Supplemental Items for Governance Committee

Monday 29th January 2024 at 6.30 pm

in Council Chamber Council Offices
Market Street Newbury

Part I

Sarah Clarke
Service Director (Strategy & Governance)
For further information about this/these item(s), or to inspect any background documents referred to in Part I reports, please contact Sadie Owen (Principal Democratic Services Officer) on 01635 519052 e-mail: sadie.owen1@westberks.gov.uk

Further information and Minutes are also available on the Council's website at www.westberks.gov.uk

West Berkshire COUNCIL

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Note: These Minutes will remain DRAFT until approved at the next meeting of the Committee

GOVERNANCE COMMITTEE

MINUTES OF THE SPECIAL MEETING HELD ON MONDAY 13 NOVEMBER 2023

Councillors Present: Erik Pattenden (Chairman), Howard Woollaston (Vice-Chairman), Dominic Boeck, Jeremy Cottam, Owen Jeffery, David Marsh, Christopher Read, Louise Sturgess, Simon Carey, Bill Graham and David Southgate

Also Present: Sarah Clarke (Service Director (Strategy and Governance)), Stephen Chard (Democratic Services Manager) and Richard Lingard (Independent Investigator)

PART I

1 Declarations of Interest

There were no declarations of interest received. The Chairman noted that some of the Members of this Committee were present at the Executive meeting on 23 March 2023.

2 NDC0823

The Committee considered a report (Agenda Item 3) concerning a complaint regarding an alleged breach of the West Berkshire Council (WBC) Code of Conduct.

The Committee was required to determine whether a breach of the Code had occurred after considering the Investigator's report about a complaint received from the then Councillor Lynne Doherty (Complainant) in respect of Councillor Adrian Abbs (Subject Member) from West Berkshire Council submitted on 29 March 2023.

Should the Committee determine that a breach of the Code had occurred they would need to determine an appropriate sanction.

Presentation from Independent Investigator

The Independent Investigator, Mr Richard Lingard, presented his report and highlighted the following points:

- He clarified that this was the final version of his report. The reference to 'draft' was in error. The report would be amended prior to publication on the Council's website.
- There was no material dispute of the facts of the case. The proceedings took place in a public meeting and the meeting was livestreamed.
- Mrs Doherty had expressed the view that the behaviour of Councillor Abbs amounted to three breaches of the Council's Code of Conduct. Namely lack of respect, bullying and bringing the Council into disrepute. Mr Lingard did not consider any other aspect of the Code.
- He interviewed both Mrs Doherty and Councillor Abbs, and the findings from the interviews were contained within the report.
- Mr Lingard had further explored whether the contention of Councillor Abbs that he had no opportunity for debate was correct. He consulted Nicola Thomas, the Deputy Monitoring Officer, who advised him that Councillor Abbs would have been given the opportunity to ask a supplementary question of the then Councillor Steve Ardagh-Walter.

- Mr Lingard agreed that Councillor Abbs had been disrespectful to Councillor Ardagh-Walter. He also formed the view that Councillor Doherty did not handle the situation as well as she might have done in the circumstances.
- Mr Lingard's draft report had been shared with Mrs Doherty and Councillor Abbs for comment prior to it being finalised. Mr Lingard took on board the feedback from Mrs Doherty and, on balance, agreed that Councillor Abbs had been disrespectful to her as well as Councillor Ardagh-Walter. Councillor Abbs had raised this change of position as a matter of concern and in response Mr Lingard advised that the sharing of the draft report allowed for amendments to be made if felt appropriate. He added that the reflection of this point did not change the outcome of his report.
- Mr Lingard did not find evidence of bullying by Councillor Abbs and did not agree that he had brought the Council into disrepute.

Questions of Mr Lingard

Mr Lingard made the following points in response to questions from Committee Members:

- In response to a question relating to the ability to enter into debate or ask questions, Mr Lingard made clear the point raised by Councillor Abbs that he felt unable to ask further questions or continue an exchange of views.
- Mr Lingard did consider and observe that tensions were building in the meeting prior to the incident.
- While reference was made in the Code of Conduct to bullying and intimidation, Mr Lingard clarified that the allegation was of bullying. He did not feel that the behaviour equated to bullying or intimidation.
- Mr Lingard did not feel there to be a significant difference between the need to demonstrate courtesy and respect. As stated he found that Councillor Abbs had been disrespectful.
- Mr Lingard confirmed that he did note a level of exchange between Councillors of different parties prior to the incident. However, he explained that he did not view the full recording of the meeting. His focus was primarily on the incident in question.
- It was clarified that there were seven Nolan Principles of Public Life. The West Berkshire Council Code of Conduct listed ten.

Mr Lingard made the following points in response to questions from Mrs Doherty:

- Mrs Doherty stated that her complaint referred to bullying and intimidation. She asked Mr Lingard for his view on whether intimidation had taken place. Mr Lingard explained that he could only form his views on what he was able to see and hear of the meeting. The microphones had been turned off at one stage and therefore he could not form a view on bullying or intimidation based on what was said at that point. He reiterated his finding of disrespect.
- Mrs Doherty queried if other witnesses had been questioned on what was said after the meeting had been adjourned. Mr Lingard explained that he did not do so. He needed to use his judgement on whether a breach had occurred.

Mr Lingard made the following points in response to questions from Councillor Abbs:

- Councillor Abbs returned to the point that the draft of the report did not find disrespect towards Mrs Doherty, only Councillor Ardagh-Walter. He queried if this change was made after Mr Lingard consulted Mrs Doherty. Mr Lingard confirmed this to be the case. He reiterated that comments were sought on the draft report and he felt it appropriate to modify his view based on comments from Mrs Doherty.

Complainant presentation:

Mrs Doherty made the following points:

- She had served as a West Berkshire Council Member for eight years and, as with all elected Members, had signed up to the Council's Constitution and its rules.
- She referred to the written response of Councillor Abbs in which he expressed objection to the Constitution as regards debate.
- Mrs Doherty highlighted the importance of respecting the Council's rules/its Constitution, the alternative could result in a breakdown in democracy. She pointed out that the Constitution had been worked on by a cross-party group of Members and the revised documentation recently approved by the Council.
- Mrs Doherty expressed the view that holding the position of an elected Councillor applied either during a formal meeting or after a meeting had closed.
- Mrs Doherty had chaired many meetings and in the high majority of cases respect for and listening to the Chairman were in place.
- It could be seen from the recording of the meeting that Councillor Steve Ardagh-Walter made attempts to respond to the questions raised but Councillor Abbs prevented him from doing so.
- At the Executive meeting, Mrs Doherty sought advice from the Legal representative and the Chief Executive as to how to proceed and her actions were based on that advice.
- Referring to the point of intimidation, Mrs Doherty stated that she felt very uncomfortable as she walked past Councillor Abbs when the Executive had been adjourned. The type of behaviour shown and the lack of respect were deterrents when seeking to attract more female councillors.
- Councillor Abbs had given the view that Mrs Doherty had taken a personal choice of actions. However, this was not the case, she followed the Council's rules and the advice of officers. Mrs Doherty advised that she always sought to enable debate, whilst at the same time keeping to the agenda and dealing with the business of a meeting in a timely manner.
- She felt there was a complete and utter lack of respect shown for Councillor Ardagh-Walter and herself. Mrs Doherty restated her view that she felt intimidated.

Questions of Mrs Doherty

Mrs Doherty made the following points in response to questions from Committee Members:

- Reference was made to Mrs Doherty's written comments to the Investigator that this was not an isolated incident and was asked for further detail on that point. Mrs Doherty considered that Councillor Abbs had struggled to follow debating rules on many occasions. She felt there were many examples of Councillor Abbs interrupting and talking over others, and not listening to the chairperson of the meeting. She did make use of the gavel at an early stage in an effort to stop the situation from escalating. This was partly based on her previous experience.
- The following question related to whether there had been a build up of tensions at meetings, particularly during the period of time leading up to the elections in May 2023. Mrs Doherty agreed this had been a tense period of time and debates had, at

times, become heated. However, she added that despite this, others had remained respectful.

