Investment and Borrowing Strategy 2022/23

Committee considering report:	Council
Date of Committee:	3 March 2022
Portfolio Member:	Councillor Ross Mackinnon
Date Portfolio Member sent / agreed report:	12 January 2022
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	C4124

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 and Ethics 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 at any one time; the Council must also detail its compliance with the relevant Treasury Management indicators (as highlighted in this report).

2 Recommendation

That Council is requested to adopt the following recommendation:

(a) To agree and adopt the proposed Investment and Borrowing Strategy for 2022/23.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	The Council's budget for investment income for 2022-23 is £120k, and the forecast costs of debt financing is £15.3 million. This strategy aims to maintain spend and income from these

	budgets at this level for the year ahead. This has been taken into account in the Council's proposed budget for 2022-23.			
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 2017 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:	Not applicable			
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:		X		
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?		X		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 In support of the Capital Strategy and financing the Waste Private Finance Initiative (PFI), the Council expects to borrow up to £22.6 million in 2022/23. 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 (2022/23 – 2026/27) as follows:

Authorised Limit & Operational Boundary (Borrowing Limits)	2021/22	2022/23	2023/24	2024/25
	£000s	£000s	£000s	£000s
Authorised Limit - Long Term Borrowing	£277,000	£328,732	£349,621	£358,892
Authorised Limit - PFI and Leases	£12,000	£14,400	£13,200	£12,000
Authorised Limit - Short Term Borrowing	£15,000	£24,000	£24,000	£24,000
Authorised Limit - Total External Debt	**£304,000**	**£367,132**	**£386,821**	**£394,892**
Operational Boundary - Long Term Borrowing	£267,000	£318,732	£339,621	£348,892
Operational Boundary -PFI and Leases	£12,000	£12,000	£11,000	£10,000
Operational Boundary - Short Term Borrowing	£15,000	£20,000	£20,000	£20,000
Operational Boundary - Total External Debt	**£294,000**	**£350,732**	**£370,621**	**£378,892**

4.3 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 strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to borrow short-term loans instead. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. 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 are forecast to rise modestly.

4.4 The Council's average forecast treasury investment balances in 2021/22 (as at December 2021), are £55 million split between highly liquid cash balances (forecast balances of £16 million, 29% of total balances) and short term fixed investments of less than 12 months. For 2022/23 the Council has assumed an average fund balance of £27 million for budgeting purposes, taking into account the internal funding of the proposed capital programme. 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, as a minimum the Council always maintains £10 million as highly liquid funds.

4.5 In addition to the investment portfolio, the Council has historically invested £62 million in commercial property with a view to generating additional yields to support delivery of Council services. Based on the 2020/21 draft financial accounts investment value of £65.7 million, a budgeted contribution of £900k is made annually to the Council's revenue budget.

4.6 The Council utilises net returns from investments in the support of financing delivery of core services. The table below shows the proportionality of net yields from investments generated against the net revenue budget.

Investment Income as a Percentage of the Revenue Budget	2022/23	2023/24	2024/25
	£m	£m	£m
Revenue Budget	£150.5	£152.8	£156.2
Investment Budgets (Interest Received)	£0.12	£0.12	£0.12
Investment Property Income	£0.90	£0.90	£0.90
Investment Income as a Percentage	**0.68%**	**0.67%**	**0.65%**

4.7 In conclusion the Executive Director for Resources and 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 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.

Background

5.2 **Economic background**: The ongoing impact on the UK from coronavirus, together with higher inflation, the likelihood of higher interest rates, and the country's trade position post-Brexit, will be major influences on the Council's treasury management strategy for 2022/23.

5.3 Interest rate forecast: The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme. Within the announcement, the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations. However in response to the increased uncertainty and risk to activity presented by the new variant, the Bank revised down its estimates for Quarter Four GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The Council's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Quarter One 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

5.4 A detailed economic and interest rate forecast provided by Arlingclose as at December 2021 is attached at Appendix A. Further updates issued by Arlingclose will be incorporated into this strategy as and when issued.

