital spend, as explained in the Capital Strategy, the total amount to be borrowed in 2018/19 is lower than was expected when the approved 2018/19 borrowing limits were set. For this reason it is not necessary to increase the borrowing limits for 2019/20 in order to accommodate the planned level of borrowing to fund capital expenditure in 2019/20, less the amount of debt due to be repaid. However it is proposed to increase the borrowing limits for 2020/21 by £3 million, to allow for planned new borrowing of £10 million to fund capital expenditure less £7 million scheduled debt repayments. The borrowing limits for 2021/22 are also proposed to be increased by a further £2 million to allow

for £9 million to fund capital expenditure less £7 million scheduled debt repayments. 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 2018/19):

Exposure to Variable Interest Rates	
	Upper Limit
2019/20	50%
2020/21	50%
2021/22	50%

Exposure to Fixed interest rates		
	Upper Limit	Lower Limit
2019/20	100%	50%
2020/21	100%	50%
2021/22	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 2018/19):

	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 2019/20

- 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:
- (1) Denominated in sterling.
 - (2) To be repaid or redeemed within 12 months of the date on which the investment was made
 - (3) Do not involve the acquisition of share capital or loan capital in any body corporate.
 - (4) 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).

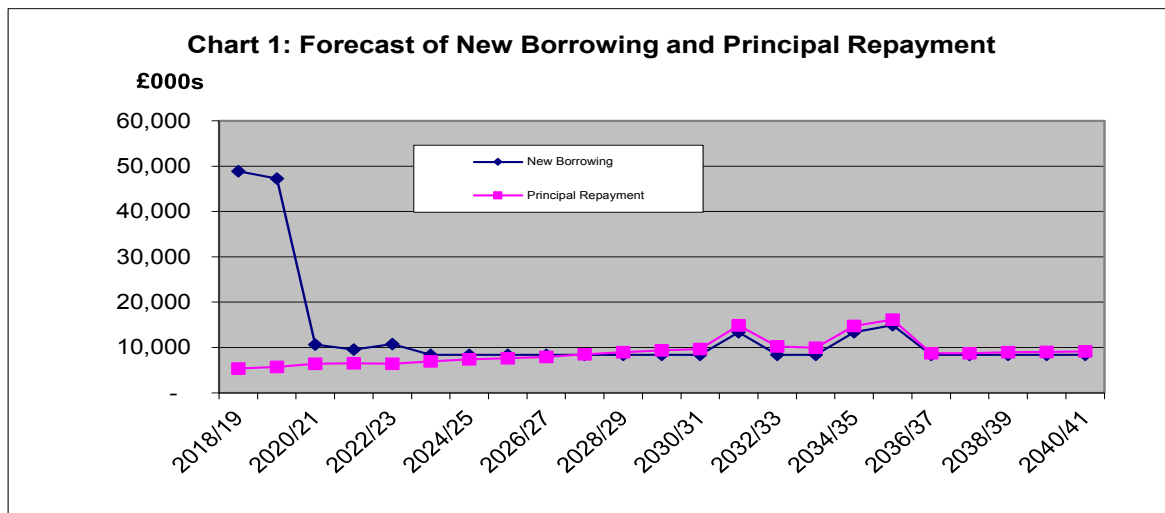
- 3.3 Any investments that do not meet the criteria defined in paragraph 3.2 above are classified as 'Non-specified Investments'.
- 3.4 The credit ratings and limits proposed for the categories of investments intended for use by the Council in 2019/20 are unchanged from 2018/19 as follows:

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

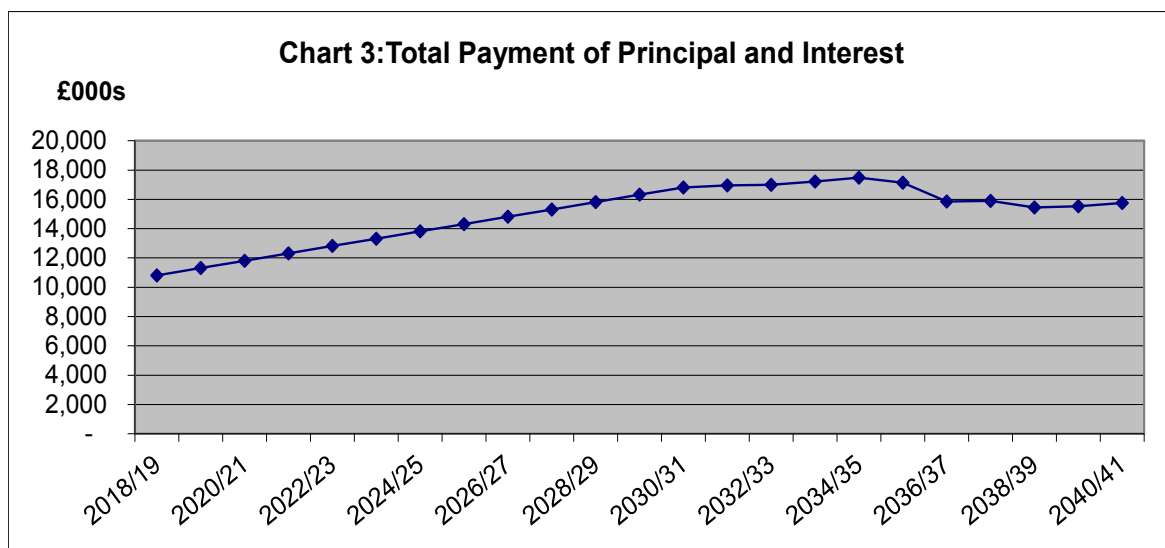
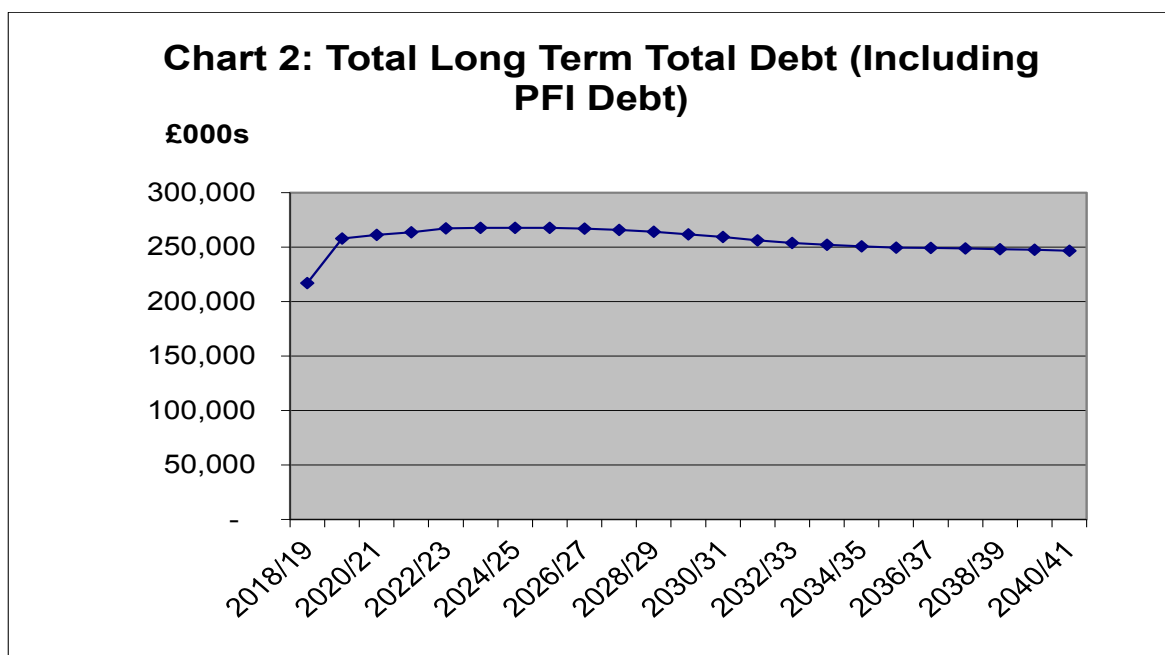
- 3.5 The period for which funds are invested is determined by the cash flow needs of the Council. Funds are invested for as long as possible, in order to maximise the rate of return, while still ensuring that sufficient funds are available to meet the Council's outgoings. The normal maximum period for which funds may prudently be committed is 12 months.
- 3.6 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.
- 3.7 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 2019/20

- 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 30 year fixed annuity rate currently stood at 2.49% on the 14th December 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 2018/19 the balance of the Council's loans from the PWLB was £159.6 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 £316k per year on average over the next six years. All loans taken out by West Berkshire Council from 2006 onwards to fund capital expenditure on operational assets have been on an annuity basis, which means that 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. It is proposed to continue to borrow on an annuity basis for the purposes of funding capital investment on operational assets for the duration of this strategy.
- 4.3 Borrowing to fund investment properties is undertaken on a maturity (interest only) basis. £22 million was borrowed for this purpose in 2017/18, £43 million is planned to be borrowed by the end of 2018/19 and £35 million in 2019/20. Interest on these loans is made from the revenue budget for Investment Property. Annual provision is also planned to be made from this revenue budget to allow for the repayment of these loans at the end of their term. The interest payments and provision for future repayment of these loans do not, therefore, form part of the revenue budget for capital financing.
- 4.4 By March 2019, the PWLB loans balance is expected to have increased by £43.5 million to £203.1 million. This increase is to fund £6.1 million proposed capital spending on operational assets and £42.7m expenditure for purchase of investment property 2018/19. The new borrowing will be offset by approximately £5.3 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 2019, including that related to the PFI contract, is approximately £216.8 million.
- 4.6 The following three charts show 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 (excluding PFI and investment property debt).



Note: the spikes on 2032, 2035 and 2036 relate to the repayment of former Berkshire County Council maturity loans



4.7 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.

5. Conclusion

- 5.1 The strategy sets the underlying principles by which the Council's annual investment and borrowing activity will be managed for the 2019/20 financial year. The implementation of this strategy will be reviewed during the coming financial year by the cross party Treasury Management Group.
- 5.2 A report on the actual performance of the Treasury Team in managing the Council's loans and investments for the whole of 2018/19 will be brought to Executive after the end of the financial year.

6. Consultation and Engagement

- 6.1 Andy Walker – Head of Finance

Background Papers:

Capital Strategy and Programme 2019-20 to 2021-22 (also on this agenda)

Medium Term Financial Strategy 2019-20 to 2021-22 (also on this agenda)

Subject to Call-In:

Yes: ☐ No: X

The item is due to be referred to Council for final approval	X
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:

X MEC – Become an even more effective Council

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

X MEC1 – Become an even more effective Council

Officer details:

Name: Shannon Coleman-Slaughter

Job Title: Chief Financial Accountant

Tel No: 01635 519225

E-mail Address: Shannon.colemanslaughter@westberks.gov.uk