- In reflecting on her own conduct, Mrs Doherty stated that she had sought officer advice on the actions she could take to manage a meeting and this included the use of the gavel in the first instance followed by standing up if necessary. She had also sought the advice of experienced chairmen on such matters. The officer advice at the meeting was to adjourn and ask Councillor Abbs to leave.

Subject Member Presentation:

Councillor Abbs made the following points:

- He acknowledged that an interruption had occurred. However, this was not unusual at Executive meetings during the period 2019 – 2023. Councillor Abbs stated that he was not the only offender.
- The handling of the Executive meeting was not usual. This was how the Executive was run by the previous Administration. Mrs Doherty was very quick to use the gavel and not for the first time. He did not believe that the correct process had been followed. He accepted that Mrs Doherty sought and received advice from officers, but did not follow the Constitution's rules in asking him to leave.
- It was extremely difficult to hold a full knowledge of the Constitution.
- Reflecting on the 2019-2023 period, Councillor Abbs felt it was difficult to identify when debate was allowed at the Executive. Formal written questions could be submitted and supplementary questions could be asked, but from his experience it was generally not possible to ask supplementary questions outside of this. This had changed for the better since May 2023 with the new Administration.
- Councillor Abbs acknowledged that the period running up to the elections was a stressful time that included the setting of the Budget.
- Councillor Abbs did not accept that he had acted in an intimidating manner. He had not stood up to address Mrs Doherty, he had only turned towards her as she left the Chamber after the meeting had been adjourned and he had been asked to leave.
- He questioned the need for this process, and the time and money that had been spent on it. Councillor Abbs felt it was being used to try and discredit him.

Questions of Councillor Abbs

Councillor Abbs made the following points in response to questions from Committee Members:

- Councillor Abbs could recall many occasions when there had been a heated exchange between Members. He therefore restated his view that the nature of the Executive meeting held in March 2023 was not unusual.
- Councillor Abbs also reiterated that there was not the opportunity for debate at meetings of the Executive.
- Councillor Abbs was disappointed that the points he made during the 2019-2023 period were often considered to be politically motivated by the Administration. He had chosen to become an independent Councillor as he wanted to move away from having politics within processes. He felt that the Constitution could be improved.
- It was for the Chairman of a meeting to set the tone of a meeting and allow for an open, fair and inclusive process. The absence of this would likely result in difficulties.

- With hindsight, Councillor Abbs stated that he should have remained in the Chamber until the proper process had been followed and the reference to the Constitution made clear. The matter of him being removed from the meeting should have been put to a vote.

Councillor Abbs made some concluding comments. There had been a build up of tension, in particular the period from December 2022 until May 2023. The tone set at Executive meetings was a source of frustration.

The point had been made about the management of lengthy agendas which constricted debate. Councillor Abbs voiced a preference for more time to allow proper debate to help inform sound decision making, rather than being restricted to question and answer sessions.

(The meeting was adjourned at 6.55pm to consider if a breach had occurred. The meeting reconvened at 7.40pm.)

Councillor Erik Pattenden confirmed that after careful consideration of both the written evidence submitted and the oral evidence given at the hearing, the Committee found that, in respect of the complaint made by Mrs Lynne Doherty (formerly Councillor Doherty of West Berkshire Council) on 29 March 2023, Councillor Adrian Abbs had breached WBC's Code of Conduct.

In reaching that decision, the Committee resolved that they concurred with the Investigator's finding that Councillor Abbs breached paragraph 4.1(a) of the Council's Code of Conduct:

'Councillors and Co-Opted Members must treat councillors, co-opted members, officers, members of the public and service providers with courtesy and respect.'

<u>Reason:</u> The Committee unanimously agreed with the finding of the Investigator that Councillor Abbs had failed to show courtesy and respect to Councillor Steve Ardagh-Walter and Mrs Doherty by interrupting and talking over them.

The majority of the Committee concurred with the Investigator's finding that Councillor Abbs did not breach paragraphs 4.2(a) or 4.2(f) of the Council's Code of Conduct:

4.2(a) 'Councillors and Co-opted Members must not engage in bullying or intimidating behaviour or behaviour which could be regarded as bullying or intimidation.'

4.2(f) 'Councillors and Co-opted Members must not conduct themselves in a manner which could reasonably be regarded as bringing their office or the Council into disrepute.'

Sarah Clarke then outlined the possible sanctions that could be applied as a breach of the Code of Conduct had been found. She explained that the Governance Committee's Advisory Panel recommended that a formal letter be sent from the Chairman of the Governance Committee to Councillor Abbs indicating the failure to comply with the Code. This was however a matter for this Committee to determine.

Councillor Abbs was then asked for any comments on the sanctions that could be applied or other statements by way of mitigation.

In response, Councillor Abbs stated his disappointment at this outcome. He repeated his view that the tone of the Executive meeting (set by the previous Administration) was not unlike other meetings.

(The meeting was adjourned at 7.48pm to consider the sanctions to be applied. The meeting reconvened at 8.00pm.)

Councillor Pattenden confirmed that he would send a formal letter to Councillor Abbs, as Chairman of the Governance Committee, indicating the failure of Councillor Abbs to comply with Paragraph 4.1(a) of the West Berkshire Council Code of Conduct.

(The meeting commenced at 6.00pm and closed at 8.02pm)

CHAIRMAN …………………………………………….

Date of Signature …………………………………………….

Agenda Item 7

Investment & Borrowing Strategy Financial Year 2024-25

Committee considering report:	Council
Date of Committee:	29 February 2024
Portfolio Member:	Councillor Iain Cottingham
Date Portfolio Member agreed/sent report:	12 January 2024
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	G4444

1 Purpose of the Report

1.1 The report seeks to consolidate the investments and borrowing strategy for the year ahead by detailing how and where the Council will invest and borrow in the forthcoming year, within a particular framework. This strategy is monitored throughout the year, with a mid-year report going to the Government Committee as well as an annual report being presented to Members.

1.2 The report also has a statutory footing under the Local Government Act 2003. The Council must have an approved (by Full Council) Investment and Borrowing Strategy (or similar) for the forthcoming financial year. The Council is also required to comply with other regulatory requirements as highlighted in this report, for example to be a professional investor the Council must have £10 million of liquid investment funds on average during the financial year; the Council must also detail its compliance with the relevant Treasury Management indicators (as highlighted in this report).

2 Recommendations

2.1 That Council is requested to adopt the following recommendation:

(a) To agree and adopt the proposed Investment and Borrowing Strategy for 2024/25.

(b) That the Council agrees the revised Commercial Property Portfolio in appendix D.

(c) That the capital receipts generated from disinvestment are applied to offset potential future financing costs or are utilised as part of the flexible use of capital receipts policy

3 Implications and Impact Assessment

Implication	Commentary
Financial:	Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has and intends to borrow and invest substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
Human Resource:	Not applicable
Legal:	Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
Risk Management:	Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
Property:	The Property Investment Strategy highlights disposals of assets with any future disposals of individual assets in the Property Investment portfolio to be approved by the Executive
Policy:	The Investment and Borrowing Strategy is closely related to the Capital Strategy, as it governs the criteria for borrowing to fund capital spending.