Proposals

5.5 **Borrowing**: The Council held £197 million of loans at 31.3.2021, with a forecast balance of £191.8 million at 31.3.2022. In financial year 2022/23 the Council expects to borrow up to £22.6 million. The Council may also borrow additional sums and to pre-fund future years' requirements, providing total borrowing does not exceed the authorised limit for borrowing of £367 million.

5.6 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.

5.7 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. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to borrow short-term loans instead. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. 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 are forecast to rise modestly.

5.8 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.

5.9 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) Any institution approved for investments (see below)

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

(d) Any other UK public sector body

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

(f) Capital market bond investors

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

5.10 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

5.11 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.

5.12 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).

5.13 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.

5.14 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.

5.15 **Investments**: The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has been consistently around £40 million, and similar levels are expected to be maintained in the forthcoming year.

5.16 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.

5.17 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.

5.18 Business models: Under the IFRS 9 standard, 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.

5.19 The Council may invest its surplus funds with any of the counterparty types subject to the adopted limits. As a result of the pandemic the Council is holding significant cash balances. The Council has invested significant levels of cash during the financial year within the Debt Management Office facility in order to avoid exceeding the 2021/22 counterparty limits. The current individual county party limits were set at the point the Council became an individual unitary in 1998. It is therefore recommended that the current individual counter party limits are increased to reflect current economic circumstances. Therefore, there is no increased risk from the when the investment policy was originally approved, though of course, this does represent a significant year on year increase in individual counterparty limits of £3m. The historic and proposed individual counterparty limits are detailed in the table below.

Organisations	Credit Ratings	Proposed Individual Counterparty Limit 2022/23	Historic Individual Counterparty Limit	Sector Limit	Time Limit
		£000s	£000s	£000s	
The UK Government (Debt Management Office)		Unlimited	Unlimited	Not applicable	50 Years
UK Local Authorities (including Police, Fire and similar bodies)		£8,000	£5,000	Unlimited	25 Years
UK Building Societies	1 - 11	£8,000	£5,000	£14,000	13 months
UK Building Societies	12 - 21	£6,500	£4,000		13 months
UK Building Societies	22 - 25	£5,000	£3,000		13 months
UK Banks and other financial institutions	Moody's Prime 1 or equivalent	£8,000	£5,000	Unlimited	13 months
UK Banks and other financial institutions	Moody's Prime 2 or equivalent	£6,500	£4,000	Unlimited	13 months
UK Banks and other financial institutions	Moody's Prime 3 or equivalent	£5,000	£3,000	Unlimited	13 months
UK Based Money Market Funds	AAA or equivalent	£8,000	£5,000	Unlimited	Not applicable
Registered Providers, Charities, Public Sector Bodies and Council owned companies, joint Ventures		£8,000	£5,000	Unlimited	50 Years
Strategic pooled funds (including cash plus funds)		£8,000	N/A	£35,000	Not applicable
Real estate investment trusts		£8,000	N/A	£17,500	Not applicable

5.20 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 taken into account.

5.21 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.

5.22 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. See below for arrangements relating to operational bank accounts.

5.23 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.

5.24 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.

5.25 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.

5.26 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.

5.27 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. During financial year 2022/23 it is anticipated that significant financial loans will be incurred in respect of the Council's joint venture with Sovereign Housing (Home for West Berkshire). The revised counterparty limits in section 5.19 make provision for these loans.

5.28 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 D provides greater detail on the indicators used to monitor and review the performance.

5.29 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:

5.30 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 2021 the Council held £65.7m of such investments in directly owned property categorised as follows:

(a) Directly owned property (commercial property) £54.2 million, details in appendix C. This is property where the Council has borrowed specifically to fund the purchase.

(b) Directly owned property (investment property) £11.5 million, details included in appendix D. 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.

5.31 The estimated net income for 2022/23 is £900k.

6 Other options considered

Not applicable.

7 Conclusion

7.1 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 and anticipates an increased 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 three years. The table below demonstrates that the Council expects to comply with this recommendation during 2022/23.

