22 November 2016	ITEM: 9
Corporate Overview and Scrutiny Committee	
Council Investments Paper	
Wards and communities affected: All	**Key Decision:** No
Report of: Sean Clark, Director of Finance and IT	
Accountable Head of Service: N/A	
Accountable Director: Sean Clark, Director of Finance and IT	
This report is public	

Executive Summary

This report provides Members with a briefing on the governance around treasury management, including investments, and demonstrates the benefits that treasury management has brought to the Council's financial position over the recent years of austerity.

Challenging the traditional approach and being entrepreneurial is now benefiting the Council by circa £10m every year and has facilitated many other income generating and cost reduction opportunities.

1. Recommendation(s)

1.1 That the Committee receives this update on investments.

2. Introduction and Background

2.1 Treasury Management is a service undertaken by all Local Authorities in the UK. CIPFA's Code of Practice and Cross-Sectoral Guidance Notes defines this as 'The management of the organisation's investments and cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.

2.2 The Code states a Treasury Management Policy Statement and related practices must establish procedures to follow in the course of its treasury activities including items such as lines of delegation, operational requirements and reporting requirements.

2.3 Within the Council's Constitution, Chapter 9, Part 3 – Finance Procedure Rules section 3.22, the Director of Finance & IT is given delegated authority to 'make investments and borrowings as he/she deems appropriate within the limits imposed by the Council'. The limits are calculated annually based on the capital programme and other known activity and incorporated in the Treasury Management Strategy approved by Full Council in February each year.

2.4 The Treasury Management Strategy for the forthcoming year is presented to Full Council for approval annually. The report includes potential borrowing and investment activities for the coming year along with all Prudential Indicators as defined under the CIPFA Prudential Code for Capital Finance. These indicators set limits on borrowing, interest rate exposure, limits on long term investments and other indicators relating to capital expenditure. The report also includes details of investment limits and criteria to be assessed when entering into investments. This report forms the parameters for the Director of Finance and IT's investment/borrowing activity for the coming year under his delegated powers.

3. Investments

3.1 Council officers maintain a cash flow forecast ensuring funds are available to meet all of the Council's payment obligations and takes into account all funds flowing in and out of the Council. The Council's cash flow is often positive due to the fact that cash is received in advance of spend, such as grants, business rates and council tax. The Council also maintains reserves and provisions which are earmarked for various approved purposes.

3.2 This means the Council often has surplus cash balances pending expenditure in line with approved budgets and the capital investment programme and these are invested to generate interest, forming part of the Council's budget. The table below, extracted from the 15/16 Treasury Management Outturn Report shows that investments raised equated to £2.41 billion and investments repaid equated to £2.54 billion and the total number of transactions involved totalled over 1,500. The majority of transactions were short term in nature hence the high turnover and volume of transactions.

	Fund Managers £000s	In-House £000s	Total £000s
1 Total at 1 April 2015	20,000	38,000	58,000
2 New Investments	30,000	2,458,450	2,488,450
3 Investments Redeemed	0	2,481,650	2,546,450

4 Total at 31 March 2016	**50,000**	**14,800**	**64,800**

3.3 The £50m under fund managers relates to three separate investments taken out over 2014/15 and 2015/16 with CCLA and further information is set out on this investment in section 5 to this report. These investments are for greater than one year and the £14.8m balance relates to short term investments and number some 1,500 transactions over a year.

3.4 One further investment has been made during 2016/17 that is for greater than one year and that is a £15m bond issuance to Rockfire Capital. Further detail is included in section 5.

4. Borrowing

4.1 The Council borrows to fund the approved capital investment programme in accordance with the Prudential Indicators. It also borrows to finance cash flows in the short term if required. The strategic aim for borrowing is to minimise the revenue cost of debt whilst securing the Council from unexpected revenue pressure caused by changes in interest rates. External Treasury Management Advisors are employed to advise on the course of interest rates amongst other matters.

4.2 The table below extracted from the 2015/16 Treasury Management Outturn Report shows that borrowings raised in 2015/16 equated to £315 million and borrowings repaid equated to £270 million and the total number of transactions involved were over 200. The majority of transactions were short term in nature as short term borrowing rates have been so low in comparison to long term borrowing rates that any borrowing required has been taken in the short end of the market.

Source of Loan	**Outstanding Debt 1 April 2015 £000s**	**New Loans Raised £000s**	**Loans Repaid £000s**	**Outstanding Debt 31 March 2016 £000s**
Public Works Loan Board (PWLB)	160,889	0	0	160,889
Market Loans	29,753	650	200	30,203
LT Debt	190,642	650	200	191,092
Temporary Market Loans	119,750	314,350	269,500	164,600

Total Debt	**310,392**	**315,000**	**269,700**	**355,692**

5. Treasury Activity – Supporting Cost Reductions and Income Generation

5.1 **Debt Restructuring** in 2010 – the council redeemed £84m of long term PWLB debt at an average rate between 5-6 per cent even though this attracted a premium of £17m.