	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		Not applicable
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?				Not applicable
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:		X		
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes, Executive Director of Resources, s151 Officer			

4 Executive Summary

4.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

4.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA TM Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

4.3 In support of the Capital Strategy and financing the Waste Private Finance Initiative (PFI), the Council expects to borrow in 2024/25. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing. The Council has set the authorised limit for borrowing over the duration of the Capital Strategy (2024-2034) as follows:

Authorised Limit and Operational Boundary	2023/24 limit £'000	2024/25 limit £'000	2025/26 limit £'000	2026/27 limit £'000	2027/28 limit £'000	2028/29 limit £'000
Authorised limit – borrowing	£373,621	£382,892	£382,892	£382,892	£382,892	£382,892
Authorised limit – PFI and leases	£13,200	£20,000	£20,000	£20,000	£20,000	£20,000
Authorised limit – total external debt	386,821	402,892	402,892	402,892	402,892	402,892
Operational boundary – borrowing	£359,621	£368,892	£368,892	£368,892	£368,892	£368,892
Operational boundary – PFI and leases	£11,000	£15,000	£15,000	£15,000	£15,000	£15,000
Operational boundary – total external debt	370,621	383,892	383,892	383,892	383,892	383,892

Authorised Limit and Operational Boundary		2029/30 limit £'000	2030/31 limit £'000	2031/32 limit £'000	2032/33 limit £'000	2033/34 limit £'000
Authorised limit – borrowing		£382,892	£382,892	£382,892	£382,892	£382,892
Authorised limit – PFI and leases		£20,000	£20,000	£20,000	£20,000	£20,000
Authorised limit – total external debt		402,892	402,892	402,892	402,892	402,892
Operational boundary – borrowing		£368,892	£368,892	£368,892	£368,892	£368,892
Operational boundary – PFI and leases		£15,000	£15,000	£15,000	£15,000	£15,000
Operational boundary – total external debt		383,892	383,892	383,892	383,892	383,892

4.4 Current borrowing levels (forecast to be £186 million as at 31.3.2024) are significantly below the current boundary limits stated above. Capital financing is undertaken a year in arrears, i.e. 2023/24 capital expenditure is financed in financial year 2024/25. This strategy allows for forecast capital financing from 2023/24 and in the longer term the proposed capital programme. The limit and boundary detailed above also allows for potential impacts of the formal adoption of IFRS 16 (leases) on 1st April 2024 and provides headroom should the Council require a capitalisation directive in the near future. West Berkshire as with numerous Council's across the country are in a position of incurring high costs (mainly in relation to the provision of social care) and restrictions of income. The Capital Strategy and the supporting Investment & Borrowing Strategy have been produced with position of the Council's General Fund in mind. This strategy does not seek to fully fund the proposed capital programme but seeks to fund expected capital expenditure based on historic trends and is mindful of the Council's requirement to generate capital receipts to offset future capital financing costs and support transformation programme under the Flexible Use of Capital Receipts Policy. The assumptions underpinning potential debt funded capital expenditure in future years are detailed within the Capital Strategy 2024 -2034. The Property Investment Strategy which recommends to Council a long term disinvestment from the commercial property portfolio is included in appendix D.

4.5 The economic outlook is a major influence on the Council's Investment & Borrowing strategy. Historically the Council has accessed the majority of its long-term financing from the PWLB Lending facility with average borrowing rates between 1 – 2%. At the time of producing this report a 25-year annuity rate is 4.9%. The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. This strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Over the two past financial years with short-term interest rates lower than long-term rates, the strategy has been in the short-term to borrow short-term loans as the primary financing source. By doing so, the Council has been able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Moving forward the benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates have increased.

4.6 The Executive Director for Resources (S151 Officer) is confident that the Investment and Borrowing Strategy provide an effective, robust and prudent platform from which to support the Council's strategic objectives as set out in the Capital Strategy and approved Council Strategy.

5 Supporting Information

Introduction

5.1 CIPFA published the revised Codes on 20th December 2021 and stated that revisions included in the reporting framework from the 2023/24 financial year. The Council, therefore, has to have regard to these Codes of Practice when it prepares its Treasury Management Strategy Statement and Annual Investment Strategy, both strategies are combined within the Investment & Borrowing Strategy.

5.2 The treasury management operation is primarily to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

5.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

5.4 The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Proposals

Borrowing:

5.5 The Council held £189.9 million of loans at 31.3.2023, with a forecast balance of £186.0 million at 31.3.2024. The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

5.6 Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The Council has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions, and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; however, the Council is not proposing to undertake any activities that require the purchase of assets primarily for yield. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

5.7 The Council's sources of long-term and short-term borrowing are:

(a) HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)

(b) HM Treasury's backed UK Infrastructure Bank (in partnership with the Department for Business, Energy and Industrial Strategy).

(c) Any institution approved for investments (see below)

(d) Any other bank or building society authorised to operate in the UK

(e) Any other UK public sector body

(f) UK public and private sector pension funds (except The Royal Berkshire Pension Fund)

(g) Capital market bond investors.

(h) UK Municipal Bonds Agency plc and other organisations that enable local authority bond issues.

5.8 Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

(a) Leasing

(b) Hire purchase.

(c) Private Finance Initiative

(d) Sale and leaseback

5.9 Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council. The Council does not hold any Municipal Bonds, it has however previously issued a £1 million community bond in support of green initiatives across the district.

5.10 LOBOs: The Council does not hold any LOBO (Lender's Option Borrower's Option loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost).

5.11 Short-term and variable rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators. The Council has focused on a strategy of financing through short term variable loans in preference to longer term secured debt during the last two financial years.

5.12 Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The Council has not rescheduled debt within the past two financial years and there are no plans to reschedule debt proposed in this strategy for financial year 2024/25.

5.13 The UK Infrastructure Bank (UKIB) which is wholly owned by the Treasury has been established in partnership with The Department for Business, Energy and Industrial Strategy (BIES). UKIB allows authorities to access funding below PWLB rates for applicable projects. Applicable projects focus on addressing climate change and boosting regional growth and economies. The Council has engaged in initial discussions in support of the proposed solar farm capital project.

Investments:

5.14 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

5.15 The Council recognises the increasing risk and low returns from short-term unsecured bank investments, however, 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.

5.16 Business models: Under the International Financial Reporting Standard 9 (Financial Instruments), the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

5.17 The Council may invest its surplus funds with any of the counterparty types subject to the adopted limits. The historic and proposed individual counterparty limits are detailed in the table below.

Organisation	Credit Ratings	Individual Counterparty Limit (£000)	Sector Limit (£000)	Time Limit
The UK Government (Debt Management Office)	-	Unlimited	Not applicable	50 Years
UK Local Authorities (including Police, Fire and similar bodies)	-	8,000	Unlimited	25 Years
UK Building Societies (net asset size ranking 1-11)	-	8,000	14,000	13 months
UK Building Societies (net asset size ranking 12-21)	-	6,500		13 months
UK Building Societies (net asset size ranking 22-25)	-	5,000		13 months
UK Banks and other financial institutions	Long term credit rating of A- or higher	8,000	Unlimited	13 months
Money Market Funds (Sterling denominated)	AAA or equivalent	8,000	Unlimited	Not applicable
Other Non-local authority UK public sector body	-	8,000	Unlimited	25 Years
Registered Providers, Charities	-	2,500	5,000	12 months
Council owned companies	-	5,000	5,000	2 Years
Council owned joint ventures	-	5,000	5,000	2 Years
Strategic pooled funds (including cash plus funds)	-	8,000	35,000	Not applicable
Real estate investment trusts	-	8,000	17,500	Not applicable

5.18 Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

5.19 Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities, and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

5.20 Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

5.21 Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

5.22 Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

5.23 Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

5.24 Real estate investment trusts (REITs): Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

5.25 The Council under section 15(1) of the Local Government Act 2003 can choose to make loans to local enterprises, local charities, wholly owned companies, and joint ventures as part of a wider strategy for local economic growth. The counterparty limits in section 5.17 make provision for these loans.

5.26 Exposure to Risk: The proposed investment limits represent the maximum values 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. The Council manages its exposure to risk via a series of treasury management indicators. Appendix B provides greater detail on the indicators used to monitor and review the performance.