Capital Financing Requirement	31.3.21 Actual £000s	31.3.22 Estimate £000s	31.3.23 Forecast £000s	31.3.24 Forecast £000s	31.3.25 Forecast £000s
Total CFR	**£273,150**	**£284,539**	**£308,732**	**£329,621**	**£338,892**
Less: Other debt liabilities	-£12,249	-£11,483	-£10,670	-£9,807	-£8,892
Loans CFR	**£260,901**	**£273,056**	**£298,062**	**£319,814**	**£330,000**
Less: External borrowing	-£197,470	-£191,862	-£186,905	-£181,988	-£177,256
Internal borrowing	**£63,431**	**£81,194**	**£111,157**	**£137,826**	**£152,744**
Less: Balance sheet resources	£98,511	£98,511	£98,511	£98,511	£101,002
Excess cash Balances / (New Borrowing Requirement)	**£35,080**	**£17,317**	**-£12,646**	**-£39,315**	**-£51,742**

7.2 The Council is forecasting to have gross debt levels of £191.9 million as at 31.3.2022, with an anticipated borrowing requirement of £12.6 million in 2022/23 (funding of the capital programme and Waste PFI obligations). 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.

Liability Benchmark	31.3.21 Actual £000s	31.3.22 Estimate £000s	31.3.23 Forecast £000s	31.3.24 Forecast £000s	31.3.25 Forecast £000s
Loans CFR	£260,901	£273,056	£298,062	£319,814	£330,000
Less: Balance sheet resources	£98,511	£98,511	£98,511	£98,511	£101,002
Net loans requirement	£162,390	£174,545	£199,551	£221,303	£228,998
Plus: Liquidity allowance	£10,000	£10,000	£10,000	£10,000	£10,000
Liability benchmark	**£172,390**	**£184,545**	**£209,551**	**£231,303**	**£238,998**

7.3 The revised benchmark generates a revised new borrowing requirement for 2022/23 of £22.6 million (Net Loans Requirement £199.6 million less external borrowing £187 million, plus £10 million minimum cash balance requirement). The revenue budget had made provision for the repayment of capital financing costs. Over the duration of the Capital Strategy the Council has set aside a revenue uplift in the capital financing budget of circa £600k annually. The Council is required to ensure that capital financing is reasonable and affordable in the long term.

Percentage Costs as a Percentage of the Revenue Budget	**2022/23 Budget**	**2023/24 Budget**	**2024/25 Budget**
Financing Costs - £m	£15.2	£16.4	£17.9
Revenue Budget - £m	£150.5	£152.8	£156.2
Financing Costs as a Percentage	**10.1%**	**10.7%**	**11.5%**

7.4 In respect of investments, the Council's revenue budget includes net returns from investments in the support of financing delivery of core services. The table below shows the proportionality of net yields from investments generated against the net revenue budget over the duration of the Medium Term Financial Strategy.

Investment Income as a Percentage of the Revenue Budget	2022/23	2023/24	2024/25
	£m	£m	£m
Revenue Budget	£150.5	£152.8	£156.2
Investment Budgets (Interest Received)	£0.12	£0.12	£0.12
Investment Property Income	£0.90	£0.90	£0.90
Investment Income as a Percentage	**0.68%**	**0.67%**	**0.65%**

7.5 In conclusion the Executive Director for Resources and 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.

8 Appendices

8.1 Appendix A – Equalities Impact Assessment

8.2 Appendix B – Data Protection Impact Assessment

8.3 Appendix C – Arlingclose Economic & Interest Rate Forecast – November 2021

8.4 Appendix D – Existing Investment & Debt Portfolio Position

8.5 Appendix E – Treasury Management Indicators

8.6 Appendix F – Non Treasury Investments

Subject to Call-In:

Yes: ☐ No: ☒

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

Officer details:

Name: Shannon Coleman-Slaughter
Job Title: Chief Financial Accountant
Tel No: 01635 503225
E-mail: Shannon.colemanslaughter@westberks.gov.uk

Document Control

Document Ref:		**Date Created:**	
Version:		**Date Modified:**	
Author:			
Owning Service			