5.2 The intention had been to replace this with fixed rate and term debt but, with interest rates so low, officers made the decision to remain in temporary debt for as long as possible with the benefit of lower interest rates. This has been proven to be the correct decision and the council is still on temporary debt some six years later with individual loans now ranging between 0.2-0.6 per cent. Estimated saving over the 6 years is approximately £22m.

5.3 **CCLA** – This is a 'not for profit' investment organisation for Churches, Charities and Local Authorities. One of CCLA's streams is a property portfolio for Councils.

5.4 Thurrock Council first invested £20m in 2014/15 and then a further £30m (two separate transactions) in 2015/16 bringing the total investment to £50m. This was carried under the delegated authority of the Director of Finance and IT within the parameters set by Council. In this case, the main parameter is the amount that can be lent for a year or longer.

5.5 CCLA own properties all around the UK and they are either retail or commercial based with strong tenants. Returns to Local Authorities come from the rental streams achieved and are circa 5 per cent and so return an income stream circa £2.5m pa.

5.6 **Swindon Solar Farm –** Warrington Council has an investment relationship with a solar investment company, Rockfire Capital, and had provided a number of loans for other sites to them. The Swindon opportunity came forward and, due to restrictions in the treasury prudential indicators, this opportunity was too big for any one authority. As such, other investors were required and Thurrock was approached due to its history of being entrepreneurial in its treasury approach.

5.7 The council started looking at the opportunity in detail towards the end of April 2016 and committed, subject to a number of safeguards that were put in place, on 19 May 2016. This was only formerly announced publicly in September after a commercially sensitive period had passed.

5.8 Under the same delegations as CCLA above, the Council entered a £15m investment over five years and will receive a 5% return over each of the first four years and then 8% in year 5. This is a gross return of £4.2m before financing costs of less than £0.5m over the five years. It may then be possible to extend the investment for a further five years at the higher rate.

5.10 **Minimum Revenue Provision –** MRP is the amount a council is required to set aside annually to meet the cost of debt.

5.11 Thurrock Council was one of the first in the country to take advantage of challenging the accepted norms of MRP, including:

- Challenging the annual calculation – this created a one off benefit of £6m in 2014/15 and an annual saving of £2.5m per annum thereafter;
- The £6m windfall above created the opportunity to terminate our Serco contract which had previously been unaffordable (leading to further savings of £3.6m per annum from the termination);
- Deferring repayment of MRP where a capital receipt will be achieved from a project further down the line which will repay the debt – this made Gloriana possible;
- Using capital receipts to pay for the MRP in exceptional circumstances – this paid the £3.5m pension costs associated with the Serco termination; and
- Now using the above to push further boundaries to make aspects of a capital programme that might normally be unaffordable possible.

6. Impact on corporate policies, priorities, performance and community impact

6.1 Treasury management has a significant impact on the council's finances and has contributed through its investments and reduction in borrowing costs to protecting front line services over the recent years of austerity.

6.2 Treasury management has also helped the council directly achieve its priorities with the main example being house building through Gloriana.

7. Implications

7.1 Financial

Implications verified by: **Sean Clark**

Director of Finance and IT

The financial implications are set out in the body of the report. The actions set out in section 5 are contributing circa £10m per annum through investment returns and reduced costs.

7.2 Legal

Implications verified by: **David Lawson**

Deputy Head of Legal and Deputy Monitoring Officer

In determining its affordable borrowing limits under section 3 of the Local Government Act 2003, the Council must have regard to the ‘’Prudential Code for Capital Finance in Local Authorities’’ (revised Edition 2007) published by CIPFA. In carrying out its functions under Chapter 1, Part 1 of the Local Government Act 2003, the Council must have regard to the code of practice contained in the document ‘’Treasury Management in the Public Sector : Code of Practice and Cross-Sectoral Guidance Notes’’ (Revised Edition 2009) published by CIPFA.

7.3 **Diversity and Equality**

Implications verified by: **Natalie Warren**

Community Development and Equalities Manager

There are no specific implications from this report

7.4 **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

None

8. **Background papers used in preparing the report (including their location on the Council’s website or identification whether any are exempt or protected by copyright):**

- There are working papers within the Corporate Finance section.

9. Appendices to the report

- There are no appendices to this report.

Report Author:
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