5.27 To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council ensures it has readily available cash balances in accordance with only placing short term investments and manages capital expenditure on a prudent basis in line with the prudential code indicators.

Non-Treasury Investments:

5.28 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Investment Guidance issued by the Department for Levelling Up, Housing and Communities, in which the definition of investments is further broadened to also include all such assets held partially for financial return. At the 31st March 2023 (based on the 2022/23 draft accounts), the Council held £65.3 million of such investments in directly owned property categorised as follows:

(a) Directly owned property (commercial property) £ 52.2 million. This is property where the Council has borrowed specifically to fund the purchase.

(b) Directly owned property (investment property) £13.1 million. This is property that the Council holds as an investment property, but the purchase has not been funded by borrowing. In most cases the property has been inherited from Berkshire County Council or Newbury District Council upon the formation of West Berkshire District Council in 1998.

5.29 Full details of property held as non-treasury investments is included in appendix A. Treasury and non-treasury investments such as the commercial property portfolio are held and maintained in order to provide a net contribution to the Council's revenue budget to support delivery of core services. The Council uses the existing revenue to support the overall budget position. The table below shows the Income and expenditure associated with the commercial property portfolio if there were no asset sales.

Proportionality of investments	2022/23 Actual £'000	2023/24 Forecast £'000	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	2027/28 Budget £'000
Gross Investment income from Commercial Property	£3,372	£3,372	£3,372	£3,372	£3,372	£3,372
Gross service expenditure	£414,065	£422,346	£430,793	£439,409	£448,197	£457,161
Proportion	0.81%	0.80%	0.78%	0.77%	0.75%	0.74%

Proportionality of investments	2028/29 Budget £'000	2029/30 Budget £'000	2030/31 Budget £'000	2031/32 Budget £'000	2032/33 Budget £'000	2033/34 Budget £'000
Gross Investment income from Commercial Property	£3,372	£3,372	£3,372	£3,372	£3,372	£3,372
Gross service expenditure	£466,304	£475,631	£485,143	£494,846	£504,743	£514,838
Proportion	0.72%	0.71%	0.70%	0.68%	0.67%	0.66%

5.30 The current economic climate has presented an opportunity to review the commercial property portfolio. The challenging economic environment has resulted in declining property valuations. Concurrently the Public Works and Loans Board (PWLB) rates has been highly volatile, although appear to be stabilising around 5 – 5.5% for a 25-year annuity, resulting in high capital financing costs. The challenging economic environment paired with the Government currently requesting considerations from the local government sector about different options for the flexible use of capital receipts presents an opportunity with regard to the portfolio. The Property Investment Strategy which directs the commercial property portfolio has made recommendation to Council to approve a phased disinvestment from the portfolio over the long-term and subsequent allocation of resulting capital receipts to either future capital financing or use under the flexible use of capital receipts policy. The revised Property Investment Strategy is included in appendix D.

6 Conclusion

6.1 On 31st March 2023 the Council held £189.9 million of long-term borrowing (excluding PFI and leases) and £20.7 million of treasury investments. Existing levels of Council debt and investments are set out in further detail at appendix C. Forecast changes in these sums are shown in the balance sheet analysis in table below.

Balance Sheet Summary	31.3.23 Actual £'000	31.3.24 Estimate £'000	31.3.25 Forecast £'000	31.3.26 Forecast £'000	31.3.27 Forecast £'000	31.3.28 Forecast £'000
Capital financing requirement	£279,896	£291,976	£305,428	£320,395	£336,948	£355,351
Less: Other debt liabilities *	(£10,670)	(£9,807)	(£8,892)	(£7,920)	(£6,890)	(£5,796)
Loans CFR	£269,226	£282,169	£296,536	£312,475	£330,058	£349,555
Less: External borrowing **	(£189,890)	(£185,972)	(£177,240)	(£172,731)	(£168,510)	(£164,225)
Internal borrowing	£79,336	£96,197	£119,296	£139,744	£161,548	£185,329
Less: Balance sheet resources	£100,006	£94,405	£95,405	£96,405	£99,210	£102,086
Treasury investments / (New borrowing requirement)	£20,670	(£1,792)	(£23,891)	(£43,339)	(£62,338)	(£83,243)

Balance Sheet Summary	31.3.29 Forecast £'000	31.3.30 Forecast £'000	31.3.31 Forecast £'000	31.3.32 Forecast £'000	31.3.33 Forecast £'000	31.3.34 Forecast £'000
Capital financing requirement	£364,061	£368,127	£371,737	£375,179	£378,445	£379,523
Less: Other debt liabilities *	(£4,636)	(£3,405)	(£2,099)	(£713)	£0	£0
Loans CFR	£359,425	£364,722	£369,638	£374,466	£378,445	£379,523
Less: External borrowing **	(£159,943)	(£155,665)	(£151,220)	(£141,624)	(£136,855)	(£132,495)
Internal borrowing	£199,482	£209,057	£218,418	£232,842	£241,589	£247,028
Less: Balance sheet resources	£105,033	£108,055	£111,151	£114,325	£117,579	£120,914
Treasury investments / (New borrowing requirement)	(£94,449)	(£101,002)	(£107,266)	(£118,516)	(£124,010)	(£126,115)

** leases and PFI liabilities that form part of the Authority's total debt*

*** shows only loans to which the Authority is committed and excludes optional refinancing*

6.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council is forecasting an increasing CFR through to financial year 2029/30 at which point the CFR starts to reduce. Based on the proposed capital programme and existing Balance sheet resources, the Council is forecasting an increasing borrowing requirement. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next ten years. The table below demonstrates that the Council expects to comply with this recommendation during the longer term.

Gross Debt and the Capital Financing Requirement	31.3.2023 actual £'000	31.3.2024 forecast £'000	31.3.2025 budget £'000	31.3.2026 budget £'000	31.3.2027 budget £'000	31.3.2028 budget £'000
Debt (incl. PFI & leases)	£200,560	£195,779	£186,132	£180,651	£175,400	£170,022
Capital Financing Requirement	£279,896	£291,976	£305,428	£320,395	£336,948	£355,351

Gross Debt and the Capital Financing Requirement	31.3.2029 budget £'000	31.3.2030 budget £'000	31.3.2031 budget £'000	31.3.2032 budget £'000	31.3.2033 budget £'000	31.3.2034 budget £'000
Debt (incl. PFI & leases)	£164,579	£159,070	£153,320	£142,338	£136,855	£132,495
Capital Financing Requirement	£364,061	£368,127	£371,737	£375,179	£378,445	£379,523

6.3 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as the table above, but that cash and investment balances are kept to a minimum level of £10 million at each year-end to maintain sufficient liquidity. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Liability benchmark	31.3.23 Actual £'000	31.3.24 Estimate £'000	31.3.25 Forecast £'000	31.3.26 Forecast £'000	31.3.27 Forecast £'000	31.3.28 Forecast £'000
Loans CFR	£269,226	£282,169	£296,536	£312,475	£330,058	£349,555
Less: Balance sheet resources	£100,006	£94,405	£95,405	£96,405	£99,210	£102,086
Net loans requirement	£169,220	£187,764	£201,131	£216,070	£230,847	£247,469
Plus: Liquidity allowance	£10,000	£10,000	£10,000	£10,250	£10,506	£10,769
Liability benchmark	£179,220	£197,764	£211,131	£226,320	£241,354	£258,238