Change History

Version	Date	Description	Change ID
1			
2			

Appendix A

Equality Impact Assessment (EqIA) - Stage One

What is the proposed decision that you are asking the Executive to make:	Approval of the Council's Investment & Borrowing Strategy
Summary of relevant legislation:	Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code)
Does the proposed decision conflict with any of the Council's priorities for improvement? • Ensure our vulnerable children and adults achieve better outcomes • Support everyone to reach their full potential • Support businesses to start develop and thrive in West Berkshire • Develop local infrastructure including housing to support and grow the local economy Maintain a green district • Ensure sustainable services through innovation and partnerships	**Yes ☐ No X** **If yes, please indicate which priority and provide an explanation**
Name of Budget Holder:	**Joseph Holmes**
Name of Service/Directorate:	**Joseph Holmes**
Name of assessor:	Shannon Coleman-Slaughter
Date of assessment:	16.12.2021
Version and release date (if applicable):	

Is this a …. ?		**Is this policy, strategy, function or service … ?**	
Policy	**Yes ☐ No X**	**New or proposed**	**Yes ☐ No X**
Strategy	**Yes X No ☐**	**Already exists and is being reviewed**	**Yes X No ☐**
Function	**Yes ☐ No X**	**Is changing**	**Yes X No ☐**
Service	**Yes ☐ No X**		

(1)	**What are the main aims, objectives and intended outcomes of the proposed decision and who is likely to benefit from it?**

Aims:	Robust treasury management
Objectives:	Robust treasury management
Outcomes:	Treasury management that is risk appropriate and aids the Council in delivering sustainable services to end users.
Benefits:	Financial sustainability and resilience

(2) Which groups might be affected and how? Is it positively or negatively and what sources of information have been used to determine this?

(Please demonstrate consideration of all strands – Age, Disability, Gender Reassignment, Marriage and Civil Partnership, Pregnancy and Maternity, Race, Religion or Belief, Sex and Sexual Orientation)

Group Affected	What might be the effect?	Information to support this
Age	Not applicable	
Disability		
Gender Reassignment		
Marriage and Civil Partnership		
Pregnancy and Maternity		
Race		
Religion or Belief		
Sex		
Sexual Orientation		

Further Comments:

(3) Result

Are there any aspects of the proposed decision, including how it is delivered or accessed, that could contribute to inequality?	**Yes ☐ No X**
Please provide an explanation for your answer:	
Will the proposed decision have an adverse impact upon the lives of people, including employees and service users?	**Yes ☐ No X**
Please provide an explanation for your answer:	

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

If an EqIA 2 is required, before proceeding you should discuss the scope of the Assessment with service managers in your area. You will also need to refer to the EqIA guidance and template – http://intranet/index.aspx?articleid=32255.

(4) Identify next steps as appropriate:	
EqIA Stage 2 required	**Yes ☐ No X**
Owner of EqIA Stage Two:	
Timescale for EqIA Stage Two:	

Name: Shannon Coleman-Slaughter Date: 16.12.2021

Please now forward this completed form to Pamela Voss, Equality and Diversity Officer for publication on the WBC website.

Appendix B

Data Protection Impact Assessment – Stage One

The General Data Protection Regulations require a Data Protection Impact Assessment (DPIA) for certain projects that have a significant impact on the rights of data subjects.

Should you require additional guidance in completing this assessment, please refer to the Information Management Officer via dp@westberks.gov.uk

Directorate:	Resources
Service:	Finance & Property
Team:	Accountancy
Lead Officer:	Shannon Coleman-Slaughter
Title of Project/System:	Treasury Management
Date of Assessment:	16.12.2021

Do you need to do a Data Protection Impact Assessment (DPIA)?

	Yes	No
Will you be processing SENSITIVE or "special category" personal data? Note – sensitive personal data is described as "*data revealing racial or ethnic origin, political opinions, religious or philosophical beliefs, or trade union membership, and the processing of genetic data, biometric data for the purpose of uniquely identifying a natural person, data concerning health or data concerning a natural person's sex life or sexual orientation"*	☐	**X**
Will you be processing data on a large scale? Note – Large scale might apply to the number of individuals affected OR the volume of data you are processing OR both	☐	**X**
Will your project or system have a "social media" dimension? Note – will it have an interactive element which allows users to communicate directly with one another?	☐	**X**
Will any decisions be automated? Note – does your system or process involve circumstances where an individual's input is "scored" or assessed without intervention/review/checking by a human being? Will there be any "profiling" of data subjects?	☐	**X**

	Yes	No
Will your project/system involve CCTV or monitoring of an area accessible to the public?	☐	X
Will you be using the data you collect to match or cross-reference against another existing set of data?	☐	X
Will you be using any novel, or technologically advanced systems or processes? Note – this could include biometrics, “internet of things” connectivity or anything that is currently not widely utilised	☐	X

If you answer “Yes” to any of the above, you will probably need to complete [Data Protection Impact Assessment - Stage Two]. If you are unsure, please consult with the Information Management Officer before proceeding.