Liability benchmark	31.3.29 Forecast £'000	31.3.30 Forecast £'000	31.3.31 Forecast £'000	31.3.32 Forecast £'000	31.3.33 Forecast £'000	31.3.34 Forecast £'000
Loans CFR	£359,425	£364,722	£369,638	£374,466	£378,445	£379,523
Less: Balance sheet resources	£105,033	£108,055	£111,151	£114,325	£117,579	£120,914
Net loans requirement	£254,391	£256,667	£258,487	£260,141	£260,866	£258,610
Plus: Liquidity allowance	£11,038	£11,314	£11,597	£11,887	£12,184	£12,489
Liability benchmark	£265,430	£267,981	£270,084	£272,028	£273,050	£271,098

6.4 Based on the Council's CFR and the liability benchmark, the Council is long term borrower. The Council is required to ensure that capital financing is reasonable and affordable in the long term. The table below details the total financing costs (budgeted) as a proportion of the net revenue stream:

Proportionality of investments	2022/23 Actual £'000	2023/24 Forecast £'000	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	2027/28 Budget £'000
Gross Investment income from Commercial Property	£3,372	£3,372	£3,372	£3,372	£3,372	£3,372
Gross service expenditure	£414,065	£422,346	£430,793	£439,409	£448,197	£457,161
Proportion	0.81%	0.80%	0.78%	0.77%	0.75%	0.74%

Proportionality of investments	2028/29 Budget £'000	2029/30 Budget £'000	2030/31 Budget £'000	2031/32 Budget £'000	2032/33 Budget £'000	2033/34 Budget £'000
Gross Investment income from Commercial Property	£3,372	£3,372	£3,372	£3,372	£3,372	£3,372
Gross service expenditure	£466,304	£475,631	£485,143	£494,846	£504,743	£514,838
Proportion	0.72%	0.71%	0.70%	0.68%	0.67%	0.66%

6.5 In respect of investments, the Council's revenue budget includes net returns from investments in the support of financing delivery of core services. The Council has set a number of quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

(a) **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. The table below assumes the Council as a long-term borrower will need to borrow to fund the £10 million minimum liquidity level.

Total investment exposure	31.03.2023 Actual £'000	31.03.2024 Forecast £'000	31.03.2025 Forecast £'000	31.03.2026 Forecast £'000	31.03.2027 Forecast £'000	31.03.2028 Forecast £'000
Treasury management investments	£20,670	£10,000	£10,000	£10,250	£10,506	£10,769
Commercial investments: Property	£52,290	£52,290	£52,290	£52,290	£52,290	£52,290
TOTAL INVESTMENTS	£72,960	£62,290	£62,290	£62,540	£62,796	£63,059
Commitments to lend	£0	£0	£0	£0	£0	£0
Guarantees issued on loans	£0	£0	£0	£0	£0	£0
TOTAL EXPOSURE	£72,960	£62,290	£62,290	£62,540	£62,796	£63,059

Total investment exposure	31.03.2029 Forecast £'000	31.03.2030 Forecast £'000	31.03.2031 Forecast £'000	31.03.2032 Forecast £'000	31.03.2033 Forecast £'000	31.03.2034 Forecast £'000
Treasury management investments	£11,038	£11,314	£11,597	£11,887	£12,184	£12,489
Commercial investments: Property	£52,290	£52,290	£52,290	£52,290	£52,290	£52,290
TOTAL INVESTMENTS	£63,328	£63,604	£63,887	£64,177	£64,474	£64,779
Commitments to lend	£0	£0	£0	£0	£0	£0
Guarantees issued on loans	£0	£0	£0	£0	£0	£0
TOTAL EXPOSURE	£63,328	£63,604	£63,887	£64,177	£64,474	£64,779

(b) **How investments are funded:** Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure. It should be noted in the table under (a) above that the Council is a long-term borrower and hence will borrow in order to maintain minimum liquidity levels. This borrowing is not disclosed in the table below on the basis that the borrowing is cash to temporarily use in lieu of borrowing and hence not borrowing to fund investment for yield purposes.

Investments funded by borrowing	31.03.2023 Actual £'000	31.03.2024 Forecast £'000	31.03.2025 Forecast £'000	31.03.2026 Forecast £'000	31.03.2027 Forecast £'000	31.03.2028 Forecast £'000
Treasury management investments	£0	£0	£0	£0	£0	£0
Commercial investments: Property	£52,290	£52,290	£52,290	£52,290	£52,290	£52,290
TOTAL FUNDED BY BORROWING	£52,290	£52,290	£52,290	£52,290	£52,290	£52,290

Investments funded by borrowing	31.03.2029 Forecast £'000	31.03.2030 Forecast £'000	31.03.2031 Forecast £'000	31.03.2032 Forecast £'000	31.03.2033 Forecast £'000	31.03.2034 Forecast £'000
Treasury management investments	£0	£0	£0	£0	£0	£0
Commercial investments: Property	£52,290	£52,290	£52,290	£52,290	£52,290	£52,290
TOTAL FUNDED BY BORROWING	£52,290	£52,290	£52,290	£52,290	£52,290	£52,290

(c) **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested.

Investments net rate of return	2022/23 Actual	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Treasury management investments	1.90%	4.43%	4.00%	3.25%	3.25%	3.25%
Service investments: Loans	0	0	0	0	0	0
Service investments: Shares	0	0	0	0	0	0
Commercial investments: Property	2.61%	2.06%	2.03%	1.99%	1.96%	1.92%
ALL INVESTMENTS (weighted average)	2.31%	2.62%	2.29%	2.16%	2.13%	2.10%

Investments net rate of return		2028/29 Forecast	2029/30 Forecast	2030/31 Forecast	2031/32 Forecast	2032/33 Forecast
Treasury management investments		3.25%	3.25%	3.25%	3.25%	3.25%
Service investments: Loans		0	0	0	0	0
Service investments: Shares		0	0	0	0	0
Commercial investments: Property		1.89%	1.85%	1.81%	1.77%	1.73%
ALL INVESTMENTS (weighted average)		2.07%	2.04%	2.00%	1.97%	1.93%

6.6 Based on the performance indicators set out within this strategy the Executive Director for Resources and S151 Officer is confident that the Investment and Borrowing Strategy provides an effective, robust and prudent platform from which to support the Council's strategic objectives as set out in the Capital Strategy and approved Council Strategy.

7 Appendices

7.1 Appendix A – Non-Treasury Investments: Commercial and Investment Property

7.2 Appendix B – Treasury Management Indicators

7.3 Appendix C - Existing Investment & Debt Portfolio Position

7.4 Appendix D - Revised Property Investment Strategy

Subject to Call-In:

Yes: X No: ☐

The item is due to be referred to Council for final approval.	X
Delays in implementation could have serious financial implications for the Council.	☐
Delays in implementation could compromise the Council's position.	☐
Considered or reviewed by Scrutiny Commission or associated Committees, Task Groups within preceding six months.	☐
Item is Urgent Key Decision	☐
Report is to note only	☐

Officer details:

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Job Title: Acting Head of Finance & Property

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Appendix A

Non-Treasury Investments: Commercial and Investment Property

Directly owned property (commercial property) purchased via borrowing.

Commercial Property	Actual Purchase cost £'000	31.3.2023 actual Gains or (losses) £'000	31.3.2023 actual Value in accounts £'000	31.3.2024 expected Gains or (losses) £'000	31.3.2024 expected Value in accounts £'000
Dudley Port Petrol Filling Station, Tipton	£3,510	£645	£4,155	£0	£4,155
79 Bath Road, Chippenham	£9,106	£144	£9,250	£0	£9,250
Lloyds Bank, 104 Terminus Road, Eastbourne	£2,900	(£1,225)	£1,675	£0	£1,675
Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough	£6,048	(£223)	£5,825	£0	£5,825
303 High Street and 2 Waterside South, Lincoln	£5,665	(£2,765)	£2,900	£0	£2,900
3&4 The Sector, Newbury Business Park	£17,760	(£2,810)	£14,950	£0	£14,950
Sainsbury's, High Street, North Allerton	£7,050	(£215)	£6,835	£0	£6,835
Ruddington Fields Business Park, Mere Way, Nottingham	£6,545	£155	£6,700	£0	£6,700
TOTAL	£58,584	(£6,294)	£52,290	£0	£52,290

The valuations above are in line with figures disclosed within the draft financial statements for 2022/23 (31.3.2023). Further changes to valuations are not currently forecast, any actual variations will be disclosed within the 2023/24 financial statements and the 2024/25 Mid Term treasury Report.

Directly owned property (Investment Property) not purchased via borrowing.

Directly Owned Property	Property type	Valuation at 31 March 2023 £'000
The Stone Building, The Wharf, Newbury	Café	£25
Pelican Lane Creche, Pelican Lane	Children's Nursery	£0
Rainbow Nursery, Priory Road, Hungerford	Children's Nursery	£35
Clappers Farm/Beech Hill Farm, Grazeley	Tenanted Smallholding	£1,750
Bloomfield Hatch Farm, Grazeley	Tenanted Smallholding	£1,000
Shaw Social Club, Almond Avenue, Shaw	Community Centre	£70
Swings n Smiles, Lower Way, Thatcham	Children's Day Centre	£375
Units 1 to 7, Kennet Enterprise Centre, Hungerford	Industrial	£520
London Road Industrial Estate, Newbury	Industrial	£9,350
Valuation total per draft 2022/23 Statement of Accounts		£13,125

Appendix B

Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators:

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity indicators	Target (£m)
Total Cash available within 3 Months	10.0

Interest rate exposures: This indicator is set to control the Council's exposure to interest rate risk. The [upper limits on the one-year revenue impact of a 1% rise or fall in interest rates] based on borrowing to maintain a £10 million minimum liquidity level held in investments will be:

Based on the Balance sheet summary in 6.1 and liability benchmark in 6.3, a 1% variance in interest rates would result in £340k of borrowing costs offset by £100k of interest received on minimum balances:

Increase in rates (upper limit) -£240K

Decrease in rates (lower limit) +£240K

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk.

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The upper and lower limits on the maturity structure of borrowing based on assumed borrowing of £20 million in 2024/25:

Maturity Structure of borrowing	2024/25 Lower limit	2024/25 Upper limit
Under 12 months	0%	30%
12 months and within 24 months	0%	30%
24 months and within 5 years	0%	30%
5 years and within 10 years	0%	30%
10 years and within 15 years	0%	30%
15 years and within 20 years	0%	30%
20 years and within 25 years	0%	30%
25 years and within 30 years	0%	30%
30 years and within 35 years	0%	30%
35 years and within 40 years	0%	30%
40 years and within 45 years	0%	30%
45 years and within 50 years	0%	30%

Principal sums invested for periods longer than a year/ Long Term Treasury Management Investments: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£15 m	£15 m	£15 m

The limits above take into consideration the Council's liquidity requirement of £10 million plus contingency for in ear variations due to cash flow timings.

The indicators will be monitored throughout the financial year and compliance reported via the Mid Term Treasury Report and quarterly reporting updates.

Appendix C

Existing Investment & Debt Portfolio Position

Investment & Debt Portfolio	31/10/2023 Actual portfolio £m	31/10/2023 Average rate %
External borrowing:		
Public Works Loan Board	(£183)	£3
Local authorities	(£3)	£6
Community Bond	(£0)	£1
Total external borrowing	(£187)	£3
Other long-term liabilities:		
Private Finance Initiative	(£10)	£6
Total gross external debt	(£197)	£4
Treasury investments:		
The UK Government	£0	-
Local authorities	£0	-
Banks (unsecured)	£3	£3
Money market funds	£5	£5
Total treasury investments	£8	£4
Net debt	(£189)	

Appendix D

Property Investment Board Terms of Reference

Release Date:	**March 2021**

1	**Background**
1. At a full meeting of West Berkshire District Council on 9th May 2017 (C3283) the Council approved the Property Investment Strategy. The Strategy is regularly reviewed and was updated at the March 2020 meeting. The Property Investment Strategy is an appendix to the Capital Strategy 2020/21 to 2022/23; 2. Delegates to the Service Director : Strategy and Governance in consultation with and having received agreement from the Property Investment Board to dispose of property in accordance with the above Strategy up to a maximum of £15m per transaction where it would not be expedient for the Executive to make this decision; 3. Delegates to the Service Director: Strategy and Governance to inform the next available Executive of any disposal decision; 4. Delegates to the Service Director for Finance and Property in consultation with the Portfolio Holder with responsibility for Property, authority to appoint suitable consultants in accordance with the Contract Rules of Procedure (Part 11 of the Constitution); 5. West Berkshire Council will pause investment at the investment levels as at 31.3.2020 following the outcome of the PWLB consultation on its use. 6. West Berkshire will seek to dispose of some of the properties within the commercial property portfolio over the long term.	
2	**Purpose**
The members of the Property Investment Board (PIB) or their substitutes will collectively be responsible for the recommendations made by them having received reports related to the acquisition (or disposal) of commercial property. The PIB will play a critical role in the governance of the property investment strategy including ongoing monitoring of performance in order to make informed decisions.	

3	**Terms of reference**

The PIB terms of reference are:

1. In circumstances where a report proposes the acquisition of a property known to be outside the scope of the Delegated Authority criteria, to make recommendation(s) to approve or reject the proposal to progress with the acquisition to the Executive;

2. To make recommendation(s) to approve or reject the proposal to progress with the disposal of an individual property to the Executive. Where it would not be expedient for the Executive to consider a proposal to dispose of an asset authority be delegated to the Service Director Strategy and Governance in consultation with the portfolio holder(s) with responsibilities for finance and property, having received a report from Property Services to do so;

3. To receive quarterly performance reports (including an Annual Review report) conveying information on acquisitions, costs, total capital commitment and performance of the investment.

4	**Membership**

The PIB is to be a joint Officer and Member board formed from the following:

1. Executive Director (Resources) (Chair)
2. Service Director: Strategy and Governance (or substitute)
3. Executive Portfolio Holder for Internal Governance (or alternative Executive member)
4. Executive Portfolio Holder for Finance (or alternative Executive member).
5. Service Director for Finance & Property
6. Opposition member as requested by the Leader.

Reporting Officers to the PIB will be the Property Services Manager (or substitute) and the external consultant property agent.

5	**Roles and responsibilities**

The members of the PIB will collectively be responsible for the recommendations made by the PIB, having given regard to the knowledge and expertise brought by individual members (such as legal, financial or political).

Strategy and Governance will:

- Produce agendas and minutes to record the meetings

The Property Services Manager will:

- Arrange meeting dates, venue;
- Produce formal reports (for individual acquisition/disposal or reviews);
- Produce formal reports for quarterly reporting/monitoring and annual reviews;
- Record and maintain property data for acquired property;
- Attending PIB meetings;
- Liaise with WBC colleagues within relevant teams sufficient to conclude proposals and the satisfactory outcome of recommendations made by the PIB.
- With the input of WBC appointed Property Investment Adviser, monitoring performance of the investment, including identifying any issues with the property portfolio.