Appendix C

Arlingclose Economic & Interest Rate Forecast – November 2021

Economic background: The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.

The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously, but notes that Omicron could weaken the demand for labour.

UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

Gross domestic product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% q/q in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% q/q rise. During the quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP readings suggest there had been some increase in momentum in the latter part of Q3, Q4 growth is expected to be soft.

GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% y/y in November, the fourth month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

Credit outlook: Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.

Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. The risks around for short and medium-term yields are initially to the upside but shifts lower later, while for long-term yields the risk is to the upside. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Underlying assumptions:

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.
- The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.
- These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best.
- Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

Forecast:

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.

- Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside, but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.
- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market ra													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix D

Existing Investment & Debt Portfolio Position

Investment & Debt Portfolio Position	30.11.21 **Actual portfolio £m**	30.11.21 **Average rate %**
External borrowing:		
Public Works Loan Board	193.3	3.35
Local authorities		
LOBO loans from banks		
Other loans	0.8	1.20
Total external borrowing	**194.1**	**3.34**
Other long-term liabilities:		
Private Finance Initiative	11.7	6.10
Leases		
Transferred Debt		
Total other long-term liabilities	**11.7**	
Total gross external debt	**205.8**	
Treasury investments:		
The UK Government	17.5	0.02
Local authorities	19.0	0.05
Other government entities		
Secured investments		
Banks (unsecured)	12.7	0.02
Building societies (unsecured)		
Registered providers (unsecured)		
Money market funds	7.0	0.02
Strategic pooled funds		
Cash Plus funds		
Real estate investment trusts		
Other investments		
Total treasury investments	**56.2**	**0.03**
Net debt	**149.6**	

Appendix E

Treasury Management Indicators

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

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average [credit rating / credit score] of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit [rating / score]	A *or* 6.0

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 risk indicator	Target
Total cash available within 3 months	£11m

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] will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£600,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	-£600,000

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. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	30%	0%
10 years and within 15 years	30%	0%
15 years and within 20 years	30%	0%
20 years and within 25 years	30%	0%
25 years and within 30 years	30%	0%
30 years and within 35 years	30%	0%
35 years and within 40 years	30%	0%
40 years and within 45 years	30%	0%
45 years and within 50 years	30%	0%

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.

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	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£10m	£0m	£0m

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

Appendix F

Non Treasury Investments

Directly Owned Property – Purchase Funded via Borrowing

Directly owned property (commercial property) held at 31st March 2021

Names and address of property	Property type	Valuation at 31 March 2021 £'000
Dudley Port Petrol Filling Station, Tipton	Petrol Filling Station	3,700
79 Bath Road, Chippenham	Retail Warehouse	9,200
Lloyds Bank, 104 Terminus Road, Eastbourne	Retail	1,800
Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough	Retail Warehouse	5,725
303 High Street and 2 Waterside South, Lincoln	Retail	2,850
3&4 The Sector, Newbury Business Park	Office	17,260
Sainsbury's, High Street, North Allerton	Retail	7,050
Ruddington Fields Business Park, Mere Way, Nottingham	Office	6,600
Valuations Total per Draft 2020/21 Financial Statements		**54,185**

Directly owned Property – Purchase not Funded by Borrowing

Directly owned property (investment property) held at 31st March 2021

Names and address of property	Property type	Latest valuation £'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, Grazely	Tenanted Smallholding	1,700
Bloomfield Hatch Farm, Grazely	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	500
London Road Industrial Estate, Newbury	Industrial	7,800
Valuations Total per Draft 2020/21 Financial Statements		11,505