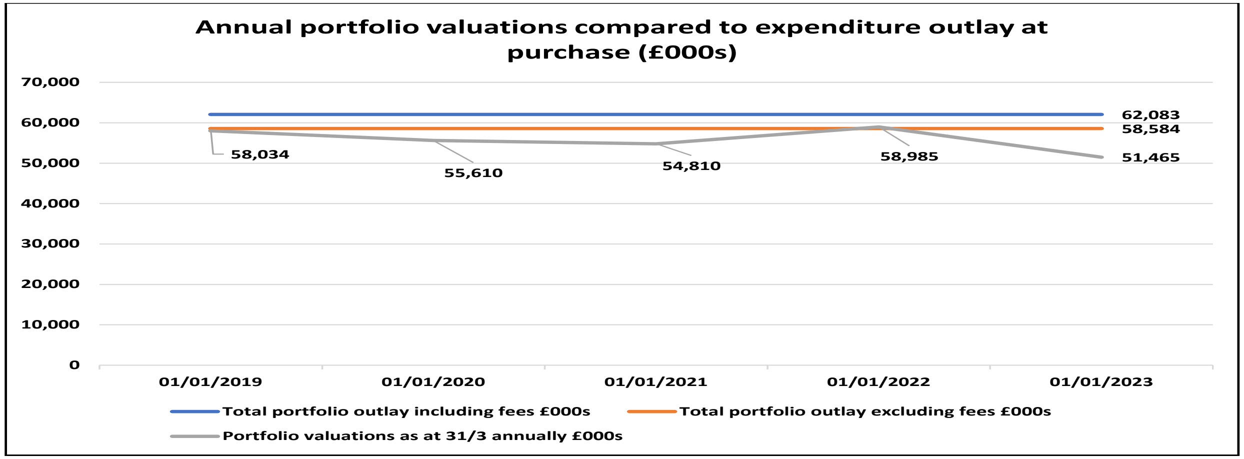
6	**Meetings**

Scheduled quarterly PIB meetings will be arranged to monitor the implementation of the strategy and performance of investments. Additional ad hoc meetings will be arranged when required as a property acquisition or disposal is proposed.

Property Investment Portfolio – Assets Valuations

Valuation data as supplied by the Council's appointed external valuers Avison Young. The current portfolio was fully invested from the financial year ending 31/03/2019.

Asset Name and Address	Property Type	Purchase Price Including Fees	Net Asset Cost	Valuations as at 31/3/2018	Valuations as at 31/3/2019	Valuations as at 31/3/2020	Valuations as at 31/3/2021	Valuations as at 31/3/2022	Valuations as at 31/3/2023
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Dudley Port Petrol Filling Station, Tipton	Petrol Filling Station	3,724	3,510	0	3,720	3,595	3,700	3,765	4,155
79 Bath Road, Chippenham	Retail Warehouse	9,651	9,106	0	9,648	9,200	9,500	11,775	9,250
Lloyds Bank, 104 Terminus Road, Eastbourne	Retail	3,078	2,900	1,845	2,590	2,300	1,800	1,800	1,675
Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough	Retail Warehouse	6,424	6,048	3,655	5,150	5,725	5,725	6,300	5,750
303 High Street and 2 Waterside South, Lincoln	Retail	6,010	5,665	3,419	3,734	3,400	2,850	2,950	2,750
3&4 The Sector, Newbury Business Park	Office	18,802	17,760	0	18,801	17,760	17,435	18,010	14,350
Sainsbury's, High Street, North Allerton	Retail	7,463	7,050	0	7,460	7,050	7,050	7,185	6,835
Ruddington Fields Business Park, Mere Way, Nottingham	Office	6,931	6,545	0	6,931	6,580	6,750	7,200	6,700
Total Portfolio Expenditure Outlay at Purchase		**62,083**	**58,584**	8,919	58,034	55,610	54,810	58,985	51,465



Montagu Evans – Quarter One Financial Year 2023/24 Market Analysis

MARKET UPDATE

UK ECONOMIC OVERVIEW

ECONOMIC PERFORMANCE & IMPACT ON REAL ESTATE

UK GDP is estimated to have grown by 0.2% in April 2023, after a fall of 0.3% in March 2023. Looking at the broader picture, GDP grew by 0.1% in the three months to April 2023, and annual GDP output is estimated to have grown by 4.1% in 2022, following growth of 7.4% in 2021.

The UK narrowly avoided falling into a recession in 2022, which is defined as two three-month periods of GDP shrinking in a row. Although the economy is in a better position than forecasters expected, families and businesses continue to feel the pressure of rising bills.

(UK GDP. Source: ONS)

CPI rose by 8.7% in the 12 months to May 2023, unchanged from April 2023. Despite inflation remaining flat, economists had widely predicted a fall in the inflation rate to 8.5% in the year to May. It is also still four times higher than the Bank of England's 2% target. The IMF predicts that inflation will not return to the target level until mid-2025, which is later than it had forecast previously.

The Bank increased interest rates in June 2023 for the 13th time since December 2021, with rates rising by 50 bps to 5.0% following May's disappointing inflation figures. It is forecast that rates could climb to as high as 6.0% by the end of the year.

The commercial property market witnessed mixed conditions throughout 2022, as the investment and leasing markets adjusted to the changing macro-economic backdrop. Early signs suggest that investors and occupiers still remain active, albeit the reality of the increasing cost of living and rising expenses for businesses mean that disposable incomes and margins will be negatively impacted. As a result, market activity is likely to be adversely affected as businesses look to contain costs, at least until inflationary pressures ease. This will almost certainly impact rental growth in the short term.

SECTOR SPECIFIC OVERVIEW

HIGH-STREET RETAIL

The High Street sector's difficult set of challenges during the course of, and off the back of the pandemic were well-documented as many retailers on the high street were not able to trade during the mandatory national lockdowns, revenues dramatically decreased. Retailer's online platforms boomed throughout this period as a result of changing consumer patterns which have now settled into an established alternative to in-store retail with a broader consumer base.

Following on from the Covid era, the road to recovery has not been easy with retailers facing a combination of new challenges including the cost-of-living crisis, high wage inflation, industrial action and rapidly increasing energy bills with weaning government support. The combination of these challenges in addition to decreased consumer confidence has led to considerable volatility in the relationship between in-store and online retail.

In April 2023, UK retail footfall was 4.7% higher than the same month in 2022, according to Springboard data. Compared to April 2019, footfall was down by 12.0%. High streets saw a 4.6% increase in April footfall on an annual comparison, while shopping centres were up by 6.6% and retail parks by 2.9%. Springboard said footfall on weekdays has suffered due to hybrid working.

KEY STATISTICS

- Footfall figures witnessed an increase of 16.1% year-on-year.
- MSCI retail rental growth index grew by 0.04% in March 2023.
- Retail investment volumes totalled £6.8 billion in the year to March 2023.
- Retail capital values have rebounded in March 2023 with the MSCI index showing a rise of 0.72% month-on-month in March 2023, compared to a fall of 0.45% in February 2023. The return to growth was entirely drive by retail warehouses.

SUPERMARKETS

The food sector has retained a strong, resilient position in the past few years with sales forecasts predicted to grow 3.8% in 2023, reaching £180.6 billion (Source: Retail Economics). Retailers are reporting further shifts in shopper behaviour as consumers shy away from online (a marked change from pandemic-induced lockdown habits), preferring physical stores, including the discounters in order to find best value.

In the occupational market, the return of superstore requirements has emerged as national multiples continue to be acquisition-hungry. Stores offering omnichannel characteristics, including the ability to fulfil online orders, are increasingly important within major retailers' strategies moving forward. The increased occupier demand has translated into rental growth on food stores. This is more evident in London where pressures on land means diminished supply. Increased build costs and weakened yields further pushes rental growth as retailers increase their rental bids so that developers can achieve viability.

In the investment market, where there is long income secured to strong covenants, there is an increasing depth of investor demand, notwithstanding general market uncertainty. However, investors do remain focused on the quality of location, trading fundamentals, sustainable rents, omnichannel capability, alternative use potential covenant strength and increasingly the recent takeovers of Asda and Morrisons. The market correction, commencing in May 2022 and intensified in September 2022 as a result of the ‘Mini Budget’ has had a huge impact on supermarket investment yields. Prime supermarket yields (20+ years, rack rented, RPI indexation, dominant omnichannel stores) are now in the 5.25% NIY territory, compared with 3.75% 12 months ago. A 150bp yield shift at these levels represent a huge loss of value in the order of 25% - 30%.

A buy-side reason for this shift in value is investor’s rising cost of capital. Although rates have settled to an extent since the Mini Budget, 10-year gilts and 5-year SWAPS are now trading at c. 3.3% and 3.5% respectively, a huge increase since the beginning of February 2022 where both were trading at around 1.3%. These huge swings in value have led to a step-change in the levels investors are willing to pay for prime supermarket assets, and clearly an appropriate discount for non-prime assets thereafter.

KEY STATISTICS

- From January-April, investment volumes hit £804.1 million.
- Aldi and Lidl have seen greater than double the year-on-year growth of any other UK grocer in May 2023.
- Large supermarkets have seen an average reduction of -15% in business rates.
- Overall profit of major supermarket brands has been affected as operators commit to shielding customers from inflation by keeping prices low.

INDUSTRIAL

The UK Industrial & Logistics Property market has weathered the challenges presented by Covid-19 well over the past 24 months, with positive sentiment and activity continuing to be driven by:

- Acceleration of Online/ E-comm operations
- Desire for overseas operators/ businesses to secure a physical presence in the UK
- Manufacturers’ need to hold more inventory within the UK to mitigate any potential future delays at the UK border.

Following a strong economic rebound in 2021, 2022 proved to be a challenging year for both the occupational and investment markets with slowing economic growth, sharp increases in inflation and Bank of England Rates.

During the current market correction, the industrial sector has seen values fall the most out of the three main commercial property sectors since the June 2022 market peak. A predominant factor is the slowdown in the acquisition of Big Box units that was prevalent in 2022 and has continued into 2023 as a result of hindered activity. However, this is not a cause for major concern as the multi-let and mix box market caters for a wide range of occupiers and in many major urban markets, the stock of land available to meet demand has been in decline for a long time. At the end of March 2023, there was a 7% increase in supply compared to six months ago but 2% down on 12 months ago. This suggests the pressure on occupiers looking for good quality warehouse space will remain, which will subsequently see rents remain robust for prime stock.

Therefore, even as the economy potentially slides into a recession, supply and demand dynamics are still widely expected to underpin growth in the medium-term.

KEY STATISTICS

▪ Take-up across the UK for Grade A space over 100,000 sq ft reached circa 8 million sq ft in Q1 2023 – a 49% increase compared to the same period last year and 13% ahead of the 5-year quarterly average.

▪ The MSCI industrial rental growth index grew by 0.73% month-on-month in March 2023 compared to 0.55% in February 2023. This was the strongest rental growth from the main sectors but marks a slowdown on last summer.

▪ Investment volumes in the industrial sector reached £11 billion in the year to March 2023, down from £13.1 billion in the year to February 2023.

OFFICE

Occupiers are continuing to assess their occupational need as the widespread pandemic-driven hybrid working model transitions into the post-covid working environment. For some, this has seen a return to the office full time whereas as others have chosen to retain remote and flexible working options.

Buyers continue to favour high quality stock, with secondary assets posing significant challenges for buyers, both in terms of tenant attraction/retention, as well as capex risk owing to increasingly stringent environmental legislations imposed by the government. Grade A space accounted for 68% of take-up recorded in 2022, which was the highest proportion since 2018. As such, yield disparity between prime and secondary offices has continued to widen. Additionally, ESG credentials continue to be very high on investor and corporates agendas, whereby assets need to already deliver on these criteria, or it be part of buyers' business plans to deliver best-in-class assets. This is driving a significant polarity in pricing between prime, institutional grade assets, and secondary stock.

Over the next 6-12 months, the following trends are expected to be seen:

- Yields to begin to stabilise as inflation slows and interest rates moderate.
- Experienced cash buyers buying from forced sales at significantly discounted prices.
- UK assets more appealing to overseas buyers due to weaker Sterling.

• Continued demand for assets that deliver on the ESG agenda from both occupiers and investors – this will drive rental growth and pricing resilience in best-in-class buildings.

• Continued need for an Alternative Use Value (AUV) underpin and repurposing where required.

KEY STATISTICS

▪ The MSCI Market Rental Growth Index for offices increased by 0.17%, compared to a rise of 0.19% in February 2023.

▪ Investment volumes in the year to March 2023 totalled approximately £11.1 billion across the UK office market. This is down on the £13.4 billion invested in the year to February 2023.

▪ The MSCI Capital Growth Index for offices decreased by 0.86% month-on-month in March 2023, compared to the February 2023 figure of -1.11%. This marks the nineth consecutive negative monthly figure, although the rate of decline peaked in October and has slowed since.

RESIDENTIAL

Following tentative signs of improvement in April, annual house price growth softened again in May, falling by 3.4% (from -2.7% in April). However, this largely reflects base effects with prices broadly flat over the month after taking account of seasonal effects. Average prices remain 4% below their August 2022 peak.

The housing market looks set to slow in the coming quarters as pressures on household budgets intensify and labour market conditions start to soften, while mortgage rates remain well above the lows prevailing at this point last year. Over the last few weeks, the average two-year fixed residential mortgage was 6.26% and the average five-year fixed residential mortgage rate was 5.87% as of the 27th June 2023. Increased rates have added to stretched housing affordability at a time when household finances are already under pressure from high inflation.

The housing market looks set to slow in the coming quarters as pressures on household budgets intensify and labour market conditions start to soften, while mortgage rates remain well above the lows prevailing at this point last year.

While activity is likely to remain subdued in the near term, Nationwide are not expecting a dramatic downturn in the housing market, given that labour market conditions remain solid and household.

Property Portfolio 2023/24 Annual Rentals as Reported at Quarter One

Extract from Montagu Evans quarterly performance report.

TOP 10 TENANTS BY RENT

The table below highlights the top 10 tenants within the portfolio which is assessed off their rental income as a percentage of the total portfolio income. The table highlights the level of rental exposure to each of the top 10 tenants and their most recent Dun & Bradstreet (D&B) rating, which comprises a risk indicator for financial covenant strength.
D&B is one of a series of business credit rating agencies and provides in depth information on business financial covenants. The standardised rating system used by D&B assesses a firm's fiscal size and overall creditworthiness, and is split into two parts:

Tenant	Asset	D&B Rating	Rent (pa)	Years to expiry	Years to break option
Wincanton Holdings	79 Bath Road, Chippenham	5A2	£554,250	4.30 years	4.30 years
Computerland UK Ltd	Ruddington Fields Business Park, Mere Way, Nottingham	4A3	£444,174	6.22 years	6.22 years
Sainsburys Supermarkets Ltd	Sainsbury's, High Street, North Allerton	5A1	£437,500	8.47 years	8.47 years
Cirrus Logic (1st)	3&4 The Sector, Newbury Business Park	5A2	£336,708	7.93 years	2.93 years
Mitsubishi HC Capital	3&4 The Sector, Newbury Business Park	5A1	£288,930	6.22 years	6.22 years
Signet t/a Ernest Jones	303 High Street and 2 Waterside South, Lincoln	5A1	£270,000	3.76 years	0.76 years
Aldi	Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough	5A2	£238,956	4.49 years	2.49 years
Rontec	Dudley Port Petrol Filling Station, Tipton	5A1	£220,816	5.75 years	0.00 years
Lloyds Bank Plc	Lloyds Bank, 104 Terminus Road, Eastbourne	5A1	£175,000	3.72 years	0.72 years
Cirrus Logic (GF)	3&4 The Sector, Newbury Business Park	5A2	£160,080	8.00 years	3.00 years

Financial Strength – Based on Tangible Net Worth from a company's latest financial accounts. Financial Strength is denoted by a number and a letter i.e. 5A, 4A, 3A etc. and relates to a range of Tangible Net Worth. 5A reflects a Tangible Net Worth of >£35,000,000, 4A reflects a range between £15,000,000 and £34,999,999, and so on as the scale continues.